

Local Government Information Tutorial: An Introduction to Accounting



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DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT

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9/11/2025

THE FOCUS OF THIS LESSON IS TO PROVIDE AN UNDERSTANDING OF THE ROLE ACCOUNTING PLAYS IN YOUR COMMUNITY

Defining Accounting

GAAP

Accrual vs Cash Basis

Accounting Cycle

Essential Reports



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What is Accounting?

According to Merriam Webster, Accounting is “the system of recording and summarizing business and financial transactions and analyzing, verifying, and reporting the results”

Simply put, it’s knowing what you’re doing with your money and communicating that to your stakeholders.



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Why Do We Do Accounting?

- Accounting allows us to know how much money we have.
- Accounting allows us to know how our money is used.
- Accounting allows us to communicate our financial activities to stakeholders.
- Accounting allows us to protect our finances.



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7 Key Words To Remember

1. Balanced – Incomes are equal to or greater than expense.
2. Realistic – Budgeted values are based in previous performance and factor in economic conditions.
3. Income – Funds received as payment.
4. Expense – Funds paid out to internal and external entities.
5. Asset – Items of value held by the community (Cash, A/R Balance, Buildings, etc)
6. Liability – Value owed to other entities that has not been paid
7. Equity – What's left after what you owe (Assets – Liabilities)



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Generally Accepted Accounting Principles (GAAP)

Generally Accepted Accounting Principles are a set of assumptions about accounting practices that are applied when interpreting financial documentation. These allow financials to be compared between periods and organizations.

Principle of Regularity

Principle of Consistency

Principle of Sincerity

Principle of Permanence of Methods

Principle of Prudence

Principle of Prudence

Principle of Continuity

Principle of Periodicity

Principle of Materiality

Principle of Utmost Good Faith



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Accrual and Cash Basis

Accrual basis reports money when service is performed.

Examples:

- Logging user fees when water is delivered.
- Logging payroll expenses when timecards are turned in.

Cash basis reports money when payment is received.

Examples:

- Logging user fees when paid by customer.
- Logging payroll expense when checks are cut.



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What do we recommend?

For Best Practices, all documentation submitted **MUST** be in cash basis.

- Money listed is money in hand.
- Less confusion for the governing body
- Better picture of financial viability

Some things will be shown as accrual in your accounting software such as Accounts Receivable or Payroll Liabilities.



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The Accounting Cycle

Accounting is a part of a cycle of activities that contribute to successful financial management:

- Budgeting: Projecting revenues and expenditures for a specific time-period
- Accounting: Recording, classifying, organizing, and summarizing the financial transactions of the organization
- Reporting: Reporting financial information promptly the governing body
- Analyzing: Making decisions based on financial reports



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Fund Accounting

Fund accounting establishes separate “funds” to track the use of funds for different purposes.

Commonly used funds:

- General Fund: Typically includes departments that don’t make their own revenue or use restricted funds
- Enterprise Fund: Departments conducted as a business. Funds may be restricted to improving service
- Special Revenue Fund: Revenue restricted to be used for a specific purpose
- Capital Fund: Revenue restricted to use for purchase, construction or upgrade of major capital facilities and equipment.



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What Type of Fund?

- City Council?
- Bingo?
- Library Grant?
- Water Sewer?
- Federal funding for a new city hall?



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Parts of The Accounting System

In order to build an effective accounting system, there are four main systems needed:

- Chart of Accounts – To categorize
- Accounts Payable – To pay
- Accounts Receivable – To receive payments
- Reserves – To manage surplus funds



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Who are financial reports for?



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Financial Reports are for everyone!

- Staff tracks the community's fiscal health.
- Management makes decisions.
- Governing body issues guidance to staff.
- State government reviews them for funding.
- Citizens can review (most of these are public records).



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Essential Financial Reports

- Chart of Accounts – Lists all your accounts
- Monthly Financial Reports – Reports financial performance against budget numbers each month and year-to-date.
- Balance sheet – Reports current balances of assets, liabilities, and equity.

Accounts Receivable – Reports who owes how much to the entity

Accounts Payable Report – Reports who the entity owes and how much is owed

Budget – A legal authorization by the governing body to expend funds in a specific way, typically done annually



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Thank you for coming!

If you have any questions,
please contact your LGS!



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