A Plain English Guide to Sanitation Utility Accounting

State of Alaska
Frank Murkowski, Governor

Department of Commerce, Community, and Economic Development
Edgar Blatchford, Commissioner

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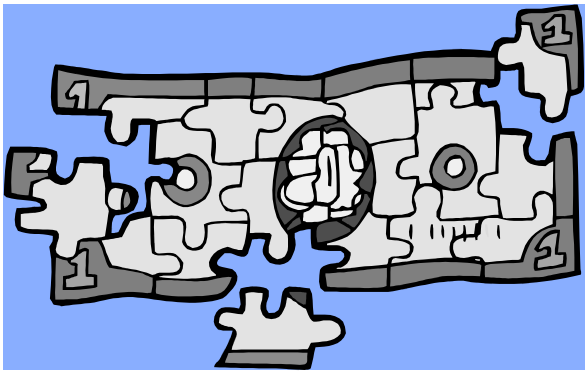
INTRODUCTION

This guide will lead you on a journey through the world of utility accounting. For a lot of us, the word "accounting" brings up images of big corporations, men, and women in business suits and complicated numbers. The fact of the matter is that everyone who keeps track of money is an accountant.

Chances are that you use some of your money to pay for your housing and food. After these necessities are paid for, you may calculate what money you will have left over for clothing, recreation, and other things. When you do this, you are accounting for your money.

Accounting for your community and its utilities is no different. You have money coming in, but you also have bills that need to be paid. Understanding and keeping track of the flow of money to and from your community—specifically with respect to your community's utilities—is what this book is all about.



CHAPTER 1

Accounting and Your Community

The Language of Accounting

Every type of endeavor has a language of its own. When you fish, there are special names for the gear you use, the fish you catch, and your fishing methods. Music also has a language of its own, with special names for keeping time and playing loudly or softly. Construction workers, doctors, and even bingo players all have a language of their own.

Accounting is no different. It has a common set of terms that are used to exchange information about finances. When you learn the language of accounting, you are able to describe the finances of your community and its water treatment plant to interested people.

Who would be interested in the finances of your community and its water treatment plant? Your community's residents, the council, certain state agencies, and some federal agencies all have a vested interest in seeing that your community thrives. They are all interested in having the community continue in a healthy financial state—in other words, a sustainable state.

Why Keep Track of the Numbers?

Sustainability is a word tossed around a lot these days. For rural Alaska—and more importantly for your community—sustainability means carrying on. It means that you can use your own resources to survive in the future. However, as money gets tighter, it becomes harder for communities to flourish. In order for your community to thrive in a climate of dwindling resources, everyone needs to work together.

Like your community, your water treatment plant needs to be sustainable. It needs to be able to run on the money collected from the community. When a repair needs to be made or a part needs to be replaced, your community has a good chance of succeeding if it can make the repair or purchase the part from its operating fund.

Achieving sustainability for your water treatment plant—and eventually your community—is not always easy. It takes everyone's commitment to pay their invoices on time as well as the commitment of the community to put money aside for future repairs and maintenance. It also involves keeping close track of your finances.

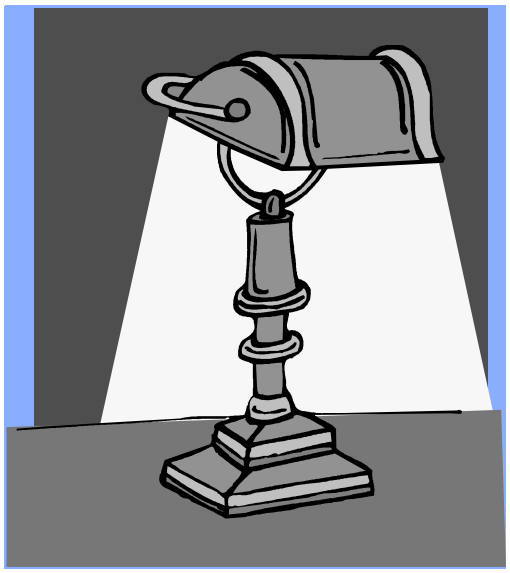
There are many pay-offs for keeping close tabs on your finances. Granting agencies, the Federal Government, and many state programs award money to cities that can account for their finances and that have created programs promoting sustainability for their community. These are the kinds of communities that other people want to invest in. There is no reason your community cannot be one of them.

Accounting Language Basics

A look at any language begins with the basics. The language of accounting uses five main terms:

assets
liabilities
fund balance or **equity**
income
expenses

These terms form the building blocks of accounting. In order to proceed any further down the accounting path, let us take a closer look at each of these terms.



Assets–*anything of value*

Look around your community. What do you see? Everything you see is an asset. An asset is something of value. Assets can be owned by you, your community, or someone else. If you paid for it, it is your asset. If your family paid for it, it is your family's asset. If your community paid for it, it is the community's asset. If you or your community has taken out a loan to purchase an asset and the loan is not paid off, then whomever you borrowed the money from—the bank or the credit card company—owns the asset.

What assets are you familiar with?

What kinds of assets does your community have?

These items are worth money. These items are called **assets**.

What else has value?

Money!

Money is the most obvious asset in your community. Its value is instantaneous—you do not have to sell anything to spend it. Your community might have **cash** in several different places including:

Checking accounts
Savings accounts
Cash boxes
Cash registers
A safe

Money that other people owe you

If you have sold something to someone and they have not paid you yet, then the money they owe you has value and is an asset. It will be turned into cash in the future. The term for this money owed your community is **Accounts Receivable**.

Think of all the invoices your community creates each month for its services. You probably invoice your customers for water and sewer. You may invoice them for other community services such as cable TV, refuse, or electricity. After providing the service, you send out your invoices. The value of these invoices represents an asset.

Items you buy and sell to others

Do you have fuel tanks in your community? If you have purchased fuel and it is sitting in the tanks waiting to be sold, that unsold fuel has value. It is called inventory and it is also an asset.

THE BOTTOM LINE

ASSETS: anything of value
- Cash
- Accounts Receivable
- Inventory
- Fixed Assets

Liabilities—*money you owe*

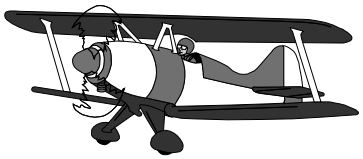
The next accounting term is liability. A liability is the accounting word for loan or debt. There are two ways your community can acquire new assets:

Pay cash

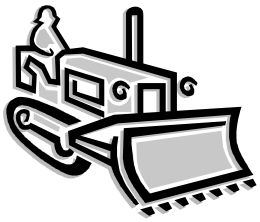
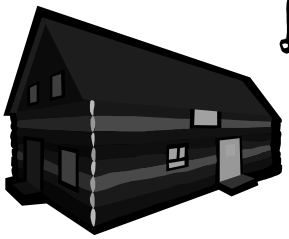
Borrow the money—take out a loan

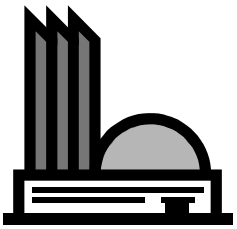
If your community takes out a loan to buy an asset, that asset is owned by the bank or the credit card company until your community has paid off the loan. In essence, a community has a liability until it is paid off. It does not matter how much the loan is for—it is still a liability. If you borrow five dollars from your friend, you have created a liability for yourself.

What kinds of loans or liabilities are you familiar with?



What kinds of loans or liabilities might your community have?



A loan that lasts for longer than one year is a **long-term liability**. Loans that are paid off in less than one year are **short-term liabilities**. Fixed assets (cars, trucks, buildings) are expensive, therefore it is common for businesses to pay for them over time with a long-term loan.

What other money does your community owe?

Any product or service that is not completely paid for when you take it from the store is a liability. The accounting term for it is **Accounts Payable**—in other words, this is money that your community needs to pay back in the future.

Your community may use a **credit card** to purchase goods and services. Every time you use a credit card, you are actually borrowing money from the credit card company. These are loans from the credit card company that need to be paid back in a relatively short period of time.

Whenever your employees get a paycheck, the community has to pay taxes on that money. They pay these taxes to the Federal Government and to the State of Alaska. This is money the community owes and it is a special kind of liability—a **Payroll Liability**.

THE BOTTOM LINE

LIABILITIES: anything you owe

- Loans
- Accounts Payable
- Credit Cards
- Payroll Taxes

Equity or Fund Balance–*the part of assets that you own*

Equity or Fund Balance is the part of the assets that are owned.

Let us say your family has a house. You purchased it for $100,000. You paid $20,000 cash and borrowed $80,000.

What is the asset?
House for $100,000

What is the liability?
Loan for $80,000

What part of the asset do you own?
$20,000--This is your equity in the house.
($100,000 - $80,000)

Your community is organized as a **non-profit**. This means you are not in business to make money. You are in business to provide services to the public. Any profit you make must remain in your community to improve it instead of being distributed to the citizens individually. Therefore, the word **Fund Balance** is substituted for **Equity**. From now on, we will use the term **Fund Balance**.

The total of all your community's **Assets** (everything of value) minus the total of all your community's **Liabilities** (bills and loans) = **Your Community's Fund Balance**—the part of the assets that is the excess over the liabilities.

Assets - Liabilities = Fund Balance

THE BOTTOM LINE

FUND BALANCE: the portion of the assets that is an excess over and above the liabilities

Income—*money coming in*

Income is the day-to-day money you have coming in during a specific time period. If a family or a community does not have money coming in, any loans they may have will not get paid off. If the assets were purchased with borrowed money, they will be taken back by the lender if payments are not made on the loan. Without money coming in to maintain assets, even assets that are paid for will eventually break down or wear out.

There are always fewer sources of income than there are expenses. Let us go back to the example of running your family.

Money Coming in for Your Family

Let us list some possible family income categories.

- Family paychecks
- Native Corporation Dividend Check
- Gifts
- Bingo winnings
- Interest from Savings accounts
- Investments
- Alaska Permanent Fund Dividend Check

Your family has some of these sources of income, but it probably does not have all of them.

Money Coming in for the Community

Your community makes income in several ways.

It may sell some of these services:

- Water/Sewer
- Refuse
- Moorage
- Cable TV
- Electricity

Your community may sell products:

- Fuel
- Propane

Your community may receive Federal and State money.

Your community may have income from investments:

- Savings Accounts
- Rent from Buildings

All of these sources of income contribute to the community's income for the year. You can look at your community's income as one large number, or you can break it down into its individual sources.

THE BOTTOM LINE

INCOME: Money coming in from all sources for the day to day costs of running your community

Expenses—*money going out*

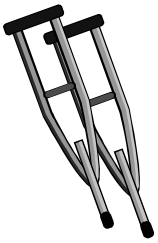
Let us go back to looking at your family. What do you need to keep your family going? There are many more expenses to list for your family than sources of income! You could sit and make an endless list of items such as: boots, jackets, shirts, sodas, pizza, school books, car, doctor's visit, television set, and DVDs. Rather than make individual listings of each individual expense item, it is much easier to make a list of the common categories from which we spend our family money.

Expenses make the day-to-day income smaller and smaller. It is very important for a family or a community to keep the expenses smaller than the income. If the expenses are greater than the income, the family or the community will have to borrow money to keep going.

The lower the expenses, the more income is left over to pay off loans, buy more assets, or maintain the assets you already have.

Money Going Out for the Family

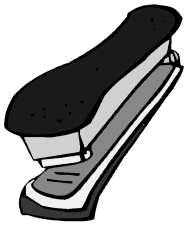
- Transportation
- Food
- Clothing
- Housing
- Furniture
- Recreation
- Education
- Medical

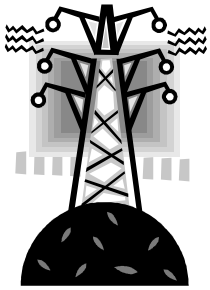


Money Going Out for Your Community

Your community has its share of expenses, too. In fact, it has many more expenses than income! What might be some of the major categories of expenses for your community?

- Salaries
- Payroll Taxes
- Office Supplies and Equipment
- Telephone
- Fuel
- Electricity
- Freight





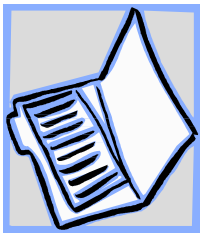
THE BOTTOM LINE

EXPENSES:

- Any goods or services purchased directly for running something
- Expenses must be kept lower than income to keep a community running.

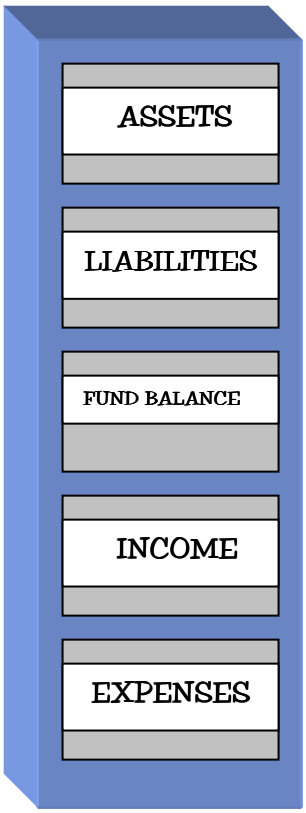
Your Notes:

CHAPTER 2

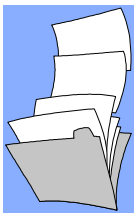


Financial Events in Your Community

In Chapter 1 you were introduced to the five main categories of accounting—Assets, Liabilities, Fund Balance, Income, and Expenses. Accountants use these categories to tell the financial story of their business. Every day there are financial events in your community. A good accounting system records all of these events and organizes them into five categories. Let us think of these categories as being a five-drawer filing cabinet.



In this chapter you will learn how to identify what information to put into each of these filing cabinet drawers. In addition, you will also be introduced to the idea of **Fund Accounting**.



Creating the Paper Trail

Your community's accounting system revolves around its bank accounts and cash boxes. Everyday money comes in and goes out. Every time money comes in or goes out, a **business event** has occurred. There is usually a piece of paper attached to each of these business events. Let us look at some of these events:

- **A customer pays their water/sewer invoice-**
  Your **invoice** billed them for the charge.
  Your **receipt** acknowledged their payment.
  The **bank's deposit receipt** acknowledged your bank deposit.

- **The utility pays its electric bill-**
  The electric company sent a **bill** requesting your payment.
  You wrote a **check.**
  The **bank statement** acknowledged your check.

- **The utility buys office supplies**
  The office supply store gave you a **sales receipt** for the office supplies.
  You wrote a **check.**
  The **bank statement** acknowledged your check.

It is safe to say that **anytime** something changes a cash box or a bank account, a business event has occurred and needs to be documented. There should be a piece of paper requesting the money, acknowledging the receipt or payment of the money, and recording the deposit or withdrawal of the money. This is called a **paper trail**. A paper trail follows the money in and out of cash boxes and bank accounts. The financial information from this paper trail is the information that gets recorded into your accounting system.

THE BOTTOM LINE:

- **Most business events involve cash—cash in or cash out.**
- **A business event involves a paper trail, which contains all the information for your accounting system.**

Analyzing the Paper Trail

After you have captured all the pieces of paper pertaining to the money coming in or going out, you need to pull out the financial information that will go into your accounting system. What information do you need?

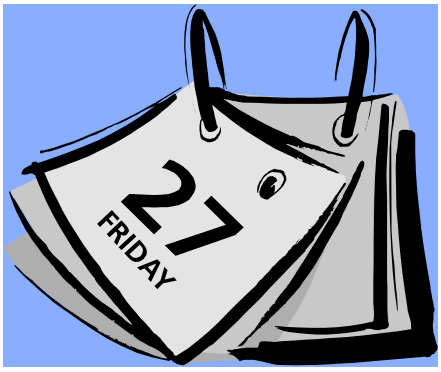
- The date of the business event
- The accounting method you will use—cash vs. accrual
- The amount of money involved
- Which fund is responsible
- Which accounting category is affected

The Date of the Business Event

If you think of your accounting system as being a financial diary of your community, you should have no trouble realizing the importance of the date. You want your financial diary in chronological order. There are several reasons for this:

- Dates make it easy to look things up.
- Having your data in chronological order will allow the financial history of your community to be accurate.

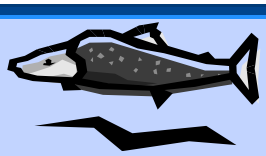
There is one thing that muddies the waters of accounting when you think about the dates of a business event. There are two methods used for recording business events—Cash and Accrual.



The Accounting Method Used—Cash vs. Accrual

Cash Method or Cash Basis

The Cash Method of accounting records income when the cash is received and expenses when the cash is paid. It is called recording business events on a **Cash Basis.**



Cash Basis Accounting—Utility Bills

Recording Income - Cash

Mr. Johnson was invoiced $65 for water/sewer on July 1. On August 12, Mr. Johnson came in to pay his invoice. The cash method of accounting would deal with the transactions like this:

July 1
No income is recorded when the invoice is sent out.

August 12
Water/sewer income is recorded and Mr. Johnson's balance is decreased at the same time.

- Cash goes up by $65.
- Income goes up $65.

For this example, the July water/sewer income is recorded in August when the money is actually received.

Recording Expenses - Cash

The Utility receives an electric bill for $500 on August 5. The invoice date of the electric bill is July 31. The due date is August 20.

August 5
Nothing is recorded on August 5.

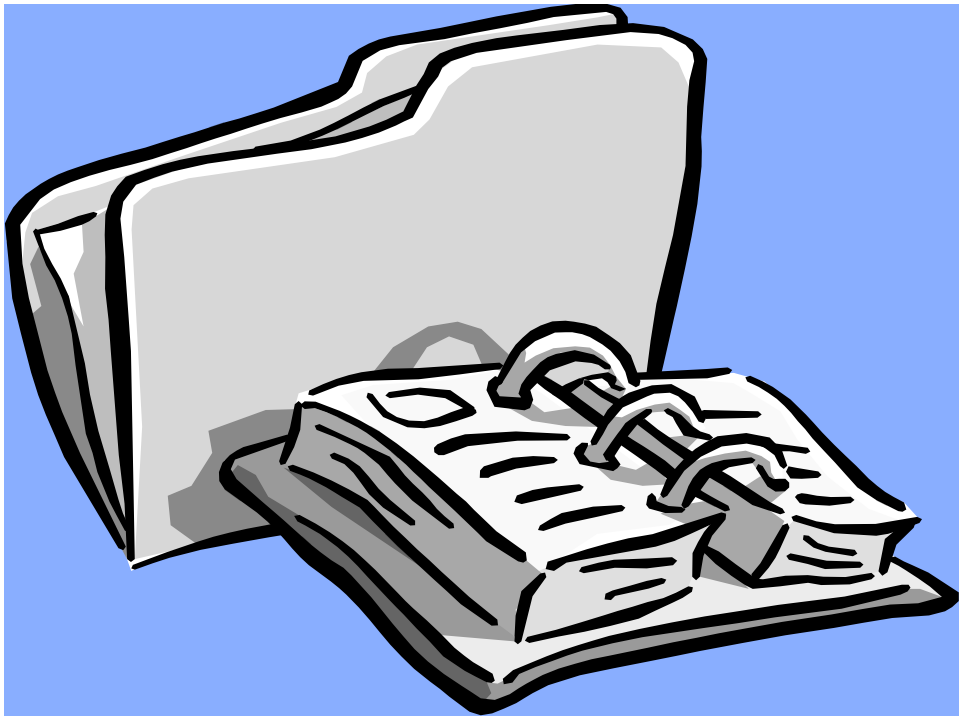
August 15
The utility clerk sends a check to the electric company and the expense and payment are recorded at the same time.

- Cash goes down by $500.
- Electricity Expense goes up by $500.

For this example, the July electricity is recorded in August when payment is made. The cash method matches the expense to the period in which it gets paid, not when the expense occurred.

Accrual Method or Accrual Basis

The Accrual Method of accounting records the income when it is **earned** and the expense when it is **incurred**. This is called recording business events on an **Accrual Basis**.



Accrual Basis Accounting—Utility Bills

Recording Income – Accrual

Mr. Johnson was invoiced $65 for water/sewer on July 1. On August 12, Mr. Johnson came into the utility to pay his invoice. The accrual method of accounting would deal with the transactions like this:

July 1
The water/sewer invoice is recorded as income:
- Mr. Johnson's customer account (Accounts Receivable) goes up $65.
- Income goes up $65.

August 12
The water/sewer invoice is recorded as paid:
- Cash goes up by $65.
- Mr. Johnson's customer account balance (Accounts Receivable) goes down by $65.
- Nothing happens to income because income was already affected on July 1.

Recording Expenses - Accrual

The utility receives an electric bill for $500 on August 5. The invoice date of the electric bill is July 31 and it is due on August 20.

July 31
- The utility clerk records the electric expense. She records it in July to match the expense with the service period of the electric bill.
- Electricity Expense goes up by $500.
- Unpaid bills (Accounts Payable) go up by $500.

August 15
A check is sent to the electric company and the payment is recorded:
- Cash goes down by $500.
- Unpaid bills (Accounts Payable) go down $500.
- Nothing happens to expenses when the bill is paid—it was affected on July 31.

As you can see, depending upon whether the cash or accrual method is used, accounts will be affected at different times. In fact, this can tell different stories about your community's finances.

Most communities in rural Alaska use cash basis accounting. With the cash method, it may appear as though a community makes more money in certain months. For instance, if many customers pay their outstanding invoices after they get their Permanent Fund Dividend check, it may look as if the community earned a lot of income in October, when actually residents were just paying for previous months' invoices.

The accrual method lets you link all the income and the expenses with the time period in which they occur. It also gives you a good idea of how each month's income and expenses match up. You will be able to tell if each of your departments is paying its own way each month.

Check with your council and your Local Government Specialist to determine which accounting method your community uses. Whichever method you choose, stick with it. Going back and forth between methods will drastically change the way your income and expenses get reported.

THE BOTTOM LINE

CASH METHOD—numbers are recorded when the cash changes hands—the money you actually have.

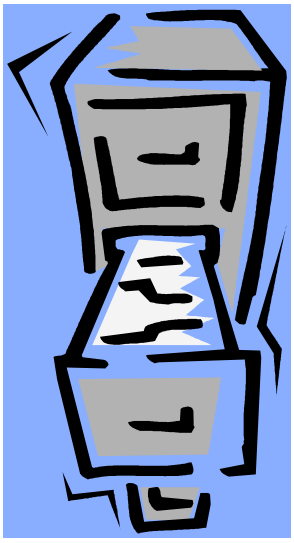
ACCRUAL METHOD—numbers are recorded when income is earned and the expense is incurred.

The Money Involved in the Transaction

This may sound easy. You write a check for computer paper. The paper cost fifty dollars. That is the amount of money in the business event. But "What If" you buy a truck? The truck cost $3,000. The community writes a check for $2,000 and borrows $1,000. All of those numbers belong to the one event, but several things happen at the same time.

- Assets (the bank account) decrease $2,000.
- Liabilities (the loan) increase $1,000.
- Assets (the truck) increase $3,000.

Sometimes you have to look at several pieces of paper and do some analyzing to be able to tell the entire story of one business event.



The Fund Responsible

Because your community is organized as a local government, you must follow the rules for **fund accounting**. Fund Accounting is an accounting system in which income and expenses are grouped according to their source of funds. What does this mean? It helps to think of your community budget. Each page of your budget is a fund. Some of your funds may be:

- Administration & Finance
- City Council
- Police
- Water/Sewer
- Library Grant

Using the example above, when your community purchases computer paper, you must ask yourself which fund is paying for that expense. Is the expense coming out of the Water/Sewer money or is Administration & Finance paying for it?

If your community has a water/sewer plant, a Library Grant, and an Administration & Finance department, you must keep all of the expenses and all of the income for each fund separate in your accounting system.

If you use a computer system such as QuickBooks or American Fundware, there is an easy solution for separating all your business events into funds. In QuickBooks, you create a Class for each department. American Fundware calls them Funds.

THE BOTTOM LINE:

- **Using Classes or Funds allows you to keep track of which department each financial event belongs to.**

- **The classes or funds you will use are determined by your community's departments, grants, and programs.**

Here is a sample list of funds rural Alaskan communities may have. Use it as a starting point for the funds in your community.

Sample Funds or Departments:

- ❑ Administration & Finance
- ❑ Airport
- ❑ Bingo
- ❑ Council
- ❑ Facility Maintenance
- ❑ Fire
- ❑ Garbage & Landfill
- ❑ Harbor & Dock
- ❑ Hydro
- ❑ Leases
- ❑ Land Leases
- ❑ Library
- ❑ Parks & Recreation
- ❑ Police
- ❑ Rentals
- ❑ Safe Communities
- ❑ Streets & Roads
- ❑ Washeteria
- ❑ Water & Sewer
- ❑ _____
- ❑ _____
- ❑ _____
- ❑ _____
- ❑ _____

The Accounting Category Affected

After deciding which department (fund) is responsible for the business event, you have to decide which accounting categories are affected. Going back to the computer paper purchase, you know that the checkbook (an asset) went down $50. This is not all that happened. Computer supplies (an expense) also increased at the same time.

All business events have two sides. This is the dual nature of accounting and accountants call this Double-Entry Accounting. Therefore, when you purchased computer paper, the checkbook (assets) decreased by $50 and Computer Supplies Expense (expenses) increased by $50.

Some Questions to Ask

Next time you find yourself looking at a receipt, a bank deposit, a check, an invoice, or any other business document ask yourself the following questions to determine what information should be entered into your accounting system:

- What is the date on the piece of paper?
- What is the amount of money?
- Which community fund is paying for this expense or receiving this income?
- Which accounting category or categories are affected?

Hint—If money is coming into your community, it will probably be Income. If money is going out of your community, it will probably be for an Expense.

"What If?"

Try out your detective skills on analyzing the paper trail by going through the following "What If?" scenarios.

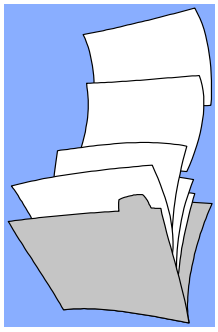
On September 12, a local resident comes in and pays $40 on their water/sewer invoice. The clerk writes out Receipt #4010.

What is the date?	September 12
What is the amount of money?	$40
Which fund is receiving this income?	Water/Sewer
Which accounting categories are affected?	Income
	Cash

On September 20, the city clerk writes a check to Hageland Air for $350 for air travel. An employee is going to Anchorage to receive water/sewer training.

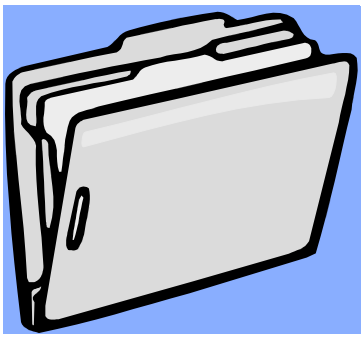
What is the date?	September 20
What is the amount of money?	$350
Which fund is paying for the expense?	Water/Sewer
Which accounting categories are affected?	Expense
	Cash

In the next chapter, you will see why five accounting categories—Assets, Liabilities, Fund Balance, Income and Expenses are not quite enough to tell the entire financial story of your community. One asset category will not be enough if your community has four bank accounts, customer accounts for water sewer, and customer accounts for cable TV. If you only have one expense category, how will you know how much you spent on air travel, freight, or electricity? Communities need accounts within each category individually tailored to their specific funds. This listing of accounts is the heart of the accounting system—the Chart of Accounts.



Your Notes:

CHAPTER 3



Building Your Community's Chart of Accounts

In Chapters 1 and 2 you learned about the basics of the accounting language, how to identify and analyze business events, and how to use funds or classes to separate the accounting of community departments and grants. You also now know that five accounting categories are not enough to tell your community's financial story. In this chapter, you will learn how to build a Chart of Accounts—the complete list of accounts that relates to your community.

Just as there has to be a filing system for all the papers related to community government, there also has to be a system of keeping track of all the numbers related to your community. Your Chart of Accounts gives you that filing system. It is the blueprint, or guide, to all the financial information you need to track. Every number that represents a dollar value to your wastewater treatment plant—or to your community government as a whole—needs to fit into a logical place in your Chart of Accounts. Building a good Chart of Accounts is the essential first step in keeping track of your community's finances.

THE BOTTOM LINE:

- A Chart of Accounts is a list of accounts which becomes a map or guide to your community's finances.
- Every number you want to keep track of needs to fit into one of the accounts.

Major Types of Accounts

There are five types of accounts in your Chart of Accounts—Assets, Liabilities, Fund Balance, Income, and Expenses.

THE BOTTOM LINE:

There are five major types of accounts in the Chart of Accounts. They always appear in this order:

Asset Accounts
Liability Accounts
Fund Balance Accounts
Income Accounts
Expense Accounts

Individual Accounts

Each type of account will have several individual accounts. Think of each individual account as a "file folder" with a name that describes the numbers that are "kept" inside. For example, your community probably has several types of Asset Accounts—Cash Accounts, Accounts Receivable, Inventory, and Fixed Assets. You probably have several bank accounts, and you will want an account for each one of them so that you will not be tossing all the information for several bank accounts into just one "folder".

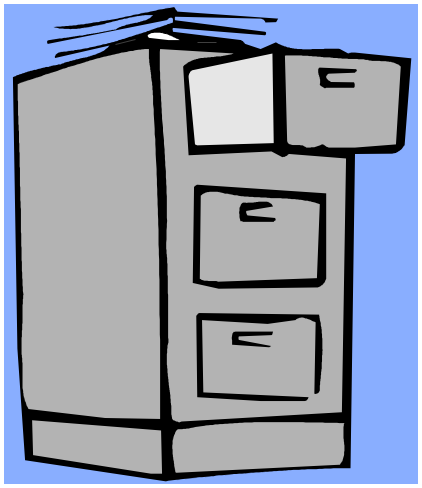
Naming the Accounts in Your Chart of Accounts

You cannot create these accounts without naming them. It does no good to create a file folder if you do not label it. The traditional accounting method of naming accounts within a Chart of Accounts involves using a standardized three and four digit numbering system. Accountants use these numbers all the time, but the numbers usually do not mean anything to a non-accountant.

Your community will probably want to use names for your individual accounts that have meaning to you—such as Wells Fargo Checking, Office Supplies, or Bulldozer Loan. When you see the account name, you will know immediately what information is in that account.

Building a Chart of Accounts

Each account type has a list of individual accounts associated with it. Let us start with the accounts in the order they appear:



ASSET ACCOUNTS

The list of sample Asset Accounts from Chapter 1 looked like this:

- **Bank or Cash Accounts**
- **Accounts Receivable**
- **Inventory**
- **Current Assets**
- **Fixed Assets**

Bank and Cash Accounts

Each bank account you have needs a separate account in your Chart of Accounts. You want to have unique names for each of them that jog your memory as to which bank account it represents—like a file folder. It is a good idea to include the bank name and the type of bank account it is when naming it. Some people also know their bank accounts by the account number. You can add that to the name if you want.

Checking Accounts: If you have only one checking account, you might call it First National Bank Checking, which uses the name of the bank and the type of bank account it is. If you have several checking accounts, then you probably want to include in the name what the account is used for. Do you have one for water/sewer funds and one for general funds? If that is the case, then Water/Sewer Checking and General Fund Checking might be more appropriate.

Savings Accounts: Savings accounts are named the same way. Bank of America Savings is fine if there is only one savings account, but Water/Sewer Savings and Washeteria Savings would be better if you have more than one savings account.

Cash Boxes: Most small communities in Alaska do not have a local bank, so they keep a cash box in the office to receive payments from customers and to pay small bills. This is the unofficial "bank" of the community and the money that goes in and out of it needs to be tracked. The name for this account should reflect what you call it in your office. Some examples are: the Cash Box, the Green Envelope, the Safe, or the Register.

Sample Cash Account Names:

- General Checking
- Wells Fargo Checking
- WF Checking—09675
- Water/Sewer Savings
- FNB Savings
- Cash Box
- Blue Bag
- Cash Register
- W/S Savings--34265

WF is Wells Fargo
FNB is First National Bank

Accounts Receivable

Accounts Receivable is the account where you keep track of all the unpaid invoices in your community, and it represents income to your community. The unpaid invoices are kept track of by fund such as water/sewer, garbage or electricity. When you invoice your customers for a service, you select the fund that receives the money and that information will stay with that number as it moves within your accounting system.

Sample Accounts Receivable Account Names:

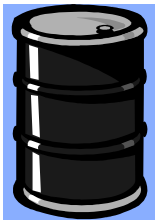
- **Accounts Receivable**
- **Water/Sewer Accounts Receivable**
- **W/S AR (Abbreviations for Water/Sewer and Accounts Receivable)**

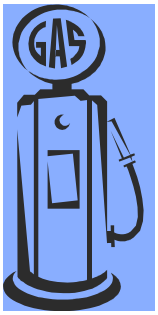
Inventory

Inventory is an asset because it represents something you sell to make money such as fuel and propane. You need to know exactly how much you have of that product at any point in time.

Sample Inventory Account Names:

- **Bulk Fuel**
- **Propane Inventory**
- **Sewer Pipe**





Current Assets

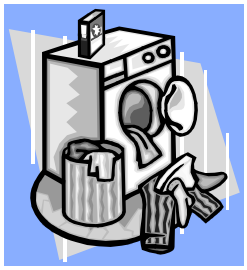
Your current assets need accounts of their own. Current Assets will be converted into cash fairly soon. There is no need to get tricky naming these accounts because they are self-explanatory.

Employee Advances is the most common current asset account. When employees take an advance on their paycheck, they owe you this money until it is deducted from their next paycheck.

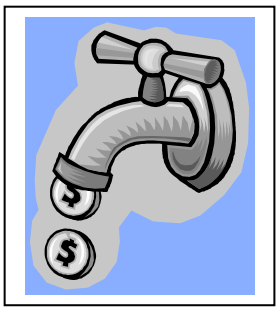
Fixed Assets

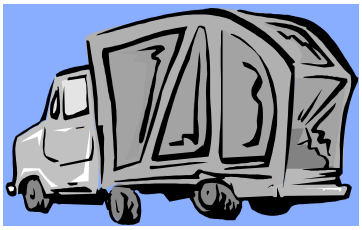
These accounts represent the big items your community owns—even if you have loans on them. These items may have unique names if there is only one of them, such as Road Grader, or they may be put into a group like Furniture or Computer Equipment.

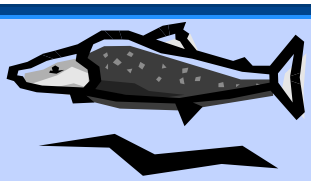
Sample Fixed Asset Account Names:



Vehicles
Computer
Garbage Truck
Washers







Meet the City of Salmon River!

Before you start building your own chart of accounts, you can see how another community has done it. Salmon River is a fictitious community that you can practice your skills on.

Salmon River is a small, rural Alaskan community with a population of 350. The community is known for its beautiful setting on the banks of the Salmon River. The city has a Water Treatment Plant and they invoice for water/sewer services every month. They also have a monthly garbage service, and they sell fuel and propane. They also currently manage a Library Grant. In addition to the water treatment plant, the city owns a Ford Explorer and a Chevy Truck.

The mayor of Salmon River, Elaine, has decided it is time to get the community finances in order. She has told the city clerk, Holly, that they need to automate their community accounting system. Holly knows she needs a system that will work for every number the community tracks. She decides to start by building a Chart of Accounts.

First, Holly needs to list her Asset Accounts. She has gone through all the files in the office and located the information she needs including:

- All recent bank statements for community bank accounts
- A record of the transactions for the two cash boxes.
- The file of all the customers for Water/Sewer, Garbage, Fuel, and Propane.
- A list of all the large equipment and buildings that Salmon River owns.

Holly decides to tackle the first step by filling out the worksheet below:

SALMON RIVER'S ASSET ACCOUNTS INVENTORY

Bank (or Cash) Assets

General Fund Checking

Water/Sewer Checking

Water/Sewer Savings

General Fund Cash Box

Water/Sewer Cash Box

Current Assets

Employee Advances

Accounts Receivable

Accounts Receivable

Water/Sewer Accounts Receivable

Fixed Assets

Chevy Truck

Ford Explorer

Other Assets

Water/Sewer Treatment Plant

YOUR COMMUNITY'S ASSET ACCOUNTS

Now it is your turn. What are your community's assets? A list of your community's assets might look like this.

Cash Assets

- Water/Sewer Checking Account
- General Checking Account
- Cash Box

Accounts Receivable

- Water/Sewer Customer accounts
- Moorage Customer accounts

Fixed Assets

- Vehicles
- Equipment
- Computers
- Furniture

Other Assets

- Water/Sewer Plant

Take an inventory of your community's assets and build your asset accounts on the worksheet on the next page.

YOUR COMMUNITY'S ASSET ACCOUNTS INVENTORY

Bank (or Cash) Assets

_____

_____

_____

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_____

Current Assets

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Accounts Receivable

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Fixed Assets

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Other Assets

_____

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_____

LIABILITY ACCOUNTS

As you learned in Chapter 1, liability accounts represent money your community owes someone else. The list of sample Liability Accounts looks like this:

- Accounts Payable
  - Credit Cards
- Current Liabilities
- Long Term Liabilities

Accounts Payable

Accounts Payable is the account where you keep track of all your unpaid bills—goods or services that you have bought but not paid for yet. It represents expenses to your community. These unpaid bills can all go into one **Accounts Payable** account, but they are kept track of by fund just like your unpaid invoices.

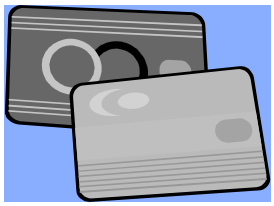
Sample Accounts Payable Account Names:

- Accounts Payable
- Salmon River Accounts Payable
- A/P
- Water/Sewer Accounts Payable

Credit Cards

Some communities use credit cards. Any unpaid balances on a credit card are actually short term loans—current liabilities. Each credit card needs to have its own account. When selecting a name for a credit card account, make sure it is unique so that you will not confuse your credit cards. If you have two of the same type of credit card—let us say two VISA cards—then you might want to use a department or grant name to further identify the account.

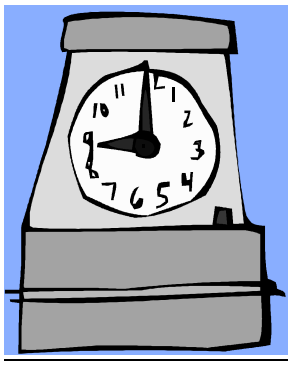
Sample Credit Card Account Names:



- Admin VISA
- Water/Sewer AmEx--62005
- Wells Fargo MasterCard
- Library Grant VISA

Current Liabilities

Current Liabilities represent all the money the community owes to someone else that has to be paid within the next three months. The most common current liabilities are **Payroll Liabilities** and **Sales Tax Payable**. Payroll Liabilities represent the money the community owes the Federal Government and the State of Alaska for payroll taxes as well as money it owes insurance companies for employee benefits. The following page has a list of the most common payroll liabilities which can all be included in the overall Payroll Liabilities Account.

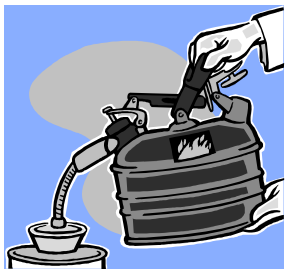


Liability	Who Gets the Money
SUTA or Alaska State Unemployment Tax	State of Alaska
Federal Withholding (941 tax)	U. S. Government—IRS
Medicare Tax (941 tax)	U. S. Government
Social Security Tax (941 tax)	U. S. Government
FUTA—Federal Unemployment Tax	U. S. Government
Medical, Dental, or Vision Insurance	Insurance Company that provides the benefit
Life Insurance	Insurance Company that provides the benefit
Annuity or Retirement Benefit	Insurance or Investment Company
Child Support	Child Support Enforcement Division
IRS attachments	U.S. Government

Sales Tax Payable is another Current Liability. This is the account that tracks any tax on sales that your community collects for another government entity. After collecting the tax, it is paid to that government agency at certain predetermined intervals. If your accounting software calculates this tax on sales you make to others, it keeps track of it in this account.

Sample Current Liabilities Account Names:

- **Payroll Liabilities**
- **Payroll Taxes Payable**

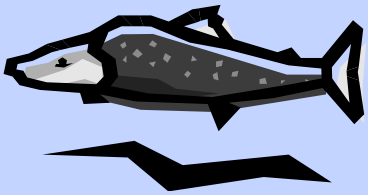


Long Term Liabilities

Loans Payable holds the unpaid balances of the money your community has borrowed to purchase an asset. Each account keeps track of the balance owed on an asset until the loan is paid off. Loan balances for fines and penalties are also kept in a Loans Payable account. When you name one of these accounts, be sure to include the name of the asset or fine attached to it.

Sample Long Term Liability Account Names:

- Ford Explorer Loan
- Clinic Loan
- Loan Payable
- IRS Penalty



SALMON RIVER'S LIABILITY ACCOUNTS

Now that Holly has built her asset accounts, she needs to tackle the liability accounts. In order to figure out exactly what type of individual liability accounts she needs to create, Holly and the mayor gather up the following papers:.

- All unpaid bills.
- The latest statement from the MasterCard credit card.
- Paychecks from the last pay period to determine what payroll liabilities are owed.
- Any unpaid payroll liabilities from previous pay periods.
- An inventory of all fixed assets to determine if they have loans on them.
- Any fines or penalties Salmon River owes

The Water/Sewer Treatment Plant was paid for with State and Federal dollars and the community is not making payments on it. The Ford Explorer has a loan.

What are Salmon River's liabilities? A list of their liabilities might look like this.

SALMON RIVER'S LIABILITY ACCOUNTS INVENTORY

Accounts Payable

Accounts Payable

_____

_____

_____

Credit Cards

MasterCard _____

_____

_____

_____

Current Liabilities

Payroll Liabilities (including):

- ☑ SUTA or
- ☑ Alaska State Unemployment Tax
- ☑ Federal Withholding
- ☑ Medicare Tax
- ☑ Social Security Tax
- ❑ FUTA—Federal Unemployment Tax
- ❑ Medical, Dental or Vision Insurance
- ❑ Life Insurance
- ❑ Annuity or Retirement Benefit
- ❑ IRS attachments

Short Term Loans

_____

_____

Long Term Liabilities

Loans Payable

Ford Explorer Note Payable

_____

_____

_____

_____

YOUR COMMUNITY'S LIABILITY ACCOUNTS

Now it is your turn again. What are your community's liabilities? A list of your community's liabilities might look like this.

Accounts Payable

- Your Community's Accounts Payable
- Water/Sewer Accounts Payable

Credit Cards

- MasterCard
- Alaska Airlines VISA

Payroll Liabilities
(Unpaid Payroll Taxes and Liabilities)

- Federal Withholding
- Medicare
- Social Security
- Alaska State Unemployment
- Child Support

Loans Payable

- 3-year Wells Fargo Truck Loan

Take an inventory of your community's liabilities and build your liability accounts on the worksheet on the next page.

YOUR COMMUNITY'S LIABILITY ACCOUNTS INVENTORY

Accounts Payable

_____

_____

_____

_____

_____

Credit Cards

_____

_____

_____

_____

_____

Current Liabilities

Payroll Liabilities (including):

- ❑ SUTA or Alaska State Unemployment Tax
- ❑ Federal Withholding
- ❑ Medicare Tax
- ❑ Social Security Tax
- ❑ FUTA—Federal Unemployment Tax
- ❑ Medical, Dental or Vision Insurance
- ❑ Life Insurance
- ❑ Annuity or Retirement Benefit
- ❑ IRS attachments
- ❑ _____

Short Term Loans

_____

_____

Long Term Liabilities

Loans Payable

_____

_____

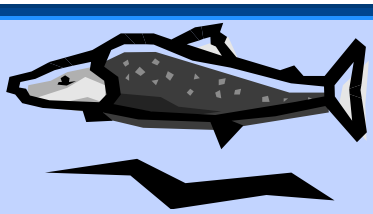
_____

_____

_____

FUND BALANCE ACCOUNT

Your Fund Balance represents the amount of money you have invested in your community. In other words, if you had a huge sale and sold everything the community owned (the asset accounts), then paid off all the bills and loans (the liability accounts), what you would have left over is your fund balance. You use this number, along with your net income or loss for the current year to determine how much your community is worth. The usual name for this account is ***Your Community's Name*** **Fund Balance**, like Salmon River Fund Balance. The listing in the Chart of Accounts will be a simple line that looks something like this:



SALMON RIVER FUND BALANCE ACCOUNT

Salmon River Fund Balance

YOUR FUND BALANCE ACCOUNT

_____ **Fund Balance**

The accounts we have talked about thus far are the accounts that represent what you own and owe. Those accounts will tell you what your community is worth on any one day. The next accounts deal with the

income your community takes in and the money it spends on day-to-day expenses.

These accounts represent the money you receive for goods and services—your sources of income—and the money you spend—your expenses. Once again, the use of funds or departments allows you to significantly streamline your Chart of Accounts.

INCOME ACCOUNTS

Your community probably has several income sources. First of all, it sells services to the community. In addition to the water and sewer services from the water treatment plant, it may receive revenue from other community services including electricity, a washeteria, moorage, bingo, and fuel sales to name a few. Your community may also have income from investments such as savings accounts and rent from buildings, houses, or apartments. Some communities generate income through a sales tax. Finally, your community may receive income from the State of Alaska and the Federal Government.

All these sources of income contribute to the community's income for the year. As we discussed in Chapter 2, you can look at your community's income as one large number, or you can break it down into its individual sources. In any case, the community wants to keep track of these individual sources of income so it knows how much money each service or activity generates.

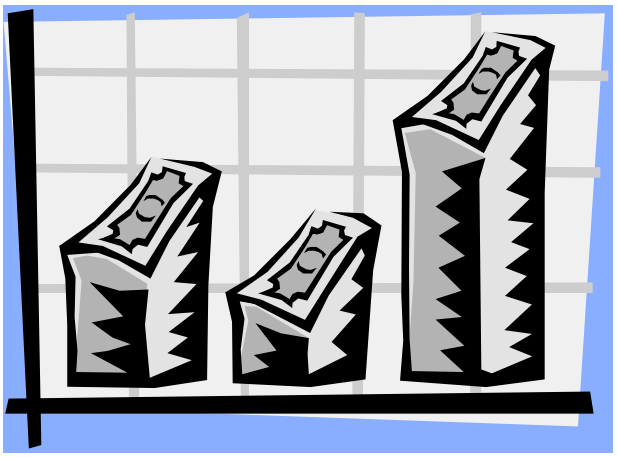
Through the use of **funds or departments**—described in Chapter 2—your community can lump all your permanent income sources from community services or activities into one account named Income. Every time you enter a source of **income**, you will tell your accounting system to which fund that income belongs.

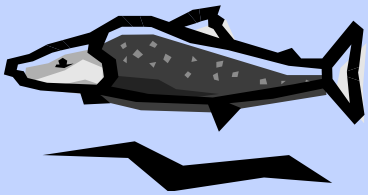
Grants are treated as separate income sources because they are often a temporary source of income that will only last for a year or two. The granting source usually insists that you keep track of the grant funds separately. In any case, it helps to see non-community service income separately.

The other sources of income need accounts of their own so they will not get mixed up with community services. **Interest** from bank accounts is a common income account kept separately. Another unique source of income is the State of Alaska. It is a good idea to keep that source of money separate so that you will not confuse it with money your community generates.

Sample Income Account Names:

Income
Interest Income
State Income
Fish Tax Income
Other Income





SALMON RIVER CHOOSES INCOME ACCOUNTS

Here is a quick refresher on Salmon River's sources of income. They have a Water Treatment Plant and invoice their residents for Water/Sewer each month. They also have monthly Garbage service and they sell Fuel and Propane. They also have a contract with the Government to provide Postal Service and they have a Library Grant.

Income (which will include all income from Water/Sewer, Post Office, Rental, Library, Garbage, Fuel, and Propane Sales)

Interest Income

SALMON RIVER'S INCOME ACCOUNTS

Community Service Income

Income (including Rental, Library, Garbage, Fuel, Water/Sewer and Propane Sales)

_____

Other Income

Interest Income

_____

_____

State Income Sources

_____

_____

YOUR COMMUNITY'S INCOME ACCOUNTS

Now it is your turn. What are your community's sources of income? A list of your community's income sources might look like this.

Community Service Income

Other Income

Interest

State Income

Fish Tax

==========

Community Service Income

_____

Other Income

_____

_____

_____

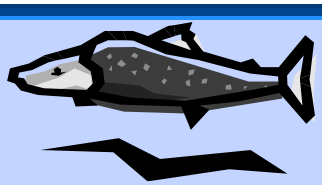
State Income Sources

_____

_____

EXPENSE ACCOUNTS

Because there are so many different types of expenses that a community incurs, your expense account list is much larger than your income account list. Instead of expense categories for each fund, though, all of your funds will use the same expense account list.



SALMON RIVER CHOOSES EXPENSE ACCOUNTS

Holly went straight to Salmon River's budget to help her with her list of expense accounts. Although the budgets are separated by department, grant, and program, there are lots of common expenses in each budget. She first lists the expenses common to all the funds.

She then goes through each budget and lists expenses that are unique to individual funds. At the end of the exercise, she has the entire list for Salmon River's Expense Accounts.

Common Expenses

Accounting and Auditing
Bank Charges
Copier Supplies
Contractual Labor
Dues and Subscriptions
Electricity
Equipment
Freight
Fuel Oil
Insurance and Bonding
Legal
Office Supplies
Payroll Wages
Payroll Taxes
Postage
Rent
Repairs and Maintenance for Buildings and Vehicles
Stipends
Telephone
Training
- Travel
- Lodging
- Per Diem

Unique Expenses

Building Materials
Chemicals and Testing
Computer/Internet
Interest on loans
Parts and Supplies
Propane

SALMON RIVER'S EXPENSE ACCOUNTS

Salmon River checked off these accounts to include in their set of expense accounts.

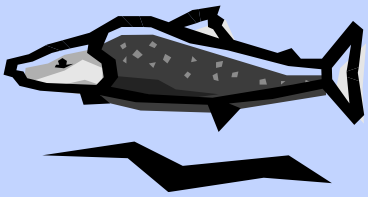
- ☑ Accounting & Auditing
- ☑ Bank Charges
- ☑ Building Materials
- ☑ Chemicals and Testing
- ☑ Computer/Internet
- ☑ Contractual Labor
- ☑ Copier Supplies
- ☑ Dues and Subscriptions
- ☑ Electricity
- ☑ Equipment
- ☑ Freight
- ☑ Fuel Oil
- ☑ Insurance & Bonding
- ☑ Interest on Loans
- ☑ Legal
- ☑ Office Supplies
- ☑ Parts & Supplies
- ☑ Payroll Wages
- ☑ Payroll Taxes
- ☑ Postage
- ☑ Propane
- ☑ Rent
- ☑ Repairs & Maintenance
  - ☑ Building
  - ☑ Vehicle
- ☑ Stipends
- ☑ Telephone
- ☑ Training
  - ☑ Travel
  - ☑ Lodging
  - ☑ Per Diem

YOUR COMMUNITY'S EXPENSE ACCOUNTS

Go through the list of sample expense accounts and check off those that pertain to your community

- ☐ Accounting & Auditing
- ☐ Bank Charges
- ☐ Building Materials
- ☐ Chemicals and Testing
- ☐ Computer/Internet
- ☐ Contractual Labor
- ☐ Copier Supplies
- ☐ Dues and Subscriptions
- ☐ Electricity
- ☐ Equipment
- ☐ Freight
- ☐ Fuel Oil
- ☐ Insurance & Bonding
- ☐ Interest on Loans
- ☐ Legal
- ☐ Office Supplies
- ☐ Parts & Supplies
- ☐ Payroll Wages
- ☐ Payroll Taxes
- ☐ Postage
- ☐ Propane
- ☐ Rent
- ☐ Repairs & Maintenance
  - ☐ Building
  - ☐ Vehicle
- ☐ Stipends
- ☐ Telephone
- ☐ Training
  - ☐ Travel
  - ☐ Lodging
  - ☐ Per Diem
- ☐ Other Expense Accounts
- ☐ _____
- ☐ _____
- ☐ _____

After all that work, Holly finally has built her Chart of Accounts. Now she is ready to keep close tabs on Salmon River's finances.

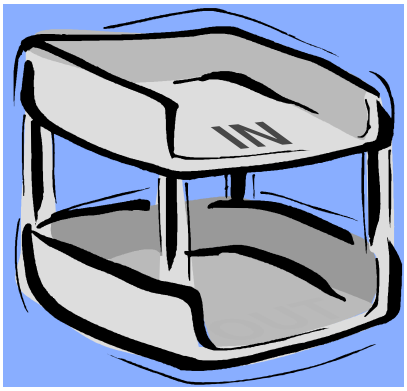


SALMON RIVER'S CHART OF ACCOUNTS

Account	Type
General Fund Checking	Bank
Water/Sewer Checking	Bank
Water/Sewer Savings	Bank
General Fund Cash Box	Bank
Water/Sewer Cash Box	Bank
Employee Advances	Current Asset
Accounts Receivable	Accounts Receivable
Water/Sewer Accounts Receivable	Accounts Receivable
Ford Explorer	Fixed Asset
Chevy Truck	Fixed Asset
Water/Sewer Treatment Plant	Other Asset
Accounts Payable	Accounts Payable
MasterCard	Credit Card
Payroll Liabilities	Current Liabilities
Ford Explorer Loan	Long Term Liabilities
Salmon River Fund Balance	Equity
Income	Income
Interest Income	Income
Accounting/Auditing	Expense
Bank Charges	Expense
Building Materials	Expense
Chemicals and Testing	Expense
Computer/Internet	Expense
Contractual Labor	Expense
Copier Supplies	Expense
Dues and Subscriptions	Expense
Electricity	Expense
Equipment	Expense
Freight	Expense
Fuel Oil	Expense

Insurance and Bonding	Expense
Interest on Loans	Expense
Legal	Expense
Office Supplies	Expense
Parts & Supplies	Expense
Payroll Wages	Expense
Payroll Taxes	Expense
Postage	Expense
Propane	Expense
Rent	Expense
Repairs & Maintenance	Expense
Building	Expense
Vehicles	Expense
Stipends	Expense
Telephone	Expense
Training	Expense
Travel	Expense
Lodging	Expense
Per Diem	Expense

By filling out the worksheets in this chapter, you have now built your community's Chart of Accounts. In the next chapters, you will learn how to use the numbers in your Chart of Accounts to create major accounting reports. In addition, you will learn exactly what each of these reports tells you about your community and its finances.



Your Notes:

CHAPTER 4

A Good Accounting Report

Every day your community has many business events which affect its overall financial condition. One of the main purposes of accounting is to summarize these events so we can see the changes in assets, liabilities, and fund balance. That is why you want to prepare accounting reports. They are a good way for your community's council to prove to its citizens that they are using their money wisely.

By taking the time to produce good accounting reports, your community will also send a message to state and federal funding agencies that you take your job of managing funds seriously. Any interested people or agencies will be able to look at your reports and get a good picture of your community's finances. As funding becomes more competitive, you want your community to have every advantage.

The Major Accounting Reports

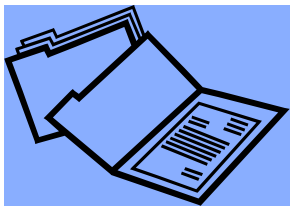
Your community should be creating the following reports on a monthly basis:

- Profit and Loss Statement
- Profit and Loss Statement by Fund
- Balance Sheet
- Budget vs. Actual Report

In the next three chapters, you will learn how to create and interpret each of these reports. All of these reports follow certain formats. Continue reading to learn how to prepare a professional looking accounting report.

What Does a Good Accounting Report Look Like?

Before we get into the nuts and bolts of creating several accounting reports, let us first list the characteristics of a good report in general.



It Looks Professional

Any accounting report represents your community. Your governing body uses them to make financial decisions. Other professionals read them to decide whether or not to invest in your community. These reports should look like a serious document. This is not the time to experiment with colorful paper and flowery typefaces. Think conservative! If you use accounting software:

- Use a standard font
- Use a normal size typeface
- Use white paper

Make sure you have no spelling errors. Have someone that spells well review your reports and Chart of Accounts. If there are errors in the spelling of your account names, go back to your Chart of Accounts and make corrections. Make sure the account names start with a capital letter. Make sure that your community or utility name is spelled correctly on everything.

It States Whether the Report is Cash or Accrual Basis

As you learned in Chapter 2, preparing reports using either cash or accrual basis can tell quite a different story. Because your income and expenses are recorded at different times in each method, your community's financial picture will look different. The reader of your financial statements needs to know which basis you are using. Your reports should be clearly labeled **Cash Basis** or **Accrual Basis** at the top.

It is Brief

If your reports go on for several pages, it means only one thing—you have too many accounts. Most of these reports should be two pages long—preferably one. Even large corporations like Federal Express have short reports.

It is Accurate

Accounting reports summarize all the information in the accounting system. If the information is not accurate, it follows that the reports will not be accurate. Whether you are doing your accounting by

hand or using computer software, mistakes do happen. After preparing your reports, be sure to examine them closely and ask yourself if the numbers make sense.

THE BOTTOM LINE:

Good accounting reports are:

- **Professional looking with no spelling errors.**
- **Clearly labeled Cash or Accrual Basis.**
- 1 to 2 pages long.
- **Accurate.**

CHAPTER 5

Getting To the Bottom Line—The Profit and Loss Statement

Accounting provides us with a way to measure the flow of money. Now that you have built your Chart of Accounts, you are ready to see some of the reports you can make from the information in the individual accounts.

One of the main reports created and used by accountants is the **Profit and Loss Statement** also known as the **P&L.** This report summarizes all the income and expenses of a fund for a specific period of time. The most common time periods for a Profit & Loss Statement are a month, a quarter, or a year.

Most communities in Alaska use a fiscal year instead of a calendar year. This means that the community's year starts on July 1—instead of January 1—and ends on June 30—instead of December 31.

THE BOTTOM LINE:

A Profit and Loss Statement summarizes all the income and the expenses of a community or fund for a specific period of time.

What Questions Does a Profit and Loss Statement Answer?

- What is your profit or loss for any period of time?
- If you made money last month, did you still make money for the year?
- Do you have more money coming in than going out?
- If you have more income than expenses, how much extra do you have?
- If you have more expenses than income, where is your problem?
- Can your community continue to grow?

Who Can Benefit From Looking At a Profit and Loss Statement?

Anyone interested in the finances of your community and its funds will use the accounting reports you create. Interested people, agencies, or municipalities include:

- The city clerk.
- The governing body.
- Your community's Local Government Specialist with the State of Alaska.
- People responsible for different funds within your community (water/sewer, bingo, harbor).
- Any federal or state official needing information for reporting purposes.
- Any grantor or any other group from whom you are requesting money.

The Four Basic Parts of a Profit & Loss Statement

All Profit & Loss Statements have:

- A Heading
- An Income section
- An Expense section
- A Bottom Line

The Heading

Since this is a formal statement there is a standard heading which has three lines. The first line is always the name of the business. The second line is the name of the report. The third line is the time period covered by the report. Below is a sample heading for a statement covering a month and a statement covering a year:

City of Salmon River
Profit and Loss Statement
For month ended January 31, 20XX

City of Salmon River
Profit and Loss Statement
For year ended June 30, 20XX

An Income Section

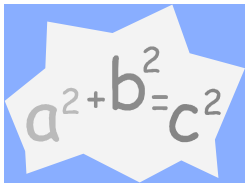
The income section starts with an income heading and then will list all the income accounts in the Chart of Accounts. The number next to each income account will be the total for the time period that the statement includes.

An Expense Section

The expense section will start with an Expense Heading and will list all of the expense accounts in the Chart of Accounts. These balances will also include expenses only for the time period in the report.

The Bottom Line

The bottom line will be labeled Net Income or Profit. The resulting number will be the profit or loss of the community or of the fund over a specific period of time. When this information comes together in this report, anyone will be able to look at it and see if the community or the fund can cover its day-to-day expenses with the incoming money. Any profit in the bottom line increases the Fund Balance of the community.



THE BOTTOM LINE:

Profit and Loss Statements contain four parts:

- **A three line heading.**
- **An income section.**
- **An expense section.**
- **The bottom line also known as net income.**

Creating a Profit and Loss Statement

The **Profit & Loss Statement** comes up with a final figure that represents either a profit or loss. This number is called the **bottom line.** You can get it by using a simple mathematical equation:

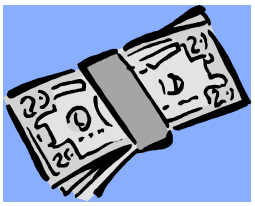
Income - (minus) Expenses = Profit or Loss (the bottom line)

Let us use the Salmon River Water Treatment Plant as our example.

Each month, the Treatment Plant earns income to the utility through services for water and sewer. The utility invoices the residents and businesses for their services and the money gets collected and deposited into utility bank accounts. Imagine for a moment that all money collected for that month goes into one big bucket called **Water/Sewer Income.**

On the flip side, the community also has expenses for the plant that month. Sample expenses might be:

- Wages for the people that work in the plant, test the water, and perform the administrative work.
- Chemicals for water testing and treatment.
- Electricity to run the plant.



- Fuel for trucks and equipment.
- Repairs to the plant.
- Pipe for making and repairing connections.

Now think of putting all those expenses for the month into the bucket called **Water/Sewer Expenses**.

Total up the numbers in each bucket.

- The income bucket totals $1,000.
- The expense bucket totals $875.
- Subtract the expense total from the income total and you come up with $125-- "**The Bottom Line**"

$1,000 - $875 = $125 profit

If expenses had totaled more than $1000, then the bottom line would be a loss.

$1,000 - $1,100 = ($100) loss

Each fund (department, program, or grant) has its own **Profit and Loss Statement**. It is as important to see the bottom line for each individual fund as it is to see the bottom line for the community as a whole. Therefore, you want to create **Profit and Loss Statements** for each fund, and then put them all together into an overall **Profit and Loss Statement** for your entire community.

THE BOTTOM LINE:

Total Income – Total Expenses = Profit or Loss

SALMON RIVER CREATES PROFIT AND LOSS STATEMENTS

Salmon River—Listing Income

Holly is ready to create a Profit and Loss Statement for her Water/Sewer, Garbage, and Fuel Funds, as well as create one for the community as a whole. She is creating the report for the month of July, so she totals the income each fund had for that month.

Water/Sewer Income	$1,500
Garbage Income	$300
Fuel Sales Income	$1,000

Salmon River—Listing Expenses

Holly starts to build her list of expenses. She quickly realizes that tracking expenses will be a little trickier than income because there are more expense accounts. She totals up the expenses for each fund as follows:

Water/Sewer Expenses:

Payroll	$750
Payroll Taxes	$ 75
Chemicals for Testing	$ 25
Electricity	$100
Repairs and Maintenance	$ 50

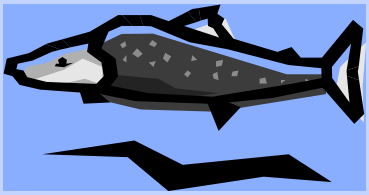
Garbage Expenses:

Payroll	$250
Payroll Taxes	$ 25
Truck Fuel	$ 50

Fuel Sales Expenses:

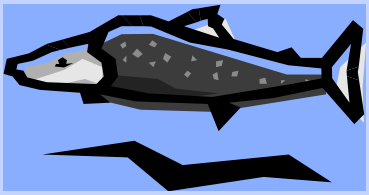
Payroll	$300
Payroll Taxes	$ 30
Fuel Purchase	$500

NOTE: Profit and Loss Statements include all of the income and expense accounts in a Chart of Accounts. Salmon River's Profit and Loss Statements contain only a few of these accounts to simplify the learning process.



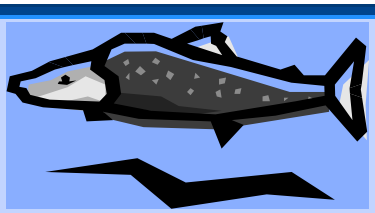
City of Salmon River –Water/Sewer Fund
Profit & Loss Statement
For the Month Ended July 31, 20XX

Income		
Fund Income	$1,500	
Total Income		$1,500
Expenses		
Payroll	$750	
Payroll Taxes	75	
Chemicals for Testing	25	
Electricity	100	
Repairs and Maintenance	50	
Total Expenses		$1,000
Net Income		$ 500



City of Salmon River – Garbage Fund
Profit & Loss Statement
For the Month Ended July 31, 20XX

Income		
Fund Income	$300	
Total Income		**$300**
Expenses		
Payroll	$250	
Payroll Taxes	25	
Truck Fuel	50	
Total Expenses		**$325**
Net Income		**$-25**

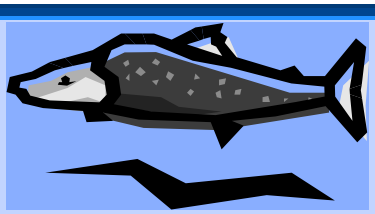


City of Salmon River – Fuel Sales
Profit & Loss Statement
For the Month Ended July 31, 20XX

Income		
Fund Income	$1,000	
Total Income		**$1,000**
Expenses		
Payroll	$300	
Payroll Taxes	30	
Fuel Purchase	500	
Total Expenses		**$ 830**
Net Income		**$ 170**

Holly takes a look at her three Profit and Loss Statements. She sees that Water/Sewer and Fuel Sales each made money last month, but Garbage Collection experienced a loss.

Holly decides to create an overall Profit and Loss Statement for the City of Salmon River combining the information in the three Fund Profit and Loss Statements. The new **PROFIT AND LOSS STATEMENT** looks like this:



City of Salmon River –All Funds
Profit & Loss Statement
For the Month Ended July 31, 2004

Income		
Fund Income	$2,800	
Total Income		**$2,800**
Expenses		
Payroll	$1,300	
Payroll Taxes	130	
Chemicals for Testing	25	
Electricity	100	
Repairs and Maintenance	50	
Truck Fuel	50	
Fuel Purchase	500	
Total Expenses		**$2,155**
Net Income		**$ 645**

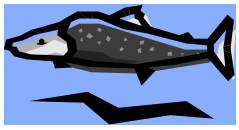
Salmon River experienced a $645 profit this past month, and the council will be pleased with the results. Holly knows that they all need to watch the Garbage Fund. If it continues to lose money—or starts to lose more money, then they need to either increase the income by raising Garbage Fees or decrease the expenses.

"What If?"

Since all Profit & Loss Statements are not the same, it is helpful to play a "What If" scenario and see how to interpret other Profit and Loss Statements. As you read each **"What If"** scenario, ask yourself what the numbers mean before reading the analysis. Remember two rules when looking over Profit and Loss Statements:

- **When income goes down, your profit goes down.**
- **When expenses go up, your profit goes down.**

What if half of the customers do not pay their invoices?

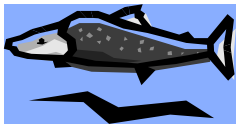


City of Salmon River
Profit & Loss Statement by Fund
For the Month Ended July 31, 20XX

INCOME	Water/Sewer	Garbage	Fuel Sales	All Funds
Fund Income	$750	$150	$500	$1,400
Total Income	**750**	**150**	**500**	**1,400**
EXPENSES				
Payroll	$750	$250	$300	1,300
Payroll Taxes	75	25	30	130
Chemicals for Testing	25			25
Electricity	100			100
Repairs/Maintenance	50			50
Truck Fuel		50		50
Fuel Purchase			500	500
Total Expenses	**$1,000**	**$325**	**$830**	**$2,155**
Net Income	-$250	-$175	-$330	-$755

If Salmon River starts having a collection problem, the bottom line really suffers. They have to determine why people are not paying their invoices. Is there a problem with the delivery of the services? Has word gotten around that the community does not do anything if people do not pay? Are families going through an especially difficult financial time? These are all reasons why a community needs to keep an eye on their income and expenses by looking at the Profit and Loss Statement very closely each month.

What if the cost of fuel goes up dramatically?



City of Salmon River
Profit & Loss Statement by Fund
For the Month Ended July 31, 20XX

INCOME	Water/Sewer	Garbage	Fuel Sales	All Funds
Fund Income	$1,500	$300	$1,000	$2,800
Total Income	**$1,500**	**$300**	**$1,000**	**$2,800**
EXPENSES				
Payroll	$750	$250	$300	$1,300
Payroll Taxes	75	25	30	130
Chemicals for Testing	25			25
Electricity	100			100
Repairs/Maintenance	50			50
Truck Fuel		200		200
Fuel Purchase			800	800
Total Expenses	**$1,000**	**$475**	**$1,130**	**$2,605**
Net Income	**$ 500**	**-$175**	**-$130**	**$195**

Increased fuel costs are hitting everyone these days. Fuel increased to $1000 in this scenario and the Bottom Line went from a healthy $645 profit down to $195 in one month. Further increases in fuel costs could result in an overall loss for Salmon River.

The Final Word on Profit and Loss Statements

Simply stated, your Profit & Loss Statement informs you and others about the day-to-day business of your community. Each fund will have its own Profit and Loss Statement as will your community as a whole. These P&Ls will let everyone know exactly which funds are paying their way and which funds are losing money. They can also help your community prevent money problems before they happen.

CHAPTER 6

Measuring Your Community's Health—The Balance Sheet

The second big report of accounting is called the **Balance Sheet**. The information it gives you about your community's health can be compared to the information a doctor gets from a laboratory blood sample. When a lab takes blood from you, the resulting report is like a snapshot of your health at that moment. When your doctor reads the report, he or she scans the numbers looking for anything out of the ordinary.

The Balance Sheet is a snapshot of your community's financial health at one point in time, and it too, can be scanned and examined for any numbers that appear out of the ordinary. While the Profit and Loss Statement contains information on the income and expenses of your community, the Balance Sheet contains information on its assets and liabilities—that is, bank accounts, receivables, and loans as well as the fund balance. It is possible to scan the numbers on a balance sheet of any community and decide fairly quickly whether the community is financially healthy, ill, or somewhere in-between.

THE BOTTOM LINE:

- The Balance Sheet is a snapshot of your community's health.
- It summarizes total assets, total liabilities and the fund balance of your community.

What Questions does a Balance Sheet Answer?

- How much money does the community have in the bank?
- How much cash is sitting around in the office?
- Does the community have any money in savings? How much?
- How much money do customers owe for services?
- What fixed assets does the community have and what are their values?
- What is the total value of everything the community owns?
- Is the community paying their payroll and sales taxes?
- Do any of the fixed assets have loans against them?
- Does the community have a lot of debt?
- Can the community pay its debt?
- Can the community afford to buy new assets?
- Is the community worth anything? If it is, how much?

The answers to all of these smaller questions add up to answer the biggest question facing your community:

- **IS THE COMMUNITY SUSTAINABLE? DOES IT HAVE THE FINANCIAL HEALTH TO CONTINUE?**

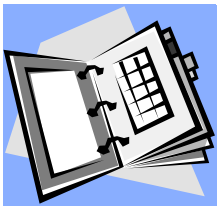
Who Can Benefit from Looking at a Balance Sheet?

- The city clerk.
- The governing body.
- Your Local Government Specialist with the State of Alaska.
- Any people in charge of the different funds within your community.
- Any federal or state official needing information for reporting purposes.
- Any grantor or any other group from whom you are requesting money.

Anyone that is looking at your Profit and Loss Statement will be interested in looking at your Balance Sheet because the two statements go hand-in-hand. Each one of these reports alone tells only half of your financial story. It is especially important to put the reports together for a complete picture of the community.

What Does a Balance Sheet Look Like?

A Balance Sheet, just like a Profit and Loss Statement, is constructed in a standard format. It follows some of the same conventions that a Profit and Loss Statement does. Refer to Chapter 4 for general characteristics of all accounting reports, then read about the specifics of a Balance Sheet below before creating one for your community.



The Parts of a Balance Sheet

- The Heading
- The Asset Section
- The Liabilities & Fund Balance Section

The Heading

The Balance Sheet uses a heading similar to the one used in the Profit and Loss Statement. It is usually three lines: the first line is the name of the business or community; the second line is the name of the report—Balance Sheet; and the last line is the date of the information in the report.

NOTICE that the Balance Sheet covers the financial information for your community on ONE DAY—not for a time period like the Profit and Loss Statement. The Profit and Loss can be for a month, a quarter, or for the whole year. The Balance Sheet is a snapshot of your community's net worth on a specific day.

City of Salmon River
Balance Sheet
As of January 31, 20XX

The Asset Section

The asset section of the report is divided into **Current Assets, Accounts Receivable, and Fixed Assets**. This is the section that lists bank accounts, savings accounts, the money other people owe you, and all the equipment and buildings you own. The balances in these accounts will be the balance as of the day of the report. For instance, if the report is dated May 31, but you created and printed it June 15, then all the bank transactions after May 31 will not appear on the report. This section ends with a summary called Total Assets.

The Liabilities & Fund Balance Section

The liability and Fund Balance section starts by listing your liabilities. It starts with **Current Liabilities**, followed by **Accounts Payable** and finally **Long-Term Liabilities**. This part of the section ends with a **Total Liabilities** summary number. The last section in the report includes **Fund Balance** and **Net Income** from the current accounting period. They will be summarized into a **Total Fund Balance number**. The final line of the Balance Sheet will be a **Total Liabilities and Fund Balance** summary number.

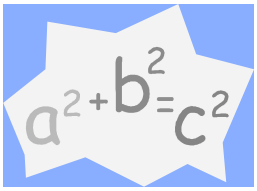
THE BOTTOM LINE:

A Balance Sheet contains three parts:

- **A three line heading.**
- **An asset section.**
- **A Liabilities and Fund Balance section.**

Why are these numbers included in that order? The next section will show you how these numbers come together to create the Balance Sheet.

How Does the Balance Sheet Work?



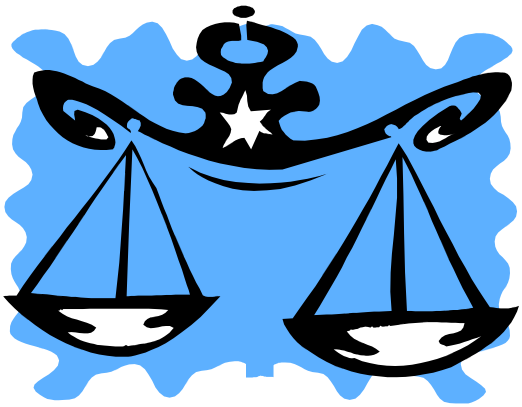
Like the Profit and Loss Statement, the Balance Sheet also has its own mathematical equation:

ASSETS	**=**	**LIABILITIES**	**+**	**FUND BALANCE**
EVERYTHING OF VALUE	**=**	**WHAT YOU OWE**	**+**	**WHAT YOU OWN**

Remember, you do not own all your assets if you have loans against them. The left side of the equation gives the total value of all the assets, whereas the right side of the accounting equation tells us exactly who owns the assets.

Ownership of assets will always be in only two groups:

- **Other People (Banks, Credit Card companies, etc.)** OR
- **The Community**



To understand this equation further, take a look at the following two examples and notice the entirely different stories that this equation can tell:

COMMUNITY A

ASSETS	=	LIABILITIES	+	FUND BALANCE
800,000	=	700,000	+	100,000

This community has $800,000 in assets, but it owes $700,000 to other people for these assets. $800,000 in assets looks like a big number, but only $100,000 of that actually belongs to the community.

COMMUNITY B

ASSETS	=	LIABILITIES	+	FUND BALANCE
800,000	=	100,000	+	700,000

We have the same numbers here, but what a different story! Community B has $800,000 in assets and it owns almost all of them--$700,000 worth! Community B has only $100,000 of debt.

Which community do you think is healthier?

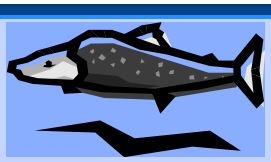
Community B is in a much healthier position with much less debt.

THE BOTTOM LINE:

Total Assets = Total Liabilities + Total Fund Balance

Creating a Balance Sheet

The Balance Sheet takes this formula and arranges each grouping in a report form so that you can easily tell the total value of the assets, the total value of any loans or debt, and the total worth of the community (fund balance). We will now follow Holly as she creates a Balance Sheet for Salmon River.



SALMON RIVER CREATES A BALANCE SHEET

Holly goes straight to her Chart of Accounts to prepare her Balance Sheet. She knows that she needs to have all the balances of her Asset and Liability accounts as well as her Fund Balance. She lists all of Salmon River's Balance Sheet Accounts with their balances as of July 31, 20XX below.

Account	Balance
General Fund Checking	15,000
Water/Sewer Checking	23,000
Water/Sewer Savings	55,000
General Fund Cash Box	2,500
Water/Sewer Cash Box	800
Employee Advances	400
Accounts Receivable	7,500
Water/Sewer Accounts Receivable	17,000
Ford Explorer	8,000
Chevy Truck	3,500
Water/Sewer Plant	7,000,000
Accounts Payable	18,000
MasterCard	3,800
Payroll Liabilities	1,700
Ford Explorer Note Payable	5,000
Salmon River Fund Balance	7,103,555

Now, she takes each account and matches it up with the Accounting Equation. She takes each account and balance and places it under the correct column of the equation. Her result looks like this:

ASSETS		=	LIABILITIES		+	FUND BALANCE
General Fund Checking	15,000		Accounts Payable	18,000		Fund Balance 7,103,555
Water/Sewer Checking	23,000		MasterCard	3,800		
Water/Sewer Savings	55,000		Payroll Liabilities	1,700		
General Fund Cash Box	2,500		Ford Explorer Note	5,000		
Water/Sewer Cash Box	800					
Employee Advances	400					
Accounts Receivable	7,500					
W/S Accounts Receivable	17,000					
Ford Explorer	8,000					
Chevy Truck	3,500					
Water/Sewer Plant	7,000,000					
Total	$ 7,132,700	=	Total Liabilities	$ 28,500	+	Total Fund $ 7,103,555
	$ 7,132,700	≠		$ 7,132,055		

Problem! The equation is not in balance! What is wrong?

If you recall, **both sides of the Balance Sheet equation must be the same**. Holly adds all of the numbers up and she realizes that she has a problem. The left side does not equal the right side of this equation. What is the difference between the two sides?

Holly calculates the final number and finds the right side of the equation is $645 less than the left side. If that number seems familiar, that is because it is the amount of profit Holly calculated for Salmon River on her Profit and Loss Statement on page 75 in the last chapter.

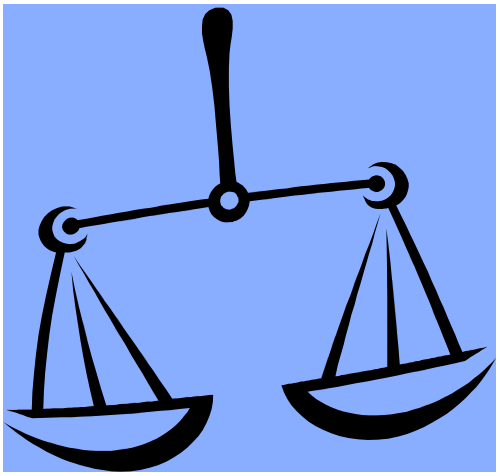
The profit that Holly calculated for Salmon River for that day actually needs to be brought into the Balance Sheet. Income and Expense Accounts affect Fund Balance. Income accounts make the Fund Balance go up and Expense Accounts make the Fund Balance go down. So, when you make money, your Fund Balance increases. In contrast, when you lose money, the Fund Balance decreases.

In order for the equation to balance, the bottom line from a July 31 Profit and Loss Statement must be brought into the July 31 Balance Sheet. Holly calculated a $645 profit on her July 31 Profit and Loss Statement, which is the number she needs to add to the Balance Sheet.

Total Assets	**$7,132,700**	**=**	**Total Liabilities**	**$28,500**	**+**	**Fund $7,103,555**
						Profit + 645
Total Assets	**$7,132,700**	**=**	**Total Liabilities**	**$28,500**	**+**	**Fund $7,104,200**
	$7,132,700	**=**		**$7,132,700**		

Holly adds the profit into the equation and it balances! That is exactly what its name implies—a **Balance Sheet must balance**.

Remember Community A and Community B? How does Holly's equation compare?



SALMON RIVER BALANCE SHEET EQUATION

ASSETS	=	LIABILITIES	+	FUND BALANCE
$7,132,700	=	$28,500	+	$7,104,200

Holly looks at these numbers and she is pleased to see that Salmon River is in good shape. They have over $7 million dollars in assets and they only owe $28,500. Salmon River owns 99% of their assets. In other words, other people own 1% of Salmon River's assets.

Holly also realizes the value of the water/treatment plant makes up most of the value in this formula. The treatment plant is paid for, so she decides to recalculate the formula taking out any large assets that are already paid for.

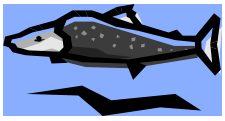
SALMON RIVER BALANCE SHEET EQUATION WITHOUT THE WATER TREATMENT PLANT

ASSETS	=	LIABILITIES	+	FUND BALANCE
$132,700	=	$28,500	+	$104,200

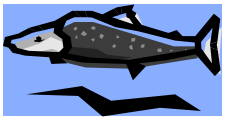
In this equation, Salmon River owns 78.5% of their smaller assets outright. Other people own 21.5% of Salmon River's smaller assets. This information is important when Salmon River is considering borrowing money to purchase another asset. While the water treatment plant is worth a significant amount of money, it is not money that can be turned into cash. Consequently, the equation above gives a more realistic picture of Salmon River.

Holly is now ready to build her Balance Sheet. To complete this task, she needs to transfer information from the horizontal equation format to a vertical report format.

Holly reviews the steps for making a Balance Sheet and then builds the Balance Sheet on the following page:



City of Salmon River
Balance Sheet
As of July 31, 20XX



ASSETS		
Current Assets		
General Fund Checking	$15,000	
Water/Sewer Checking	23,000	
Water/Sewer Savings	55,000	
General Fund Cash Box	2,500	
Water/Sewer Cash Box	800	
Employee Advances	400	
Accounts Receivable	7,500	
W/S Accounts Receivable	17,000	
Total Current Assets		**$121,200**
Fixed Assets		
Ford Explorer	$8,000	
Chevy Truck	3,500	
Total Fixed Assets		**$11,500**
Other Assets		
Water/Sewer Plant	$7,000,000	
Total Other Assets		**$7,000,000**
TOTAL ASSETS		**$7,132,700**
LIABILITIES		
Current Liabilities		
Accounts Payable	$18,000	
MasterCard	3,800	
Payroll Liabilities	1,700	
Total Current Liabilities		**$23,500**
Long-term Liabilities		
Ford Explorer Note Payable	$5,000	
Total Long-term Liabilities		**$5,000**
TOTAL LIABILITIES		**$28,500**
Fund Balance		
Salmon River Fund Balance	$7,103,555	
Net Income	645	
TOTAL FUND BALANCE		**$7,104,200**
TOTAL LIABILITIES AND FUND BALANCE		**$7,132,700**

"What If?"

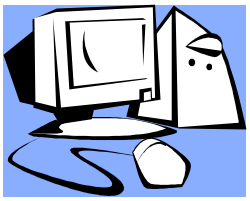
Once again, it is so helpful to play a "What If" scenario and consider how different situations affect a community's fund balance. The general rule is that healthy communities maintain and increase their assets while keeping their debt low. If these two things happen, the Fund Balance increases.

How do you maintain and increase your assets?

There are two ways for you to maintain and increase your assets:

- Convince others to give your community money.
- Keep generating a profit so you can pay off your debt, maintain your current assets, or buy new assets.

Since neither the State nor the Federal Government is handing out money these days, the second approach appears to be the most practical and realistic strategy.

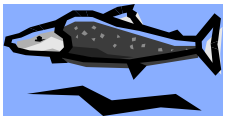


What if Salmon River goes Online?

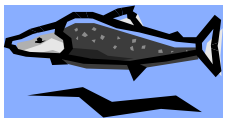
In this "What if?" scenario, Salmon River residents have been requesting Internet service in their community. The community decides to provide this service. They set up internet accounts for their residents and businesses. Invoices for the month of December are sent out totaling $18,000. This results in creating an Internet Accounts Receivable on the Balance Sheet and $18,000 in Income on the Profit and Loss Statement.

Now we have a new figure for Net Income to bring into the Balance Sheet:

$645	(original profit from Chapter 4)
+ 18,000	(income from the internet service)
$ 18,645	(new net profit figure)



City of Salmon River
Balance Sheet
July 31, 20XX



ASSETS			
Current Assets			
General Fund Checking	$15,000		
Water/Sewer Checking	23,000		
Water/Sewer Savings	55,000		
General Fund Cash Box	2,500		
Water/Sewer Cash Box	800		
Employee Advances	400		
Accounts Receivable	7,500		
W/S Accounts Receivable	17,000		
Internet Accounts Receivable	18,000		
Total Current Assets		$139,200	
Fixed Assets			
Ford Explorer	$8,000		
Chevy Truck	3,500		
Total Fixed Assets		$11,500	
Other Assets			
Water/Sewer Plant	$7,000,000		
Total Other Assets		$7,000,000	
TOTAL ASSETS			$7,150,700
LIABILITIES			
Current Liabilities			
Accounts Payable	$18,000		
MasterCard	3,800		
Payroll Liabilities	1,700		
Total Current Liabilities		$23,500	
Long-term Liabilities			
Ford Explorer Note Payable	$5,000		
Total Long-term Liabilities		$5,000	
TOTAL LIABILITIES			$28,500
Fund Balance			
Salmon River Fund Balance	$7,103,555		
Net Income	18,645		
TOTAL FUND BALANCE			$7,122,200
TOTAL LIABILITIES AND FUND BALANCE			$7,150,700

When you look at this report, you can see right away that this additional community service increases assets and results in a larger Fund Balance.

What if there were $15,000 in expenses for the Internet Service?

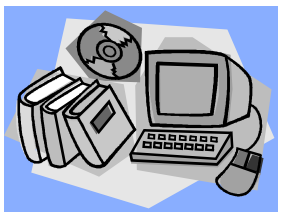
Fifteen thousand dollars in expenses will greatly reduce Salmon River's bottom line. That $18,000 income realized on the monthly Internet invoices would go down to $3,000 after paying for the startup expenses. The full Balance Sheet affect of this scenario would be:

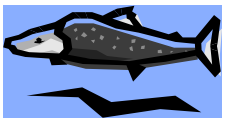
- Internet Accounts Receivable would go up $18,000
- Income would go up $18,000
- Expenses would go up $15,000
- Cash would go down $15,000

Let us see how this all plays out in the Balance Sheet.

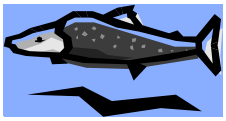
Our new Net Income figure needs to be further adjusted for this scenario:

$ 645	(original profit from Chapter 4)
+ 18,000	(income from the internet service)
- 15,000	(expenses for the internet service)
$ 3,645	(**new net profit figure**)





City of Salmon River
Balance Sheet
July 31, 20XX



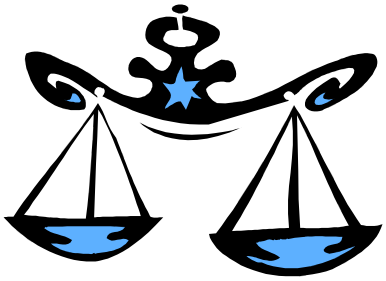
ASSETS			
Current Assets			
General Fund Checking	$ 0		
Water/Sewer Checking	23,000		
Water/Sewer Savings	55,000		
General Fund Cash Box	2,500		
Water/Sewer Cash Box	800		
Employee Advances	400		
Accounts Receivable	7,500		
W/S Accounts Receivable	17,000		
Internet Accounts Receivable	18,000		
Total Current Assets		$124,200	
Fixed Assets			
Ford Explorer	$8,000		
Chevy Truck	3,500		
Total Fixed Assets		$11,500	
Other Assets			
Water/Sewer Plant	$7,000,000		
Total Other Assets		$7,000,000	
TOTAL ASSETS			$7,135,700
LIABILITIES			
Current Liabilities			
Accounts Payable	$18,000		
MasterCard	3,800		
Payroll Liabilities	1,700		
Total Current Liabilities		$23,500	
Long-term Liabilities			
Ford Explorer Note Payable	$5,000		
Total Long-term Liabilities		$5,000	
TOTAL LIABILITIES			$28,500
Fund Balance			
Salmon River Fund Balance	$7,103,555		
Net Income	3,645		
TOTAL FUND BALANCE			$7,107,200
TOTAL LIABILITIES AND FUND BALANCE			$7,135,700

The Final Word on Balance Sheets

The Balance Sheet is an excellent snapshot of a community's fiscal health. It tells you, at a glance, how much of your assets you really own. In addition, like the Profit and Loss Statement, the numbers it contains can guide you to making sound and realistic business decisions.

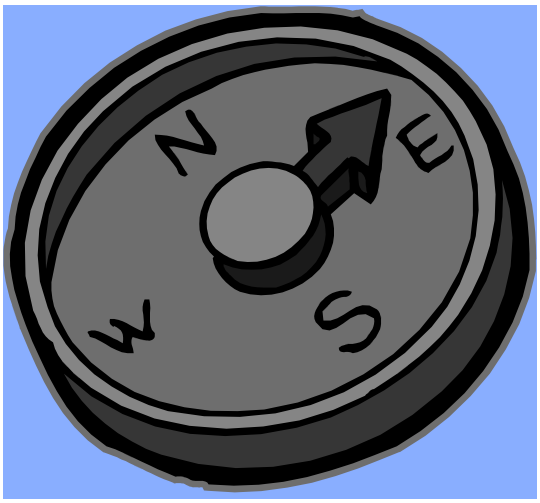
If you think about the assets, liabilities, and fund balance components of a Balance Sheet, there are definitely some overarching guidelines to help you along the way.

- Keep maintaining and increasing your assets without taking on too much debt.
- Start a savings account for major repairs so that the community will not be in trouble when something needs fixing.
- Keep an eye on the bottom line. A profit will keep your Fund Balance growing and growing.



Your Notes:

CHAPTER 7



Charting and Correcting Your Course—The Budget vs. Actual Report

In this chapter, you will learn how to create, interpret, and use your **Budget vs. Actual Report**. This report is really two **Profit and Loss Statements** side-by-side. First, it is a **Profit and Loss Statement** containing all your **actual** income and expenses. Second, it is a Profit and Loss Statement with your **budgeted** income and expenses.

THE BOTTOM LINE:

A Budget vs. Actual Report is two Profit and Loss Statements side by side—one with actual numbers and one with budgeted numbers.

A Little Budget Background

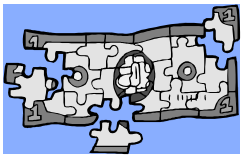
A budget is a yearly plan for your community's money. Planning anything—whether it is a fishing trip or your community's budget entails making predictions. When planning a fishing trip, you predict the amount and type of fishing gear you will need, how much boat fuel and food to take, and the clothing you will most likely need to have with you. You even attempt to predict the weather. Your budget is a prediction as well. It is a prediction for how much money each fund, department, or enterprise will make and spend. You might say that it is your community's best prediction at what the Profit and Loss Statement for each fund will look like in the coming year.

When you are on your fishing trip, you compare the predictions you made with the actual fishing experience. Have you brought enough clothes? Are you using more fuel than you anticipated? Will you have enough food for everyone for the whole trip? Each of these questions gets asked and answered many times during the course of your trip. Sometimes, if your predictions were low, you may have to cut the trip short. In contrast, if you realize that you have plenty of supplies, you could stay much longer.

Before the utility starts each fiscal year, it makes its own predictions about the coming year's finances in the form of a budget. Just as your predictions for the fishing trip help you plan what to take, a utility budget is used as a planning tool for helping your community manage its finances.

THE BOTTOM LINE:

A budget is a yearly plan for the community's money.



What Questions Does a Budget Answer?

- How much money do we think the utility will have to spend in the coming year?
- Which funds do we think will thrive in the coming year and which will struggle?
- How much income will the water/sewer department generate next year?
- How much grant money will we receive next year? From which agencies or organizations?
- How much money will we spend in freight expense next year?
- How much income will our garbage collection generate?

Budgets answer these questions and many more. A budget will have a prediction for every source of income and expense for the community for the coming year. With all this information, budgets are a great financial tool if they are used properly. Often budgets are created at the beginning of a fiscal year and later forgotten. Sometimes, someone from outside the community helps create a budget, but does not help explain the numbers. The **Budget vs. Actual Report** gives you a great way to use these budget numbers throughout the year.

The Budget vs. Actual Report

The **Budget vs. Actual Report** is the report you use to determine if you need to make adjustments in your finances. This report shows the budget number predictions side-by-side with their actual income and expenses. You can build this report for the whole community, or break it down fund by fund for an in-depth review.

What Questions Does a Budget vs. Actual Report Answer?

- Are my predictions accurate? Are my budgeted and actual numbers close to one another?
- Are the differences between any of my actual and budgeted numbers large?
- Can I explain any differences?
- Am I surprised by the differences?
- Do I think these differences will continue throughout the rest of the year? If so, should I change or amend my budget?
- Is there anything I can do to respond to these differences?
- If my expenses are greater than I budgeted for, how can I decrease them?
- Is my income what I expected it to be?
- Did I do a good job creating this budget?
- How can I improve?

As Salmon River conducts its day-to-day business, this report compares budget predictions to the real life financial events. Has the utility predicted that more people would pay their water invoice than have actually done so? Has the price of fuel gone up so much that other expenses need to be cut in order not to overspend? Just as you adjust your fishing trip to the ebb and flow of the resources you have, so must the community adjust its expenses to its flow of money.

The **Budget vs. Actual Report** helps you see if you are staying on course and it also alerts you of any hazards along the way. It is a great way for you and others to see if your finances for the year are on track.

Who Can Benefit From Reviewing a Budget vs. Actual Report?

Your Budget Reports are usually reviewed by people within your community. Some of the people who might be interested in this report include:

- The city clerk.
- The governing body.
- People in charge of the different funds within your community (water/sewer, bingo, harbor).
- Your community's Local Government Specialist with the State of Alaska.

What Does a Budget vs. Actual Report Look Like?

A Budget vs. Actual Report looks like a Profit and Loss Statement, with a few extra columns. It follows the same process that a Profit and Loss Statement does and it uses the same formatting guidelines listed in Chapter 4.

The Parts of a Budget vs. Actual Report

- The Heading.
- An Income Section with columns for the Actual Income, the Budgeted Income, the dollar difference between the two, and the percent difference between the two.
- An Expense Section with columns for Actual Expenses, Budgeted Expenses, dollar difference between the two, and percent difference between the two.
- A Bottom Line with columns for Actual Net Profit, Budgeted Net Profit, dollar difference between the two, and percent difference between the two.

The Heading

The Budget vs. Actual Report uses a heading similar to the one used in the Profit and Loss Statement. It is usually three lines: the first line is the name of the utility or community; the second line is the name of the report—Budget vs. Actual Report; and the last line is the time period covered by the report.

City of Salmon River
Budget vs. Actual Report
For the month ended January 31, 20XX

City of Salmon River—Garbage Fund
Budget vs. Actual Report
For the year ended June 30, 20XX

The Income Section

Each income account will have the actual income for the time period, the expected or budgeted income for the time period, the dollar difference between the two incomes, and the percent difference between the actual and the budgeted.

Account	Actual	Budget	$ Over/Under Budget	%-of-Budget
Income	$12,000	$10,000	$2,000	120%

This shows a situation where the actual amount of income exceeds the budgeted amount by $2,000. The number $2,000 means that you have $2,000 more coming in than you expected and the %-of-Budget number means that you now have 120% of the money you expected for that category. As you can probably guess, this is all good news!

The following situation is not quite as good:

Account	Actual	Budget	$ Over/Under Budget	%-of-Budget
Garbage Income	$1,000	$1,500	-$500	66%

The above scenario is a little less optimistic. The community expected $1,500 of income, but they have only received $1,000 thus far. They are $500 under budget, which is why the number appears as a negative. Instead of having made 100% of their budget (or more), they have only made 66% of what they expected to make by this point in the year.

For income accounts, when the numbers are negative, and the percentage is below 100%, it means that you have made less than

you predicted you would make. Where income is concerned, this can be a warning sign.

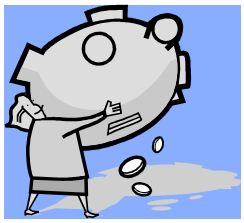
The Expense Section

Each expense account will have the same information as for income accounts, but the last two columns are interpreted differently.

Account	Actual	Budget	$ Over/Under Budget	%-of-Budget
Fuel	$500	$1,000	-$500	50%

In the Expense section, a negative number is good. It means that you have not spent as much as you budgeted for. In this case, you have only spent 50% of what you thought you would spend by this point in the year.

For Expense accounts, when the numbers are negative, and the percentage is below 100%, it means that you have spent less than you predicted you would spend—a good sign.



The Bottom Line

The Bottom Line or Net Income will have the same columns as Income and Expense accounts. Here is an example:

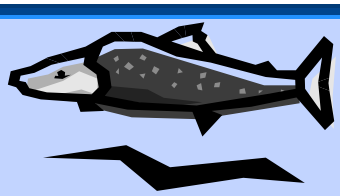
Account	Actual	Budget	$ Over/Under Budget	%-of-Budget
Net Income	$2,000	$1,800	$200	111%

Just as in the Income section, positive numbers and percentages greater than 100 are good signs. That means you have made more profit than you predicted and are ahead of budget estimates during this time period.

THE BOTTOM LINE:

Budget vs. Actual Reports contain five parts:

- A three line heading.
- An income section with actual and budgeted income.
- An expense section with actual and budgeted expenses.
- A Bottom Line or Net Profit section with actual and budgeted numbers
- Each section has columns that show the dollar and percent difference between all of the actual and budgeted numbers.



SALMON RIVER BUILDS A BUDGET VS. ACTUAL REPORT

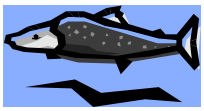
In order to build a Budget vs. Actual Report, you need to have a budget! Holly received a budget for the Water/Sewer Fund from her Council. This is a yearly budget. She enters it into her accounting system.

Note: Most budgets have a yearly amount for each of their income and expense accounts. This amount is entered into the first month of the fiscal year, July, as either a number for the entire year, or it is broken down into monthly figures. For example, the utility expects $14,400 in income for the year from Water/Sewer, which works out to $1,200 a month.

Fiscal Year 20XX Budget

Income		
Fund Income	$14,400	
Total Income		**$14,400**
Expenses		
Payroll	$ 9,000	
Payroll Taxes	1,080	
Chemicals for Testing	300	
Electricity	1,200	
Repairs/Maintenance	600	
Total Expenses		**$12,180**
Net Income		**$ 2,220**

The Budget vs. Actual Report compares your **actual** income and expenses with your **budgeted** income and expenses. The first report is for the first month of the new fiscal year and the actual figures are taken from Salmon River's Profit and Loss Statement in Chapter 4.



City of Salmon River –Water/Sewer Fund
Budget vs. Actual Report
For the Month Ended July 31, 20XX

	Actual	Budget	Over/Under Budget	%-of-Budget
Income				
Fund Income	$1,500	$1,200	$300	125%
Total Income	**$1,500**	**$1,200**	**$300**	**125%**
Expenses				
Payroll	$750	$750	$ 0	100%
Payroll Taxes	75	90	-15	83%
Chemicals for Testing	25	25	0	100%
Electricity	100	100	0	100%
Repairs & Maintenance	50	50	0	100%
Total Expenses	**$1,000**	**$1,015**	**-$15**	**98%**
Net Income	**$500**	**$185**	**$315**	**270%**

Reading the Report:

- In the Income section:
  - Positive numbers and percentages over 100% are good. They mean you have earned more money than you expected.
  - Negative numbers and percentages less than 100% mean that you have made less than you expected.
- In the Expense section:
  - Negative numbers and percentages under 100% are good. They mean you have spent less money than you expected.
  - Positive numbers and percentages over 100% mean that you have spent more than you expected.
- In the Net Income section:
  - Positive numbers and percentages over 100% are good. They mean you have earned more money than you expected.
  - Negative numbers and percentages less than 100% mean that you have made less than you expected.
- Pay close attention to any large percentages. Can you explain them?

In general, Holly is pleased. Salmon River's Budget vs. Actual Report is a good one! Salmon River has made $315 more profit than they expected the first month of the fiscal year. They had $300 more income than predicted and $15 less in anticipated expenses.

Know What Time Period Your Budget Numbers Represent

Some accounting software will give you **year-to-date actual** numbers compared with **year-to-date budgeted** numbers, whereas other accounting software will give you **year-to-date actual** numbers compared with **budgeted numbers for the entire year**. Be sure you understand the difference.

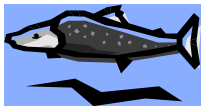
The report on the following page is for the same month, but it uses budgeted figures for the entire year instead of only the month of July. Therefore, this report is comparing July's actual numbers against budgeted numbers for the **entire year**.

When comparing year-to-date figures against yearly numbers and percentages, it helps to know how much of the year has gone by. Use the table on the next page as a reference when reading your budgets.

THE BOTTOM LINE:

Monthly Budget Percentages for a Year

July: Month 1	8%
August: Month 2	17%
September: Month 3	25%
October: Month 4	33%
November: Month 5	42%
December: Month 6	50%
January: Month 7	58%
February: Month 8	67%
March: Month 9	75%
April: Month 10	83%
May: Month 11	92%
June: Month 12	100%



City of Salmon River –Water/Sewer Fund
Budget vs. Actual Report
For the Month Ended July 31, 20XX

	Actual	Budget	$ Over/Under Budget	%-of-Budget
Income				
Fund Income	$1,500	$14,400	-$12,900	10%
Total Income	**$1,500**	**$14,400**	**-$12,900**	**10%**
Expenses				
Payroll	$750	$9,000	-$8,250	8%
Payroll Taxes	75	1,080	-1,005	6%
Chemicals for Testing	25	300	-275	8%
Electricity	100	1,200	-1,100	8%
Repairs & Maintenance	50	600	-550	8%
Total Expenses	**$1,000**	**$12,180**	**-$11,180**	**8%**
Net Income	**$500**	**$2,220**	**-$1,720**	**22%**

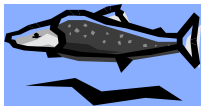
Techniques for reading a report with yearly budget amounts:

- Be aware of the time periods involved. In this report, the actual numbers represent one month, the budget numbers represent one year, so use the table on the previous page to help you interpret the numbers.
- The column labeled **%-of-Budget** contains the portion of the **entire** budget that you have earned or spent so far this year. This report includes actual data for the first month of the fiscal year. Having spent 8% of the total expenses budgeted in the first month is reasonable because one month is 8% of one year. If your expenses are seasonal, this percentage might not be reasonable.
- In the column labeled **$ Over/Under Budget**, it is good to see positive numbers in the Income section and in the line labeled Net Income. This means that you have earned more money than you thought would.
- In the column labeled **$ Over/Under Budget**, it is good to see negative numbers in the Expense section. This means you have spent less than you were going to spend.
- Pay close attention to any positive numbers in the expense section.
- Pay close attention to any large percentages and ask yourself if they are appropriate.

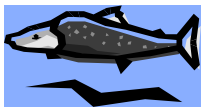
"What If?"

What if the Water/Sewer Plant needs expensive repairs?

A month has passed and Holly creates a Profit and Loss Statement for August 31, 20XX. She notices that the large repair expense to the water/sewer plant resulted in a loss for the month. Notice that the numbers in the column labeled **Actual** are the income and expenses for July and August.



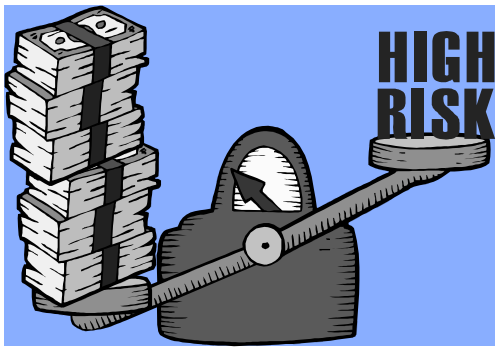
City of Salmon River –Water/Sewer Fund
Budget vs. Actual Report
For the Month Ended August 31, 20XX



	Actual	Budget	$ Over/Under Budget	%-of-Budget
Income				
Fund Income	$3,000	$14,400	-$11,400	20%
Total Income	**$3,000**	**$14,400**	**-$11,400**	**20%**
Expenses				
Payroll	$1,500	$9,000	-$7,500	16%
Payroll Taxes	150	1,080	-930	13%
Chemicals for Testing	50	300	-250	16%
Electricity	200	1,200	-1,000	16%
Repairs & Maintenance	2,550	600	1,950	425%
Total Expenses	**$4,450**	**$12,180**	**-$7,730**	**36%**
Net Income	**-$1,450**	**$2,220**	**-$3,670**	**-65%**

Holly finished reading through this report, and noticed the following:

- Two months of the year have passed, which represents about 16% of the entire year.
- Income is on track or even a little ahead at 20%.
- There is a large positive number and a huge percentage in the expense section. She knows that this is not good. The Repairs & Maintenance to the plant have caused more of a problem than she anticipated.
- The other expenses appear to be OK with none of them exceeding 16% of the budget.
- She notices the community has spent much more than they had budgeted (36% vs. the expected 16%), which is worrisome because it is still the beginning of the year.
- Net Income is a $1,450 loss—far below what Salmon River anticipated. Holly knows this is because of the Repair and Maintenance expense.
- Holly decides to alert the council.



A Final Word on Budgets and the Budget vs. Actual Report

Remember—use budget reports throughout the entire year. At the very least, check your actual income and expenses against your budgeted income and expenses every month. Ask yourself the following questions:

- Are these numbers on track?
- Is there any income figure that is unexpected for the time period? If there is, what could the reason be that it is off track?
- Are there any expenses that are larger than expected? What is the problem? Are these large expenses likely to recur, or were they a one-time problem?
- Is Net Income in line with expectations? If not, why is it not on track?

Your Notes:

CHAPTER 8

Rainy Day Funds

Life is constantly throwing curve balls our way. Our cars break down and have to be repaired, our teeth need fixing, and we all seem to spend a lot of time and money on repairs and maintenance. Sometimes the expense has been anticipated and we have the money to cover it and be on our way. Other times, the repair bill is a steep one and it has the ability to throw our finances into chaos.

Your water and sewer plant is no different. Even with the best of day-to-day maintenance, parts wear out and problems arise. This chapter is a how-to guide for creating a Rainy Day Fund so that if your utility is caught by surprise with an expensive repair or replacement problem, you will already have a plan in place for handling it.

What is a Rainy Day Fund?

A Rainy Day Fund is a type of savings account. It is money set aside specifically for handling future problems. A Water/Sewer Rainy Day Fund would be money dedicated to future equipment repairs and replacements in your water and sewer plant. It is not used for day-to-day expenses or problems in other departments.

When a problem arises, the Rainy Day Fund is used to pay for the extra expense. Once the crisis has been resolved, the utility then rebuilds the fund so that it will be there to handle the next crisis. In the language of accounting, when you set aside money for a specific purpose, the money is "earmarked" for that purpose—in this case, the water/sewer plant.

THE BOTTOM LINE:

A Water/Sewer Rainy Day Fund is a savings account dedicated to pay for future equipment repairs and replacements in your water/sewer plant.

How Much Money Do You Need in Your Rainy Day Fund?

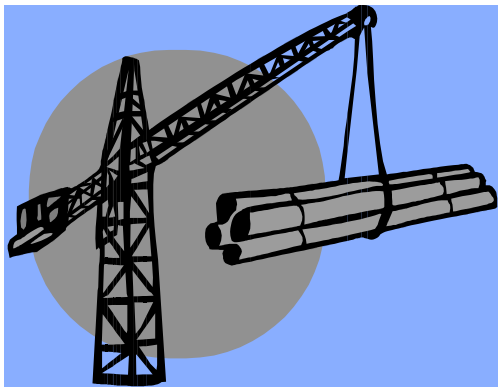
Chances are your water/sewer plant was built either by Alaska Native Tribal Health Consortium or Village Safe Water. Depending on the physical layout of your community, one of three systems was probably installed: vacuum system, truck haul system, or gravity system. If your community has had its system for awhile, you already have a pretty good idea of its annual operating expense. However, on top of the day-to-day expenses, each system has mechanical parts which will wear out eventually. Some of these parts last for a fairly short period of time, and they are called short-term parts. Other components of the system are designed to last for many years, and they are called long-term parts.

Long-Term Parts

Long-term parts are very expensive pieces of your water/sewer system. If they are maintained properly, they should last for around thirty years. Examples of long-term parts include:

- Water Main
- Boiler
- Generator
- Lift station

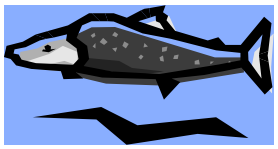
The total cost of all of these parts is in the millions. The expense of replacing any of these long-term parts is so high that it would probably take a grant or government aid to actually replace them. It is not something your community can plan to fund on its own.



Short-Term Parts

Short-term parts are pieces of your water/sewer system that will last for several years and are moderately expensive. Their replacement costs will be in the thousands. Engineers who have built these water/sewer plants feel there is a good chance that most of these short-term parts will last for around seven years. Funding the repair or replacement of these parts is the reason that your utility needs a Rainy Day Fund.

A good way to fund your rainy day bank account is to make a list of all these short-term parts along with their approximate replacement costs. Next, you can calculate how much you should be saving each month in the Rainy Day Fund.



Salmon River Calculates Its Monthly Payment to the Rainy Day Fund

Holly learned from her council that the water/sewer plant in Salmon River was built by Alaska Native Tribal Health Consortium. She obtained a rate study for her plant and found a table with a list of the Short Term Parts.

Pressure Pumps	2 ea	1,000
Circulation Pumps	2 ea	3,000
Chlorination Pump	1 ea	1,250
Fluoridation Pump	1 ea	1,250
Polymer Equipment	1 ea	2,500
Tank Heat Add Pump	2 ea	700
Hydronic Circ. Pump	2 ea	700
Boiler Burner/Controls	2 ea	2,000
Discharge Pumps	2 ea	12,000
Total Short Term Parts		**$ 24,400**

This is a list of all the parts of the water/sewer plant that can be expected to wear out in the next seven years. In addition to all of the yearly expenses to the water/sewer plant, Salmon River needs $24,400 to cover these short-term parts as they wear out and need to be replaced.

Holly knows that not all the parts will wear out in the first year or the second or even the third. An accountant suggests that Salmon River

collect the replacement money over a period of seven years, because that is approximately how long the parts are expected to last.

$24,400/7 = $3,485

This is the amount of money that Salmon River should set aside in the Rainy Day Fund each year.

$3485/12 = $290

This is the amount of money that Salmon River should set aside in the Rainy Day Fund each month.

THE BOTTOM LINE:

Calculating Monthly Payments to the Rainy Day Fund

- Make a list of the short term parts in your water/sewer plant with their approximate replacement costs.
- Add up the total cost of these parts.
- Divide the total cost by 7 (seven years is the average useful life of these parts).
- Divide that number by 12 to get a monthly figure.

Coming Up With the Money

It is one thing to arrive at the amount of the monthly payment to the Rainy Day Fund and quite another to come up with the money. Some communities divide the monthly payment by the number of customers paying for the water/sewer service.

Salmon River Calculates the Customer Contribution for Making the Monthly Payment

Holly has 350 customers receiving water/sewer service. She knows that not all of these customers are current with their balances. She decides to spread the monthly rainy day payment among all her customers and add on another ten percent to ensure that the delinquent accounts will not jeopardize the fund.

$290/350 = 82¢

82¢ X 1.10 = 90¢

According to her calculations, each customer should pay an additional 90¢ per month. This amount will appear on monthly customer invoices.

THE BOTTOM LINE:

Calculating Your Customer's Contribution

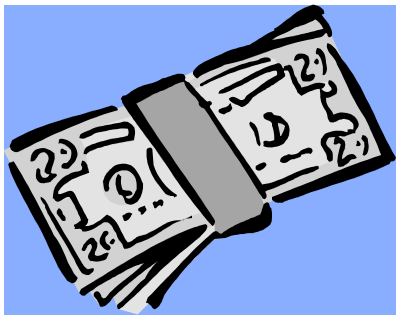
- Divide the Rainy Day Fund Monthly Payment amount by the number of water/sewer customers in your utility.
- Add a small cushion for delinquent or non-payments.

"What If?"

What if more people do not pay their invoices?

At the end of the year, Holly learns her delinquency rate for water/sewer invoices was 35%. After the first year, the community's Rainy Day Fund has $2,451 instead of $3,485. Luckily there were no replacement parts needed during the first year. However, Holly knows that as the years go by, the chance of parts wearing out increases. Holly decides to do two things:

- Determine why her collection rate is so low.
- Review delinquent accounts and start contacting the customers who are not paying their invoices.



What if the water/sewer plant income does not cover operating expenses?

At the end of each month, Holly notices that the income received from water/sewer customers is not covering the day-to-day expenses of the water/sewer department. One month she withdrew from the Rainy Day Fund to cover ordinary expenses. If your community's water/sewer income is not covering the water/sewer expenses, it will not be long before there is no Rainy Day Fund at all. Having a shortage of income to cover expenses also means that some critical routine maintenance will not be performed. Do not let a situation like this continue for very long. The council needs to be alerted so they can take action by raising the water/sewer rates or tightening up their collection policy.

CHAPTER 9

Collecting the Money

Keeping the Money Coming In

Every month, your water/sewer plant has fixed expenses that it must pay: payroll expenses, water treatment, electricity, and fuel to name a few. If your income from water/sewer services does not flow in each and every month, you will not have enough money to cover your expenses. In fact, the money that the plant brings in each month should be enough not only to cover its day-to-day expenses, but also to fund the rainy day account discussed in Chapter 8.

The only way this income will keep coming in each month is for you to invoice customers regularly and for your customers to pay their invoices. This chapter will look at streamlining the process of invoicing and collecting income, the part of your accounting system called Accounts Receivable.

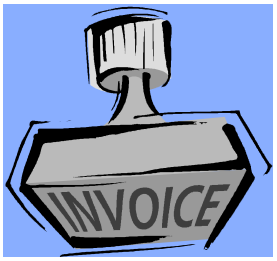
A Good Accounts Receivable System

If you never sent them an invoice, most of your water/sewer customers would not willingly walk into your office each month and pay their water/sewer invoice. If your utility wants its water/sewer money, or any money, it needs to ask for it. The utility asks for this money by sending out an invoice to all customers every month.

Asking for the money is only half of the process. Making sure you get the money is the other half.

What does a good accounts receivable system look like?

- **Easy-to-understand invoices or statements.**
- **A billing cycle that is regular and consistent.**
- **Pleasant, easy receipt of money.**
- **A clear non-payment plan.**
- **Follow through when payment is not made.**



Easy-to-Understand Invoices or Statements

Some utilities use invoices, some use statements. It does not matter what billing document your utility uses. What matters is that the document clearly spells out the following:

The service and cost of service for which you are invoicing

Your invoice should clearly state what service or services are being provided. If there are separate charges for separate services such as water, sewer, and septic, this should be clearly stated on the invoice. If there is a sales tax, this should be reported separately from the service.

The time period for the service

The time period for a billing cycle is one month. Each month the invoice should cover services provided for the previous month.

Any outstanding customer balances

If the customer has an unpaid balance from previous invoices, this should be clearly stated on the invoice.

An accurate and professional look

Make sure there are no misspelled words or typographical mistakes and that the information on the invoice is correct.

THE BOTTOM LINE:

Easy-to Understand Invoices:

- **Clearly state the service and its cost.**
- **Clearly state the time period of the service.**
- **Clearly state the customer balance.**
- **Are accurate.**
- **Look professional.**

A Regular and Consistent Billing Cycle

The utility's invoices should be sent out at the beginning of each month. If your utility is professional and committed to consistent billing of its water/sewer services, this will send a message to your customers that you are serious about your business.

Easy Receipt of the Money

Make it easy for your customers to pay their invoices. If your customers frequently come to the office to pay their water/sewer service and the office is closed or there is no one there to receive their payment, they will become discouraged. Have regular hours posted when customers may pay their invoices. Make sure someone from the utility is available during those hours. When the customers pay their water/sewer invoice, thank them and tell them how important it is that they are staying current with their water/sewer account. Let them know that their monthly payment is appreciated and helps keep the water/sewer plant up and running in their community. Every customer's payment makes a difference to the entire community.

Some communities offer payment incentives. If a customer pays for an entire year, they could receive one month free. If they pay in advance, they could receive a small discount.

Consequences for Non-Payment

Your utility needs to have a plan of action if customers are late on making a payment or if customers miss a payment. There are many different kinds of plans your utility could adopt. The type of plan depends on your individual community, its governing body, and its residents.

Non-payment plans have some things in common. Usually if payment is not received by the due date of the invoice, the customer will receive a telephone call or a letter asking about the missing payment. In addition, the customer will be given some more time (usually ten days) to make the payment without penalty. If payment is not received within that timeframe, there should be consequences. Some utilities disconnect the water/sewer service for nonpayment. Some utilities assess a finance charge that is added to late payments.

Follow-Through for Everyone

Idle threats do no good. If your community wants a high collection rate for its water/sewer service, it has to be willing to follow through on their nonpayment plan with consequences. In a small town, word gets around quickly if residents are not paying their water/sewer invoice. This attitude can spread throughout the entire community with residents saying to one another, "Why should I pay my invoice if my neighbor does not pay theirs and nothing happens to them?" Not only should the non-payment plan be carried out, but it should be carried out fairly to everyone **with no exceptions**.

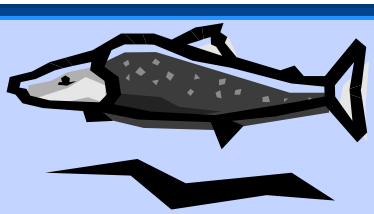
Using an Accounts Receivable Report

Whether you do your accounting by hand or use computerized accounting, it is a good idea each month to generate a report of all your unpaid customer balances. Go through this list each month customer by customer. Communicate with them. Find out why they are not paying their invoice. Do not try to keep track of this in your head. Make notes on the report when you talk with each customer. Inform them of the community's nonpayment plan. Most importantly, enforce your utility's nonpayment plan equally.

THE BOTTOM LINE:

Improving Customer Collections

- **Send out invoices at the beginning of each month.**
- **Make it easy for customers to pay their bill.**
- **Establish consequences for non-payment.**
- **Follow through with the consequences.**
- **Use an Accounts Receivable Report to stay on track.**



Salmon River Collects its Money

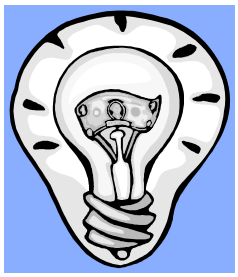
Holly has decided to look at the water/sewer income in Salmon River. She has noticed that there are several customers with large unpaid balances. She knows that Salmon River needs all of their water/sewer income to pay for the day-to-day expenses of the plant and to fund the rainy day account. She meets with the council and they adopt the following policy:

- Each month Holly will send out water/sewer invoices on the first of the month. The payment for the invoices will be due in 30 days and the due date will be clearly stated on the invoice. A finance charge will be assessed each month on all unpaid balances.

- Any customer with a past due balance will receive a letter with the invoice. The letter will be signed by the utility manager. The letter will explain that the customer must contact the utility within ten days to set up a payment plan on the past due balance. If the utility is not contacted within ten days, their water/sewer will be disconnected.

- If the customer ignores all attempts to collect payment, the utility will follow through and disconnect the water/sewer service. The community will also refer the account to a collection agency or submit the account for a judgment in small claims court.

CHAPTER 10



Using Your Resources Wisely

The accounting that takes place in your community is complex. You receive funds from many different sources and there are many different agencies asking for reports that explain the financial operations of your community. Although your community may have less than 1,000 people in it, you are organized as a local government and you are subject to the same reporting requirements as local governments with much larger populations. Fortunately, there are resources available to help you do your job. This chapter will talk about all the reports you are required to submit and the resources available to help you do them.

Ten Good Reasons to Provide Timely and Accurate Reports

1. You will maintain a good relationship with interested agencies.
2. You will avoid fines and penalties.
3. Your water/sewer utility will be respected as a well-run enterprise.
4. Your community will have a good reputation.
5. You will stay in compliance with interested agencies.
6. You will avoid customer complaints.
7. You will serve as a good example to your entire community.
8. You will put your community in a good position to receive future funding and benefits.
9. You will have a complete understanding of your own finances.
10. You will be able to spot problems before they happen and be better able to take action to avoid them.

Know and Use Your Resources

Although it may seem that sometimes there are many agencies pestering you for information, they all have one thing in common. They all want your community to be successful. The information that you send to these agencies allows them to monitor your water/sewer plant from their own perspective and provide assistance if needed.

Your Community's Governing Body

Your community is probably governed by a council which meets monthly. One of the purposes of a council meeting is to review the finances of the community. The council needs to have complete, accurate, and current information to guide good decision making for the entire community. The following reports should be prepared for each council meeting. If at all possible, reconcile all your bank accounts with bank statements **before** creating any of the reports.

- Budget vs. Actual Report (Chapter 7)
- Profit and Loss Statement for **all** funds (Page 75 of Chapter 5)
- Profit and Loss Statement for **each** fund (Pages 72-74 of Chapter 5)
- Balance Sheet (Page 90 of Chapter 6)

All of these reports should show the financial information for **the same period of time**. For example, if the council meeting is on September 7, the Profit and Loss Statements would be for the month of August 1 – August 31. The Balance Sheet would be for the period ending August 31. The Budget vs. Actual, which is usually a year-to-date report, would be for the period July 1 through August 31.

You want your financial information to be read, understood, and used. After creating these reports, take the time to read through them and understand the numbers. Since you are the person entering the day-to-day information, you will have the best understanding of what they mean. If council members are frequently changing, you may have to educate new council members as to how to read and understand these reports.

Your Local Government Specialist

The State of Alaska has assigned your community to a Local Government Specialist—also known as an LGS. This person works for the Department of Commerce, Community, and Economic Development in the Division of Community Advocacy. Their job is to provide your community with support. If you do not know the name of your Local Government Specialist, you can contact the department at the phone number or website listed below to find out who is assigned to your community. Your LGS can help you with answers to questions you have on just about any aspect of municipal government. **This person can be a great resource for your community.**

Once you have started a relationship with your LGS, it is very important that you maintain it. One of the best ways for you to maintain it is to send complete, accurate, and up-to-date reports **every** month. Your LGS is particularly interested in your Budget vs. Actual report, so make sure you input your budget and create this report every month. You should also send a copy of all the reports that you prepare for the council meeting. Once again, reconcile your bank statements prior to preparing these reports and use the same time period for all the reports.

Website: www.dced.state.ak.us/dca/lga/lga.htm
Phone Contact: (907) 269-4580

The Regulatory Commission of Alaska—

The mission of the Regulatory Commission of Alaska (RCA) is to help communities provide affordable and reliable utility services. RCA is also the agency that receives and handles any water/sewer complaints from your customers.

The State of Alaska requires **all** community owned water/sewer enterprises with more than 15 service connections to be regulated by the RCA. The RCA has developed a streamlined certification process—Provisional Certification—to assist them in regulation.

Obtaining Provisional Certification is a multi-step process. First the community submits an application. Part of the application process requires the utility to develop an ordinance that meets or exceeds the standards of the Model Ordinance adopted by the State of Alaska Rural Utility Business Advisor Program. If the application is approved, the utility must submit annual financial statements with the RCA. This filing includes a profit and loss statement showing net profit or loss from the utility itself and a balance sheet showing savings accounts. The RCA reviews these financial statements and then makes them available to Federal, State, and non-governmental agencies that assist water and sewer utilities. **It is very important for a utility to submit these statements.** Failure to do so may result in your utility being ineligible for future grant funding from a wide variety of sources.

RCA also requires that the utility include RCA's phone number on their monthly invoice so that customers know how to contact the agency with any complaints.

Website: www.state.ak.us/rca/
Phone Contact: 907-276-6222 (Water/Sewer Engineer or Chief of Finance)

VSW—Village Safe Water

The Alaska Village Safe Water Program provides grants to small communities for water/sewer studies and projects. In order to receive any Village Safe Water funding, your Local Government Specialist must perform a RUBA (Rural Utility Business Advisor) assessment.

Village Safe Water is one of the two main funding sources of water treatment plants.

While they do not necessarily require any financial information from their communities, they want to see the following activities happen on a yearly basis:

- A Consumer Confidence Report which is a report that goes to your water customers detailing the testing results of your community's drinking water.
- Drinking Water testing compliance showing that your water has been regularly tested.
- A check on the status of the certification of your treatment plant operator and backup operator. **If the certification of your plant operator lapses, it can jeopardize future funding for your community.**

Website: www.state.ak.us/dec/water/vsw/
Phone Contact: 907-269-7601

ANTHC—Alaska Native Tribal Health Consortium

Alaska Native Tribal Health Consortium is a non-profit organization owned and controlled by Alaska Native Tribal governments and their regional health organizations. They receive funds from the Environmental Protection Agency and Indian Health Service. ANTHC is one of the two main funding sources of water/sewer plants. With their own construction group, ANTHC stocks a supply of common parts for these plants that they will sell to any community who has a native

population of greater than 50%. Because they buy these parts in bulk, ANTHC can sell you these replacement parts and save you money. To order these parts, call:

Alaska Utility Supply (AUSC)
1-800-560-8637, ext 3525

Alaska Utility Supply will also assist your utility in troubleshooting mechanical problems in your water/sewer plant.

The Department of Environmental Health and Engineering of the Alaska Native Tribal Health Consortium will also answer questions regarding water/sewer billing and user fees.

Website: www.anthc.org
Phone Contact: 907-729-1900

Resources for Communities with either a VSW or ANTHC plant

You have two resources to help you resolve any operation and certification problems with your treatment plant. The following website has a list of VSW and ANTHC **Village Project Engineer** contacts as well as the contact information for the **Remote Maintenance Worker** assigned to your community.

Website: http://www.state.ak.us/dec/water/rmw/index.htm
Select the Village Project Engineer Contact List link from that page.

Alaska Department of Labor and Workforce Development

Your community must pay Employment Security Tax for every employee on your payroll. The employee also pays Employment Security Tax. This tax is due quarterly along with a Quarterly

Contribution Report. Failure to file a report or filing it late will result in penalties. You can download forms or get answers to questions at the following website:

Website: http://www.labor.state.ak.us/estax/home.htm
Phone Contact: 1-888-448-3527

The Internal Revenue Service

The following reports must be provided to the Internal Revenue Service. If your community fails to provide these reports or is late in providing them, you will have to pay interest and penalties. The Internal Revenue Service has an excellent website that you can search for and print out any form along with its instructions.

The IRS has two representatives in Alaska that deal specifically with tax questions from Alaskan communities. They are a tremendous resource for federal tax issues or problems. Often the IRS seems like a big, bad monitor who is looking for things you have done incorrectly. However, these folks are assigned to helping you sort out problems and get back on track.

Website: www.irs.gov
Anchorage Office: Judy Pearson at 1-907-271-6949 (Tribal)
Fairbanks Office: Gary Petersen at 1-907-456-0204 (Municipal)

Quarterly 941 Report

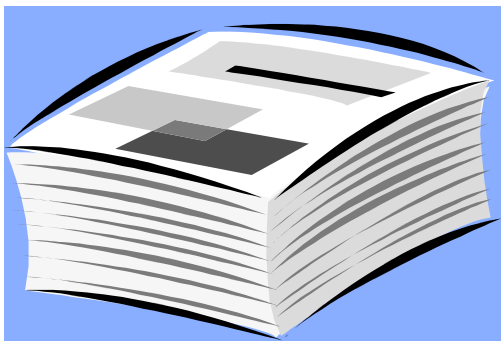
This is a quarterly payroll report which lists your Federal Withholding, Social Security, and Medicare taxes for all the payrolls within a quarter. This report is due on the last day of the month following the end of the quarter.

W2 and W3

At the end of the year, you are required to issue W-2s to all of your employees. This is a four-part form: the employee gets two copies; your office keeps a copy; and the Social Security Administration gets the fourth copy. This form reports the gross wages paid to your employees for the year and the Federal Withholding, Social Security, and Medicare taxes deducted from your employees for the year. The W-3 is a form which totals up all the W-2s and is sent to the Social Security Administration. These forms are due by January 31.

1099

A 1099 is a form which is issued to any independent contractor who has earned more than $600 in a calendar year. This form is created at the end of the year and should be mailed to your contractors by January 31.



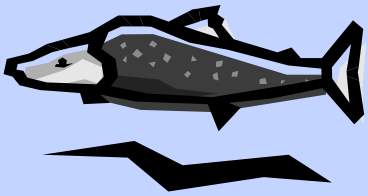
Keeping the Lines of Communication Open

As you can see, there are many groups interested in financial information from your community. Making a decision to prepare all of these reports and submitting them on time will send a strong message to all of these agencies that your community is serious, responsible, and committed to its own success.

However, even with the best of intentions, mistakes can happen.

"What If"

What if quarterly tax reports do not get filed on time?



Salmon River Makes a Mistake

Holly decides to take a vacation. She leaves Salmon River and Sara fills in for her. Holly forgets that the end of the month **and** the end of the quarter occur during her vacation. Holly returns and realizes that she has not submitted any of her reports on time. They are all late. What should she do?

The best thing for Holly to do is to call her local governmental specialist. She should be honest and explain she was on vacation and the reports did not get filed. Holly should ask her LGS what she can do to fix the situation. Holly should immediately create and send her IRS reports with a letter explaining why they are late. She should also send in her Alaska ESC report with a letter explaining the situation.

As long as mistakes are not recurring ones, all of these agencies are willing to work with you. They want to help people who truly want to correct the situation. If your community receives penalties for late reports, there is nothing wrong with asking to have these penalties removed. Explain why the mistake occurred and how you will prevent it from being made in the future. If you have a history of sending in reports on time and this is an unusual situation, there is a chance the penalty will be removed. At least, it never hurts to ask.

THE BOTTOM LINE:

General Report Due Date Guidelines

Report Name	Agency	Due Date
Budget vs. Actual Profit & Loss by Community Profit & Loss by Fund Balance Sheet	Council and LGS	Every month
Quarterly 941 Report	Internal Revenue Service	April 30 July 31 October 31 January 31
1099, W2, & W3	Social Security Administration	January 31
Quarterly Contribution Report	State of Alaska, Dept. of Labor	April 30 July 31 October 31 January 31
Annual Income Statement	RCA	Yearly

CHAPTER 11

Your Community and GASB 34

Change is coming. As of June 15, 2003, the reporting requirements for local governments with a total income of less than 10 million dollars are affected by what is known as GASB 34. GASB – Governmental Accounting Standards Board is a governmental agency that creates the accounting guidelines for local governments. These accounting guidelines are spelled out in financial statements. ***GASB 34—Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*** is the publication which describes the new reports for local governments. This chapter will explain the highlights of GASB 34 and what it means to your community.

The Reason for GASB Statements

Citizens within any community have limited choices. If there is a sales tax, they must pay it. If there is only one water/sewer plant, they must buy their water from that plant. Once they pay their taxes or buy their water, they may wonder what their community does with the money. As a citizen of a community, residents have a legal right to know what happens to their money. The easiest method for a community to show their citizens how their money is spent is to create financial statements and make them available for public

review. GASB instructs local governments how to create government financial statements which are easy for citizens to read and understand.

THE BOTTOM LINE:

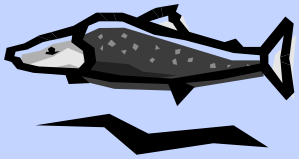
GASB 34 contains instructions for creating new and uniform local government reports that are easy for others to read and understand.

Reporting Changes in GASB 34

GASB 34 changes the reporting requirements for local governments in the following ways:

- Local governments will capitalize—not expense—the purchase of fixed assets.
- Local governments will report their infrastructure assets
- Local governments will provide a statement of their finances on an accrual basis.
- Local governments will show depreciation of their fixed and capital assets.

Local governments will capitalize—not expense—the purchase of fixed assets.



Salmon River Buys a Truck

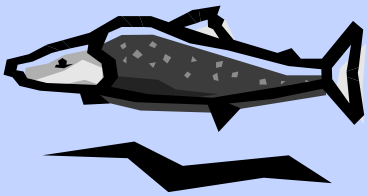
On July 1, Salmon River purchases a Chevy Suburban for $6,000. Holly writes a check and books the Suburban to:

Fixed Assets
  Vehicles $6,000

Fixed Assets, Vehicles appears on the Balance Sheet. This stays on the Balance Sheet until the Suburban is sold, traded-in, or goes away from Salmon River for some other reason. The Suburban is booked at the purchase price. The purchase price is also known as the **historical cost**.

Local governments will report their infrastructure assets

Infrastructure is a fancy word meaning the physical structures in your community that allow your community to develop. These physical structures are stationary. They do not move. Examples of infrastructure assets include: water/sewer plant, bridges, and airports.



Salmon River Books its Water/Sewer Plant

Holly locates the original cost of the water/sewer plant from her files. Salmon River's plant cost $7 million.

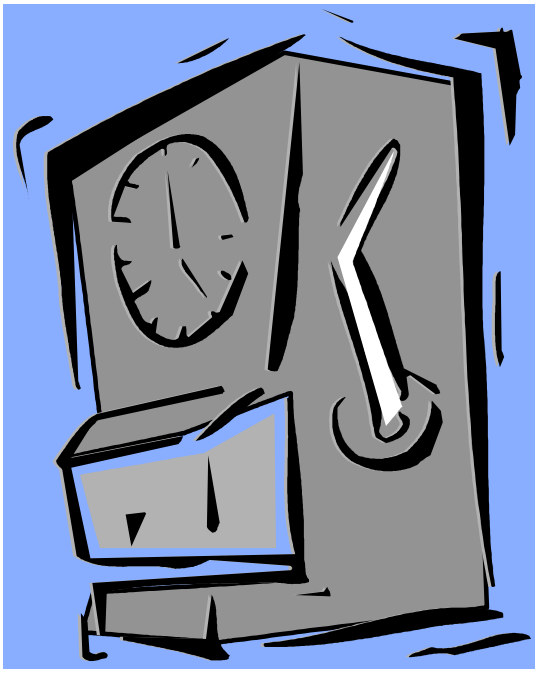
Holly books the water/sewer plant to:

Other Assets
    Water/Sewer Plant $7,000,000

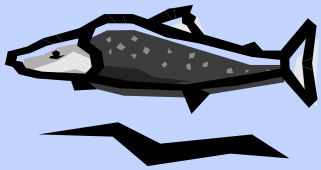
This item appears on the Balance Sheet in the asset section. It remains on the Balance Sheet. The value is the historical cost of the plant.

Local governments will provide a statement of their finances on an accrual basis.

Refer back to page 18 for a complete explanation on the Cash versus Accrual method of accounting. In the past, Holly has used the cash method, which created statements that have shown income only when it is received and expenses only when they are paid. When she creates a report for GASB, she will report income when it is earned and expenses—including interest—on long-term loans when they are owed, not when the money changes hands.



Local governments will show depreciation of their fixed and capital assets.



Salmon River Calculates Depreciation

Holly decides to calculate depreciation on the Suburban. Depreciation is a way of showing the wearing out of an asset. If you buy a Suburban on July 1, it will be worth less on December 31. Accountants use a method known as straight line depreciation for calculating how much value an asset loses each year. First they come up with an estimate of how long the asset will last. This is called the asset's **useful life.** The Internal Revenue Services has created tables which tell us the useful life of different assets.

Historical Cost of Suburban	**$6,000**
Useful Life	**5 years**

If a Suburban cost $6,000 and it is expected to last for 5 years, it will lose $1,200 of its value per year.

$6,000 divided by 5 years = $1,200 per year

On December 31, Salmon River has had the Suburban for six months. The depreciation expense is $600 for one half of a year.

Holly makes the following accounting entry:

Depreciation Expense	**$600**

This is an expense account which will appear on the Profit and Loss Statement. This expense will reduce Net Income by $600.

The other side of this entry is:

Accumulated Depreciation **$600**

This is an account known as a contra-asset account. It is attached to the Fixed Asset – Suburban account. Holly's fixed asset on her Balance Sheet will look like this after recording depreciation:

Fixed Asset	
Suburban	**$6,000**
Accumulated Depreciation	**$ 600**
Net Suburban	**$5,400**

Each year the Accumulated Depreciation account goes up by $1,200 as the Suburban gets older and older. The Net Suburban line which is known as the Book Value of the Suburban gets smaller and smaller as the total value of the Suburban gets less as time goes by.

"What If?"

Holly's Fixed Asset section appears below. What can we tell about the Suburban in this example?

Fixed Asset	
Suburban	**$6,000**
Accumulated Depreciation	**$3,000**
Net Suburban	**$3,000**

If you know that the yearly depreciation expense is $1,200, you can determine that Salmon River has owned the Suburban for 2 ½ years:

600 + 1,200 + 1,200 = $3,000 Accumulated Depreciation

Because the Net value of the Suburban is $3,000, you can determine that it has reached the halfway point of its expected life.

$3,000 (Net Suburban) is equal to one half of $6,000 (historical cost)

Different assets have different expected lives. Your water/sewer plant might depreciate over a period of 30 years. When accumulated depreciation appears on the Balance Sheet, it gives anyone reading it a chance to quickly see if the assets are new, fairly new, or close to reaching the end of their expected lives. This is very valuable information.

THE BOTTOM LINE:

GASB Highlights:

- **Local governments will capitalize—not expense—their fixed assets.**
- **Local governments will report their infrastructure assets.**
- **Local governments will report on an accrual basis.**
- **Local governments will show depreciation of their fixed assets.**

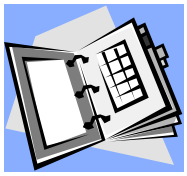
GASB 34 Financial Statements

The new financial statements required by GASB 34 fall into two groups:

- Government-wide Financial Statements
- Fund Financial Statements

Government-Wide Financial Statements

Government-wide financial statements provide information about the entire community as a whole. They offer an all-encompassing view of community finances. They include both a **Balance Sheet** and a **Profit and Loss Statement**.



Fund Financial Statements

The Fund Financial Statements look at the separate funds instead of looking at the entire community. These statements offer detail on individual departments and business enterprises. They also include both a **Balance Sheet** and a **Profit and Loss Statement** for each of your funds.

THE BOTTOM LINE:

GASB 34 requires a Government-Wide Balance Sheet and Profit and Loss Statement.

GASB 34 requires individual Fund Balance Sheets and Profit and Loss Statements.

If GASB 34 is Still Confusing.....

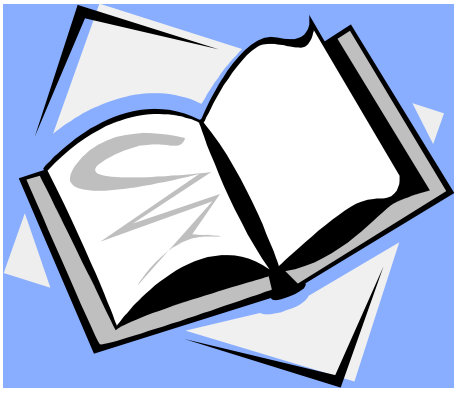
If GASB 34 is still confusing, do not worry. Most things required by the federal government seem confusing at first. This is a new requirement and the dust will have to settle before everyone is comfortable with the new reports. For now, if you are entering all your financial information into your accounting system separated by funds, you will have everything you need to create any of these reports down the road. If you want to see examples of these financial reports or simply read more about them, logon to:

Website: www.gasb.org

GASB also has two publications which might be useful:

- *The Quick Guide to Local Government Financial Statements*
- *What You Should Know About Your Local Government Finances*

These publications can be ordered by calling 1-800-748-0659.



CHAPTER 12

The Final Word on Utility Accounting Systems—Setting Goals

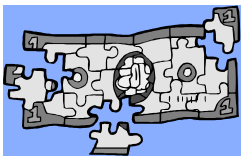
There is a tremendous amount of information in this manual. The goal of this manual is to help you understand and simplify your utility accounting system. Now, more than ever, your community needs to keep track of its finances in a professional manner. In the future, competition for money will increase, and you want your community to be a success story.

It might seem overwhelming to implement everything in this manual. Why not incorporate the pieces of the system described here one step at a time? Over time, your entire accounting system will improve and your community will benefit.

Goal 1—Learn the Accounting Language

Since you will represent your community's finances to other professionals, read through Chapters 1 and 2 and become familiar

with the accounting language. When other people refer to these terms, you will know exactly what they are talking about.



Goal 2—Consolidate Your Chart of Accounts

If you are currently working with a long and involved Chart of Accounts, take the time to simplify it. Streamlining your accounts and using classes to represent your funds will make your job much easier—and it will be easier to explain to others as well.

Goal 3—Spruce up Your Reports

These reports represent your community, so put your best foot forward. Start with the Profit and Loss Statement described in Chapter 5 and look it over until you understand it.

Next, examine the Budget vs. Actual Report covered in Chapter 7. As you look at the numbers, ask yourself the questions on page 113 and try to figure out the answers.

Finally, tackle the Balance Sheet discussed in Chapter 6 and take a good look at your community's worth.

Goal 4—Formalize Your Collection Process

It does not matter how much your community charges for services if people are not paying for them. If you have a large percentage of your residents either paying late or not at all, then you probably want to change your collection policy. There are communities all over Alaska that have solved their collection problems with a firm policy that they follow with every customer—no exceptions!

Goal 5—Establish a Rainy Day Fund

When your community has a good collection rate for services, it is time to determine if you need to raise the rates a little bit more to establish that Rainy Day Fund for repairs and replacement parts.

Goal 6—Find Ways for Your Community to Thrive

With a financial system in place, your community is in a good position to plan for improvements. While the State is not handing out money these days, there are programs that can enhance your economic resources. Your community is now in a good position to show funding sources that it responsibly handles its finances.

Your Notes:

GLOSSARY

Account—accounting categories with similar financial information. Examples of accounts include Bank Accounts, Accounts Receivable, Income, and Telephone Expense.

Account type—the major account types are: Assets, Liabilities, Fund Balance, Income, or Expenses.

Accounting Equation—

Assets	=	Liabilities	+	Fund Balance
Everything of Value	=	What You Owe	+	What You Own

Accounts Payable—all unpaid bills in the utility. Also called short-term debt. Accounts Payable is a current liability usually paid within 90 days.

Accounts Receivable—all the unpaid invoices in the utility. Accounts Receivable is a current asset usually collected within 90 days.

Assets—anything of value belonging to the utility. For example; cash, accounts receivable, vehicles, equipment, and inventory.

Balance Sheet—a major accounting report. The Balance Sheet is a snapshot of your community's financial health at one point in time. It reports on the community's Assets, Liabilities, and Fund Balance.

Balance Sheet Accounts—Assets, Liabilities, and Fund Balance.

Book Value—the value of an asset after deducting all the depreciation you have claimed from the historical cost—or purchase price—of an asset.

Budget—a yearly plan for your money. Your community has a budget for every department, grant, and enterprise.

Budget vs. Actual—two Profit and Loss Statements side-by-side; one with actual numbers for a specific accounting period; the other with the budgeted numbers for the accounting period.

Business Event—anything happening in the community which causes a change in Assets, Liabilities, or Fund Balance. Most business events involve cash coming into or going out of the community.

Chart of Accounts—a listing of all a community's Asset, Liability, Fund Balance, Income, and Expense accounts which acts as a filing system for all the numbers related to the finances of the community.

Depreciation—a method of financially showing how much of an asset's value is lost each year.

Double-entry Accounting—the dual nature of accounting. Every business event has at least two effects on the Chart of Accounts. This insures that the accounting equation is always in balance.

Expense—money going out of your community to cover the day-to-day costs of running your community.

Financial Statements—the accounting reports prepared for your Council, your community, your Local Government Specialist, and other interested parties. The statements report on the day-to-day activities of your community (Profit & Loss Statement) and on the financial condition of your community (Balance Sheet).

Fiscal Year—July 1 through June 30 in the State of Alaska.

Fixed Assets—expensive assets within your community that will last for a number of years, such as vehicles, furniture, and equipment.

Fund Balance—the portion of the assets that is an excess over and above the liabilities

GASB—Governmental Accounting Standards Board, organized in 1984 to set standards for state and local government financial reports.

Historical Cost—the purchase price of an asset.

Income—money coming into the community for services performed including water/sewer, moorage, and electric or for products sold, including fuel and propane. Your community may also receive Federal and State money.

Income Statement—a major accounting report. This report summarizes all income and expenses of a fund for a specific period of time, usually a month, quarter, or year.

Infrastructure—the physical structures in your community, including bridges, roads, water/sewer plant, and buildings.

Invoice—a community document asking for payment of community services such as water/sewer, or asking for payment of a community product such as fuel or propane.

Liability—money your community owes. Examples of liabilities include short-term liabilities such as credit card balances and payroll taxes owed to the government and long-term liabilities such as mortgages and vehicle loans.

Net Income—the bottom line of a fund. Income minus expenses equals Net Income.

Sales Tax—income to the community. Money collected for the community each time it sells its services and products.

Source Document—any document attached to a business event, such as an invoice, a sales receipt, a check or a deposit slip.

Sustainability—the ability for your community to use its own resources and independently support itself in the future. A sustainable water/sewer plant runs on the money collected for water/sewer services from the community.

Useful Life—an estimate of how long an asset will last.

The following information is provided in accordance with State law AS 44.99.210

Name of Agency Releasing publication:

Department of Commerce, Community, and Economic Development

Production Cost of the publication:
$___ per each printed copy
Free when downloaded from the website (www.dced.state.ak.us)

Purpose of the publication:
To provide residents of Alaskan communities with a tool to help them understand sanitation utility accounting systems

City where printed:
Anchorage, Alaska

The Department of Commerce, Community, and Economic Development complies with Title II of the American for Disabilities Act of 1990. Upon request, this report will be made available in large print or other accessible formats. Requests should be directed to DCCED staff.