

50 Years

City Financial Compliance Understanding Kentucky State and Federal Audit Requirements



CITY COMPLIANCE TRAINING

- KRS 91A.020
- KRS 91A.040
- KRS 91A.044
- KRS 424.220
- Federal Requirements: 2 CFR Part 200, Subpart F

PURPOSE OF THIS TRAINING

- Understand the financial reporting and audit requirements that apply to Kentucky cities.
- Know when a city is required to complete an audit, financial statement, or agreed-upon procedures engagement.
- Understand the difference between Kentucky requirements and federal requirements.
- Know the deadlines that affect city compliance.
- Identify what your city needs to do before the fiscal-year deadline.

KEY STATUTES & FEDERAL REQUIREMENTS

- KRS 91A.020 — Accounting records and financial reporting.
- KRS 91A.040 — Annual/biennial audits, exemptions, financial statements, extensions, and enforcement.
- KRS 91A.044 — Agreed-upon procedures engagements.
- KRS 424.220 — Financial statement contents and publication requirements.
- 2 CFR Part 200, Subpart F — Federal audit requirements when applicable.

KRS 91A.020

EFFECTIVE JULY 15, 2026

KRS 91A.020 — ACCOUNTING RECORDS

- Cities shall keep accounting records and render financial reports in a manner that:
- Determines compliance with statutory provisions.
- Fairly and fully discloses the financial operations of constituent funds and account groups.
- Conforms with generally accepted governmental accounting principles, subject to the statutory exception for cities under \$15 million.
- Municipal accounting systems shall be organized and operated on a fund basis.

KRS 91A.020 — ACCOUNTING BASIS

- A city receiving and expending less than \$15 million from all sources and for all purposes may choose the:
- Cash basis of accounting; or
- Modified cash basis of accounting.
- Cities at or above the \$15 million threshold remain subject to the statutory GAAP requirement.
- This change became effective July 15, 2026.

Key point

Your audit or financial statement is only as reliable as the accounting records and supporting documentation behind it.

KRS 91A.020 — FUND ACCOUNTING

- Municipal accounting systems shall be organized and operated on a fund basis.
- Each fund should be separately identifiable and supported by appropriate accounting records.
- Fund accounting helps demonstrate accountability for restricted and unrestricted resources.
- Accurate fund records make the audit and financial-statement process easier.

KRS 91A.040

DUE MARCH 1ST

KRS 91A.040 — ANNUAL AUDIT REQUIREMENT

- Generally, each city shall cause each fund to be audited after the close of each fiscal year.
- The audit may be performed by the Auditor of Public Accounts or a certified public accountant.
- The audit shall be completed by March 1 following the fiscal year being audited.
- An electronic copy of the audit report shall be forwarded to dlg-csd@ky.gov by April 1.
- Exceptions are provided in KRS 91A.040 and KRS 91A.044.

Think of it this way

91A.040 helps determine WHEN a city has an audit or financial-statement obligation; 424.220 tells you WHAT the financial statement must contain.

AUDIT DEADLINES

- March 1 — Audit/ACFR completion deadline.
- April 1 — Electronic audit submission deadline to DLG.

BIENNIAL AUDIT OPTION — POPULATION $\leq$ 3,000

- A city with a population equal to or less than 3,000, based on the most recent federal decennial census, may elect the biennial schedule.
- Odd-numbered fiscal year: audit each fund; completed by March 1 and submitted to DLG by April 1.
- Even-numbered fiscal year: no annual audit required under this option; submit the KRS 424.220 financial statement to DLG by October 1.
- Federal requirements must still be evaluated separately.

FINANCIAL STATEMENT OPT-OUT FORM

- Before completing this form, please confirm that the City intends to submit the audit rather than the financial statement. Changing the submission afterward will result in noncompliance.
- The Form must be typed.

INSTRUCTIONS					
Per KRS 91A.040, any city within the categories below can elect to submit an Audit in place of a Financial Statement:					
- Any city with population of less than 1,000 in the most recent federal decennial census, shall complete a Financial Statement every even year and a single year audit every odd year. - Any city with population greater than 1,000 but less than 2,000 in the most recent federal decennial census, shall complete a Financial Statement every even year and a 2-year audit every odd year. - Any city with revenues and expenditures less than \$150,000, and no long-term debt, shall complete a Financial Statement annually.					
Financial Statements are due October 1 and Audits are due March 1 of the following year. Therefore, any city that submits an Audit in place of a Financial Statement will be considered noncompliant until the Audit is received.					
To avoid being considered noncompliance and noncompliance penalties, those cities should complete and email this form to DLG-CSD@ky.gov before October 1 of each year to inform DLG that they will submit an Audit in place of a Financial Statement.					
CITY INFORMATION					
City Name	Street Address	PO Box (if any)	City	State	Zip
Contact Name	Job Title	Telephone	Email		
DOCUMENT INFORMATION					
In place of a Financial Statement for fiscal year		, our city will submit a(n)	 Annual Audit for fiscal year		
			 Year Audit for fiscal years		
ACKNOWLEDGEMENT					
By signing below, I hereby acknowledge that the information above is correct.					
Signature	Date				

FINANCIAL STATEMENT

- For a fiscal year, a city may be exempt from the audit if it:
- Receives and expends less than \$500,000 from all sources and for all purposes;AND
- Has no long-term debt, whether general obligation or revenue debt.
- The city shall annually prepare a KRS 424.220 financial statement and submit it to DLG by October 1.
- Federal audit requirements are a separate question.

AUP AFTER MULTIPLE YEARS OF EXEMPTION

- A city exempt under KRS 91A.040(3) for more than four consecutive fiscal years after July 1, 2022, shall have an AUP covering the fifth fiscal year in which it qualifies for the exemption.
- The engagement is performed under KRS 91A.044(3)–(8) and applicable requirements established by the Auditor of Public Accounts.
- The AUP is not the same as a traditional financial statement.
- Federal audit requirements must still be audited.

EXTENSIONS

- A city may request an extension when extenuating circumstances prevent a city from completing and submitting its Audit, Financial Statements, or AUP
- The extension is due by April 1 or October 1.
- The request must be submitted to DLG on the form prescribed by DLG.
- An approved extension may not exceed 18 months from the original due date of the audit or financial statement.

EXTENSION REQUEST FORM

Internal Use Only:					
Received By: _____	Date Sent to Legal: _____	Legal Reviewer: _____	Approved: 	Denied: 	
INSTRUCTIONS					
Per KRS 91A.040, when extenuating circumstances prevent a city from completing and submitting their audit or financial statement by the applicable due date, the city may submit a written request for an extension to the Department for Local Government (DLG). DLG shall approve the request if it is submitted on or before the applicable deadline and if DLG determines that the request is warranted by extenuating circumstances beyond the city's control. Approved requests will give the city up to 18 additional months past the original due date to submit the audit or financial statement. To be considered for an extension, cities must complete and submit the City Extension Request Form to DLG, along with any supporting documentation before the applicable due date. The due date for audits is March 1 and the due date for financial statements is October 1. This form must be submitted to DLG via email. Please download this form. Once completed, attach the form and any supporting documents to an email and forward to dlg-csd@ky.gov. IMPORTANT: Extensions cannot be approved for audits and financial statements prior to previous fiscal years. Extensions also cannot be approved for Uniform Financial Information Reports (UFIRs). Due dates to submit audits and financial statements that have been approved for an extension cannot exceed the nine-month extension period.					
CITY INFORMATION					
City Name	Street Address	P.O. Box (if any)	City	State	Zip Code
Contact Name	Job Title	Telephone Number	Email		
DOCUMENT INFORMATION					
Submission type (select one):  Annual Audit  Testation Engagement  Financial Statement For fiscal year: _____	Reason for extension request:				
ACKNOWLEDGEMENT					
I hereby acknowledge that the information above is correct.					



EXTENSION REQUEST AFTER 9 MONTHS


**OFFICE OF THE GOVERNOR
DEPARTMENT FOR LOCAL GOVERNMENT**
Cities and Special Districts Branch
100 Airport Road, 3rd Floor
Frankfort, KY 40601
Phone: (502) 892-3490
www.dlg.ky.gov
dlg-csd@ky.gov

Andy Beshear
Governor

Matt Sawyers
Commissioner

MEMORANDUM

▲ From: Department for Local Government, Cities and Special Districts Branch
Date: December 1, 2025
Subject: FY 2024 Audit Extension Requests Expires Today

This memorandum serves as a reminder and update regarding your **FY 2024 Audit** submission.

Per KRS 91A.040(10), the timeline for submission extensions has increased **from 9 months to not to exceed 18 months** from the original due date of the audit or financial statement, with DLG approval.

If you need additional extension time, please **contact your CPA** to confirm the expected completion and delivery date of your final audit report. Provide this information identifying the extenuating circumstances beyond the control of the city or other factors that justify the city's noncompliance with the required deadlines.

If you require an additional extension complete the below and return to DLG-CSD@ky.gov by today December 1, 2025. Thank you for your cooperation and continued efforts to remain compliant with KRS 91A.040. **Please don't write on the form. Please just reply with the information we need below.**

Failure to respond will result in noncompliance. We will notify the Finance and Administrative Cabinet and Oversight Agencies of the City's noncompliance, and all funds will be withheld effective December 2, 2025.

If you have any questions, please don't hesitate to contact our office.

City Information – FY 2024 Audit

- City Name: _____
- Do you need more time? (Yes / No): _____
- Expected delivery date of final audit: _____


TEAM KENTUCKY
DEPARTMENT FOR LOCAL GOVERNMENT

NONCOMPLIANCE & WITHHOLDING OF STATE FUNDS

- If a city fails to complete and submit a required audit or financial statement, or an extension, DLG shall notify the Finance and Administration Cabinet, and Oversight Agencies.
- All state funds will be withheld until the city becomes compliant.
- When the city satisfies the requirements for all prior fiscal years, DLG notifies the Finance and Administration Cabinet, and Oversight Agencies.
- The statute provides for reinstatement of payments, including funds withheld due to noncompliance, subject to statutory exceptions.

FEDERAL REQUIREMENTS

2 CFR PART 200

FEDERAL REQUIREMENTS — 2 CFR PART 200, SUBPART F

- Federal audit requirements are separate from Kentucky's municipal audit requirements.
- Under 2 CFR § 200.501, a non-Federal entity that expends \$1,000,000 or more in Federal awards during its fiscal year generally must have a Single Audit or qualifying program-specific audit.
- The federal threshold is based on Federal awards expended — not total city revenue or the city budget.
- Federal awards received as a recipient or subrecipient may be subject to these requirements.
- This audit is the Annual Comprehensive Financial Report (ACFR)

KRS 91A.044

EFFECTIVE JULY 1, 2027

KRS 91A.044 — AGREED-UPON PROCEDURES

- Beginning with fiscal years on and after July 1, 2027, a city required to complete an audit under KRS 91A.040 may elect an AUP instead, if the statutory conditions are met.
- The engagement may be performed by the Auditor of Public Accounts or a certified public accountant.
- The city must meet the conditions in KRS 91A.044, including the \$15 million threshold and no more stringent state or federal audit requirement.
- A Kentucky AUP will not satisfy the Federal Single Audit.

KRS 91A.044 — CONDITIONS FOR AUP

- For the fiscal year subject to the AUP, the city must receive and expend less than \$15 million from all sources and for all purposes.
- Generally, the city must have complied with applicable KRS 91A.040 or KRS 91A.044 requirements in the immediately preceding fiscal year.
- The city cannot have been subject to a qualifying special examination in the immediately preceding fiscal year or the fiscal year being examined.
- The city cannot be required by another state or federal law to perform a more stringent audit or examination.
- Additional requirements may be established by the Auditor of Public Accounts through regulation.

KRS 91A.044 — DEADLINES

- AUP completed by March 1 following the fiscal year being examined.
- A copy of the AUP report is forwarded electronically to DLG by April 1.
- The report must be presented to the city legislative body.
- The AUP deadline does not replace or change a separate federal audit deadline.

KRS 91A.044 — CONTRACT & PRESENTATION

- A city using the KRS 91A.044 AUP option shall enter into a contract with the Auditor of Public Accounts or a certified public accountant.
- The contract must require completion of the procedures and report required by KRS 91A.044.
- The completed AUP report shall be presented to the city legislative body.
- If a CPA performs the AUP, the Auditor of Public Accounts may review the CPA's work papers upon request.

KRS 91A.044 — PUBLICATION

- Within 30 days after presentation of the AUP report, the city shall publish an advertisement in accordance with KRS Chapter 424.
- The advertisement must state that the AUP report has been completed.
- The complete report and supplemental information must be available for inspection at city hall.
- Citizens may obtain a copy for personal use at a duplication cost not exceeding \$0.25 per page.

KRS 91A.044 — CATCH-UP PROVISION

- A city that is two or more fiscal years behind in completing or reporting under KRS 91A.040 or KRS 424.220 may apply to DLG.
- DLG may allow the city to proceed under KRS 91A.044 with a single AUP to bring the city into compliance for those fiscal years.
- DLG will prescribe the requirements, conditions, and other terms through administrative regulation.
- Once completed, DLG shall treat the city as compliant with the prior requirements covered by the approved process.

KEY TAKEAWAYS

- Maintain accurate accounting records under KRS 91A.020.
- Determine the applicable Kentucky reporting pathway under KRS 91A.040.
- Prepare the KRS 424.220 financial statement when required.
- Use KRS 91A.044 when the city qualifies for the applicable AUP pathway.
- Evaluate Federal awards separately under 2 CFR Part 200, Subpart F.
- One state reporting option does not automatically satisfy a separate federal requirement.

INTERLOCAL AGREEMENTS

- Please submit them to the DLG ILA inbox

DLG.ILA@ky.gov

OPEN RECORDS REQUEST

- Please send the request to DLGOpenRecords@ky.gov

QUESTIONS



CITIES & SPECIAL DISTRICTS BRANCH STAFF

- Tammy Vernon, Branch Manager
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- Rebecca Morton, Local Government Advisor
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