

# **Creating and Understanding Monthly Utility Finance Reports**

# Creating and Understanding Monthly Utility Finance Reports

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## Introduction

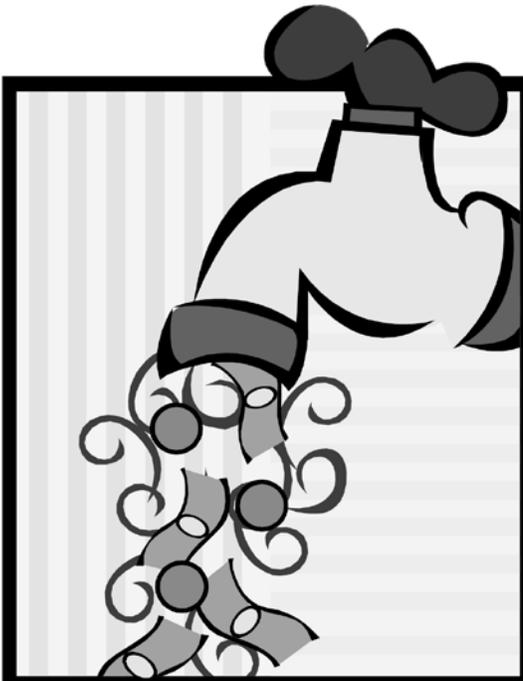
The goal of this guidebook is to help you tell others the story of your community's finances. Your audience may be your city staff, your community or tribal council, your Local Government Specialist from Alaska's Division of Community and Regional Affairs, or a representative of a state or federal funding agency. You will learn to tell this story by creating five reports that will give any interested party a complete picture of the financial standing of your community. These five reports—created during the fiscal year—are: the *Annual Budget*, the *Profit and Loss Statement*, the *Balance Sheet*, the *Budget vs. Actual Report* and the *Annual Certified Financial Statement*.

You will first learn the steps involved in entering a budget into your accounting system. Once the budget is in, you will be led through the back-end of the accounting cycle—after all of the day-to-day business transactions have been entered. The back-end of the accounting cycle actually starts with the bank account reconciliation and continues on with creating and modifying the *Profit and Loss Statement*, the *Balance Sheet*, and the *Budget vs. Actual Report*. Once you have completed all 12 of your monthly reports, you will be pleased to see that the *Budget vs. Actual Report* actually becomes the *Certified Financial Statement* at the end of the fiscal year.

You will learn—step-by-step—how to build the reports which tell your community's financial story, and how to use those reports to stay on top of your community's legal accounting obligations to the State. Since we all make mistakes, it will also guide you through the pitfalls of building reports and troubleshooting and correcting any errors that staff may have made while entering in the day-to-day business transactions.

Communities across Alaska have several different accounting systems. Some are using journals and ledgers purchased from office supply stores, some are using Excel spreadsheets, and others are using computerized accounting software. Most of you using computer accounting systems are using QuickBooks Pro, therefore the reports in this manual have been created using QuickBooks Pro 2013.

If you follow the processes outlined in this manual, your financial system will become a model for communities throughout the state. Not only will you be able to look at your reports and tell your own community's financial story, but you will also be able to read and understand others' reports as well.



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## The Cycle of Utility Financial Reports

### What is a Fiscal Year?

**A** fiscal year—sometimes called a financial year—consists of the twelve month period that your community uses to track its finances. A calendar year runs from January 1 to December 31. A few Alaska communities use the calendar year as their fiscal year, but most of them are on fiscal years that match either the State of Alaska or the Federal Government’s fiscal year.

- July 1 through June 30 —the State of Alaska fiscal year.
- October 1 through September 30 —the Federal Government fiscal year.

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## The Cycle of Financial Reports

There is a definite flow or cycle of documents from the first day of your community's fiscal year to the last. The fiscal year starts with a yearly plan called the *Budget*—an estimate of the anticipated revenues and expenses for the coming fiscal year. The State of Alaska Division of Community and Regional Affairs mails every community a budget packet prior to the beginning of their fiscal year. Each community prepares a budget based on prior years' revenues and expenses, and expected revenues and expenses for the new year, then the council votes on it and eventually adopts it into city law as a non-code ordinance. This entire process must take place before the start of the fiscal year because a budget is required by state law before a city may legally receive or spend any money. Tribal councils may use the same steps to draft and adopt budgets.

The next step in the financial report process involves creating monthly reports that tell your community how well they are doing financially. Alaska Statute 29.20.500(4) requires that city managers or mayors "make monthly financial reports" for the city council. Budgets and financial reports are two separate financial documents that serve different purposes, but a close relationship exists between them. Budgets plan expenditures and anticipate revenues for the upcoming fiscal year – they look to the future.

In contrast, standard financial reports look back on past performance and describe what has happened. There is also one report that combines both of these tasks. It compares the budget plan with what has actually happened. These four reports are what the council may use each month to answer their specific financial questions.

- The monthly *Income Statement* or *Profit and Loss Statement* lists by categories (accounts) all the money your community received and spent during the previous month. It answers the question, **Did we make or lose money this past month?**
- *The Monthly Budget versus Actual Report* also lists monthly income and expenses in detail, but this report compares the previous month's numbers to your adopted budget plan, answering the question **How are we doing this month compared to our adopted budget plan?**

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## The Cycle of Utility Financial Reports

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- The *Fiscal Year-to-date Budget versus Actual Report* also lists income and expenses in detail, but this report compares the numbers to the budget estimates for the Fiscal Year-to-Date—not just one month. It answers the question, **How are we doing so far this fiscal year compared to our adopted budget plan?**
- The last report, *the Balance Sheet*, is the least used financial report in rural Alaska, yet it is arguably the most important monthly report. This report tells you **How much are we actually worth?** on any given day, and whether your net worth is increasing or decreasing over time.

These reports should be produced every month and included in council meeting packets. A significant portion of the monthly council meeting should be devoted to examining these reports and analyzing any large differences between actual income and expenses and the budget plan estimates.

Finally, the year wraps up with the largest financial report of them all—the *Annual Certified Financial Statement (CFS)*. If the council adopted a budget at the beginning of the year and has been receiving monthly reports for their council meetings all along, this report acts as an end-of-year summary for all of those monthly reports.

If, however, a community has failed to make accurate monthly financial reports, then a review of the entire year's financial transactions must be made to produce the *Annual Certified Financial Statement*. That requires a tremendous amount of time and energy, as every effort must be made to ensure that the community's *Annual Certified Financial Statement* of revenues and expenditures is an accurate representation of the community's financial transactions over the previous year.

Once the statement has been reviewed, a resolution must be passed certifying that it is true and correct. Copies of the statement are then made available to all individuals and groups who have an interest in the finances. The public has a right to know the details of how their local government manages their community's public funds. The resolution along with the CFS must then be submitted to DCCED in order to meet the qualifications to receive community revenue sharing.



# 2



## Using Budget Packets

Local Governments use a type of accounting called Fund Accounting. This is an accounting system that categorizes income and expenses based on two things: the purposes for which the money is used and whether or not the money in the fund is restricted or unrestricted. In rural Alaskan local governments, these fund accounts are often referred to individually as departments, grants, and projects. Some of the funds have unrestricted monies which mean that they can be used for any business or purpose. Other funds are restricted which means that the money is designated only for specific grants or capital projects. For accounting purposes, every single fund gets its own budget, so that the council—or other governing body—can prove that all monies have been spent on their intended purposes.

There are four main types of funds:

- General Funds—the departments that support the general administrative and service functions of government such as Administration and Finance, Council, Public Safety, and Streets and Roads. These departments generally have no income source of their own.
- Enterprise Funds—departments that comprise the local government's businesses for which user fees or purchase prices are charged. Examples of these departments are Water/Sewer, Fuel Sales, Electric Utility, Landfill, and Moorage.
- Special Revenue Funds—grants the local government currently has been awarded that fund specific programs. These funds are restricted to the purposes of the grant. Examples of these grants are clinic and administration grants, library reading program grants, and spring clean-up grants.

## Creating and Understanding Monthly Utility Financial Reports

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- Capital Revenue Funds—large capital project awards restricted to one specific project such as an airport runway, a new school building, or water plant upgrade.

It is your job at the end of the fiscal year to prove in your *Annual Certified Financial Statement* that all of the money that came to each fund was spent properly. The easiest way to do this is to create a Profit and Loss for every department, grant, or project (fund) in which the local government is involved.

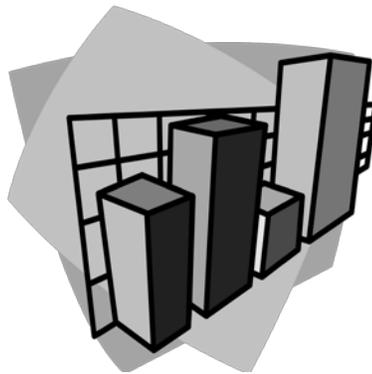
The Budget Packet Worksheets that the state provides—in the form of either a packet of papers or an Excel spreadsheet—makes it easier to build the budget. They let you label each of the funds as a budget sheet of its own with a customized list of budgeted expenditures for the fiscal year. This makes it much easier to keep track of spending patterns.

For instance, if you do not separate out all Office Supplies purchases by department, grant, or project, how will you know what was spent for the Library Grant versus the Administration and Finance Department? Each of these separate fund budgets are added together to make up the entire community's annual budget.

After the Budget is created and adopted by the council, it must be entered into the accounting system. In addition, each budget must be entered separately for every department, grant, and project the city or tribe has, so that all income and expenses for the coming year can be correctly assigned.

In QuickBooks Pro, these fund accounts are called **classes** and must be created in QuickBooks for every department, grant, and special project. Keep the class names simple for departments. With respect to grants and projects, put as much identifying information in as you can—such as the fiscal year and grant number—as there are often multiple grants and projects from the same funding source over a period of years.

FUND TYPE	FUND NAME	CLASS NAME
GENERAL	Administration and Finance Council Fire Search and Rescue VPSO Streets and Roads	Admin and Finance Council Fire Search and Rescue VPSO Streets and Roads
ENTERPRISE	Water/Wastewater Washeteria Fuel Sales Equipment Rental Electric Utility Garbage Moorage Gaming	Water/Wastewater Washeteria Fuel Equipment Electric Garbage Harbor Gaming
SPECIAL REVENUE	Clean-up Grant Library Grant	FY13-DCRA-456-Clean Up FY13-LOC5378D-Library
CAPITAL REVENUE	Airport Runway Project Water Plant Upgrade	Airport Runway COE 5298 VSW 67548-H78



## Creating and Understanding Monthly Utility Financial Reports

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Use the space below to build your community's class list. Get out old budget sheets or get the staff together and brainstorm every department, grant, or project active in your community right now.

General Fund Departments:


Enterprises:


Grants:


Projects:


# 3



## Creating and Using Classes in QuickBooks

**E**ntering classes into QuickBooks is easy, but first you may have to tell QuickBooks that you want to use Classes in your company file. If you enter QuickBooks and the **Class List** option under the **Lists** menu at the top of the screen is not available, you must follow this next step before you can build your class list.

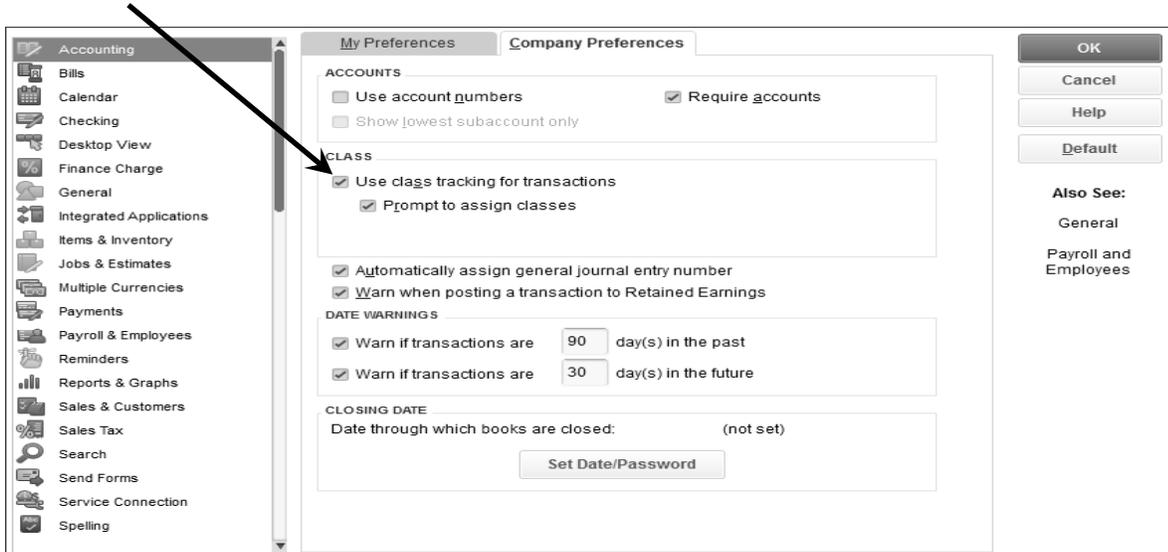
### Setting the Class Feature in QuickBooks

- Click **Edit** at the top of your screen.
- Click **Preferences**.



# Creating and Understanding Monthly Utility Financial Reports

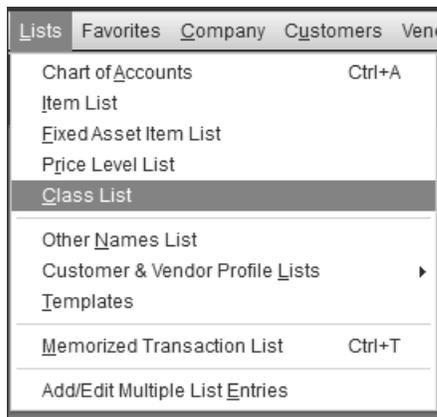
- Select the **Accounting** preferences at the top left of the screen.
- Select the **Company Preferences** tab at the top center of the preferences window.
- Make sure that there is a check mark in front of **Use class tracking for transactions**.
- Make sure that there is a check mark in front of **Prompt to Assign Classes**.
- Click **OK**.



## Entering Your Classes

Caution! Enter in the classes as a straight list of departments, grants, and project names. Do not try to organize the list with class type headings and sub-classes. The list in QuickBooks may look better organized, but when it is time to create reports, you will be left with many additional columns that are not useful and it will make the reports too long and much harder to read.

- Click **Lists** at the top of your screen.
- Click **Class List**.

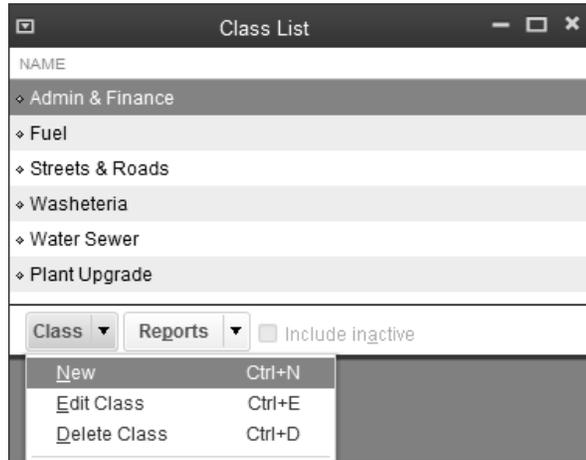


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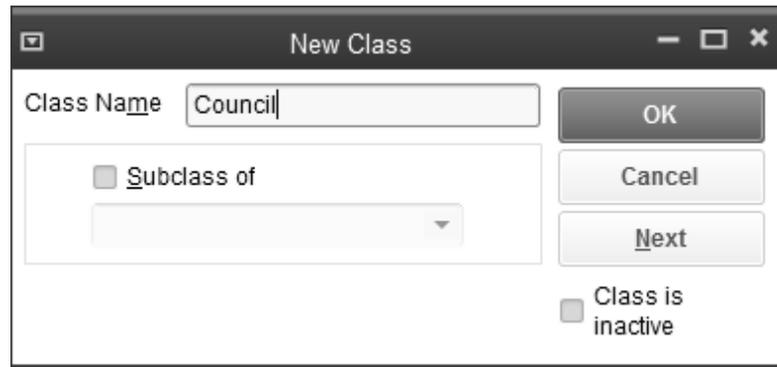
## Creating and Using Classes in QuickBooks

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- Click **Class** at the bottom left of your screen.
- Click **New**.



- Enter the name of the department in the field labeled **Class**.
- Click **OK**.



You can enter all your departments as classes by clicking **Next** instead of **OK** and entering them in one at a time. You can finish by entering in all the grants and capital projects you identified in the last lesson.

- Click **OK** when you have finished entering all your classes.

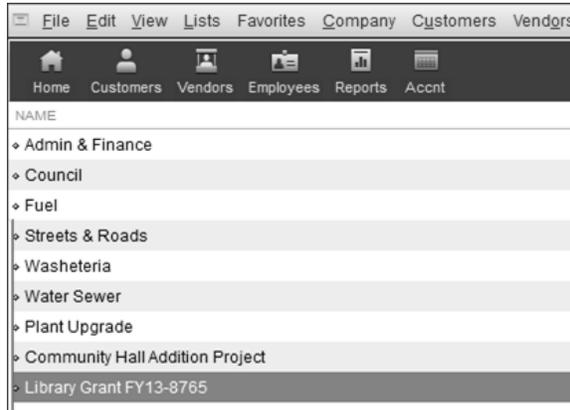
Once you have created all of your classes, you can start to use them.

When you enter a financial transaction into QuickBooks, you cannot save the transaction without selecting the line item—or category (account) the transaction affects. For example, the category for printer paper is Office Supplies; the category for GCI's sales tax payment is Sales Tax Income.

## Creating and Understanding Monthly Utility Financial Reports

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In addition to selecting an account (category), you will also make a class selection for every QuickBooks financial transaction---deposit, sales receipt, invoice, or check. When both account and class are selected, QuickBooks will track the type of income or expenditure and whose budget it affects.



### The Class List

#### Potential Departments:

- Admin and Finance
- Council
- Clinic
- Water/Wastewater
- Washeteria
- Garbage
- Electric Utility
- Fuel Sales
- Streets and Roads
- Fire
- VPSO
- Airport
- Harbor
- Library
- Community Hall
- Elder Housing
- Senior Center
- Gaming

**All Grants:** get them from the list you made on page 10.

**All City Projects and Upgrades:** get them from the list you made on page 10.

# 4



## Building the Chart of Accounts

**T**he individual lines of the budget are called accounts, line items, or categories. All of these line items are eventually compiled into a list called the Chart of Accounts. The Chart of Accounts is the heart of your accounting system. It is a list of all of the categories or accounts you need to create every financial report of the fiscal year. It is important to take time in the beginning to build a perfect Chart of Accounts.

Whenever you enter and record a financial transaction during the year, you must designate the category or account—the purpose of the transaction—and the class—the department, project, or grant. If your Class List and your Chart of Accounts are well organized, the choices you need to make when entering transactions will be clear, and your reports are more likely to be accurate.

### Expense Accounts in the Chart of Accounts

The budget sheet for each department, project, and grant is labeled Budgeted Operating Expenditures.

# Creating and Understanding Monthly Utility Financial Reports

DETAILED FY 14 BUDGET FORM

BUDGETED OPERATING EXPENDITURES		Department/Service:	
		FY 13 ACTUAL (Estimated)	FY 14 BUDGET
<b>Personal Services:</b>	Salaries	\$	\$
	Stipends	\$	\$
	Payroll Taxes	\$	\$
	Workers Compensation	\$	\$
	Retirement / Pension	\$	\$
	Other:	\$	\$
	Other:	\$	\$
<b>Total Personal Services</b>		\$	\$
<b>Travel:</b>	Airfare	\$	\$
	Per Diem	\$	\$
	Training, Workshop & Conference Fees	\$	\$
	Other:	\$	\$
	Other:	\$	\$
<b>Total Travel</b>		\$	\$
<b>Facility Expenses:</b>	Telephone	\$	\$
	Rent	\$	\$
	Electricity	\$	\$
	Water & Sewer	\$	\$
	Fuel Oil	\$	\$
	Repairs / Maintenance (buildings)	\$	\$
	Other:	\$	\$
	Other:	\$	\$
<b>Total Facility Expenses</b>		\$	\$
<b>Supplies:</b>	Office & Clerical Supplies	\$	\$
	Postage Supplies	\$	\$
	Copier Supplies	\$	\$
	Other:	\$	\$
	Other:	\$	\$
<b>Total Supplies</b>		\$	\$
<b>Equipment:</b>	Equipment	\$	\$
	Vehicle / Equipment Maintenance	\$	\$
	Other:	\$	\$
	Other:	\$	\$
<b>Total Equipment</b>		\$	\$
<b>Other Operating Expenses:</b>	Interest & Late Charges	\$	\$
	Insurance & Bonding	\$	\$
	Membership Dues & Fees / Subscriptions	\$	\$
	Bank Charges	\$	\$
	Other Contractual:	\$	\$
	Other:	\$	\$
Other:	\$	\$	
<b>Total Other</b>		\$	\$
<b>TOTAL BUDGET</b>		\$	\$

Enter on Budget Summary

- Notice that the name of the department, grant, or project goes in the upper right corner of the sheet.
- Notice as well that while the Department/Class name in the upper right is fill-in-the-blank, the expenditure category line items are the same on every page. That is because—with a few exceptions—departments and grants use the same expense categories. For example, all departments buy office supplies, use postage and fuel oil, and pay salaries and payroll taxes. This master list of expense categories on each budget sheet is available to every department, project and grant.

The line item expense categories in the budget sheets become the Expense Categories in the Chart of Accounts:

- Salaries
- Stipends
- Payroll Taxes
- Workers Compensation
- Retirement/Pension
- Airfare
- Per Diem
- Training, Workshop and Conference Fees
- Telephone
- Rent
- Electricity
- Water/Wastewater
- Fuel Oil
- Repairs/Maintenance (Buildings)
- Office Supplies
- Postage
- Copier Supplies
- Equipment
- Vehicle/Equipment Maintenance
- Interest and Late Charges
- Insurance and Bonding
- Membership, Dues and Fees
- Bank Charges

### Income Accounts in the Chart of Accounts

The same logic applies to income accounts as well. The line item Revenue Categories in the budget sheets become your Income accounts.

- State Revenue Sharing - and other state money
- Federal Monies such as PILT funds
- Local Sales Tax Income
- City Services Income--This includes the income from your Enterprises (Water/Wastewater, Fuel Sales, Refuse, Solid Waste)
- Building Rental
- Grant Income
- Capital Project Income

### Completing the Chart of Accounts—the *Balance Sheet* Accounts

We now have the income and expense accounts for our Chart of Accounts, as well as a completed class list. In this section, we will complete the Chart of Accounts with what are called the *Balance Sheet* Accounts.

The *Balance Sheet* is the forgotten financial report in rural Alaskan communities. It is unusual to see a *Balance Sheet* included in council packets and often there are very few people in a community that ever refer to it. Yet accounting professionals always look to the *Balance Sheet* first when diagnosing the fiscal health of an organization.

## Creating and Understanding Monthly Utility Financial Reports

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The *Balance Sheet* answers the question **What is my community worth right now?** The Profit and Loss answers the question **Are we making a profit or incurring a loss over a specific period of time?** These are two very different questions with two very different answers. If you only look at the *Profit and Loss Statement*, you will only know if your enterprises are making money or losing money. You could have a month where there is a substantial profit, yet if you looked at the *Balance Sheet*, things could be very bleak with little money in the checking account, and unpaid payroll taxes. Or you could look at your *Profit and Loss Statement* and see that you have lost money in the previous month, yet the *Balance Sheet* reveals that things overall are pretty good because you have comfortable balances in your bank accounts and no outstanding debt. Only by looking at both statements can you get a complete picture of what is going on in your community.

Below are the accounting categories or line items that appear on the *Balance Sheet*. They are grouped using the QuickBooks classification system.

### **Bank**

- All bank accounts—checking and savings
- The office safe
- Any cash boxes and petty cash

### **Accounts Receivable**

- Accounts Receivable—unpaid customer balances

### **Other Current Assets**

- Employee Advances

### **Fixed Assets**

- Water Plant
- Equipment
- Vehicles
- Computers
- Buildings
- Land

### **Accounts Payable**

- Accounts Payable—Unpaid vendor balances

### **Credit Cards**

- Credit Cards--- Unpaid Balances

### **Other Current Liability**

- Short-term loans that must be paid off within one year—listed separately
- Payroll Liabilities

### **Long Term Liability**

- Long-term loans that will not be paid off within a year

### **Equity**

- Salmon River Fund Balance

This completes the Chart of Accounts. A summary of the Chart of Accounts is on the next page. After making your own lists—and checking them twice—you are ready to go.

## Creating and Understanding Monthly Utility Financial Reports

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### The Chart of Accounts

<u>Account/Categories</u>	<u>Type</u>
Safe	Bank
General Fund Checking	Bank
Water/Wastewater Savings	Bank
Employee Advances	Other Current Asset
Undeposited Funds	Other Current Asset
Water/Wastewater Accounts Receivable	Accounts Receivable
Accounts Payable	Accounts Payable
VISA Credit Card	Credit Card
Payroll Liabilities	Current Liabilities
Salmon River Fund Balance	Equity
Income -- City Services	Income
Grant Income	Income
State Income	Income
Federal Income	Income
Interest Income	Income
Salaries	Expense
Stipends	Expense
Payroll Taxes	Expense
Workers Compensation	Expense
Retirement/Pension	Expense
Airfare	Expense
Per Diem	Expense
Training, Workshop and Conference Fees	Expense
Telephone	Expense
Rent	Expense
Electricity	Expense
Water and Wastewater	Expense
Fuel Oil	Expense
Repairs/Maintenance (Buildings)	Expense
Office Supplies	Expense
Postage	Expense
Copier Supplies	Expense
Equipment	Expense
Vehicle/Equipment Maintenance	Expense
Interest and Late Charges	Expense
Insurance and Bonding	Expense
Membership, Dues, and Fees	Expense
Bank Charges	Expense

# 5

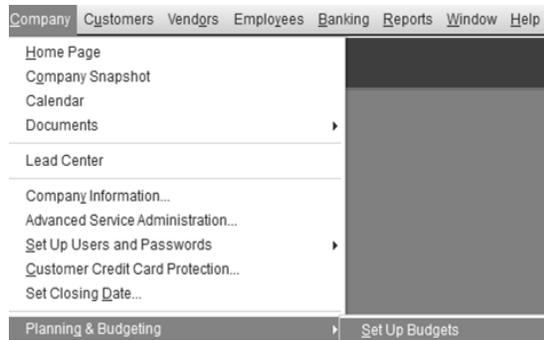


## Entering the Budget into QuickBooks

It's important that your budget be entered into your financial accounting system. You will enter it into both your accounting software and the Excel spreadsheet that is introduced later in this guidebook. Having your budget in both places will you the most report flexibility.

### Entering Budgets for a Specific Fund, Department, or Grant

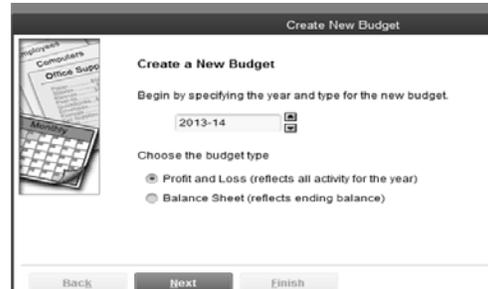
- Click **Company**
- Click **Planning and Budgeting**
- Click **Set Up Budgets**



## Creating and Understanding Monthly Utility Financial Reports

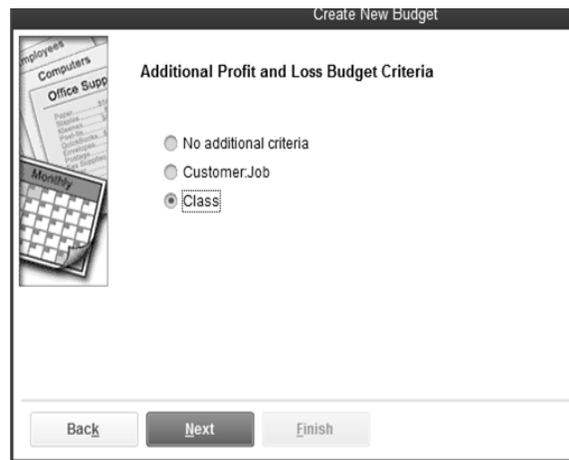
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- Enter the budgeting fiscal year. Most of the time you will be inputting budgeting figures for income and expense accounts, therefore select Profit and Loss as your budget type.
- Click **Next**.



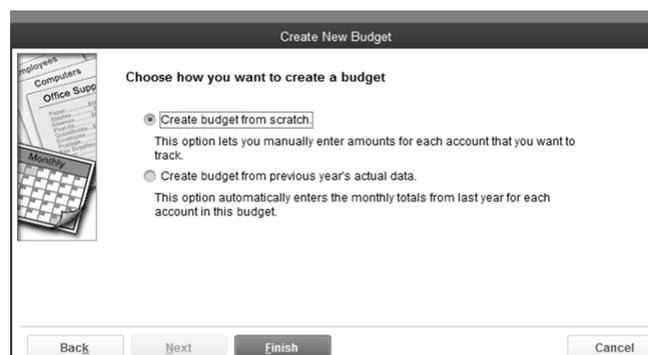
The screenshot shows the 'Create New Budget' dialog box. The title bar reads 'Create New Budget'. On the left, there is a preview of a budget report with categories like 'Employees', 'Computers', 'Office Supp', and 'Monthly'. The main area is titled 'Create a New Budget' and contains the following text: 'Begin by specifying the year and type for the new budget.' Below this is a dropdown menu showing '2013-14'. Underneath is the heading 'Choose the budget type' with two radio button options: 'Profit and Loss (reflects all activity for the year)' (which is selected) and 'Balance Sheet (reflects ending balance)'. At the bottom, there are three buttons: 'Back', 'Next', and 'Finish'.

- Select **Class**.
- Click **Next**.



The screenshot shows the 'Create New Budget' dialog box at the 'Additional Profit and Loss Budget Criteria' step. The title bar reads 'Create New Budget'. On the left, there is a preview of a budget report with categories like 'Employees', 'Computers', 'Office Supp', and 'Monthly'. The main area is titled 'Additional Profit and Loss Budget Criteria' and contains three radio button options: 'No additional criteria', 'Customer.Job', and 'Class' (which is selected). At the bottom, there are three buttons: 'Back', 'Next', and 'Finish'.

- Select **Create Budget From Scratch**.
- Click **Finish**.



The screenshot shows the 'Create New Budget' dialog box at the 'Choose how you want to create a budget' step. The title bar reads 'Create New Budget'. On the left, there is a preview of a budget report with categories like 'Employees', 'Computers', 'Office Supp', and 'Monthly'. The main area is titled 'Choose how you want to create a budget' and contains two radio button options: 'Create budget from scratch' (which is selected) and 'Create budget from previous year's actual data'. Below the 'Create budget from scratch' option is a small text box containing the text: 'This option lets you manually enter amounts for each account that you want to track.' Below the 'Create budget from previous year's actual data' option is a small text box containing the text: 'This option automatically enters the monthly totals from last year for each account in this budget.' At the bottom, there are four buttons: 'Back', 'Next', 'Finish', and 'Cancel'.

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## Entering the Budget into QuickBooks

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Make sure that your budgeting year is correct. Select a program or fund class for which you wish to enter the budgeting figures. In the example below, we are entering budget figures for the Admin and Finance department (class). You can enter yearly or monthly budgeting figures. If you are entering a yearly figure, enter it in the column for the first month of the fiscal year. In this example the budget figures were entered into the column labeled **JUL13**. As soon as you have entered them into the **JUL13** column, the number also appears in the column labeled **ANNUAL TO**.

Budget

FY2013-14 - Profit & Loss by Account and Class

Current Class

Admin & Finance

ACCOUNT	ANNUAL TO...	JUL13
City Services Income		
Federal Income	200,000.00	200,000.00
Sales Tax Income	85,000.00	85,000.00
State Income	105,000.00	105,000.00
Airfare	3,000.00	3,000.00
Bank Charges	120.00	120.00
Chemicals		
Electricity	6,000.00	6,000.00
Equipment	7,000.00	7,000.00
Fuel Oil	31,000.00	31,000.00
Gaming Payouts		
Insurance & Bonding	19,000.00	19,000.00
Interest & Late Charges	850.00	850.00

Copy Across Adjust Row Amounts Clear

After all of the budgeting figures are entered for the Admin and Finance department,

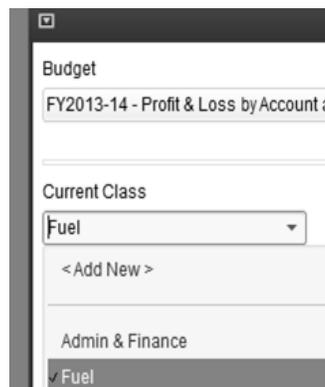
- Click **Save**.



## Creating and Understanding Monthly Utility Financial Reports

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Repeat this process for all your classes---department, grants, and projects by changing the Class at the top of the screen and filling in all the budgeting amounts for the new program/fund. Looking at the screen below, the arrow in the field labeled Current Class was clicked and the next department (Fuel) was selected. The fuel budgeting figures are next entered into the blank budget screen that arrives when the Class changes.



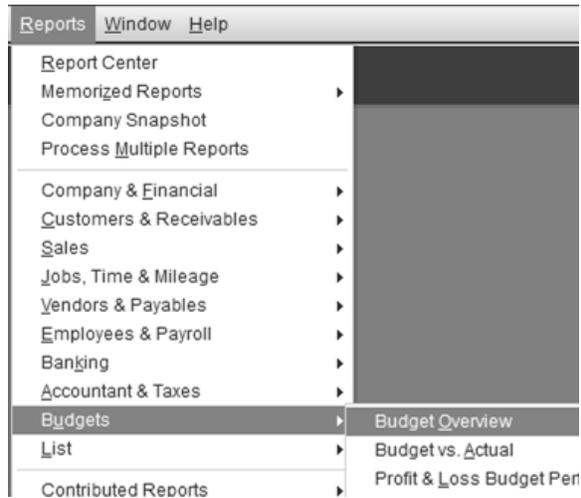
After completing each budget for each department, grant or project, be sure to click **SAVE!!** It is the only area in QuickBooks where there is an actual **SAVE** button. Be sure to use it! After clicking **SAVE**, you can move on to the budget of the next department, grant, or project.



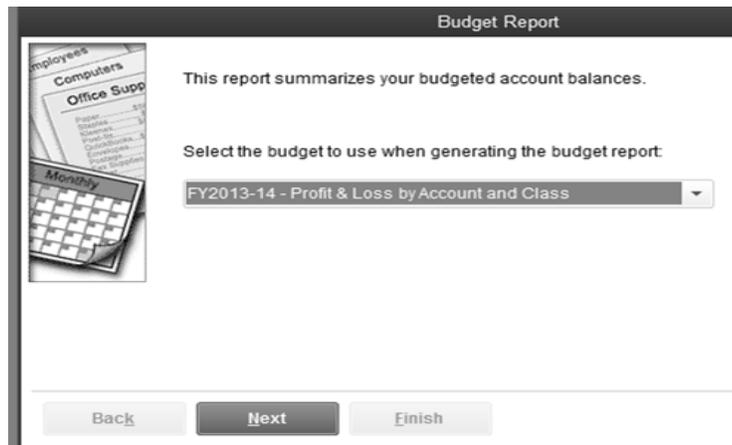
After your budgets have been entered into QuickBooks, you should check your figures for accuracy. It is very easy to enter wrong numbers. An error in the budget will follow you through the entire year, so take the time now to check for errors.

### Budget Overview Report

- Click **Reports**.
- Click **Budgets**.
- Click **Budget Overview**.



- Select the correct year and **Profit and Loss by Account and Class**.
- Click **Next**.



## Creating and Understanding Monthly Utility Financial Reports

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- Select Account by Class.

Budget Report



Select a report layout for the budget report:

Account by Class

**Example:**

	Class 1	Class 2	Class 3
Sales Income	000.00	000.00	000.00
Misc Income	000.00	000.00	000.00
Rent Expense	000.00	000.00	000.00

Back Next Finish

- Click Finish.

Budget Report



Click FINISH to create the report.

Back Next Finish

## Entering the Budget into QuickBooks

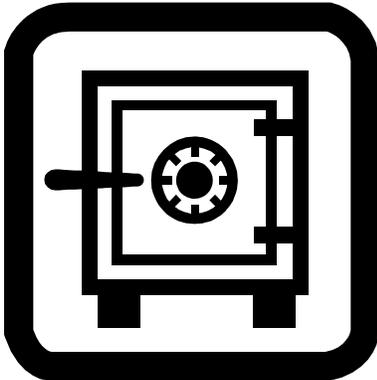
The dates of the report should be the entire fiscal year. In this example, it is July 1, 2013 through June 30, 2014.

Go through each class and verify all of the income and expense numbers. Have someone read you the numbers from the budget while you check the numbers in QuickBooks. Catching the error now will save you a lot of time later.

**City of Salmon River**  
**Profit & Loss Budget Overview**  
July 2013 through June 2014

Accrual Basis

	Admin & Fin...	Fuel	Streets & Ro...	Washeteria	Water Sewer	Plant Upgrade	TOTAL
	◊ Jul '13 - Jun 14 ◊						
<b>Income</b>							
City Services Income		188,000.00		23,230.00	162,000.00		373,230.00
Federal Income	200,000.00					1,200,000.00	1,400,000.00
Sales Tax Income	85,000.00						85,000.00
State Income	105,000.00						105,000.00
<b>Total Income</b>	<b>390,000.00</b>	<b>188,000.00</b>		<b>23,230.00</b>	<b>162,000.00</b>	<b>1,200,000.00</b>	<b>1,963,230.00</b>
<b>Expense</b>							
Airfare	3,000.00	800.00			1,200.00		5,000.00
Bank Charges	120.00				400.00		520.00
Chemicals					7,000.00		7,000.00
Electricity	6,000.00	15,000.00	12,000.00	6,000.00	15,000.00		54,000.00
Equipment	7,000.00	8,000.00	10,000.00	2,000.00	400.00		27,400.00
Fuel Oil	31,000.00	12,000.00	40,000.00	25,000.00	35,000.00		143,000.00
Insurance & Bonding	19,000.00						19,000.00
Interest & Late Charges	850.00						850.00
Janitorial				5,000.00	10,000.00		15,000.00
Lodging	850.00	230.00					1,080.00
Membership, Dues & Fees	400.00						400.00
Office Supplies	3,000.00	185.00	200.00				3,385.00
Payroll Expenses	70,000.00	63,000.00	85,000.00	29,000.00	95,000.00		342,000.00
Payroll Taxes	11,900.00	10,710.00	14,450.00	4,930.00	16,000.00		57,990.00
Per Diem	2,000.00	185.00			2,100.00		4,285.00
Postage & Freight	375.00	50.00			3,000.00		3,425.00
Printing & Copying	800.00	100.00	150.00				1,050.00



# 6



## Day-to-Day Accounting Transactions

**A**fter the budget is finalized, adopted and entered into the accounting system, the new fiscal year begins. Every day, as money comes in and checks go out, the story of your accounting month starts to unfold. Did that State Revenue Sharing check come in? Have you had to purchase a large amount of fuel for the winter ahead? At the end of the first month, you are ready to close it out by reconciling your bank accounts and printing out your reports: the *Profit and Loss*, the *Balance Sheet*, the *Budget versus Actual* for the previous month and the fiscal year-to-date.

Before you start looking over the reports for accuracy, it is vital that you understand what each report tells you about your finances and how that information is displayed.

### Entering Double-entry Accounting Transactions

Accounting for your community is a two-sided business. Accounting transactions always have at least two sides to them. When you enter a financial transaction into any accounting software, at least two accounts are affected.

- When you purchase gasoline for your utility department truck, the gas expense account goes up and your checking account balance goes down.
- When you receive a check from GCI for their quarterly Sales Tax, the Sales Tax income account goes up, and your checking account balance goes up as well.

You could actually follow the flow of every financial transaction that occurs in your community this way.

## Creating and Understanding Monthly Utility Financial Reports

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There is a sentence—or equation—that defines the balance of this two-sided relationship.

$$\text{Assets} = \text{Liabilities} + \text{Fund Balance}$$

The left side of the sentence consists of assets. Assets are all the things of value in your community—bank accounts, accounts receivable, vehicles, and your water plant, to name a few. The right side of the sentence shows who owns the assets—either your community (represented by the Fund Balance) or others (represented by Liabilities). Liabilities are loans or debt assumed by your community. Common liabilities are unpaid payroll taxes and bridge loans, and the Fund Balance is the portion of the assets that are already paid for and belong to your community.

How does your community acquire assets? Basically, there are three ways for a rural Alaskan community to acquire assets: state, federal, or granting agencies can give the community funding, the community can borrow money to buy an asset, or the community can earn money. Following are examples of each and how they affect the accounting equation.

### An asset is given to you

Let's say that your utility plant cost \$6 million and it was acquired by your community through federal funding that does not have to be paid back. You have a \$6 million asset and it is all yours. Here is the accounting equation that represents that scenario:

$$\begin{array}{rccccr} \text{Assets} & & = & \text{Liabilities} & + & \text{Fund Balance} \\ \$6,000,000 & & = & 0 & & \$6,000,000 \end{array}$$

### Your community borrows the money

Now, the very same community receives a fuel bridge loan for \$137,000. The money has to be paid back to the State of Alaska. That one transaction adds \$137,000 to the Assets part of the equation, but it also adds \$137,000 to the Liabilities section as your community now owes that money to the State of Alaska.

$$\begin{array}{rccccr} \text{Assets} & & = & \text{Liabilities} & + & \text{Fund Balance} \\ \$6,000,000 & & = & 0 & & \$6,000,000 \\ \underline{+\$137,000} & & & \underline{+\$137,000} & & \\ \$6,137,000 & & = & \$137,000 & + & \$6,000,000 \end{array}$$

### Your community earns the money

If your community finances are going well, your enterprise accounts should be earning some money. This money represents your profits on its services such as water, fuel sales, and garbage service. This is represented by a different accounting equation:

$$\text{Income} \quad - \quad \text{Expenses} \quad = \quad \text{Net Profit/Loss}$$

If the money coming in—income—is greater than the money going out—expenses—there is a profit. If, on the other hand, expenses exceed income, there is a loss. When the enterprises start generating a profit or a loss, this second accounting sentence will feed in or out of the first accounting sentence. In this situation, the utility receives \$2,800 in water/wastewater payments for the month of July. The utility's expenses for the month were \$950, which gave them a profit of \$1,850.

$$\begin{array}{rclcl} \text{Income} & \text{minus} & \text{Expenses} & = & \text{Net Profit/Loss} \\ \$2,800 & - & \$950 & = & \$1,850 \end{array}$$

Assets	=	Liabilities	+	Fund Balance
\$6,000,000	=	0		\$6,000,000 (Federal Grant)
<u>+\$137,000</u>		<u>+\$137,000</u>		(loan from State)
\$6,137,000	=	\$137,000	+	\$6,000,000
<u>+ \$1,850</u>				<u>+ \$1,850</u> (profits from services)
\$6,138,850	=	\$137,000	+	\$6,001,850

In the preceding examples, you can see that activity from your enterprises comes into the income accounts in the form of customer payments and into the expense accounts in the form of salaries and payroll taxes paid, utilities paid and any other utility expenses. At the end of the month, all of the expenses are subtracted from the income. If there is a profit, it is added to the Fund Balance. If there is a loss, it is subtracted from the Fund Balance. In every case, the accounting sentence stays in balance.

## Creating and Understanding Monthly Utility Financial Reports

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### Going One Step Further

As the two-sided accounting transactions are flowing in and out of the five major accounting categories---Assets, Liabilities, Fund Balance, Income and Expenses---we can begin to see a pattern emerge. The five major accounting categories make up the two major financial statements---the *Balance Sheet* and the *Profit and Loss Statement*.

The first accounting equation represents the *Balance Sheet*.

$$\text{Assets} = \text{Liabilities} + \text{Fund Balance}$$

The second accounting sentence represents the *Profit and Loss Statement*.

$$\text{Income} - \text{Expenses} = \text{Profit/Loss}$$

Let's look at the mechanics of common accounting transactions and see how they fit into these reports:

- **Customer Payments are received from a city's enterprise**

City Services Income goes up	<i>(Profit and Loss Statement)</i>
Safe Cash goes up	<i>(Balance Sheet)</i>

- **Checks are written for enterprise expenses**

Expenses go up	<i>(Profit and Loss Statement)</i>
Cash goes down	<i>(Balance Sheet)</i>

- **Loans are paid off**

Cash goes down	<i>(Balance Sheet)</i>
Loan (Liability) goes down	<i>(Balance Sheet)</i>

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## Creating and Understanding Monthly Utility Financial Reports

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### Profit and Loss Statement July 1, 20XX through July 31, 20XX

<b>Income</b>		
City Services Income	\$2,800.00	
<b>Total Income</b>		<b>\$2,800.00</b>
<b>Expenses</b>		
Salaries	\$ 300.00	
Payroll Taxes	30.00	
Electricity	150.00	
Fuel	300.00	
Chemicals	100.00	
Maintenance	70.00	
<b>Total Expenses</b>		<b>\$ 950.00</b>
<b>Net Income</b>		<b>\$1,850.00**</b>

\*\*Net Income is added to Fund Balance on the *Balance Sheet*. Net Losses are subtracted from the Fund Balance on the *Balance Sheet*.

***Balance Sheet***  
**For the Period Ending July 31, 20XX**

**Assets**

Checking Account	\$138,850	
Utility	\$6,000,000	
<b>Total Assets</b>		<b>\$6,138,850</b>

**Liabilities**

Bridge Loan	\$137,000	
<b>Total Liabilities</b>		<b>\$137,000</b>

<b>Fund Balance</b>	\$6,000,000	
Net Income	\$1,850**	
<b>Total Fund Balance</b>		<b>\$6,001,850</b>
<b>Total Liabilities and Fund Balance</b>		<b>\$6,138,850</b>

\*\*At the end of the month the Net Income from the *Profit and Loss Statement* is added to Fund Balance or the Net Loss is subtracted from the Fund Balance.

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## Creating the Income Statement

**Y**ou are required by Alaska law to produce monthly reports on the financial status of your community. While many city personnel think of this as a burdensome task, it can be streamlined and organized so that it takes little effort to produce both useful and professional reports. This lesson deals with the *Profit and Loss Statement*. The *Profit and Loss Statement* is created for a specific period of time and it answers the question, **Did we make or lose money during this period of time?**

Even if every accounting transaction had been entered perfectly into QuickBooks, you would still need to perform certain routine accounting tasks before printing the reports out for the council. Unfortunately, since finance offices are such busy places, and since we all make mistakes, it is a rare month when everything has been entered correctly.

### Catch Up on Routine Tasks

Make sure you have caught up on all of your transaction entries for the month. Pay close attention to the following:

- Open any unopened mail. Enter into QuickBooks any checks, vendor bills, and customer payments that you receive.
- Look around the office for any customer payments or checks that you may have missed entering. Check the safe, your co-worker's desks, and your Undeposited Funds envelope. Enter anything you find into QuickBooks.

# Creating and Understanding Monthly Utility Financial Reports

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## Reconcile Your Bank Accounts

One accounting task that is often postponed or omitted altogether is reconciling the bank statement. It is one of the most important tasks you have and reconciling cannot be overemphasized. Never consider your financial statements finalized until you have reconciled all of your bank accounts. This includes reconciling your Safe and any Petty Cash accounts you might have as well.

### What's So Important About Bank Reconciliation?

Reconciling your bank accounts is one of the best ways for you to find and correct errors. Sometimes, these errors are large enough to change the entire picture of end of month financial reports. And yes, some of the mistakes are made by the bank. They are not perfect either!

### Common Errors Caught by Bank Reconciliations

- Duplicate checks created
- Duplicate deposits entered
- Old checks not cleared
- Electronic fund transfers not recorded
- Debit card purchases not recorded
- Online purchases not recorded
- NSF checks and their bank fees not subtracted from the bank account
- EFTPS payments made online but not entered into the accounting system
- Transposing of digits when entering checks and deposits
- Bank errors

### The Profit and Loss Statement

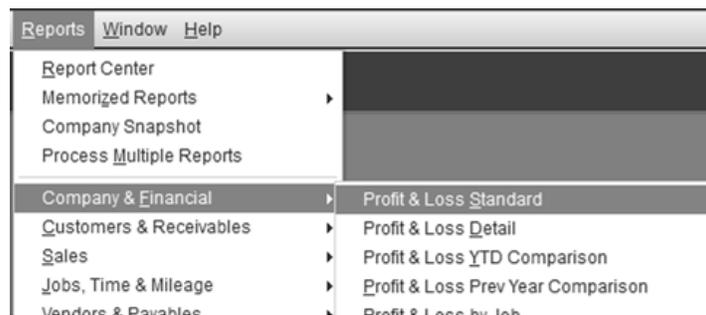
The Profit and Loss Standard Report is the first report you will create. It is a perfect report to check for obvious errors, as it is a one page report showing all of the income and expense category totals for the current month.

To zero in on possible errors in the *Profit and Loss Statement* look for the following:

- Negative numbers in income or expense accounts.
- Duplicate account names such as **Postage/Freight** and **Freight/Postage**.
- Accounts spontaneously created and do not appear in the budget.
- Accounts that do not make sense from an accounting standpoint.
  - NSF checks
  - Cash/Check Exchange
  - Child Support
  - 941 taxes
  - Employee Advances
  - IRS Levy
  - Reimbursements
  - Uncategorized income or Uncategorized Expenses
  - Reconciliation Discrepancies

### Creating the Profit and Loss Standard Statement –for a Month

- Click **Reports**.
- Click **Company and Financial**.
- Click **Profit and Loss Standard**.



- Select the dates of the Previous Month or just select Previous Month from the canned dates list in the upper left.

# Creating and Understanding Monthly Utility Financial Reports

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From 07/01/2013 To 07/31/2013 Columns Total only

**City of Salmon River**  
**Profit & Loss**  
July 2013

◇ Jul 13 ◇

▼ Income	
City Services Income	20,230.00
Sales Tax Income	<u>17,967.00</u>
Total Income	38,197.00
▼ Expense	
Bank Charges	17.00
Cash Check Exchanges	▶ 400.00 ◀
Chemicals	480.00
Child Support	200.00
Electricity	11,700.00
Equipment	1,112.00
Fuel Oil	2,800.00
Insurance & Bonding	3,200.00
NSF checks	150.00
Office Supplies	-12.00
Payroll Expenses	26,780.00
Payroll Taxes	4,230.00
Per Diem	185.00
Postage & Freight	298.00
Repairs/Maintenace-Bldgs.	2,500.00
Telephone	470.00
Vehicle/Equipment Maintenance	3,550.00
Workers Compensation	<u>1,100.00</u>
Total Expense	<u>59,160.00</u>

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After creating the report, run down the list of common mistakes and look for the following:

- Negative numbers
- Duplicate account names
- Accounts that are not in the budget or that do not make sense from an accounting standpoint
- Unusually small or large numbers

### Negative Numbers

Negative numbers in the *Profit and Loss Statement* should be investigated. The -\$12.00 you see next to Office Supplies on the sample Profit and Loss could have a reasonable explanation, but you should check it out. If you make a purchase and then later return it, you will receive a refund. The refund will be 'booked' to the original account of the purchase. Sometimes, especially at the beginning of the year, this will result in a negative overall number for the month. This -\$12.00 was investigated and it was a legitimate refund this month, so the negative number will stand.

### Duplicate Account Names

While there are no duplicate accounts or line items on this Profit and Loss, they are common in files that have multiple users. Sometimes, someone does not see the account at first glance, so they create a new one. Sometimes there are two almost identical names like Chemicals and Chemikals—with a little variation in spelling. Take some time and go through all of your Income and Expense accounts paying particular attention to similar and duplicate names. When you find duplicate accounts, QuickBooks has a merge feature which will combine the two accounts.

### Additional Accounts Not in the Budget

There should be no account in the *Profit and Loss Statement* that is not in your budget. Following are some accounts that commonly turn up in rural *Profit and Loss Statements*. If you see these or any other account not listed in your budget, you must re-categorize the transactions in the account correctly and either delete the account or make it inactive.

- **Cash Check Exchange** A cash check exchange occurs when a community member swaps a check for cash. There is no accounting effect of this transaction and it should not appear on any financial statements. The Cash Check Exchanges on this Profit and Loss should be corrected and inactivated.
- **Employee Advance** An employee advance is actually a loan to an employee. The employee receives part of their paycheck before payday and it must be paid back on payday. It is not an expense to the local government. These loans are kept track of in a current asset account.
- **Child Support** Child Support and any other employee payroll deduction are employee expenses not local government expenses. These should never appear on the Profit and Loss report. Check the setup of the Child Support payroll item in the Payroll Item list.

## Creating and Understanding Monthly Utility Financial Reports

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- **NSF Checks** NSF checks usually represent customer payments for enterprise services that have been rejected by their bank for insufficient funds. Instead of being an expense, the customer should be re-invoiced for the amount of the check and the associated bank fees. The NSF Check account on this Profit and Loss should be corrected and inactivated.
- **Reconciliation Discrepancies** Reconciliation Discrepancies is the expense account QuickBooks creates when you press the **Reconcile Now** button before you have balanced the bank account. Never click the reconcile button until the difference between the 'book' and the bank balance is zero.

### Abnormal Totals

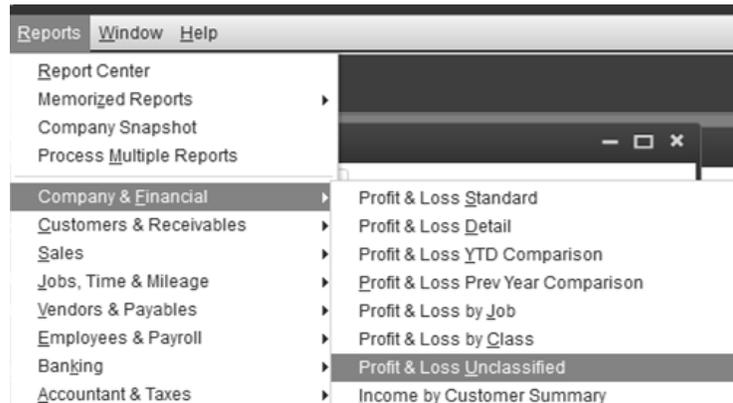
Usually the person entering in the day-to-day business transactions also produces the monthly reports. This is good because that person will have a good idea if something seems abnormal in the reports. Unusually large or small numbers should be questioned and researched. In fact, as you read through the report, check into anything at all that strikes you as questionable. In this Profit and Loss, Electricity seems unusually high for the month of July. By double checking the accounting transactions (vendor bills) in that account, you can determine if it is a data entry error, a vendor error or an unusually high electric bill. Look over all the numbers and listen to your instincts. They are often correct!

### Unclassified Transactions

After cleaning up any obvious errors on the *Profit and Loss Standard* report, you will next check for any business transactions that were not classified. An unclassified transaction is a check, bill, deposit, or any QuickBooks form without a class. Unclassified transactions show up in a *Profit and Loss Unclassified* report.

### Creating a Profit and Loss Unclassified Report

- Click **Reports**.
- Click **Company and Financial**.
- Click **Profit and Loss Unclassified**.



- Select the dates of the Previous Month or just select Previous Month from the canned date list in the upper left.
- In this report there are two transactions that did not get a class assigned to them.

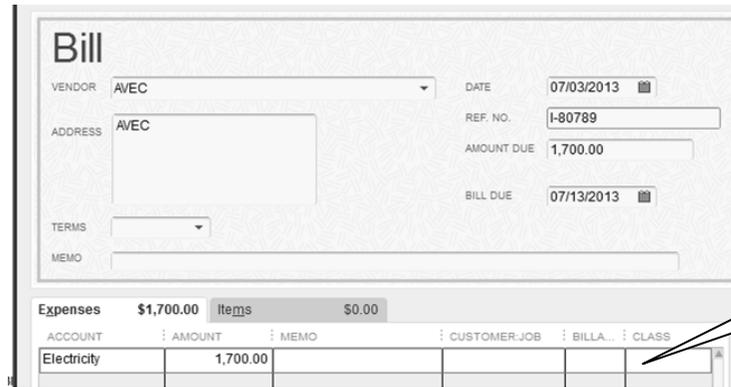
m 07/01/2013		To	07/31/2013		Columns	Total
<b>City of Salmon River</b>						
<b>Profit &amp; Loss Unclassified</b>						
July 2013						
			◇ Jul 13 ◇			
Income			▶ 0.00 ◀			
▼ Expense						
Electricity		1,700.00				
Equipment		504.00				
<b>Total Expense</b>		<u>2,204.00</u>				
<b>Net Income</b>				<u>-2,204.00</u>		

## Creating and Understanding Monthly Utility Financial Reports

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### Fixing Unclassified Business Transactions

QuickBooks has a 'drill down' feature that makes it very easy to fix any transaction. Once you see the item that you want to change on a report, all you have to do is double-click the number until you get back to the original source document.

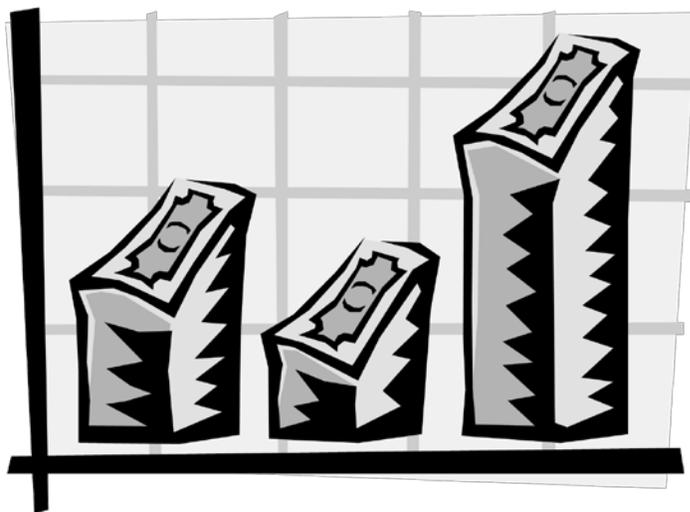


The screenshot shows a 'Bill' form in QuickBooks. The vendor is 'A/EC', the date is '07/03/2013', and the amount due is '1,700.00'. Below the form is a table with columns for 'ACCOUNT', 'AMOUNT', 'MEMO', 'CUSTOMER JOB', 'BILLA...', and 'CLASS'. The first row shows 'Electricity' with an amount of '1,700.00'. A speech bubble points to the 'CLASS' column, stating 'A bill was entered with no class.'

ACCOUNT	AMOUNT	MEMO	CUSTOMER JOB	BILLA...	CLASS
Electricity	1,700.00				

- When you get to the original source document, select the appropriate class.
- Click **Save and Close**.

It should then disappear from the Unclassified report. Classify any other transactions showing up in this report.



### Searching for Transactions Entered Into the Wrong Class

You have examined your profit and loss for any account errors, abnormal amounts and unclassified transactions. Now it is time to create a *Profit and Loss by Class* report and look for any items that may be classed to the wrong department, project, and grant.

- Click **Reports**.
- Click **Company and Financial**.
- Click **Profit and Loss Standard by Class**.



When examining your *Profit and Loss by Class* report, look for the following:

- Does the income for any of your enterprise funds seem inaccurate?
- Did you receive any large checks such as Revenue Sharing that are not showing up in the report?
- Are there any numbers showing up in a project or a grant that had no activity that month?
- Are there any unusually large or small numbers in any of the classes that don't seem correct?
- Is there anything at all that seems off to you?

### Fixing Any Errors in the *Profit and Loss by Class* Report

Fix any errors in the *Profit and Loss by Class* report by 'drilling down' to the source document and reclassifying an item. In the following statement there is a number showing up in Office Supplies for the Plant Upgrade project that has had no activity yet. After researching this, it was found that this should have been classed to Admin and Finance.

# Creating and Understanding Monthly Utility Financial Reports

2:22 PM  
06/21/13

City of Salmon River  
Profit & Loss by Class  
July 2013

Accrual Basis

	Admin & Finance	Fuel	Streets & Roads	Washeteria	Water Sewer	Plant Upgrade	TOTAL
<b>Income</b>							
City Services Income	0.00	6,800.00	0.00	430.00	13,000.00	0.00	20,230.00
Sales Tax Income	17,967.00	0.00	0.00	0.00	0.00	0.00	17,967.00
<b>Total Income</b>	<b>17,967.00</b>	<b>6,800.00</b>	<b>0.00</b>	<b>430.00</b>	<b>13,000.00</b>	<b>0.00</b>	<b>38,197.00</b>
<b>Expense</b>							
Bank Charges	6.00	0.00	0.00	0.00	11.00	0.00	17.00
Chemicals	0.00	0.00	0.00	0.00	480.00	0.00	480.00
Electricity	0.00	1,700.00	0.00	0.00	0.00	0.00	1,700.00
Equipment	504.00	500.00	0.00	0.00	108.00	0.00	1,112.00
Fuel Oil	0.00	800.00	0.00	2,000.00	0.00	0.00	2,800.00
Insurance & Bonding	3,200.00	0.00	0.00	0.00	0.00	0.00	3,200.00
Office Supplies	749.00	0.00	0.00	0.00	39.00	225.00	1,013.00
Payroll Expenses	5,100.00	5,000.00	7,080.00	2,400.00	7,200.00	0.00	26,780.00
Payroll Taxes	850.00	800.00	980.00	400.00	1,200.00	0.00	4,230.00
Per Diem	0.00	0.00	0.00	185.00	0.00	0.00	185.00
Postage & Freight	168.00	0.00	0.00	50.00	80.00	0.00	298.00
Repairs/Maintenance-Bldgs.	0.00	0.00	0.00	2,500.00	0.00	0.00	2,500.00
Telephone	300.00	70.00	0.00	0.00	100.00	0.00	470.00
Vehicle/Equipment Maintenance	0.00	200.00	250.00	3,000.00	100.00	0.00	3,550.00
Workers Compensation	0.00	0.00	0.00	1,100.00	0.00	0.00	1,100.00
<b>Total Expense</b>	<b>10,877.00</b>	<b>9,070.00</b>	<b>8,310.00</b>	<b>11,635.00</b>	<b>9,318.00</b>	<b>225.00</b>	<b>49,435.00</b>
<b>Net Income</b>	<b>7,090.00</b>	<b>-2,270.00</b>	<b>-8,310.00</b>	<b>-11,205.00</b>	<b>3,682.00</b>	<b>-225.00</b>	<b>-11,238.00</b>

Once the transaction has been re-classed into Admin and Finance, the entire Plant Upgrade class disappears as there are no transactions in it.

2:30 PM  
06/21/13

City of Salmon River  
Profit & Loss by Class  
July 2013

Accrual Basis

	Admin & Finance	Fuel	Streets & Roads	Washeteria	Water Sewer	TOTAL
<b>Income</b>						
City Services Income	0.00	6,800.00	0.00	430.00	13,000.00	20,230.00
Sales Tax Income	17,967.00	0.00	0.00	0.00	0.00	17,967.00
<b>Total Income</b>	<b>17,967.00</b>	<b>6,800.00</b>	<b>0.00</b>	<b>430.00</b>	<b>13,000.00</b>	<b>38,197.00</b>
<b>Expense</b>						
Bank Charges	6.00	0.00	0.00	0.00	11.00	17.00
Chemicals	0.00	0.00	0.00	0.00	480.00	480.00
Electricity	0.00	1,700.00	0.00	0.00	0.00	1,700.00
Equipment	504.00	500.00	0.00	0.00	108.00	1,112.00
Fuel Oil	0.00	800.00	0.00	2,000.00	0.00	2,800.00
Insurance & Bonding	3,200.00	0.00	0.00	0.00	0.00	3,200.00
Office Supplies	749.00	0.00	0.00	0.00	39.00	788.00
Payroll Expenses	5,100.00	5,000.00	7,080.00	2,400.00	7,200.00	26,780.00
Payroll Taxes	850.00	800.00	980.00	400.00	1,200.00	4,230.00
Per Diem	0.00	0.00	0.00	185.00	0.00	185.00
Postage & Freight	168.00	0.00	0.00	50.00	80.00	298.00
Repairs/Maintenance-Bldgs.	0.00	0.00	0.00	2,500.00	0.00	2,500.00
Telephone	300.00	70.00	0.00	0.00	100.00	470.00
Vehicle/Equipment Maintenance	0.00	200.00	250.00	3,000.00	100.00	3,550.00
Workers Compensation	0.00	0.00	0.00	1,100.00	0.00	1,100.00
<b>Total Expense</b>	<b>10,877.00</b>	<b>9,070.00</b>	<b>8,310.00</b>	<b>11,635.00</b>	<b>9,318.00</b>	<b>49,210.00</b>
<b>Net Income</b>	<b>7,090.00</b>	<b>-2,270.00</b>	<b>-8,310.00</b>	<b>-11,205.00</b>	<b>3,682.00</b>	<b>-11,013.00</b>

The 'bottom line' of the *Profit and Loss Statement* is Net Income or in this case Net Loss. This is the figure you should expect to see in the equity section of your *Balance Sheet* when you create it for the same time period.



## Cash versus Accrual Basis

In accounting, there are two methods for tracking income and expenses. These methods are called the Cash Basis and the Accrual Basis.

The cash basis of accounting records income when the invoice payment is received and records expenses when the vendor bill is paid. The accrual basis of accounting records income when the invoice is created and records expenses when the vendor bill is entered. When creating reports, it is important to be very clear about the difference.

### Why does this matter to you?

Since, in the accrual basis, income is recorded when the invoice is created and expense is recorded when the bill is entered, a *Profit and Loss Statement* can be easily misinterpreted. If a community has a collections problem with their enterprise service invoices, there will be income showing up on the Profit and Loss that has never been collected. If a community has a cash flow problem and they are behind in paying their bills, there will be expenses showing up on their profit and loss that have never been paid. This can be very misleading.

## Creating and Understanding Monthly Utility Financial Reports

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### Cash Basis

If you look at your *Profit and Loss* in the cash basis, you will see only the invoiced income that has actually been paid by your customers. If you have invoiced customers during this time period, but you have not received payment against these invoices from those customers, this uncollected income will not be included on this *Profit and Loss*.

You will also see only the vendor bill expenses that have actually been paid by your community during the time period in question. If you have entered bills during this period, but you have not yet paid them, these expenses will not appear on this *Profit and Loss*.

Here's how it works behind the scenes:

Invoice Paid:	Un-deposited Funds	Increases
	Enterprise Services Income	Increases
Vendor Bill paid:	Expense	Increases
	Checking Account	Decreases

**Accrual Basis**

If you look at your *Profit and Loss* in the accrual basis, you will see only the income that has been invoiced during that time period. You will also see only the vendor bill expenses that have been entered during that time period.

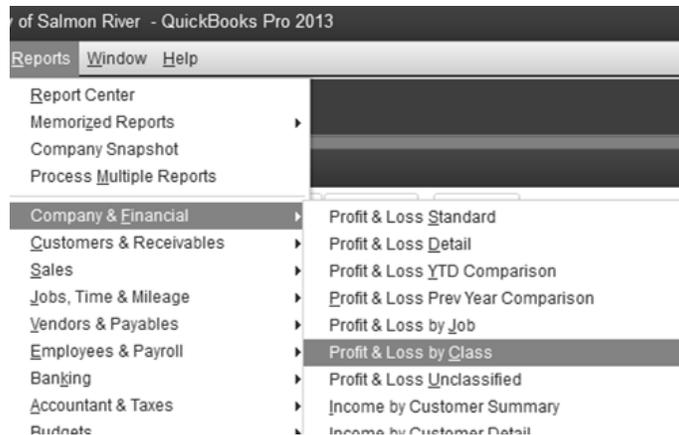
Here’s how it works behind the scenes:

Invoice Created:	Accounts Receivable City Services Income	Increases Increases
Invoice Paid:	Un-deposited Funds Accounts Receivable	Increases Decreases
Vendor Bill Created:	Accounts Payable Expense	Increases Increases
Vendor Bill Paid:	Accounts Payable Checking Account	Decreases Decreases

**Viewing the Profit and Loss in Two Different Ways—Cash Basis vs. Accrual Basis**

Because the income and expenses can vary so greatly on a *Profit and Loss Statement*, there is a QuickBooks feature that allows you to print the statement in two ways:

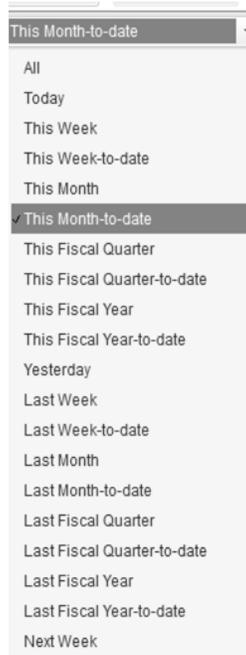
- Click **Reports**.
- Click **Company and Financial**.
- Click **Profit and Loss by Class**.



# Creating and Understanding Monthly Utility Financial Reports

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- Select the time period you are interested in.



Immediately upon entering this report, notice in the top left hand corner it says **Accrual Basis**.

The screenshot shows a financial report interface. At the top, there are buttons for 'Customize Report', 'Share Template', 'Memorize', 'Print', 'E-mail', 'Excel', 'Hide Header', and 'Columns'. Below these are date selection fields: 'Dates Custom', 'From 08/01/2013', 'To 08/31/2013', and 'Columns Total only'. The main content area displays the following information:

9:17 AM  
06/27/13  
Accrual Basis

**City of Salmon River**  
**Profit & Loss**  
August 2013

Income

City Services Income	85.00
<b>Total Income</b>	<b>85.00</b>

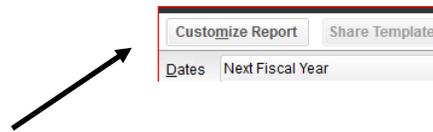
Expense

Electricity	895.00
<b>Total Expense</b>	<b>895.00</b>

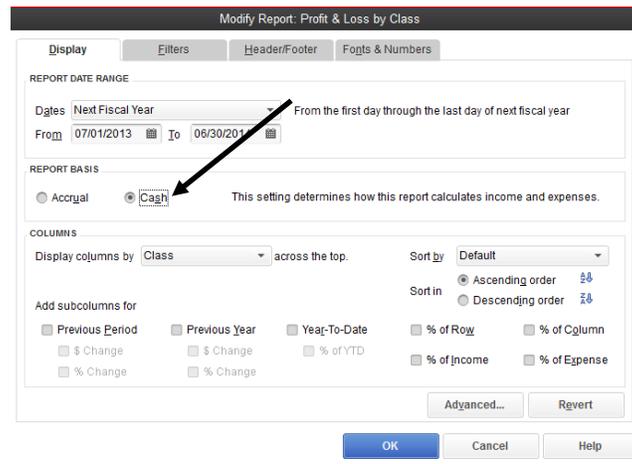
**Net Income** **-810.00**

An arrow points from the 'Accrual Basis' text to the 'City Services Income' line item in the report.

- Click **Customize Report** in the top left hand corner.



- Select **Cash**.
- Click **OK**.

A screenshot of the 'Modify Report: Profit & Loss by Class' dialog box. The 'REPORT BASIS' section has 'Cash' selected with a radio button. An arrow points to this selection. The 'COLUMNS' section shows 'Display columns by' set to 'Class' and 'Sort by' set to 'Default'. There are 'OK', 'Cancel', and 'Help' buttons at the bottom.

## Creating and Understanding Monthly Utility Financial Reports

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Notice the report says **Cash Basis** in the top left hand corner. The dates are the same as the report on the previous page, but the report is empty. The preceding report in the accrual basis had an invoice that was created and not paid and a bill that was entered and not paid. The invoice and bill will show up in the accrual basis only. If you have a utility where most customers are paying their invoices and your community is paying its bills the two reports will be similar. But, if invoices are being created and not getting paid and bills are being entered and not being paid, the two reports can be very different.

9:18 AM  
06/27/13  
Cash Basis

City of Salmon River  
**Profit & Loss**  
August 2013  
◊ Aug 13 ◊  
Net Inc... ▶ 0.00 ◀

Customize Report Share Template Memorize Print E-mail Excel Hide Header Collapse Refre

Dates Custom From 08/01/2013 To 08/31/2013 Columns Total only

9

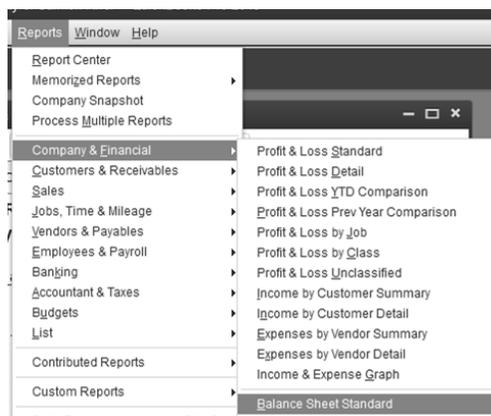


## Creating the Balance Sheet

The *Balance Sheet* is created after the *Profit and Loss Statement* and answers the question, **What are we worth at this point in time?** The date of the *Balance Sheet* should be the ending date of the *Profit and Loss Statement*. **It is critical that the dates of the two reports match.** Always verify that the bottom line of the Profit and Loss matches the Net Income figure on the *Balance Sheet*. With the monthly activity (represented by Net Income/Loss) flowing into the *Balance Sheet*, you have a snapshot of a moment in time of the worth of the community.

### Creating the *Balance Sheet*

- Click **Reports**.
- Click **Company and Financial**.
- Click **Balance Sheet Standard**.



# Creating and Understanding Monthly Utility Financial Reports

- Set the **As of** field to the ending date of the *Profit and Loss Statement*.
- Click **Refresh**.

**City of Salmon River**  
**Balance Sheet**  
As of July 31, 2013

◊ Jul 31, 13 ◊

▼ ASSETS	
▼ Current Assets	
▼ Checking/Savings	
First International Checking ▶	12,974.00 ◀
Water & Sewer Checking	43,294.00
Reserve & Replacement Account	<u>73,100.00</u>
Total Checking/Savings	129,368.00
▼ Accounts Receivable	
▼ Accounts Receivable	
Fuel A/R	18,444.00
Water Sewer A/R	<u>35,890.00</u>
Total Accounts Receivable	<u>54,334.00</u>
Total Accounts Receivable	54,334.00
▼ Other Current Assets	
Undeposited Funds	<u>2,000.00</u>
Total Other Current Assets	<u>2,000.00</u>
Total Current Assets	<u>185,702.00</u>
TOTAL ASSETS	<u>185,702.00</u>
Current Liabilities	
Accounts Payable	
Accounts Payable	<u>11,000.00</u>
Total Accounts Payable	11,000.00
Other Current Liabilities	
Payroll Liabilities	
FWT Payable	780.00
Medicare Payable	316.00
Social Security Payable	<u>1,345.00</u>
Total Payroll Liabilities	<u>2,441.00</u>
Total Other Current Liabilities	<u>2,441.00</u>
Total Current Liabilities	<u>13,441.00</u>
Total Liabilities	13,441.00
▼ Equity	
Salmon River Fund Balance	183,274.00
Net Income	<u>-11,013.00</u>
Total Equity	<u>172,261.00</u>
TOTAL LIABILITIES & EQUITY	<u>185,702.00</u>

<b>Total Assets</b>	<b>=</b>	<b>Total Liabilities</b>	<b>-</b>	<b>Total Fund Balance</b>
<b>\$185,702</b>	<b>=</b>	<b>\$13,441</b>	<b>-</b>	<b>\$172,261</b>

If the city were to close, the liabilities would be paid off and the remaining assets would be worth \$172,261.

### Questions to ask about the Bank Accounts section of your *Balance Sheet*

#### Checking and Savings Accounts

- Do the numbers make sense?
- Are they all positive numbers?
- Do the balances in your bank accounts seem reasonable?
- Are your bank accounts reconciled up to the last statement you received? If you are reconciling your bank accounts with your bank statements and you are current, the balances should be close. They will probably not be equal because there are checks and/or deposits you have created that have not gone through the bank yet.
- If the bank balances are quite a bit different from the bank statements, this is probably because there are outstanding checks and deposits created in error that will never go through the bank account but are still in QuickBooks.
- If there is a negative number in the bank accounts section of the balance sheet, it means that your bank account is overdrawn by that amount. Is it an error or are you really overdrawn in your bank account?

### Questions to ask about the Accounts Receivable section of your *Balance Sheet*

Accounts Receivable represents the total of all your unpaid customer balances.

- Do you really have outstanding Accounts Receivable equal to the number you see on your balance sheet?
- Are there some customers that have moved or passed that can be written off? You must get council permission to do this.
- Negative numbers for customers on the Open Invoices Report mean that they have paid more than they owe. If no errors have been made, this is good! Did they really over pay or did someone make a mistake when they recorded their payment?

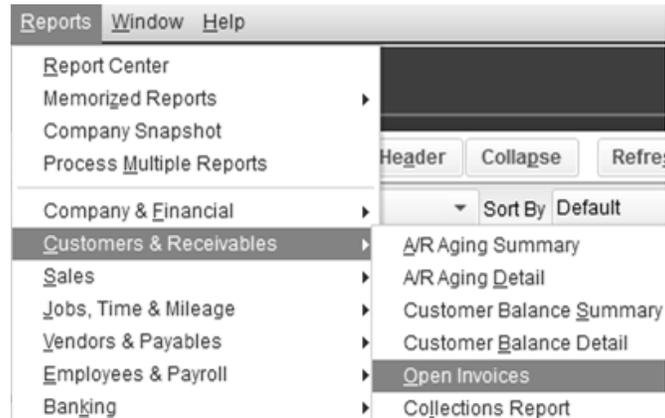
How much do your individual customers owe you? The Open Invoices Report answers precisely that question. It is usually a very worthwhile report to bring regularly to council meetings. When the council members see how large some customers' bills have gotten, they often can come up with strategies to help people start to pay down their outstanding debt or the strength to start enforcing the city's collection policies.

## Creating and Understanding Monthly Utility Financial Reports

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### Creating the Open Invoices Report

- Click **Reports**.
- Click **Customers and Receivables**.
- Click **Open Invoices**.



- Look through this report for duplicate customers.
- Do any individual customer balances strike you as being inaccurate?
- You may need to talk to individual customers about their balances in order to correct them.

### Questions to ask about the **Other Current Assets** section of your *Balance Sheet*

#### Undeposited Funds

- The balance in Undeposited Funds represents the total of the checks in your office waiting to be deposited into the bank. Is this total correct?

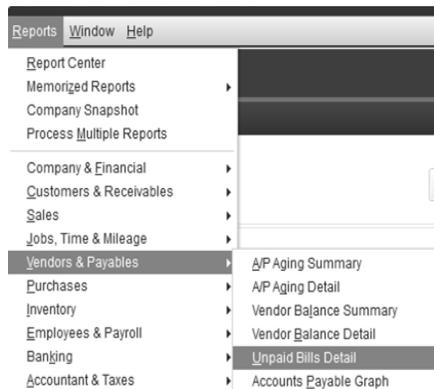
#### Employee Advances

- The balance in Employee Advances represents the advances paid to your employees that are still not paid back. You should be able to reconcile this account so that you know the name of each employee and the amount of advance money they owe the city.

**Questions to ask yourself about the Accounts Payable section of your *Balance Sheet***

Accounts Payable represents unpaid vendor balances. Printing an *Unpaid Bills Detail* report can answer any questions you may have about any individual vendor balances. If the Accounts Payable balance seems incorrect to you, create this report and do some research on your payment history with each vendor.

- Click **Reports**.
- Click **Vendors and Payables**.
- Click **Unpaid Bills Detail**.



<b>Current Liabilities</b>	
<b>Accounts Payable</b>	
Accounts Payable	11,000.00
<b>Total Accounts Payable</b>	<b>11,000.00</b>
<b>Other Current Liabilities</b>	
<b>Payroll Liabilities</b>	
FWT Payable	780.00
Medicare Payable	316.00
Social Security Payable	1,345.00
<b>Total Payroll Liabilities</b>	<b>2,441.00</b>
<b>Total Other Current Liabilities</b>	<b>2,441.00</b>
<b>Total Current Liabilities</b>	<b>13,441.00</b>
<b>Total Liabilities</b>	<b>13,441.00</b>

## Creating and Understanding Monthly Utility Financial Reports

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### Questions to ask about the Payroll Liabilities section of your *Balance Sheet*

#### Payroll Liabilities

- Payroll Liabilities represent all of the unpaid payroll taxes. If you add up the federal and state taxes you owe and compare it to this number on your *Balance Sheet*, you will be able to tell if this number is accurate.
- Large numbers for Payroll Liabilities means that you are most likely behind in your payroll taxes, or that you have been paying them incorrectly through QuickBooks. Either situation requires immediate research as you never want to get behind in paying your Payroll Taxes.
- Look for negative numbers. Generally there should be no negative numbers in this section of a balance sheet. Negative numbers mean that you overpaid your bills or payroll liabilities.

### Questions to ask about the Equity section of your *Balance Sheet*

- **Fund Balance** is the net worth of an organization. It is the total of all the assets minus any loans against them.
- **Net Income** represents the amount of money that your community is earning (or losing) this month. This number comes directly from the current month's *Profit and Loss Statement*. In this example, there is a loss of -\$11,013 for the month of July.
- **Retained Earnings**. At the beginning of the new fiscal year, QuickBooks empties the Net Profit/Loss from the previous fiscal year into an account called Retained Earnings. The Profit and Loss Statement for the new fiscal year zeroes out and begins recording income and expenses again. There is no Retained Earnings on this report because the file is new. Retained Earnings will appear on July 1, 2014. The net income or loss for the period dated July 1, 2013 through June 30, 2014 will flow into Retained Earnings and Net Income will be back to zero ready for the activity of the new fiscal year. **If this number is negative, it means that Salmon River is habitually spending more money that it is earning.** Since the Net Income right now is a negative number, if things stay the same, it will have a negative number for Retained Earnings next year.

- Equity	
Salmon River Fund Balance	203,834.00
Net Income	<u>-11,013.00</u>
Total Equity	<u>192,821.00</u>
TOTAL LIABILITIES & EQUITY	<u>194,715.00</u>

# 10



## The Budget versus Actual Spreadsheet

**A**fter the Profit and Loss and *Balance Sheet* have been created and cleaned up, it is time to see if the actual income and expenses are in line with the budgeted income and expenses. This is done by creating a *Budget vs. Actual Report*. You can do this in QuickBooks, but there are limits to the reports it can produce. Continue reading and learn about an Excel Budget vs. Actual Spreadsheet that is easier to use than the QuickBooks Pro Budget vs. Actual Report and becomes the Certified Financial Statement at year-end.

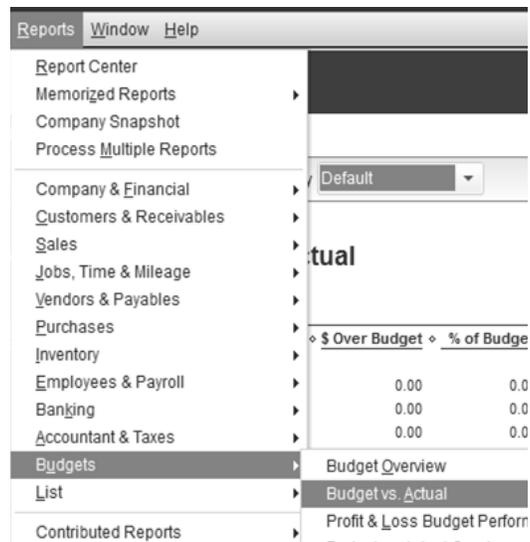
### QuickBooks Pro Budget vs. Actual Report

If you want to use QuickBooks' budget report to check your progress throughout the year, follow these instructions:

- Click **Reports**.
- Click **Budgets**.
- Click **Budget vs. Actual**.

## Creating and Understanding Monthly Utility Financial Reports

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The QuickBooks Budget vs. Actual report will give you year-to-date information separated by class. Each class will have four columns: Column 1 contains the actual income and expenses, Column 2 contains the budgeted income and expenses, Column 3 tells you the amount in actual dollars you are over or under budget, and Column 4 tells the percent of the budget that has actually been spent. As you work your way across this report, you will be able to view all of your departments, projects and grants.

## The Budget versus Actual Spreadsheet

Dates		Custom	From	07/01/2013	To	06/30/2014	Columns	Class
12:44 PM		<b>City of Salmon</b>						
06/24/13		<b>Profit &amp; Loss Budget</b>						
Accrual Basis		July 2013 through Ju						
		<b>Admin &amp; Finance</b>						
		◊ Jul '13 - Jun 14 ◊	Budget	◊ \$ Over Budget ◊	% of Budget	◊ Jul '13 - Jun 14 ◊		
▼ Income								
City Services Income	▶	0.00						6,800.00
Federal Income		0.00	200,000.00	-200,000.00	0.0%			0.00
Sales Tax Income		17,967.00	85,000.00	-67,033.00	21.1%			0.00
State Income		0.00	105,000.00	-105,000.00	0.0%			0.00
<b>Total Income</b>		<b>17,967.00</b>	<b>390,000.00</b>	<b>-372,033.00</b>	<b>4.6%</b>			<b>6,800.00</b>
▼ Expense								
Airfare		0.00	3,000.00	-3,000.00	0.0%			0.00
Bank Charges		6.00	120.00	-114.00	5.0%			0.00
Chemicals		0.00						0.00
Electricity		0.00	6,000.00	-6,000.00	0.0%			1,700.00
Equipment		504.00	7,000.00	-6,496.00	7.2%			500.00
Fuel Oil		0.00	31,000.00	-31,000.00	0.0%			800.00
Insurance & Bonding		3,200.00	19,000.00	-15,800.00	16.8%			0.00
Interest & Late Charges		0.00	850.00	-850.00	0.0%			0.00
Janitorial		0.00						0.00
Lodging		0.00	850.00	-850.00	0.0%			0.00
Membership, Dues & Fees		0.00	400.00	-400.00	0.0%			0.00
Office Supplies		749.00	3,000.00	-2,251.00	25%			0.00
Payroll Expenses		5,100.00	70,000.00	-64,900.00	7.3%			5,000.00
Payroll Taxes		850.00	11,900.00	-11,050.00	7.1%			800.00
Per Diem		0.00	2,000.00	-2,000.00	0.0%			0.00
Postage & Freight		168.00	375.00	-207.00	44.8%			0.00
Prining & Copying		0.00	800.00	-800.00	0.0%			0.00
Professional Fees		0.00						0.00

You can change the criteria to **Month** in the window labeled **Column**, but although you will have monthly information, the income and expenses will no longer be separated by class.

# Creating and Understanding Monthly Utility Financial Reports

## Budget vs. Actual Excel Spreadsheet

Since your council and RUBA require the Budget vs. Actual by month **and** by class, and QuickBooks does not accommodate that, a RUBA staff member designed an Excel spreadsheet that displays all of the information in a concise, professional manner.

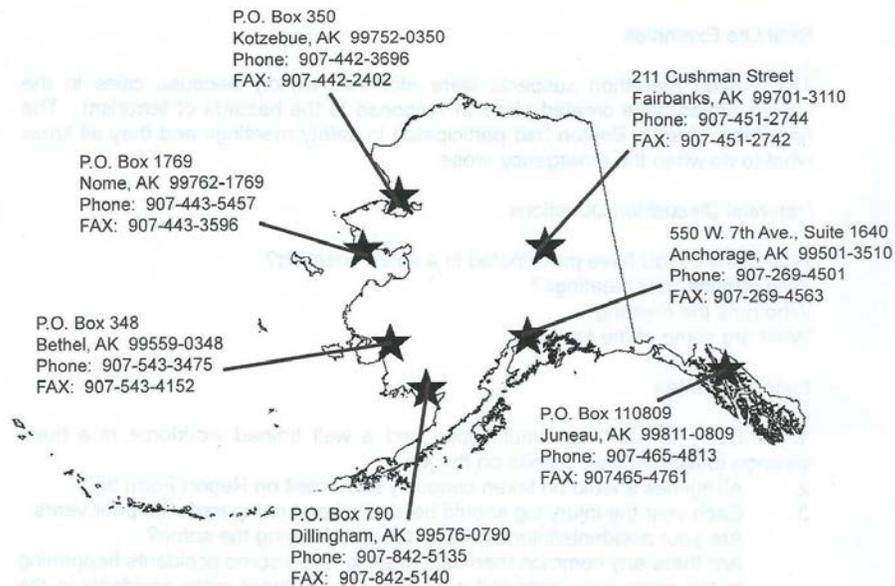
To obtain a copy of this Excel spreadsheet, call your RUBA staff at the State of Alaska, Department of Commerce, Community, and Economic Development and ask them to email you a copy. The name of this spreadsheet is *Budget vs. Actual Spreadsheet*. As soon as you receive the spreadsheet, create a folder in your computer and save the file first as a template to be used year after year. Then save the file again to be used as the current year's budget versus actual spreadsheet.

### Department of Commerce, Community, and Economic Development (COMMERCE)

#### Division of Community and Regional Affairs (DCRA)

#### Regional Offices

For assistance in completing this financial statement, contact the nearest regional office.



## Viewing the Spreadsheet

The spreadsheet is very straightforward and easy to use. Upon opening it up, you will see the following screen. At the top of the spreadsheet is the Admin and Finance Department. Going down the spreadsheet are complete budget pages for fourteen departments, three grants and three capital projects.

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
1	CITY OF SALMON RIVER BUDGET AND MONTHLY FINANCIAL STATEMENT	Budgeted for FY 2014	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	Year to Date Amount	Balance
2	OPERATING REVENUES															
3	Prior Year Cash Balance															-
4	ADMINISTRATION AND FINANCE INCOME															
6	City Service Income															-
7	Federal Income															-
8	State Income															-
9	Sales Tax Income															-
10																-
11																-
12																-
13	TOTAL ADMINISTRATION AND FINANCE INCOME															-
14	ADMINISTRATION AND FINANCE EXPENSES															
15	Arifare															-
16	Bank Charges															-
17	Chemicals															-
18	Electricity															-
19	Equipment															-
20	Fuel Oil															-
21	Insurance & Bonding															-
22	Interest & Late Charges															-
23	Janitorial															-
24	Lodging															-
25	Membership Dues & Fees															-
26	Office Supplies															-
27	Payroll Expenses															-

Page 1

Here is how the spreadsheet is set up:

- Column B, Row 3 is designated for the prior year carryover cash balance figure.
- The rows going down contain all of the income and expense accounts repeated for each Department, Project, and Grant.
- The rest of Column B is for the annual budgeted amounts for all of your QuickBooks classes (departments, grants, and projects).
- Column C through Column N is set up for the actual monthly income and expense numbers for every class.
- Column O has a formula built in that keeps a running total of the Year-to-Date Actual Income and Expenses.
- Column P has a formula that keeps track of how much of the budgeted amount for that account is left to spend or is overspent.

## Creating and Understanding Monthly Utility Financial Reports

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### Carryover Cash Balance

The first entry to make in the spreadsheet is the prior year ending cash balance in Column B, Row 3. There are instructions for calculating this number in the *City Budget Manual for Fiscal Year 2014* published by the Division of Community and Regional Affairs.

The worksheet summary for calculating this amount is as follows:

#### Add together the following numbers:

End of Year balances in any of your investment accounts      \$ \_\_\_\_\_

Total Checking Account Balance      \$ \_\_\_\_\_

Income you anticipate receiving for the rest of the  
fiscal year (Customer payments? Other income?)  
\$ \_\_\_\_\_

Expenses you anticipate until the end of the fiscal year.  
(Vendor bills payments? Other expenses?)      \$ \_\_\_\_\_

**Total Carryover Cash Balance**      \$ \_\_\_\_\_

Your Rural Utility Business Advisor (RUBA) can help you calculate this number if you request assistance.

### Entering the Budget into the Spreadsheet

After your budget has been adopted, you will receive the completed budget packet. Scroll down through the spreadsheet and notice the order of the departments, grants, and projects. Put your budget sheets in that order (departments first, followed by grants and projects), so you can enter your budgeted amounts in the order of the spreadsheet. The line items for each department in the spreadsheet are in the same order as your budget sheets. The budgeted amounts will be entered in column B.

C146								
	A	B	C	D	E	F	G	H
1	CITY OF SALMON RIVER BUDGET AND MONTHLY FINANCIAL STATEMENT	Budgeted for FY 2014	JUL	AUG	SEP	OCT	NOV	DEC
2	OPERATING REVENUES							
3	Prior Year Cash Balance	56,900.00						
4								
5	ADMINISTRATION AND FINANCE INCOME							
6	City Service Income							
7	Federal Income	212,000.00						
8	State Income	120,000.00						
9	Sales Tax Income	85,000.00						
10								
11								
12								
13	TOTAL ADMINISTRATION AND FINANCE INCOME	417,000.00	-	-	-	-	-	-
14	ADMINISTRATION AND FINANCE EXPENSES							
15	Arifare	3,000.00						
16	Bank Charges	120.00						
17	Chemicals							

The numbers you enter will be automatically totaled in the gray sections of the spreadsheet. You can use these totals as check numbers to see if they match the *Budget Overview Report* you created. The calculating should all be done for you unless you start adding rows. If you do need to add a row, make sure the formulas are operating correctly.

The name of the worksheet contained in the *Budget vs. Actual Spreadsheet* for the departments, grants, and projects is **All Months**. There are three more worksheets in this workbook.

## Creating and Understanding Monthly Utility Financial Reports

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The second worksheet is titled **Income Summary**. This combines all of the income totals for each department, grant, and project.

	A	B
1	<b>FINANCIAL SUMMARY - FY REVENUES</b>	
2		
3	<b>LOCALLY GENERATED REVENUES</b>	
4		
5	Admin & Finance	-
6	Council	-
7	Washeteria	-
8	Water Sewer	-
9	Garbage	-
10	Electric	-
11	Fuel	-
12	Streets & Roads	-
13	Public Safety	-
14	Department 1	-
15	Department 2	-
16	Department 3	-
17	Department 4	-
18	Department 5	-
19		
20	<b>LOCALLY GENERATED REVENUES</b>	-
21		
22	<b>OUTSIDE REVENUES</b>	
23		
24	Grant No. 1 Income	-
25	Grant No. 2 Income	-
26	Grant No. 3 Income	-
27		
28	<b>TOTAL OUTSIDE REVENUES</b>	-
29		
30	<b>CAPITAL PROJECTS</b>	
31		
32	Capital Project No. 1 Income	-
33	Capital Project No. 2 Income	-
34	Capital Project No. 3 Income	-

---

## The Budget versus Actual Spreadsheet

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The third worksheet is titled **Expenditure Summary**. This combines all of the expense totals for each department, grant, and project.

	A	B
1	<b>FINANCIAL SUMMARY - FY EXPENDITURES</b>	
2		
3		
4	Admin & Finance	-
5	Council	-
6	Washeteria	-
7	Water Sewer	-
8	Garbage	-
9	Electric	-
10	Fuel	-
11	Streets & Roads	-
12	Public Safety	-
13	Department 1	-
14	Department 2	-
15	Department 3	-
16	Department 4	-
17	Department 5	-
18		
19	<b>Total FY 12 Operating Expenditures</b>	-
20		
21		
22		
23	Grant 1	-
24	Grant 2	-
25	Grant 3	-
26		
27	<b>Total FY 12 Grants</b>	-
28		
29		
30		
31	Project 1	-
32	Project 2	-
33	Project 3	-
34		

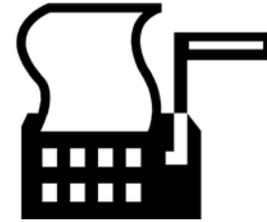
## Creating and Understanding Monthly Utility Financial Reports

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The fourth worksheet is titled **Financial Overview**. This worksheet summarizes all of the income and expenses for the departments, grants, and projects. These worksheets require no data entry. They have cell formulas extracting totals from the All Months worksheet in the *Budget vs. Actual Spreadsheet*.

	A	B
1	<b>FY 12 FINANCIAL OVERVIEW</b>	
2		
3		
4	FY 11 Year-End Cash Balance	-
5	Total FY 12 Locally Generated Revenues	-
6	Total FY 12 Outside Revenues	-
7	Total FY 12 Capital Project Revenues	-
8	<b>Total Available Funds FY 12</b>	-
9		
10	Total FY 12 Operating Expenditures	-
11	Total FY 12 Grant Expenditures	-
12	Total FY 12 Capital Project Expenditures	-
13	<b>Total All FY 12 Expenditures</b>	-
14		
15	FY 12 Ending Cash Balance	
16	<b>(Total Available Funds - Total Expenditures)</b>	
17		
18		
19		
20		

11



## Updating the Spreadsheet Each Month

**A**fter you have created and cleaned up your *Profit and Loss* and *Balance Sheet* reports, it is time to update your *Budget vs. Actual Spreadsheet*. Each month, the actual income and expense figures will be entered into the appropriate month's column. You will create and print a *Profit and Loss by Class* report in QuickBooks. The dates will be the beginning and ending date of the month you are closing out. Always verify that the dates are correct. Make sure you have the correct year.

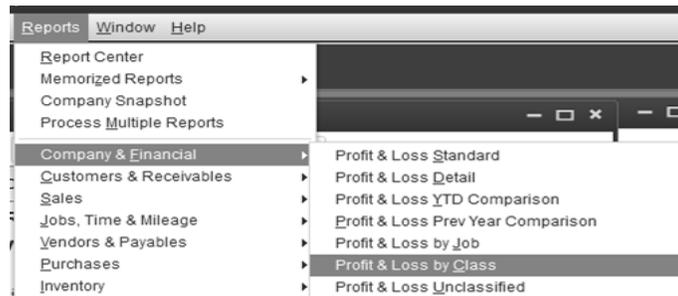
Here is the process:

- Bring up the *Profit and Loss by Class* report in QuickBooks.
- Change the dates of the report to the previous month.
- Print the report.
- Open up the Excel Budget vs. Actual Spreadsheet file.
- Enter the monthly profit and loss by class numbers into the correct month's column.
- Print out the reports from Excel and place one in each council packet.

# Creating and Understanding Monthly Utility Financial Reports

## Creating the Profit and Loss by Class

- Click Reports.
- Select Company and Financial.
- Select Profit and Loss by Class.



In the following example, the month of July 2013 has just ended. The From and the To dates are July 1, 2013 through July 31, 2013.

City of Salmon River						
Profit & Loss by Class						
July 2013						
Accrual Basis						
	Admin & Finance	Fuel	Streets & Roads	Washeteria	Water Sewer	TOTAL
<b>Income</b>						
City Services Income	0.00	6,800.00	0.00	430.00	13,000.00	20,230.00
Sales Tax Income	17,967.00	0.00	0.00	0.00	0.00	17,967.00
<b>Total Income</b>	<b>17,967.00</b>	<b>6,800.00</b>	<b>0.00</b>	<b>430.00</b>	<b>13,000.00</b>	<b>38,197.00</b>
<b>Expense</b>						
Bank Charges	6.00	0.00	0.00	0.00	11.00	17.00
Chemicals	0.00	0.00	0.00	0.00	480.00	480.00
Electricity	0.00	1,700.00	0.00	0.00	0.00	1,700.00
Equipment	504.00	500.00	0.00	0.00	108.00	1,112.00
Fuel Oil	0.00	800.00	0.00	2,000.00	0.00	2,800.00
Insurance & Bonding	3,200.00	0.00	0.00	0.00	0.00	3,200.00
Office Supplies	749.00	0.00	0.00	0.00	39.00	788.00
Payroll Expenses	5,100.00	5,000.00	7,080.00	2,400.00	7,200.00	26,780.00
Payroll Taxes	850.00	800.00	980.00	400.00	1,200.00	4,230.00
Per Diem	0.00	0.00	0.00	185.00	0.00	185.00
Postage & Freight	168.00	0.00	0.00	50.00	80.00	298.00
Repairs/Maintenance-Bldgs.	0.00	0.00	0.00	2,500.00	0.00	2,500.00
Telephone	300.00	70.00	0.00	0.00	100.00	470.00
Vehicle/Equipment Maintenance	0.00	200.00	250.00	3,000.00	100.00	3,550.00
Workers Compensation	0.00	0.00	0.00	1,100.00	0.00	1,100.00
<b>Total Expense</b>	<b>10,877.00</b>	<b>9,070.00</b>	<b>8,310.00</b>	<b>11,635.00</b>	<b>9,318.00</b>	<b>49,210.00</b>
<b>Net Income</b>	<b>7,090.00</b>	<b>-2,270.00</b>	<b>-8,310.00</b>	<b>-11,205.00</b>	<b>3,682.00</b>	<b>-11,013.00</b>

The Admin and Finance Class is at the top of the spreadsheet. Using the Profit and Loss by Class Charges Report, the July Income and Expenses are entered into the column labeled July. It helps to have someone read you the numbers. It goes faster and you are less apt to have data entry errors because you don't have to go back and

## Updating the Spreadsheet Each Month

forth between the report and the spreadsheet. In the following example, some columns have been hidden to make the spreadsheet easier to read.

As soon as you enter the month's figures, the year-to-date and the balance columns are updated. The year-to-date column keeps track month by month of what you have spent year-to-date in each account. The balance column shows you the difference between what was budgeted and what has actually been spent year-to-date.

As you complete entering each month, it is important that you check the numbers for accuracy. Also, look at all the totals to make sure that the formulas are adding up the correct cells and that the balances are accurate. When you are satisfied that the Admin and Finance class is accurate, proceed down the spreadsheet entering in the July figures for the rest of your departments, grants, and projects.

Updating this spreadsheet each month should take less than one hour. Taking the time to update it will allow interested parties to keep track of the actual expenditures versus the budgeted expenditures each month. If budgeted numbers start to look unrealistic, it will be noticed right away and action can be taken. Updating this spreadsheet monthly will also result in a completed Certified Financial Statement at the end of the fiscal year with no additional work. That should be reason enough to convince you to use this spreadsheet!

CITY OF SALMON RIVER BUDGET AND MONTHLY FINANCIAL STATEMENT	Budgeted for FY 2014	JUL	AUG	SEP	Year to Date Amount	Balance
<b>OPERATING REVENUES</b>						
Prior Year Cash Balance	\$ 56,900.00				-	56,900.00
<b>ADMINISTRATION AND FINANCE INCOME</b>						
City Service Income					-	-
Federal Income	212,000.00				-	212,000.00
State Income	120,000.00	17,967.00			17,967.00	102,033.00
Sales Tax Income	85,000.00				-	85,000.00
					-	-
					-	-
					-	-
<b>TOTAL ADMINISTRATION AND FINANCE INCOME</b>	<b>417,000.00</b>	<b>17,967.00</b>	<b>-</b>	<b>-</b>	<b>17,967.00</b>	<b>399,033.00</b>

## Creating and Understanding Monthly Utility Financial Reports

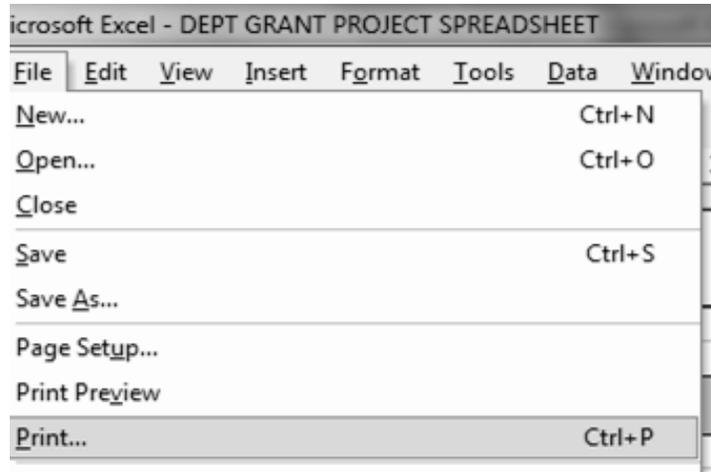
A	B	C	D	E	G	P
CITY OF SALMON RIVER BUDGET AND MONTHLY FINANCIAL STATEMENT	Budgeted for FY 2014	JUL	AUG	SEP	Year to Date Amount	Balance
<b>ADMINISTRATION AND FINANCE EXPENSES</b>						
Arifare	3000.00				-	
Bank Charges	120.00	6.00			6.00	114.00
Chemicals					-	-
Electricity	6,000.00				-	6,000.00
Equipment	7,000.00	504.00			504.00	6,496.00
Fuel Oil	31,000.00				-	31,000.00
Insurance & Bonding	19,000.00	3,200.00			3,200.00	15,800.00
Interest & Late Charges	850.00				-	850.00
Janitorial					-	-
Lodging	850.00				-	850.00
Membership, Dues & Fees	400.00				-	400.00
Office Supplies	3,000.00	749.00			749.00	2,251.00
Payroll Expenses	70,000.00	5,100.00			5,100.00	64,900.00
Payroll Taxes	11,900.00	850.00			850.00	11,050.00
Per Diem	2,000.00				-	2,000.00
Postage & Freight	375.00	168.00			168.00	207.00
Printing & Copying	800.00				-	800.00
Professional Fees					-	-
Repairs/Maintenance-Bldgs.	1,800.00				-	1,800.00
Reserve & Replacement					-	-
Stipends	12,000.00				-	12,000.00
Telephone	4,000.00	300.00			300.00	3,700.00
Training, Workshop & Conference	3,000.00				-	3,000.00
Vehicle/Equipment Maintenance	500.00				-	500.00
Water Testing					-	-
Workers Compensation	1,800.00				-	1,800.00
<b>TOTAL Admin &amp; Finance Expenses</b>	<b>179,395.00</b>	<b>10,877.00</b>	-	-	<b>10,877.00</b>	<b>168,518.00</b>

Page 1

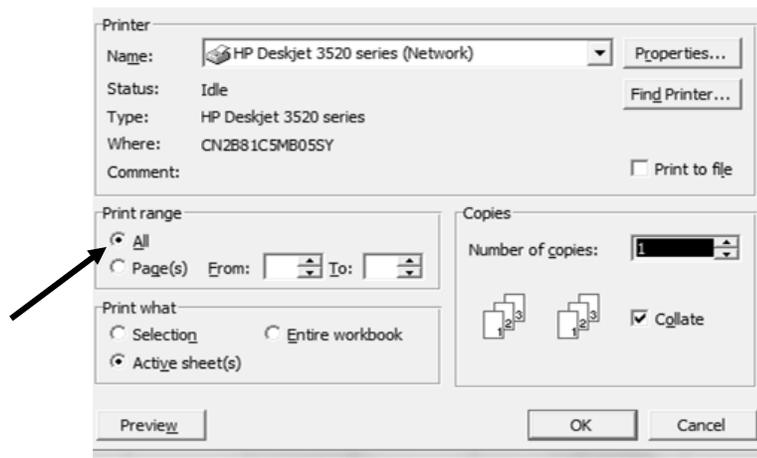
### Printing the Spreadsheet

The spreadsheet is divided into pages with one department, grant, and project on each page. You can print one, several or all of the funds at a time.

- Click **File**.
- Click **Print**.



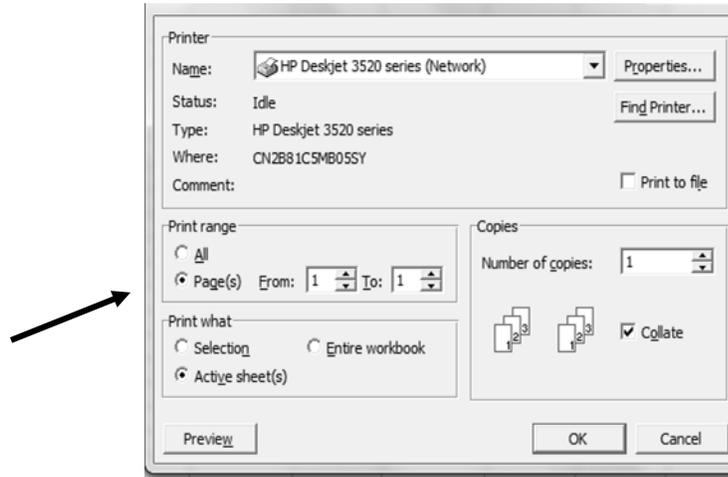
- If you want to print the entire worksheet, click **All**.



## Creating and Understanding Monthly Utility Financial Reports

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If you want to print selected pages, click **Page(s)** and enter the page numbers you wish to print.



# 12



## The Certified Financial Statement and the Fiscal Year End

**Y**ear-end can be a very busy time. The budget for the new year is being finalized and year-end reports are being prepared at the same time. The number one way to ensure that the end of the year stays manageable is for you to stay current. Once again, we will emphasize how important it is that your bank accounts are reconciled up through the last bank statement received. Reconciling alone, will ensure that almost everything is entered into your accounting system.

### Annual Certified Financial Statement

Towards the end of each fiscal year, the Division of Community and Regional Affairs mails a Certified Financial Statement Reporting Manual and City Budget Manual to each second class city. The manual includes instructions and forms for completing and submitting a certified financial statement and a budget for the new fiscal year.

An annual certified financial statement is a statement of the actual income and expenses of a second class city, compared to the budgeted income and expenses. It is accompanied by a resolution of the governing body certifying that the information is true and correct. Every second class city is required to file this

## Creating and Understanding Monthly Utility Financial Reports

statement, along with the resolution, with the Department of Commerce, Community, and Economic Development.

### CERTIFIED FINANCIAL STATEMENT

#### Resolution of the City of

\_\_\_\_\_, Alaska

No. \_\_\_\_\_

A RESOLUTION CERTIFYING THE ANNUAL CERTIFIED FINANCIAL STATEMENT OF REVENUES AND AUTHORIZED EXPENDITURES FOR THE YEAR ENDING \_\_\_\_\_, 2013.

WHEREAS, The City of \_\_\_\_\_, is a recognized second class city; and

WHEREAS, second class cities are required by AS 29.20.640(a)(2) to submit a Certified Financial Statement of income and expenditures or audit for the year ending June 30, 2013, to the Department of Commerce, Community, and Economic Development;

NOW THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF \_\_\_\_\_, ALASKA:

That the attached CERTIFIED FINANCIAL STATEMENT (or audit) of \_\_\_\_\_, Alaska for the year ending June 30, 2013, and prepared by \_\_\_\_\_, is true and complete to the best of our knowledge.

ADOPTED by duly constituted quorum of the City Council of \_\_\_\_\_, Alaska, this \_\_\_\_\_ day of \_\_\_\_\_, 2013.

\_\_\_\_\_  
Mayor

ATTEST: \_\_\_\_\_  
City Clerk

Original — To be kept by City

Photocopy — Return to Department of Commerce, Community, and Economic Development

## The Certified Financial Statement and the Fiscal Year End

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Your *Certified Financial Statement* (CFS) packet states that this report is due as soon as possible after the fiscal year ends. The CFS reports on a fiscal year two years prior.

For example a CFS due after June 30, 2013 (which is actually the beginning of FY 14) reports on FY12. FY12 includes the dates July 1, 2011 through June 30, 2012

**Send the Certified Financial Statement along with the resolution certifying its accuracy to:**

Department of Commerce, Community, and Economic Development  
Division of Community and Regional Affairs  
PO Box 110809  
Juneau, Alaska 99811-0809

It is strongly recommended that you send this statement by certified mail for proof of delivery.

### Getting Ahead

The *Budget vs. Actual Excel Spreadsheet* discussed in this guidebook is acceptable to the Department of Commerce, Community, and Economic Development as the *Certified Financial Statement* as long as it contains all of your budgeted amounts by class and it has been updated each month with actual income and expenses for each department, project, and grant.

If you decide to use the *Budget vs. Actual Excel Spreadsheet* discussed in this guidebook (and we highly recommend it), immediately upon year-end, you will have a completed Certified Financial Spreadsheet for the current fiscal year. If it is presented to the council and certified with a resolution, the CFS can be sent with the resolution into the state a full year ahead of time. If you stay current and update this spreadsheet each month, your Certified Financial Statement can be submitted at fiscal year-end each year. Never again will you have to create this statement for two years prior trying to gather all the information necessary from the past.

## Creating and Understanding Monthly Utility Financial Reports

### Completing the Spreadsheet and Turning it into the Certified Financial Statement

The following two pages show completed spreadsheets for the Admin and Finance Department. If you have been updating this spreadsheet month-by-month throughout the year, all that remains at year-end is to enter the income and expense figures into the June column for each department, project, and class and to proof the entire spreadsheet for accuracy.

Once again, do not update this spreadsheet until after you have reconciled bank accounts through the last month of your fiscal year. If you can view your bank accounts online, you can speed up this process, otherwise you will have to wait for that last bank statement to arrive in your community.

	CITY OF SALMON RIVER BUDGET AND MONTHLY FINANCIAL STATEMENT	Budgeted for FY 2014	JUL	AUG	SEP	OCT	NOV
2							OPERATING REV
3	Prior Year Cash Balance	\$ 56,900.00					
4							
5	<b>ADMINISTRATION AND FINANCE INCOME</b>						
6	City Service Income	200,000.00	20,230.00	11,000.00	14,555.00	17,000.00	6,500.00
7	Federal Income	212,000.00			150000		
8	State Income	120,000.00				120,000.00	
9	Sales Tax Income	85,000.00	8,088.00	9,067.00	6,500.00	7,200.00	7,800.00
10							
11							
12							
13	<b>TOTAL ADMINISTRATION AND FINANCE INCOME</b>	<b>617,000.00</b>	<b>28,318.00</b>	<b>20,067.00</b>	<b>171,055.00</b>	<b>144,200.00</b>	<b>14,300.00</b>
14	<b>ADMINISTRATION AND FINANCE EXPENSES</b>						
15	Arifare	3000.00					2,144.00
16	Bank Charges	120.00	17.00	6.00	6.00	6.00	22.00
17	Chemicals						
18	Electricity	6,000.00	500.00	500.00	500.00	500.00	500.00
19	Equipment	7,000.00	1,112.00	300.00	650.00	854.00	775.00
20	Fuel Oil	31,000.00	2,800.00			375.00	
21	Insurance & Bonding	19,000.00	3,200.00		34,000.00		2,300.00
22	Interest & Late Charges	850.00					
23	Janitorial	600.00	20.00	40.00	50.00	20.00	30.00
24	Lodging	850.00					555.00
25	Membership,Dues & Fees	400.00					
26	Office Supplies	3,000.00	788.00	141.00			216.00
27	Payroll Expenses	70,000.00	5,100.00	7,000.00	6,900.00	5,500.00	7,300.00
28	Payroll Taxes	11,900.00	850.00	1,190.00	1,173.00	935.00	1,241.00
29	Per Diem	2,000.00	232.00		665.00		1,472.00
30	Postage & Freight	375.00	168.00		3.00	3.00	
31	Printing & Copying	800.00					
32	Professional Fees						
	◀ ▶ ⏪ ⏩ All Months						

## The Certified Financial Statement and the Fiscal Year End

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Check the following:

- Look at the totals in column B through N for each class. Check these amounts for any unrealistic numbers that could be caused by data entry errors or formulas not working properly.
- Carefully read through the numbers in columns B, O and P. Column B contains no formulas. These are the budgeted numbers which you entered. Columns O and P contain formulas. Column O should total up Columns C through N. Check a few of these formulas. Make sure the ranges are accurate. Check Column P. This column represents the amount spent over and under the budgeted amounts. The formula is Column B minus Column O.

## Creating and Understanding Monthly Utility Financial Reports

H	I	J	K	L	M	N	O	P	
DEC	JAN	FEB	MAR	APR	MAY	JUN	Year to Date Amount	Balance	
<b>REVENUES</b>								-	56,900.00
15,500.00	20,320.00	12,555.00	8,789.00	19,999.00	18,989.00	16,789.00	182,226.00	17,774.00	
50,000.00							200,000.00	12,000.00	
							120,000.00	-	
9,888.00	8,888.00	7,905.00	6,666.00	9,050.00	8,555.00	6,089.00	95,696.00	(10,696.00)	
							-	-	
							-	-	
							-	-	
75,388.00	8,888.00	20,460.00	15,455.00	29,049.00	27,544.00	22,878.00	577,602.00	39,398.00	
	900.00						3,044.00		
155.00	31.00	30.00	6.00	6.00	6.00	18.00	309.00	(189.00)	
							-	-	
500.00	500.00	500.00	500.00	500.00	500.00	500.00	6,000.00	-	
1,000.00	825.00		75.00	120.00		85.00	5,796.00	1,204.00	
1,125.00							4,300.00	26,700.00	
							39,500.00	(20,500.00)	
							-	850.00	
37.00	35.00	50.00	25.00	75.00	65.00	50.00	497.00	103.00	
	280.00						835.00	15.00	
		200.00					200.00	200.00	
1,573.00	371.00		250.00			400.00	3,739.00	(739.00)	
5,600.00	6,885.00	8,000.00	8,300.00	7,800.00	7,900.00	9,000.00	85,285.00	(15,285.00)	
952.00	1,170.45	1,360.00	1,411.00	1,326.00	1,343.00	1,530.00	14,481.45	(2,581.45)	
1,848.00	15.00			575.00			4,807.00	(2,807.00)	
	100.00			85.00		65.00	424.00	(49.00)	
650.00							650.00	150.00	
							-	-	

- Proof the three summary worksheets in the workbook. Make sure the formulas have retrieved the correct numbers.
- Print it off and present it to your council and any other interested parties.
- Have your governing body pass a resolution certifying it.
- Make a copy of the resolution and the spreadsheet for your files.
- Send it in early. Yes, the Department of Commerce, Community, and Economic Development will accept it early.

As you go forward in time, commit to updating the spreadsheet every month with your actual income and expense figures.

### SUMMARY

Producing timely, accurate reports should be the goal of every rural community. Although you have very busy offices with multiple things going on at any one time, it is possible for you to reach this goal, and the key is good organization.

- Have a designated area for all of your vendor bills along with a file drawer that contains only the current fiscal year's paid vendor invoices.
- Every month, send out your customer invoices on time and maintain a file drawer of active customer records.
- Ask your council to enforce a policy of processing payroll only on payday. Processing paychecks between paydays is an inefficient use of your time and can cause errors in payroll taxes and in payroll reports.
- Commit to completing the day's tasks. Open all of the mail each day and deal with it that day.
- Reconcile all of your accounts as soon as the bank statements arrive.
- Create, print, and send your monthly reports to all interested parties.
- Update the *Budget vs. Actual Spreadsheet* each month.

### GLOSSARY

**Accounting** Accounting is the system of identifying, recording, and summarizing business transactions and analyzing and reporting the results.

**Accounts** Categories that hold similar financial information. There are six types of accounts: Assets, Liabilities, Equity (Fund Balance), Income and Expenses.

**Accounting Sentence**  $Assets = Liabilities + Fund\ Balance$   
The left side of the sentence lists everything of value in the city. The right side shows where the assets are. The assets can come from the enterprise (money making) areas of the entity, loans, and grant money received from state, federal, and granting agencies.

**Accounts Payable** All of the unpaid vendor bills. This is a liability (debt) owed by the city.

**Accounts Receivable** The entire unpaid customer invoices. This is money owed to the city.

**Accrual Basis of Accounting** A form of accounting where income is recorded when the customer invoice is created and the vendor bill is entered. The customer's payment has not yet been received and the vendor bill has not yet been paid.

**Assets** Everything of value in the city. Common assets are: bank accounts, accounts receivable, equipment, land, vehicles, and buildings.

**Balance Sheet** A financial statement that displays the financial condition of the city.

**Balance Sheet Accounts** Assets, Liabilities, and Fund Balance

**Balanced Budget** Budgeted revenues are equal to or greater than the budgeted expenses.

**Budget** A budget is your best prediction of the money coming in to your city and the money you will be spending during the next fiscal year.

**Budget Ordinance** An non-code ordinance formally adopting and approving the annual budget.

**Budget vs. Actual Report** A Budget vs. Actual Report is a Profit and Loss Statement that compares actual income and expenses with budgeted income and expenses for the same period of time.



## Creating and Understanding Monthly Utility Financial Reports

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**Enterprise Fund** A fund that includes the income and expenses generated from activities which provide goods or services to the public for a fee

**Entity** A business, utility, city, tribe

**Equity/Fund Balance** The worth of an entity. The portion of the assets that are owned.

**Expenses** The money going out of an entity to keep it going. Common expenses include: Wages, Payroll Taxes, Telephone, Office Supplies

**Financial Statements** The Balance Sheet, the Profit and Loss Statement, the Budget vs. Actual and the Certified Financial Statement

**Fiscal Year** A state fiscal year is July 1 through June 30. A federal fiscal year is October 1 through September 30.

**Fixed Assets** Assets that have a useful life of more than one year such as: Buildings, Land, Machinery, Equipment, and Vehicles

**Fund Accounting** An accounting system that identifies and tracks income and expenses in separate categories known as funds. Common funds are: General Fund, Enterprise Fund, Special Revenue Fund, and Capital Project Fund.

**Fund Balance** Anything left over after all liabilities have been subtracted from assets. This is also referred to as equity and net worth.

**General Fund** Unrestricted funds that provide the resources necessary for the day-to-day activities. Includes all assets and liabilities except those assigned for specific purposes

**Governmental Accounting** A system of accounting designed to show that available resources are being used for their intended purposes

**Income** The money coming in as a result of the sale of products and services. Enterprises such as water/wastewater, fuel, and refuse all generate income. This is also called revenue.

**Income Statement** The income statement reports the entity's income and expenses for a period of time. Income minus expenses equals net income or net loss.

**Inventory** If an entity sells a product, the inventory is the product stored waiting to be sold. Fuel sitting in storage tanks waiting to be sold is inventory.

**Invoice** A document listing goods and services provided along with their price

**Liability** Anything owed to others. A debt. Examples of liabilities are: Credit cards, unpaid payroll taxes, bridge loans

**Locally Generated Revenue** Money generated locally (sales taxes, building and equipment rental, city service income, gaming earnings)

**Net Income** Income minus expenses =net income or net loss. This is also referred to as the bottom line.

**Non-Code Ordinance** An ordinance not included in the city code of ordinances. Non-code ordinances are in effect for a limited period of time—usually no more than a year. A new budget non-code ordinance must be adopted every year.

**Ordinance** In Alaska municipalities, a law enacted by the local governing body following certain procedures; local laws established to provide rules and procedures

**Profit and Loss Accounts** There are two classes of accounts: Income and Expenses

**Profit and Loss Statement** Another name for the Income Statement

**Repair and Replacement Fund** A fund in which revenues are set aside for the purpose of repairing and replacing items in the utility

**Reconcile** The process of comparing two sets of records to make sure they agree. The bank account is compared (reconciled) with the bank statement. A payroll account can be reconciled with payroll records

**Restricted Revenue** Money that can only be used for a stated specific purpose

**Revenue** Another name for income

**Special Revenue Fund** Restricted revenue received for a specific program.

**Transaction** Any business event involving money or resources in exchange for a service or a product

**Unrestricted Revenue** Money that can be used for any purpose such as Community Revenue Sharing, local sales tax, and rental income



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