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**June 28, 2017**

**FINANCE and BUDGET COMMITTEE REPORT**

**Updates from the Auditor's Office**

- The **internal audit report covering [Agency Funds](#)** which was circulated and published on April 18<sup>th</sup>. A short power point presentation has been included with this month's committee report to provide additional clarification as to the significance of the findings and recommendations included in that report. Slides of that presentation have also been included in my report and as part of the published agenda.

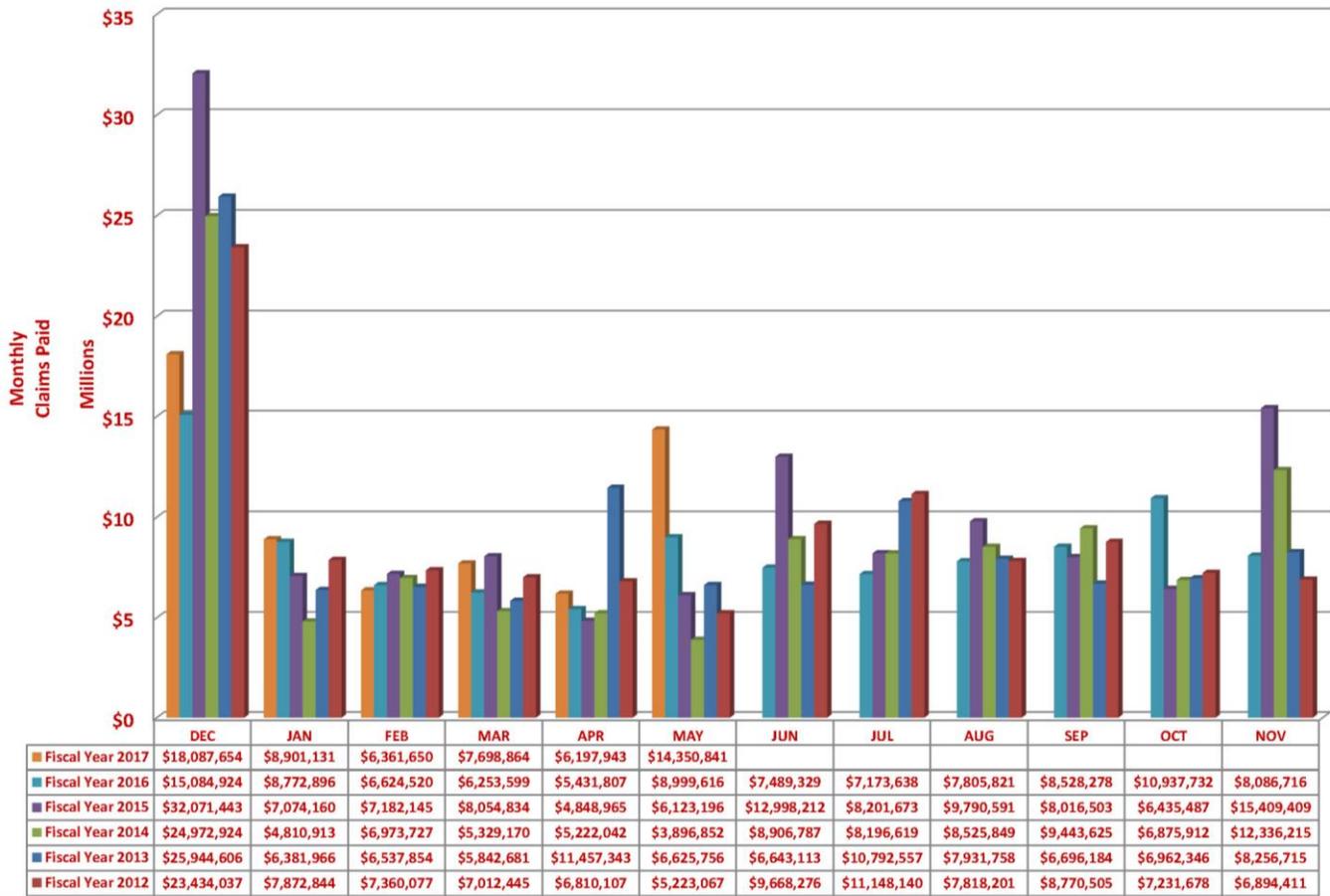
**Accounts Payable Claims Paid Report**

The **Accounts Payable Claims Paid Report for May 2017** shows that 3,023 invoices were processed which resulted in payments of \$14,350,841.10.

The supporting detail is available on the **Kane County OpenGov** platform. The following link will connect to the [online checkbook for May 2017](#). Reports for previous months are also available as saved views on the [Kane County Online Checkbook](#).

The following chart illustrates the comparison between accounts payable claims paid by month for fiscal years 2012 through 2017 to date.

### Comparison of Accounts Payable Claims Paid by Month Fiscal Years 2012 through 2017



### Power Point Presentation

A brief power point presentation has been included on the topic of Governmental Accounting with specific focus on the distinction between Special Revenue Funds and Agency Funds, as defined by GASB in accordance with GAAP.

# Governmental Accounting

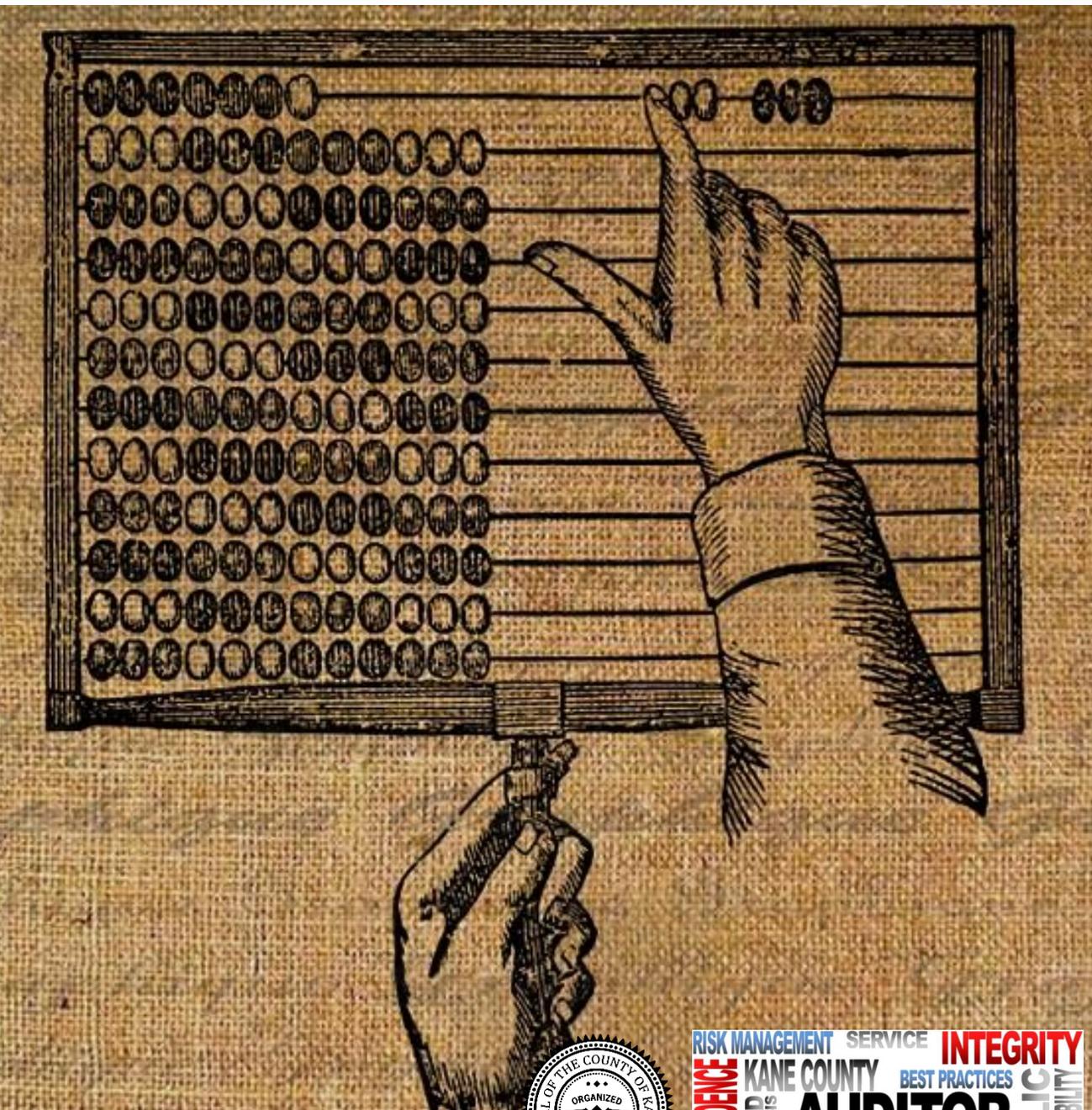
Focus on the distinguishing characteristics of Special Revenue Funds and Agency Funds

Presented to the Finance & Budget Committee  
June 28, 2017



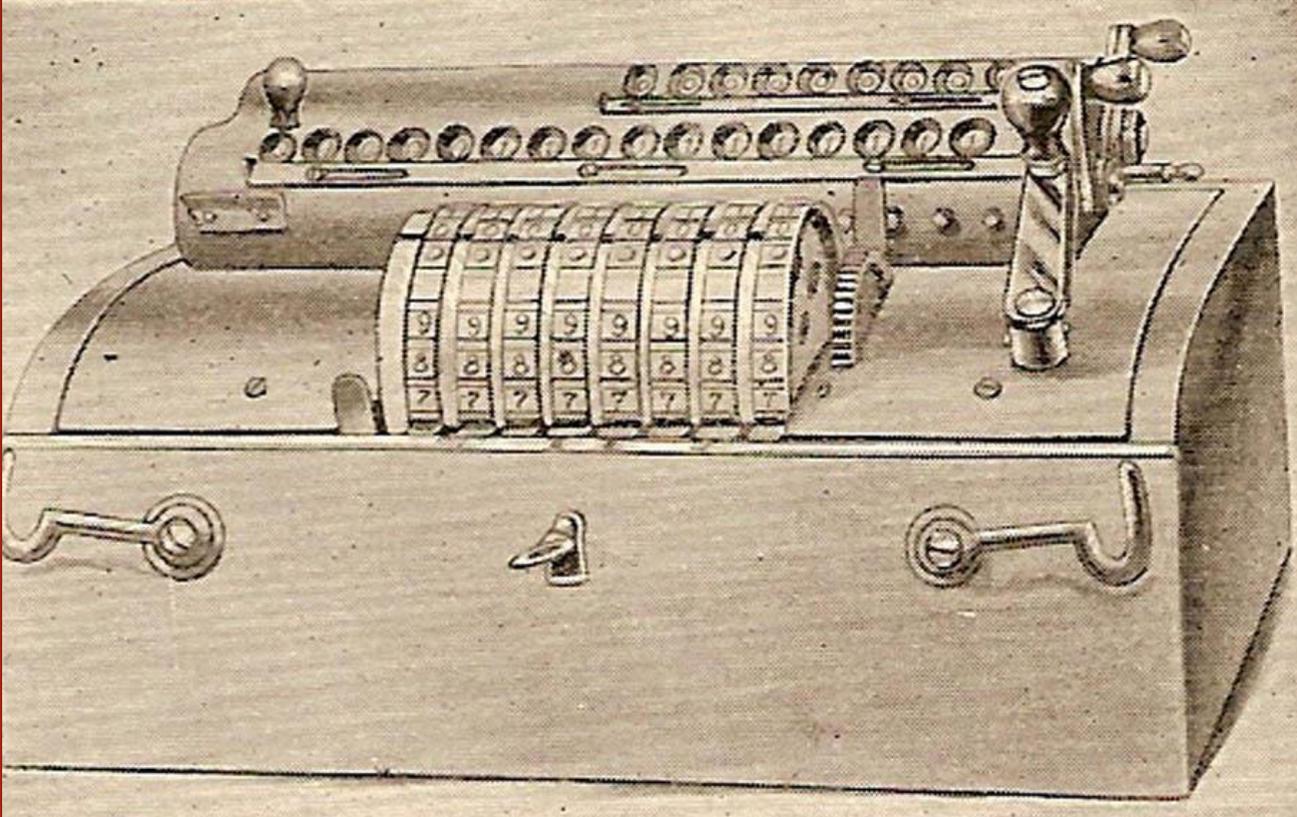
# Governmental Accounting

## Quick Pictorial History



# Governmental Accounting

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# Governmental Accounting

## Quick Pictorial History



**RISK MANAGEMENT** **SERVICE** **INTEGRITY**  
**INDEPENDENCE** **KANE COUNTY** **BEST PRACTICES** **PUBLIC**  
**BOARD ANALYSIS** **AUDITOR** **ACCOUNTABILITY**  
**TRANSPARENCY** **FINANCIAL INFORMATION** **INNOVATION**

# Governmental Accounting

## Quick Pictorial History



**RISK MANAGEMENT** SERVICE **INTEGRITY**  
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# Governmental Accounting

## Quick Pictorial History



# Governmental Accounting

Established in 1984, the Governmental Accounting Standards Board (GASB) is the independent, private-sector organization based in Norwalk, Connecticut, that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

The GASB standards are recognized as authoritative by state and local governments, state Boards of Accountancy, and the American Institute of CPAs (AICPA). The GASB develops and issues accounting standards through a transparent and inclusive process intended to promote financial reporting that provides useful information to taxpayers, public officials, investors, and others who use financial reports.

The Financial Accounting Foundation (FAF) supports and oversees the GASB. Established in 1972, the FAF is the independent, private-sector, not-for-profit organization based in Norwalk, Connecticut responsible for the oversight, administration, financing, and appointment of the GASB and the Financial Accounting Standards Board (FASB).



# Governmental Accounting

- Since 1984 GASB has issued eighty-six Statements of Governmental Accounting Standards
- Six Concepts Statements
- Six GASB Interpretations
- Numerous GASB Technical Bulletins and GASB Implementation Guides



# Governmental Accounting – Fund Types

GASB's first pronouncement statements were issued in the 1980s. Some have been amended or superseded over the years, but certain basics remain essentially unchanged. All funds fall into one of eleven different fund types which, in turn, can be classified into one of three categories;

1. Governmental Funds
2. Proprietary Funds, or
3. Fiduciary Funds



# Governmental Accounting – Fund Types

For the purposes of this presentation I want to focus on two fund types

1. Governmental Funds – specifically Special Revenue Funds and
2. Fiduciary Funds – specifically Agency Funds



# Governmental Accounting – Governmental Funds

GASB 54 was issued in 2009 and first applied to our fiscal year 2011. Among a host of other topics GASB 54 clarified the definition of Governmental Funds.

Governmental Funds include the following fund types:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt service funds, and
- Permanent Funds



# Governmental Accounting – Special Revenue Funds

GASB 54 further defined Special Revenue Funds. Key elements of that definition are as follows:

- Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
- The term proceeds of specific revenue sources establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund.
- Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.



# Governmental Accounting – Governmental Funds

It is important to notice that Fiduciary Funds, including Agency Funds, are not Governmental Funds.



# Governmental Accounting – Fiduciary Funds

GASB 84 (issued in January 2017) has re-visited the topic of Fiduciary Funds, and required changes will first apply to our 2020 fiscal year. However there are certain aspects of Fiduciary Fund accounting that still currently apply. There are four types of Fiduciary Funds, as follows;

1. Pension (and other employee benefit) trust funds
2. Investment trust funds
3. Private-purpose trust funds, and
4. Agency Funds



# Governmental Accounting – Agency Funds

As per Generally Accepted Accounting Principals (GAAP), Agency Funds are used to account for assets held solely in a custodial capacity. Assets must equal liabilities. **There are no revenues or expenses because the assets do not belong to the reporting entity.**

- Agency Funds typically involve only the receipt, temporary investment, and remittance of assets to individuals, private organizations or other governments. An example of the proper use of an Agency Fund is for the collection of Property Taxes which will be held for a short period of time and disbursed to the various taxing bodies.
- **Agency Funds, by definition, are not Governmental Funds. They cannot be used for the collection of operational revenues or the payment of operational expenses.**
- In accordance with GAAP, those operational activities should be properly reported in a Special Revenue Fund.



# Governmental Accounting – Agency Funds

On April 17, 2017 my office issued an internal audit report on the subject of Agency Funds. The audit findings and recommendations, as well as management responses, were included in the report.

In summary, there are certain funds currently improperly classified as Agency Funds. Because the activity is the result of revenues and expenses related to governmental activity, those funds should be re-categorized as Special Revenue Funds.

This is a significant change for a number of reasons including, but not limited to, the following differences. (1) All transactions – not just the net movement – of Special Revenue Funds is to be reported in the financial statements and (2) Special Revenue Funds are an integral part of the overall budgeting process.

