



UPDATE

INSIDE THIS ISSUE:

President's Message 1

New GAO Amendment Increases Auditors' Independence by Requiring More Involvement from Clients' Management Teams 2

Disclosure: The Basics 3

Program & Professional Development Committee Update 3

GFOA Update 4

Upcoming Events 4

Membership Facts

165 Total Members

- 98 City
- 39 County
- 5 School/College
- 18 Associates
- 5 State/Regional

PRESIDENT'S MESSAGE

ED MULLINS, FINANCE DIRECTOR, LAWRENCE

Rich Vargo, County Clerk of Riley County, and Lisa Haase with Wichita State University, have done an excellent job in selecting topics and speakers for the regional KSGFOA meeting in Hays on May 17th. The theme of the seminar is helping local governments deal with the impact of the State's fiscal crisis. In addition to presentations on the severity of the problem, the seminar's speakers will also address solutions. The Update includes a section on future conference dates, locations, and potential topics. If you have suggestions for other topics or potential speakers, please contact Rich or Lisa.

I plan on contacting members soon regarding suggestions for corporate members. We currently have over 200 members, but only about 18 corporate members representing 7 firms. Corporate memberships are important not only as a source of funds, but also for expertise. Our corporate members serve as speakers at our conferences and information resources during our meetings. Please be thinking of firms near you that would benefit the KSGFOA and themselves by becoming a member. Corporate members join the KSGFOA and automatically become members of the relevant local chapter (in our case we currently only have the eastern Kansas chapter).

I have contacted the Missouri GFOA and have its support in bringing a regional GFOA conference to the Kansas City area. I will be contacting the cities of Des Moines and Lincoln in the near future. To increase our chances of a regional GFOA conference, we will need to identify some potential local presenters.

If you have any ideas in this area, please contact me.

We will be attempting to provide articles in the Update covering set topics. For example, future issues of our newsletter will include articles concerning debt issuance, investing of idle cash, accounting/auditing, as well as the President's message and an update on GFOA activities. The KSGFOA is always looking for relevant information to distribute to our members. Please feel free to contact Nannette Pogue, Finance Director of Dodge City and Update editor, with any articles or ideas for articles.

I would again like to encourage everyone to visit our website at www.KSGFOA.com. You can check the calendar for upcoming conferences, register for those conferences on line, look for employment opportunities, and review policies and procedures from other units of governments. In addition, there are links to other sites of interest as well as the listing of all KSGFOA members. I am very grateful to Dennis and Gena for their efforts in updating these important elements of our site.

In conclusion, 2002 will create many challenges for most of us as a lack of revenue growth forces us into cutting costs and looking for other sources of funds. Please remember to seek out fellow KSGFOA members as a resource and if nothing else, someone who can relate to your problems.

Ed Mullins
President

2002 Board of Directors**Officers**

President: Ed Mullins, Finance Director, City of Lawrence 785-832-3214; e-mail emullins@ci.lawrence.ks.us

Vice President: Rich Vargo, County Clerk, Riley County 785-537-6300; E-mail rvargo@co.riley.ks.us

Secretary: Ross VanderHamm, Finance Director, City of Hutchinson 620-694-2613; E-mail rossvh@ci.hutchinson.ks.us

Treasurer: Chris Chronis, Chief Financial Officer, Sedgwick County 316-383-7591; E-mail cchronis@sedgwick.gov

Board Members

Larry Lysell, Superintendent, USD #427, Belleville, KS. 785-527-5621; E-mail buffl1@usd427.k12.ks.us

Charles Mitts, Accounting Manager, City of Olathe. 913-782-2600; E-mail cmitts@olatheks.org

Nannette Pogue, Finance Director/City Clerk, City of Dodge City. 620-225-8100; e-mail nannette@dodgecity.org

Kevin Hiskey, Finance Director, City of Merriam. 913-722-7700; e-mail KevinH@Merriam.org

Dale Jost, Chief of Fiscal Services, KDOT. 785-296-3640 Email: Dale@ksdot.org

Laurie Krause, Accounting Manager, Water District #1 of Johnson County, 913-895-5530; e-mail lkrause@waterone.org

GFOA State Rep

David Scott, (913) 895-6154, dscott@opkansas.org

Wichita State Rep

Lisa Haase, Public Affairs Associate, WSU 316-978-6541 Haase@twsuvm.uc.twsu.edu

A NEW GAO AMENDMENT INCREASES AUDITORS' INDEPENDENCE BY REQUIRING MORE INVOLVEMENT FROM CLIENTS' MANAGEMENT TEAMS

In January, the General Accounting Office (GAO) issued Government Auditing Standards (GAS) Amendment No. 3. With this new standard, the GAO intends to reduce current abuses and increase audit firms' independence by limiting a number of accounting services firms may provide. In practice, however, most auditors will likely continue to provide services as they have in the past, but will do so with tighter processes that require more involvement by a client's management team.

The new GAS independence standard is based on two logical principles. First, auditors should not perform management functions nor make management decisions. Second, auditors should not audit their own work nor provide non-audit (i.e. consulting) services in situations involving significant dollar amounts or when the consulting rendered is material to the subject matter of the audit.

The new standard enumerates services that auditors can and cannot provide to clients that are subject to GAS. A quick reading leads one to believe that auditors may continue to prepare draft financial statements as in the past. However, don't be fooled. The underlying rules have changed! Let's examine a situation that is quite common among small and medium-sized governments.

"Sunshine City, Kansas" maintains an accounting system that produces financial reports to reflect compliance with Kansas cash basis and budget laws. Being progressive, the City has a goal of preparing and publishing financial statements that conform to generally accepted accounting principles (GAAP). So, Sunshine City engages an experienced firm to audit the annual financial statements.

The City requests that the auditor compile the necessary financial data, prepare the required journal entries for conversion to GAAP, and draft the GAAP financial statements. The City Manager and Finance Director both rely on the auditor to identify GAAP conversion items and calculate depreciation and the required accruals. They do not review or approve the conversion entries. The conversion entries are not posted to the City's general ledger, and the general ledger does not include many of the balance sheet, revenue and expenditure accounts reflected in the audited GAAP financial statements.

In this situation, the auditor is no longer independent under the new GAO independence standard. Why? The auditor impaired its independence by: (1) making management decisions about accounts to be used in the GAAP financial statements; (2) adjusting entries needed to convert to GAAP; and (3) posting transactions to financial records that produced basic accounting records for the GAAP financial statements.

In this case study, how can an auditor maintain independence under the more stringent rules? The auditor must include management in every step of the process. Prepare draft financial statements based on management's chart of accounts. Adjust and convert journal entries only as approved by management. Draft notes to the financial statements based on information determined and approved by management. Calculate depreciation based on methods and lives approved by management.

The new GAO independence standard certainly gives the audit's Management Representation Letter more importance and meaning. Now, the auditor must determine that management fully understands the financial statements and generally accepted accounting principles involved. In short, GAS Amendment No. 3 upholds higher independence standards for auditors by ensuring more involvement by a client's management team that in turn places more responsibility squarely on the client.

DISCLOSURE: THE BASICS

LYNN KREMERS, GILMORE & BELL, P.C.

Your municipal bond issue has just closed and the money is in the bank. It is the culmination of months of preparation including authorizing projects, gathering information for the official statement and reviewing bond documents. You sit back with the satisfaction of a job well done to relish the fact that the process is finally over...or is it? You may be tempted to toss that bond transcript on the shelf and forget about it, but if you are familiar with Rule 15c2-12 adopted by the Securities Exchange Commission, you know that there are certain ongoing continuing disclosure obligations that must be satisfied for as long as your bonds are outstanding. These obligations are generally referred to as "secondary" market disclosure obligations because they follow the initial offering of municipal securities, as distinguished from "primary" market disclosure obligations (i.e., preparation of an official statement), which occur in conjunction with the initial offering.

You may remember the days when disclosure obligations for municipal securities were virtually nonexistent. Those days officially ended in 1989 when the SEC adopted Rule 15c2-12 which requires underwriters of municipal securities to review an official statement prior to purchasing, offering or selling municipal securities. Although the SEC does not have the authority to regulate you, the issuer, it does have the authority to regulate underwriters which, in effect, requires you to undertake certain obligations if you want underwriters to be able to legally purchase your bonds...very clever.

With these primary disclosure regulations in place, the SEC was satisfied that the initial purchasers of your bonds would have the information they needed to make informed investments decision with respect to the bonds. But what about the investor purchasing your bonds in the secondary market five or even ten years after the initial offering? How will this investor make an informed investment decision with respect to your bonds? The SEC responded to this issue in 1994 by adopting amendments to Rule 15c2-12 which prohibit underwriters from purchasing or selling municipal securities unless the issuer or another person has undertaken to provide certain annual financial information and event notices to various information repositories. Once again, the underwriter is the party being regulated but the effect is to require you, the issuer (or

any "obligated person" in the transaction), to enter into an agreement to make the required disclosures if you want an underwriter to be able to purchase your bonds. This agreement, often referred to as a "continuing disclosure agreement," is entered into at the time of the initial offering of the bonds.

Under Rule 15c2-12, there are two basic forms of information that must be reported to each nationally recognized municipal securities information repository (commonly referred to as "NRMSIRs") and to the appropriate state information depository, if any, with respect to an offering of municipal securities: 1) annual financial information and 2) notices of material events.

1. Annual Financial Information. Annual financial information of the issuer and each obligated person for whom financial information or operating data is presented in the final official statement must be reported on an annual basis.

2. Material Event Notices. The following events, if material, must be reported on a timely basis with respect to the municipal securities being offered: 1) principal and interest payment delinquencies, 2) non-payment related defaults, 3) unscheduled draws on debt service reserves reflecting financial difficulties, 4) unscheduled draws on credit enhancements reflecting financial difficulties, 5) substitution of credit or liquidity providers, or their failure to perform, 6) adverse tax opinions or events affecting the tax-exempt status of the security, 7) modifications to rights of security holders, 8) bond calls, 9) defeasances, 10) release, substitution, or sale of property securing repayment of the securities, and 11) rating changes.

Like most rules and regulations, there are many exceptions that may apply (e.g., no official statement need be prepared and no continuing disclosure need be undertaken with respect to offerings of less than \$1,000,000). Therefore, it is important to evaluate each offering under Rule 15c2-12 to determine which, if any, of the requirements apply to your offering.

LYNN KREMERS, GILMORE & BELL, P.C.

A list of NRMSIRs can be found at the following web site:

PROGRAM AND PROFESSIONAL DEVELOPMENT COMMITTEE

The Program and Professional Development Committee, Chaired by Rich Vargo, met on Friday March 15 in Lawrence, Kansas. Some of the discussion and proposals that were facilitated in that meeting were:

Standardize the spring meeting schedule to the second week in May. This year's meeting will be May 17th in Hays. (See registration and agenda information in this newsletter and a flyer coming in your mailbox soon). The 2003 spring meeting is proposed to be in Dodge City on May 17. Standardize the fall regional meeting date to the first week in September. The 2002 meeting to be held Friday, September 6 in Leavenworth. Suggested topics are: 1) The Proper Role of the Auditor; 2) Role of the Financial Advisor; and 3) The Role of Bond Counsel. The 2003 fall meeting is proposed to be held on Friday, September 5 in Salina.

(Continued on page 4)

CALENDAR OF UPCOMING EVENTS

**KSGFOA Spring Meeting
Money?Money!Money?
Funding Issues for Local
Government and Economic
Development
May 17, 2002
9:45 a.m.—4:00 p.m.
Hays, KS**

**GFOA's 96th Annual
Conference
Denver, Colorado
June 16-19**

Member Services

If you are retiring or
changing jobs, please let
us know!

Kansas Government Finance Officers Association Newsletter

Editor Nannette Pogue
The KSGFOA *UPDATE* is published quarterly. Correspondence regarding articles, pictures or other information should be sent to: Nannette Pogue, Finance Director/City Clerk, Dodge City, Ks 67801 or email: nannette@dodgecity.org

UPDATE
P.O. Box 880
Dodge City, KS 67801



Mailing Label

GFOA UPDATE

The GFOA Executive Board adopted six new recommended practices that were developed by the GFOA's Standing Committees at its winter meetings. These new recommended practices include:

- Appropriate Level of Unreserved Fund Balance in the General Fund
- Documentation of Accounting Policies and Procedures
- Establishing the Estimated Useful Lives of Capital Assets
- Measuring the Cost of Government Services
- Using a Web Site for Disclosure
- Performance Management: Using Performance Measurement for Decision Making
(revised the 1994 recommended practice)

These recommended practices, information on the June 16 – 19 Annual GFOA Conference in Denver and a lot more can be found on the GFOA web site – www.gfoa.org. Please take a moment and look at the GFOA web site, it's been recently updated and more changes are planned in the near future.

(Continued from page 2)

The committee felt it would be best not to standardize locations and continue to look at various locations with the proper facilities to allow more of our members to be able to benefit from the programs KSGFOA has to offer.

The Annual KSGFOA meeting will be held in Olathe, KS, October 17 and 18 with possible topics being: (2) General Sessions on the Proper Role of Auditors, Service Efforts & Accomplishments and (4) breakout sessions on GASB 34, Recommended Best Practices in Budgeting, CIP and Accounting. The group also worked very diligently on planning the upcoming Spring meeting on May 17.