FINANCIAL MANAGEMENT FOR RURAL UTILITIES

STUDENT MANUAL

In-Person Class 2020-03 with Appendix

Department of Commerce, Community, and Economic Development
Division of Community and Regional Affairs
Rural Utility Business Advisor Program

Published By

Division of Commerce, Community, and Economic Development

Division of Community, and Regional Affairs

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TABLE OF CONTENTS

OVERVIEW OF RUBA UTILITY MANAGEMENT TRAINING 1

LESSON 1: GOVERNMENTAL ACCOUNTING 6

- Financial Management for Utility Managers 7
- Accounting 10
- Fund Accounting 15

LESSON 2: CHART OF ACCOUNTS 19

- Chart of Accounts 20
- Creating a Chart of Accounts 23
- Fund Accounting 25

LESSON 3: BUDGETS 37

- What is a Budget? 38
- Preparing a Budget 39
- Adopting a Budget 42
- Amending a Budget 63

LESSON 4: RATE SETTING 66

- What Is Rate Setting? 67
- Rate Structures 68
- Building Reserves 70
- Rate Setting Information Source 71
- Rate Setting Plan of Action 72
- The Mechanics of Rate Setting 73

LESSON 5: COLLECTIONS 83

- The Importance of Billing and Collections 84
- What to Include in Billing and Collections Procedures 85
- How to Promote Customer Payments 88
- How to Deal with Delinquent Accounts 93

LESSON 6: FINANCIAL REPORTS 97
- Characteristics of Financial Reports 98
- Monthly Financial Reports 100
- Budget vs. Actual 101
- Annual Reports 109

LESSON 7: MANAGERIAL REPORTS 115
- Effectiveness and Efficiency 116
- Capacity Development 117
- What is a Managerial Report? 119
- Rural Utility Business Advisor (RUBA) Program 130

OVERVIEW OF RUBA UTILITY MANAGEMENT TRAINING

In recent decades, the State of Alaska and the federal government have spent more than a billion dollars to construct or upgrade water/wastewater infrastructure in rural Alaska. These facilities have improved health and sanitary conditions for rural residents. In many cases they provide a long awaited service that most Americans take for granted – the convenience of indoor household plumbing. While these improvements provide significant health and sanitation benefits, they also present significant challenges to rural communities. Whether the utility consists of a piped system, a haul system, a public washeteria, or a central watering point, upon completion of the construction project or upgrade, each community is responsible for operating and maintaining its utility for the life expectancy of the facilities (generally at least 20 years). Each utility must be able to

- operate and maintain its system to provide the desired level of service at an affordable cost,
- comply with all applicable federal, state, and local regulations,
- generate sufficient revenue to pay all operating expenses and replacement costs.

DISCUSSION QUESTION: The state and federal governments have spent more than a billion dollars on utility infrastructure in rural Alaska. How much state and federal money is available as direct funding to pay for operating and maintaining those facilities?

The ability to provide the desired level of service at an affordable cost for the life expectancy of the facilities is referred to as sustainability. Faced with limited resources, high operating expenses, and difficult conditions unique to rural Alaska, many communities struggle to meet the challenge of providing sustainable water/wastewater services.

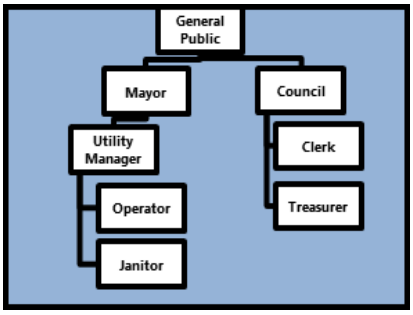
The Rural Utility Business Advisor (RUBA) program was created by the Alaska Department of Commerce, Community, and Economic Development (DCCED), the Alaska Department of Environmental Conservation (DEC), and the U.S. Environmental Protection Agency (EPA) to help communities with populations of 1,500 or less meet the challenge to successfully manage and operate water/wastewater utilities. The program is funded by the EPA and the State of Alaska, and is operated under the Alaska Division of Community and Regional Affairs (DCRA).

RUBA UTILITY MANAGEMENT TRAINING COURSES

The RUBA program provides on-site community training and assistance, and conducts eight different 32 hour utility management training classes at various times and locations throughout the year (usually in regional hubs such as Anchorage, Bethel, Dillingham, Fairbanks, Juneau, Ketchikan, Kodiak, Kotzebue, and Nome). Funding is generally available to reimburse communities for the cost of participant travel and lodging. Classes are open to anyone involved with managing a public water/wastewater utility in rural Alaska (managers, administrators, elected officials, clerks, etc.).

Introduction to Management for Rural Utilities is the first course in the RUBA utility management training series. It provides an overview of the other seven RUBA utility management classes. Students taking the ***Introduction*** course will learn the basics of utility management and will be well prepared to continue with the more advanced courses addressing specific areas of utility management.

Successful management of a public water/wastewater utility requires establishing authority for the utility to operate, with clear rules and regulations for the utility and its customers. The ***Organizational Management for Rural Utilities*** course covers the following topics:



- Level of Service
- Organizational Structure
- Roles and Responsibilities
- The Utility Ordinance
- Customer Agreements
- Communication and Administration

The ***Personnel Management for Rural Utilities*** course addresses the following topics in detail:

- Personnel Policies and Procedures
- Safety Policy and Resources
- Recruiting, Interviewing and Selection
- Orientation and Training
- Regulations and the Law
- People, Communication and Conflict
- Motivation and Management Skills

After you complete the *Personnel Management* course you will have a better understanding of what to include in your personnel policies, how to provide a safe work place, and how to hire, supervise and motivate employees to achieve the goals of your organization.

Construction of a water/wastewater utility is typically the single largest investment in a small rural community. Water/wastewater projects require careful planning - otherwise you may find yourself stuck with a facility that is too expensive or difficult to operate. The ***Planning Management for Rural Utilities*** course describes the critical steps needed to successfully plan a water/wastewater utility project. The *Planning Management* course examines the following topics:

- Getting Ready to Plan
- Collecting Information
- Identifying Choices
- Evaluating Alternatives
- Choosing the Best Alternative
- Putting the Plan into Action

Financial Management for Rural Utilities

Utility managers must ensure that utility personnel perform their required duties safely, effectively, and efficiently. Without effective management skills, important duties may be delayed or neglected, resulting in wasteful spending, damage to the utility, service interruptions, and even catastrophic failure. The ***Operations Management for Rural Utilities*** course covers the following topics:

- Working with Operators
- Safety and Emergency Planning
- O&M Scheduling
- Data Collection and Reporting
- Public Relations
- Asset Management
- Financial Management
- Best Practices

A water/wastewater utility must generate sufficient revenues from its customers in order to be sustainable. Utility managers must plan and track the utility's financial resources to ensure that revenues are received as required and spent effectively and efficiently. The ***Financial Management for Rural Utilities*** course looks at the following topics in detail:

- Governmental Accounting
- Chart of Accounts
- Budgets
- Rate Setting
- Collections
- Financial Reports
- Managerial Reports

Elected officials in rural Alaskan communities play an important role in planning and overseeing the management of their public water/wastewater utilities. The ***Elected Officials Management for Rural Utilities*** course covers the following topics:

- Overview of Government
- Roles and Responsibilities
- Meetings
- Ordinances and Resolutions
- Policies and Procedures
- Financial Management
- Sustainability

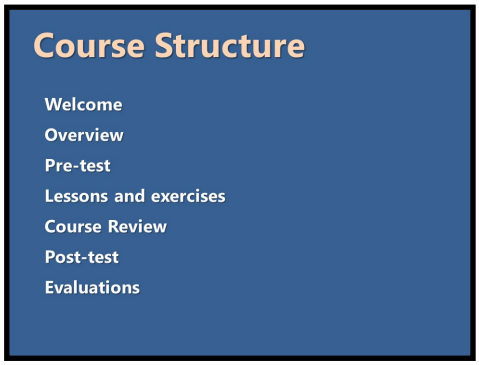
The utility clerk plays a vital role in the operation of the utility. In many small rural Alaskan municipalities, the city clerk fills the role of utility clerk. The ***Clerks Management for Rural Utilities*** course provides students with an understanding of the clerk's responsibilities and of how the clerk's role affects the utility. Although this course is specifically designed for clerks, utility managers should also take this course because they need to have a thorough knowledge about what the clerk must do. The ***Clerks Management*** course covers the following topics as related to the clerk's duties:

- Introduction and Overview
- Public Relations
- Meetings
- Office Management
- Elections
- Financial Management
- Ordinances and Resolutions

COURSE STRUCTURE

Each of the RUBA utility management training courses is a 32-hour course, taught over a period of four or five days by two or more instructors who alternate teaching time. Each student is provided with a manual for the course. Instructors go over each lesson in the manual with the students. The format for each course consists of the following:

- Welcome and introductions
- An overview of the RUBA training program
- A Pre-test
- Lessons (typically 4 hours per main topic) and exercises
- A course review
- A Post-test
- Wrap-up



Pre-Test

At the beginning of each course, students will be given a test to assess how much they already know about the subject material in the course being taught. This test helps the students and the instructor know what areas to focus on during the course. All of the questions on the test will be covered during the course.

LESSONS AND EXERCISES

Each lesson consists of a lecture along with discussion and exercises. Students are encouraged to ask questions and discuss topics as needed. The exercises are designed to help students understand concepts taught in the lesson. It typically takes between two and four hours to complete a lesson. Short breaks will be provided periodically during the presentation of each lesson. At the end of each lesson, students are asked to complete an "End of Lesson Review sheet", to fill out a brief Action Plan, and to complete a brief evaluation of that lesson.

COURSE REVIEW

On the last day of class we will review the course materials and answer any final questions students might have about the subject matter covered during the course.

POST-TEST

After the course review, students will be given the same test as on the first day of class. This will be a closed book test again, but scores should be much higher than on the "Pre-test". The purpose of the second test is to see how much you have learned from this course.

WRAP-UP

Instructors will quickly grade the post-tests and students will be able to compare their pre and posttest scores. Students will be asked to submit their evaluations of the course: the evaluations provide feedback we can use to improve the courses and training materials. During wrap-up, instructors will answer any questions about procedures for submitting requests for reimbursement of travel costs, and instructors and class participants will have an opportunity to make final remarks. Typically, instructors will also take a group photo (participation in the group photo is voluntary).

BEST PRACTICES

ADEC and the RUBA program in collaboration with the Alaska Native Tribal Health Consortium (ANTHC), have developed new criteria for assessing capacity of rural communities to manage and operate sustainable water and wastewater utilities. The new criteria, referred to as *Operations and Maintenances* ***Best Practices***, are used for promoting effective and efficient utility management, and for prioritizing capital funding for community sanitation projects. In the Best Practices scoring system, DEC Remote Maintenance Worker staff evaluate a community's technical capacity, and RUBA staff evaluate financial and managerial capacity. Best Practices scores are updated quarterly and published twice per year in conjunction with Sanitation Deficiency System (SDS) funding and state Capital Improvement Project (CIP) funding opportunities. The scores count for 15% of available points for SDS project funding and 40% of points for CIP funding. If utility management problems are noted, RMW and RUBA staff can help the community address them and to improve scores. A copy of the Best Practices scoring criteria and guidelines is in the Appendix.

> "***The most effective way to increase your community's chance of receiving project funding is by improving your Best Practice score. The most effective way to increase your Best Practice score is by working with RUBA and your RMW"*** (DEC Division of Water website)

By successfully completing this or any of the other 32-hour RUBA training classes, you will have earned 5 points for the Utility Management Training criteria on the Best Practices score. We hope you enjoy this course and that your participation in it will help you implement and improve effective management techniques for the success of your water/wastewater utility.

LESSON 1: GOVERNMENTAL ACCOUNTING

OBJECTIVES

This course, *Financial Management for Rural Utilities*, is part of a training program developed by the RUBA Program for managers and staff of small water/wastewater utilities in rural Alaska.

A water/wastewater utility should be operated as a business (enterprise). It provides service to its customers and depends on its customers to pay for those services.

All water/wastewater utilities must have a good financial management system in order to be sustainable. However, government owned utilities have some different financial goals, characteristics and requirements than privately owned utilities.

Because most water/wastewater utilities in rural Alaska are managed by local governmental entities, Lesson 1 includes an explanation of:

- key differences among governmental, nonprofit, and for-profit businesses
- a brief introduction to accounting in general and governmental accounting in particular
- an introduction to the concept of fund accounting as a tool for managing financial resources

KEY TERMS

- Sustainability
- Transaction
- Enterprise fund
- General fund
- Special revenue fund
- Capital fund
- Restricted revenues
- Unrestricted revenues
- Journal
- Ledger
- Accrual basis
- Cash basis
- Fund accounting
- Governmental accounting

FINANCIAL MANAGEMENT FOR UTILITY MANAGERS

Financial management is the process of controlling financial resources to ensure that they are used effectively and efficiently. Effectiveness is the ability to achieve desired results; efficiency is the ability to achieve those results with a minimum of effort, expense, or waste. For example, to be effective, a water/wastewater utility must be able to provide safe water and wastewater service; to be efficient, the utility must be able to provide such service at the lowest possible cost.

A successful utility providing service to the public will generate sufficient revenues to allow it to provide the desired level of service at a fair cost to its customers, and adequately cover its own operation and maintenance costs. A well-run utility would be managed in such a way that it can continue to provide services for more than just a few years. This means the utility would generate enough revenue to pay all of its annual operating expenses while setting aside sufficient funds for future expenses, such as repair and replacement of facilities and equipment. This ability to provide the desired level of service at a fair cost to the customers for the life expectancy of the utility is referred to as "sustainability." As a manager, you are responsible for overseeing the management of the financial resources of your utility.

This manual provides information to help promote long-term sustainability. The lessons in this manual will help you plan and manage the financial resources of your utility, with special emphasis on financial management of your community's water/wastewater utility.

PROFIT, NONPROFIT

Two basic types of business organizations are those operating as for-profit entities and those operating as nonprofit entities. Many privately owned and operated businesses are for-profit organizations and may range from small, individually run businesses to large multi-national corporations. Other business organizations consist primarily of nonprofit and governmental entities.

Nonprofit businesses include charitable agencies, recreational organizations, and service entities. Some examples include the Barrow Utilities and Electric Cooperative, Inc., Kuskokwim Native Association, Literacy Council of Alaska, RurAL CAP, and Tanana Chiefs Conference.

Governmental entities include the federal government, state government, and local governments: municipalities (cities and boroughs), school districts, tribal councils, traditional councils, and IRA councils. During the last census, there were more than 86,000 local governments counted across the United States. Twenty percent of the total workforce in the United States is in governmental employment. In addition to being the largest employer, governmental agencies also buy an enormous amount of goods and services from for-profit businesses.

OWNERSHIP

A primary difference between businesses in the for-profit sector and the nonprofit sector is ownership. Businesses operated for-profit have distinct owners (proprietors), whether individuals, partners, or shareholders. In the for-profit sector, the assets of a business belong to the owners. Money generated in a for-profit entity is referred to as proprietary funds because the money belongs to the proprietors (owners).

On the other hand, nonprofit agencies and governmental entities do not have distinct owners. Nonprofit organizations are run by a board of directors, but the directors are not entitled to any assets should the organization dissolve. Upon dissolution, the assets of a nonprofit organization are required to be transferred to another nonprofit organization.

In a similar way, no individual or group of individuals own a governmental agency. Government is business of the people, by the people, and for the people. Assets of governmental agencies are the property of the collective population, subject to rules, regulation and restrictions adopted by the governing bodies. Although governmental property belongs to all citizens, no individual citizen or group of citizens owns the property. Assets of any government agency are used to benefit all citizens by providing benefits and services to the public.

Money generated by the public is held in trust, by the governing bodies, on behalf of the public. Money held in trust on behalf of others is referred to as fiduciary funds. Governing bodies have a responsibility to manage these funds efficiently and effectively.

GOALS

The primary goal of any for-profit agency is to make a profit and to accumulate wealth for the owners. Typically, wealth is generated by charging customers and clients for the goods and services they receive plus whatever additional costs the market will bear. Profits (proprietary funds) are then distributed among the owners.

Nonprofit organizations and governmental entities have an entirely different goal: to provide the general public with services and products that are needed by all people, or by particular segments of the population. These organizations do not distribute surplus funds (if any) to owners. Instead, surplus funds are used to benefit the public, to provide additional services, and to reduce fees.

BUSINESS RESPONSIBILITY

In for-profit entities, managers are responsible to the owners of the business. Management decisions are made with the goal of making a profit, but business decisions can be made any way the owners choose, as long as they comply with applicable laws. For example, an owner can decide to purchase an item from his brother at $5.00 each, even though the same item might be available elsewhere at $4.00 each.

In a nonprofit or governmental agency, managers would not be able to make such a purchase: instead, they would be obligated to purchase from the lowest bidder. This is because money generated in the nonprofit or governmental agency does not belong to an "owner" who can spend it indiscriminately. Money generated in a nonprofit or governmental agency "belongs" to the public: it is held in trust by the nonprofit or the government on behalf of the members or the public. Elected officials, boards of directors, managers, and employees act as stewards who oversee the use of these funds. They have a fiduciary responsibility to manage these funds effectively and efficiently to provide maximum benefit to the public. Maximum benefit is achieved by providing the highest level of service desired at the lowest cost.

WHO PAYS FOR SERVICES?

Another primary difference between for-profit entities and nonprofit or governmental organizations is the question of who pays for goods and services. In for-profit operations, the recipient (customer or client) pays for any goods or services received. For example, when a person buys a computer in an electronics store, he pays for the computer and takes it home. There is a direct relationship between paying and receiving the goods. If a person sees the same computer for sale in another store at a lower price, then he may go to that store instead. If dissatisfied with the computer after purchasing it, the person can return it and get a refund.

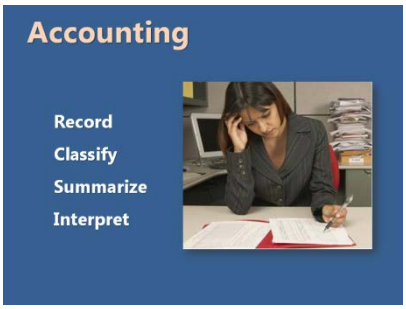
In nonprofit or governmental entities, often there is no direct connection between who pays for and who receives goods or services. For example, a homeless shelter run by a nonprofit organization does not charge for meals served, and depends on revenues from other sources, such as donations and fund-raising activities. The government generates revenues from taxes and other sources and uses those revenues to provide the necessary services to the public. Here too, the receipt of services is not always related to the cost paid by the recipient. Not everyone who pays taxes receives the same services, and not everyone who receives services pays taxes. For example, all taxpayers are obligated to help pay for public education, but not all taxpayers have children who attend public schools. On the other hand, children from low-income families may attend public schools, and their parents might not make enough income to pay federal taxes. The benefit of public education is that it provides opportunities for all citizens, regardless of what they earn or pay.

TAXES

Governments receive money from taxes. The federal government, state government, and municipal governments (boroughs and cities) are the only entities that can legally generate revenues by imposing taxes. For-profit businesses are required to pay various taxes, including corporate income taxes, property taxes, gasoline taxes, and other taxes. Nonprofit organizations and governmental entities are exempt from paying income taxes, as well as some other taxes. For example, nonprofit organizations that serve a religious or educational purpose are exempt from paying property taxes; governments are exempt from paying gasoline taxes on fuel that is used for governmental purposes. Nonprofit organizations must be registered with the Internal Revenue Service (IRS). Any organization with employees, whether for-profit, nonprofit, or governmental, is required to pay employment taxes.

ACCOUNTING

Accounting is the primary means of communicating financial information. It is the process in which financial information about an organization is systematically recorded, classified, summarized, and interpreted. The basics of accounting apply to all businesses, whether in the for-profit, nonprofit or governmental sector, although there are some special features of governmental accounting that we will describe later in this lesson.



Some of the first accountants were the ancient Egyptian scribes who kept a daily record of the pharaoh's crops and taxes. If their records did not match the actual amount of crops and taxes, they were killed. Needless to say, they quickly developed a reputation for accuracy.

Accounting tracks all financial transactions of a person, business or organization. A financial transaction is any exchange of money or resources for a service or product. Transactions are recorded and identified by date in a journal (a book of original entry), such as a check register, payroll journal, receipt book, or sales book.

Data from the journals is transferred to a ledger (a book of final entry), in which all financial data is categorized and summarized. Information from the ledger(s) can then be presented in the form of financial reports. These reports are provided to various users such as the following:

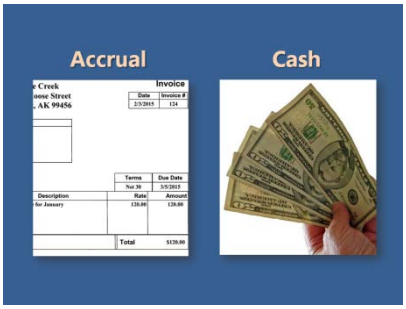
- Internal users: managers, board members, council members, owners and others who interpret the reports to make financial management decisions
- External users: grantors, investors, creditors, customers, and the IRS

In for-profit enterprise, financial reports are provided to the owners and shareholders. In nonprofit and governmental organizations, financial reports must be available to members and to the public.

Luca Pacioli is known as the father of modern accounting. He was a mathematician and monk living in a monastery in Italy. In 1494, Pacioli wrote a treatise describing the double-entry accounting system as a method to help detect errors. In double-entry accounting, every transaction affects at least two accounts (a debit account and a credit account).

For example, when a customer pays a bill, the payment decreases the accounts receivable, and increases the cash account. The sum of all debits is supposed to be equal to the sum of all credits. If not, then an error has occurred. According to one story, Pacioli developed his system after he was caught stealing too much wine from the monastery's wine cellar: as punishment, he was required to develop an accounting system that would prevent others from doing the same thing. Although it may be tempting to believe that the double-entry accounting system was developed as punishment, there is no doubt that Pacioli's treatise provided the basis for modern day accounting.

Accrual vs. Cash Basis of Accounting



Financial information is recorded in chronological order. This order makes it easier to find specific transactions and to ensure accuracy of records. There are two basic methods for entering transactions in chronological order: accrual basis accounting, and cash basis accounting.

In accrual basis accounting, income is recorded when it is earned (invoiced). In cash basis accounting, income is recorded when it is actually received. For example, on July 1, Moose Creek Water Company sent Joe Fox an invoice of $100 for water service. Joe paid the invoice in August. In accrual basis accounting, income would be recorded on July 1; in cash basis accounting, income would be recorded when the payment is actually made in August.

In the same way, accrual basis accounting records expenses when they are incurred (when the bill is received), whereas cash basis accounting records expenses when they are actually paid.

Comparison of accrual and cash basis accounting:
Moose Creek Water Company sent invoices to 25 customers on July 1 for water/sewer services. Each invoice is for $100 and the total amount due is $2,500. Twelve customers paid their bills in July; eight customers paid in August; three paid in September; and two customers still owed at the end of September. On July 15, the Moose Creek Water Company received a bill of $1,985 from the electric company. Moose Creek Water Company paid the bill on August 4.

In **Accrual Basis accounting**, these income and expense transactions would appear as follows:

	July		August		September		Total
Income	$2,500						$2,500
Expense	$1,985						$1,985
Profit/loss	$515						$ 515

In **Cash Basis accounting**, these income and expense transactions would appear as follows:

	July		August		September		Total
Income	$1,200		$ 800		$300		$2,300
Expense			$1,985				$1,985
Profit/loss	$1,200		$(1,185)		$300		$ 315

As you can see, the amounts in any given reporting period will differ depending on whether you use accrual basis or cash basis accounting. Most accounting software, including QuickBooks, allows you to easily select the type of report (accrual or cash basis) you wish to use. It is important to be aware of which method is being used, and to use that method on a consistent basis. We recommend that rural Alaskan communities and utilities use cash basis accounting.

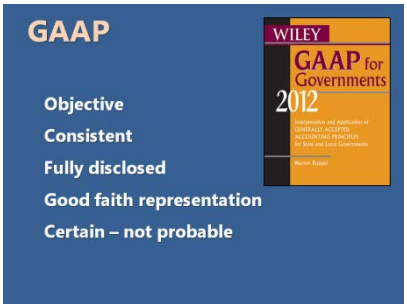
No matter which method you use, you should always be aware of what money is owed to your utility (accounts receivable), what money your utility owes (accounts payable), and what money your utility has on hand (cash balances). We will take a closer look at how to do that later in this manual.

Generally Accepted Accounting Principles (GAAP)

All financial information, whether provided by a for-profit, nonprofit, or governmental entity, will share the same basic characteristics in order to be useful. Each entity should strive to present financial information in a way that is comparable, consistent, neutral, objective, relevant, reliable, timely, and verifiable.

Owners, elected officials, managers, utility members, and other users of financial information such as the general public, have a right to be assured that the information is valid and free of bias. Without such assurances, financial information could be misleading, or even manipulated to show only what an inefficient or dishonest accountant might want it to show.

To provide these necessary assurances, financial accounting relies on "generally accepted accounting principles" (GAAP). These principles have been developed over time by accountants and auditors and formalized by organizations such as the American Institute of Certified Nonprofit Accountants. GAAP includes the following:

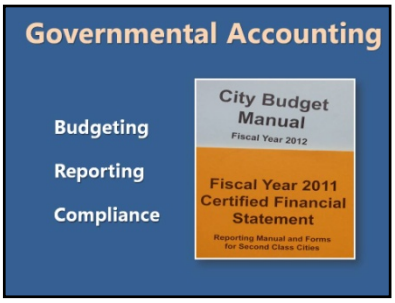


- Financial information should be based on objective evidence.
- Accountants should be consistent in applying the same methods and procedures from one time frame to another.
- All financial information should be fully disclosed.
- Financial reports should represent, in good faith, the reality of an organization's financial status.
- Financial reports should show what is certain rather than what is probable; assets should not be overstated and liabilities should not be understated.

GAAP standards are applied in all entities. However, there are some important differences between for-profit accounting and governmental accounting. An entity operated for-profit often uses the accrual method of accounting and uses the budget as a financial planning tool. Profit and loss reports are used as the primary tool for financial reporting to the entity's owners and shareholders, and to focus on how much profit was made.

Governmental accounting has a different purpose. The focus of governmental accounting is to show how money is spent, and to ensure that it is spent as intended and approved.

GOVERNMENTAL ACCOUNTING



Governmental entities are responsible for overseeing the use of public funds. These funds are assigned for many different purposes: to provide health, education, and public safety services; to build and maintain infrastructure (roads, parks, buildings); to provide administrative services, and so on. The fundamental purpose of governmental accounting is to show that available revenue is being used for the purpose intended. This is accomplished by budgeting, reporting, and complying with requirements.

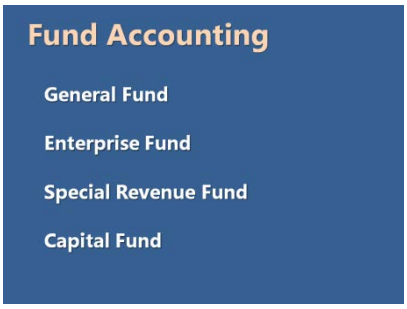
- Budgeting - In governmental accounting, the budget is much more than a financial planning tool: it is an official document that identifies revenues and establishes specific purposes for which available revenues can be spent. In governmental accounting, an annual budget must be adopted in order for the government to spend money.
- Reporting - Financial reports show how funds are actually spent in relation to the approved budget. These reports are provided to the governing body and must be available to the public. The financial reports are also a tool to help the governing body manage its financial resources effectively and efficiently. Governmental accounting requires accurate reporting to ensure that financial resources are used only as identified in the budget.
- Compliance - Governments are responsible for complying with federal, state, and local financial and accounting requirements. For example, cities in Alaska are required to submit an annual budget, and either an annual certified financial statement or an annual audit. Even tribal governments and nonprofit organizations are required to adopt an annual budget and to provide financial reports to be eligible to receive certain revenues, such as Village Safe Water funding. Most funding agencies require a project budget before awarding funds for a specific project, as well as subsequent financial reports to show how project funds were actually spent. These requirements are established with the intent of verifying that available revenues are spent only for the purposes intended by the governing body and/or the funding agencies.

In governmental accounting, revenue is considered either unrestricted or restricted. Unrestricted revenue is money that can be used for any public purpose not prohibited by law. For example, money received from sales taxes is generally unrestricted revenue.

The local governing body can decide how this revenue will be used, based on local needs and priorities.

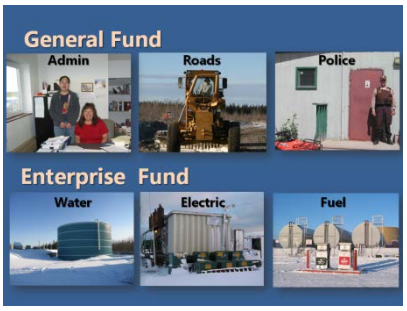
Restricted revenue is money that can only be used for a specific purpose. For example, a grant for construction of a water treatment plant can only be used for approved project expenses and not for paying expenses of another project or program.

Fund Accounting



Governmental accounting uses a system called "fund accounting" which identifies both the source of revenues and the purpose for which these revenues will be used. Money for each purpose must be tracked separately. These purposes or categories are referred to as "funds."

Four basic categories of funds are commonly used in governmental accounting in rural Alaska: the general fund, enterprise fund, special revenue fund, and capital project fund. Each of these funds in turn can be subdivided into smaller categories, often referred to as departments (health department, public safety department, etc.).



The general fund includes all assets and liabilities except those assigned for specific purposes in a specialized fund. General fund income consists of property taxes, sales taxes, general state aid, fees, fines, and other unrestricted revenues. These revenues are the primary source of funding for the day-to-day activities of the local government. Typical general fund departments include administration and finance, road maintenance, police and fire, public libraries, parks and recreation, and other departments without a separate revenue source. General fund revenues can also subsidize activities in the enterprise fund or provide matching contributions for the special revenue fund and/or the capital fund.

The enterprise fund includes revenues and expenditures generated from activities conducted by the government with goods or services provided to the public for a fee. In rural Alaska, these activities might include an electric utility, a water/wastewater utility, a fuel depot, a community-owned liquor store, or gaming activities such as bingo and pull-tabs.

Enterprise activities are similar to for-profit operations: customers are expected to pay for the goods and services they receive. Unlike the for-profit operation, however, the goal of these activities is not to make a profit for the owners, but to provide the highest level of service at the lowest cost to the customer. Revenues generated from enterprise activities providing public services are normally restricted to delivering the desired service.

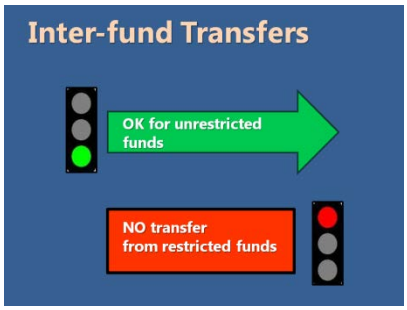
Any excess revenues generated from providing these services should be used for improving the level of service or for reducing the cost to the customers. Some enterprise revenues are unrestricted and are generated to subsidize other departments or activities.

For example, excess unrestricted revenue from a community-owned liquor store could subsidize the police department, water utility, recreation program, or other departments and activities.

The special revenue fund includes revenue received for specific programs. These revenues are restricted and can only be used for the purpose intended by the provider of the funds. For example, a grant from the Alaska Department of Health and Social Services for a local suicide prevention program can only be used to pay approved expenses for that program; money from a Library Grant can only be used to pay for approved library expenses.

The capital project fund accounts for revenue received specifically for the purchase or construction of major capital facilities. In rural Alaska, capital project funds are typically provided by grants from the federal or state government, with some local contribution from the general fund. Examples of capital projects in rural Alaska include construction of a water/wastewater facility, health clinic, or bulk fuel storage facility; road improvement projects, and purchase of heavy equipment or vehicles. Here too, revenues are restricted and can only be used for the purpose intended by the funding agency. All revenues received must be accounted for and any unused revenue must be returned to the funding agency.

Inter-Fund Transfers



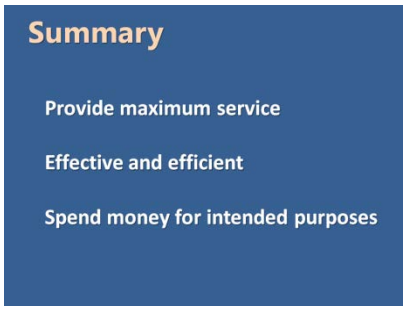
In fund accounting, unrestricted revenue from one fund can be transferred to another fund. For example, a community received $99,000 in Community Assistance Program funds and recorded it as general fund income. The governing body then approved a transfer of $10,000 from the general fund to provide a local match for a project in the capital fund. In this way, the source of the local match was identified. In some cases, such as when a special revenue or capital project fund is paid for on a reimbursable basis, money is "borrowed" from the general fund and reimbursed when the grant payment is received. However, it is never a good idea to borrow from a special revenue or capital project fund to pay general or enterprise fund expenses.

The Accounting Cycle

The accounting cycle is an ongoing process that reoccurs each fiscal year. For municipal governments and other entities operating public utilities, this process consists of the following:

- Budgeting: the act of projecting revenues and expenditures for a specified period of time, usually a fiscal year.
- Accounting: the process of recording, classifying, organizing and summarizing the financial transactions of the organization.
- Reporting: the process of reporting financial information in a timely manner (typically on a monthly basis, with an annual report at the end of the year) to the governing body and other users.
- Analyzing: the process of making financial decisions based on the available financial reports. This process includes making budget amendments and changing rates.

Summary



Financial management is the process of controlling financial resources to ensure that they are used effectively and efficiently. The goal of financial management in for-profit entities is to generate wealth for the owners and shareholders. The goal of financial management in nonprofit and governmental organizations is to provide maximum service at the lowest cost to the public.

All businesses use financial accounting to record, classify, summarize, report, and interpret financial information. This information is used to make financial decisions to help an organization achieve its goals.

The goal of accounting in for-profit entities is to show how much profit is made. The goal of accounting in nonprofit and governmental organizations is to show that funds are spent for the purposes intended. Governmental accounting uses budgets to approve the expenditure of revenues and uses reporting and compliance to ensure that revenues are spent as intended and approved.

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LESSON 2: CHART OF ACCOUNTS

OBJECTIVES

In the previous lesson, we learned that governments need to use budgets and fund accounting to plan and track their financial resources. To manage financial resources effectively, you must be able to categorize and organize financial information in a way that makes it understandable and easy to use. A chart of accounts is an essential tool for identifying and categorizing all of your financial transactions. When combined with your fund accounting system, a chart of accounts provides an effective way to organize, record, and track all financial information as needed. In this lesson, we will:

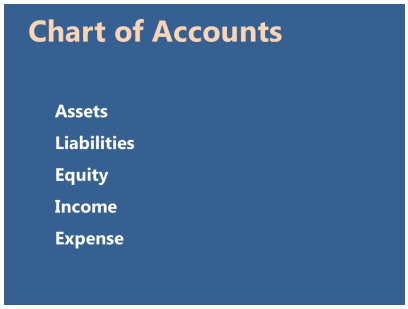
- Describe what a chart of accounts is
- Explain how to create a chart of accounts
- Show how the chart of accounts is used with fund accounting

KEY TERMS

- Chart of accounts
- Assets
- Liabilities
- Fund balance
- Revenue
- Expense
- Fund accounting
- Department/class

CHART OF ACCOUNTS

A chart of accounts is a list of all the different accounts in your financial record keeping system. It places these accounts in a systematic order, making it easier for you to identify, track, and report the financial transactions of your utility. The utility can develop its chart of accounts to suit its needs, and the accounts are typically listed in the following order: assets, liabilities, equity, income, and expenses. Let's take a closer look at each of these categories.

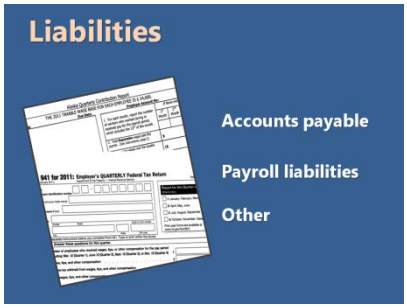


ASSETS

An asset is anything of value that you own, including the following:

- Cash Assets - Includes money in a cash box, a safe, checking accounts, savings, and investment accounts.
- Accounts Receivable - Is the term used for all money owed to you by others. When you provide a service and bill for that service, you have created an account receivable that becomes a cash asset when actually paid. The money owed has value.
- Inventory - The term is used for consumable goods and supplies that are available for use or resale. If your utility has purchased 10,000 gallons of fuel and it is stored in your fuel tanks, this fuel is part of your inventory - it has value and it is an asset. As you use the fuel, the value of the inventory will decrease.
- Fixed Assets - Consist of buildings, equipment, land, machinery, vehicles, and other such items that you own and do not expect to consume or sell during the normal course of business. Fixed assets have a value. This value generally declines over time, due to normal wear and tear and other factors. For example, a car that is five years old is worth less than a new car. The value of the car typically decreases as the car gets older. This reduction in value is referred to as depreciation. When tracking fixed assets, a utility should also track depreciation of those assets to get a true picture of their worth.

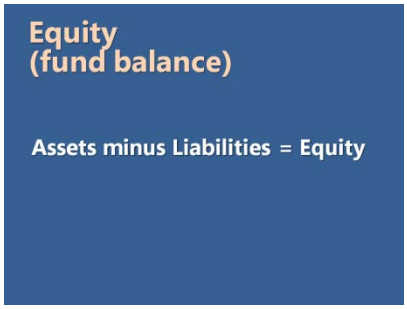
Liabilities



A liability is anything that you owe to others. Liabilities are referred to as either current liabilities (payments that are due within one year or within the current fiscal year) or long-term liabilities (payments that are due over an extended period of time). Liabilities include the following items:

- Accounts Payable - Money owed to others for goods or services received. Usually, this money must be paid within a specified period of time from the date an invoice is received, otherwise interest charges may be added to the bill.
- Payroll Liabilities - Whenever an employee receives a paycheck, the employer has to pay taxes on that money. The employer pays taxes to the Internal Revenue Service (IRS) and to the State of Alaska, and includes taxes withheld from employee wages, as well as the employer's tax contributions. Typically, federal taxes must be paid within three business days from the date wages are paid. Alaska unemployment taxes must be paid no later than 30 days after the end of a quarter. Late payment will result in additional charges for penalties and interest.
- Credit Cards - If your utility uses credit cards to purchase goods and services, every time you make a purchase you owe money to the credit card company. Credit card purchases are short-term liabilities payable to the credit card company.
- Accrued payroll and personal leave owed to employees.
- Amounts due for repayment of loans, mortgages or other long-term debt.
- Lawsuits or pending legal actions.
- Judgments and penalties for environmental or other infractions.

Equity/Fund balance



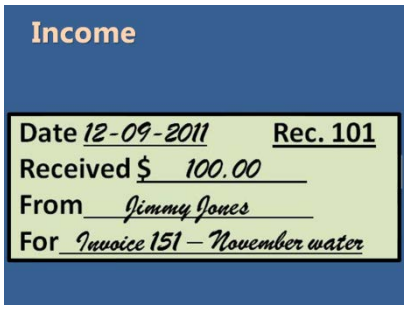
Equity is the amount left after all liabilities have been subtracted from assets. For example, if a utility's total assets are $100,000 and total liabilities are $80,000, then its equity is $20,000. In a for-profit business, equity is distributed among the owners or shareholders. In a nonprofit organization such as a governmental entity or a public utility, any equity is carried over to the next reporting period to be used for providing continued service to the public. Often, the term fund balance is substituted for equity.

These three types of accounts (asset, liability, and equity accounts) represent what a utility owns and what it owes. If properly recorded, these accounts will show a utility's financial worth on any given day.

Let's take a look at the remaining two types of accounts that are tracked in the chart of accounts. These accounts represent money that a utility actually receives and spends.

Income/Revenue

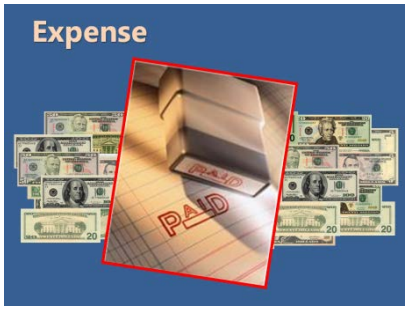
Income (revenue) is money that you receive. This money comes from many different sources. Common sources of revenue in rural Alaskan communities include:



- Building rents and leases
- Equipment rents and leases
- Capital project grants
- Operating grants
- Sales taxes
- Fines and penalties
- Interest earnings
- License and permit fees
- Contracted services (airport maintenance, clinic)
- Enterprise revenues (washeteria fees, water/wastewater fees, fuel sales ,bingo)
- Community Assistance Program

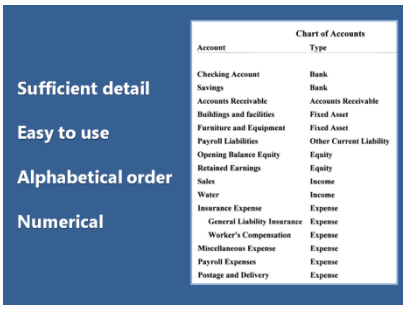
All of these sources contribute to a community's total income for the year. The more income received, the easier an organization can provide services the community desires.

Expenses



An expense is money that you pay, usually for goods and services received. Commonly used expense categories in rural Alaska include bank fees, contractual labor, electricity, employer contributions, equipment, freight, heating fuel, insurance, internet access, legal fees, meeting fees, operating supplies, postage, professional services, rent, repair and replacement, telephone, travel and per diem, vehicle gas and oil, wages, and water testing. In any utility, expenses must be lower than revenues if it wishes to stay in business. The lower the expenses, the more income is available to maintain assets and provide services.

Creating a Chart of Accounts



Once you have determined your utility's main types of assets, liabilities, fund balances, income, and expenses, you are ready to create a chart of accounts. The chart of accounts makes it easier for you to perform financial accounting. It must provide the level of detail that you need, while still being easy to use.

Name the accounts in a way that is easy to identify and don't create more accounts than you really need. If you want to track the expense for heating oil for each department, you do not need to create separate line item accounts for clinic heating oil, water company heating oil, and so on. A single line item expense account for heating oil is sufficient. The names or designations on the different accounts are the designations that you will use when recording income and expenses, preparing the budget, and providing financial reports.

Typically, the majority of accounts in your chart will be income and expense accounts. Large business organizations with many accounts often organize their chart of accounts by using a numerical system. We believe that for most small rural Alaskan communities and utilities it is much easier to use common terms for your account names without the numerical system. A very easy way to organize your accounts is to list your income and expense accounts in alphabetical order. Keep your list as simple as possible while still providing the desired level of detail.

Do not create a separate income and expense account for every item. One way to simplify the chart is to include a "miscellaneous income" account and a "miscellaneous expense" account for occasional income and expense items that are not otherwise coded. If, over the course of time, you find that such items occur more frequently, you can always add a new account name for them. "Miscellaneous" income and expense accounts should only be used for truly miscellaneous items.

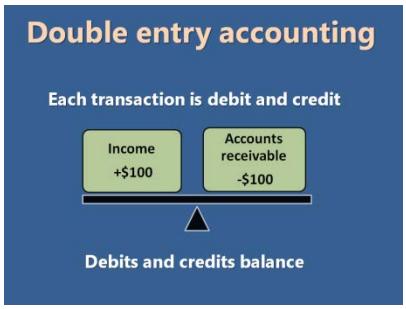
A sample chart of accounts for a small Alaska community is provided on the next page. Note that assets are listed first, followed by liabilities, fund balances, income accounts, and expense accounts. Income and expense accounts are listed in alphabetical order.

Sample Chart of Accounts for a Small Rural Alaska Community

Account	Type
Cash in safe	Bank
Electric utility checking	Bank
First National Bank checking	Bank
First National Bank savings	Bank
Investment account	Bank
Water/wastewater R&R account	Bank
Accounts receivable	Accounts Receivable
Fuel depot inventory	Other Current Asset
Undeposited funds	Other Current Asset
Accounts payable	Accounts Payable
Payroll liabilities	Current liabilities
Heavy equipment loan	Long-term liabilities
Fund balance	Equity
Opening balance equity	Equity
Building rents and leases	Income
Capital project grants	Income
Contracted services	Income
Equipment rents and leases	Income
Gaming revenues	Income
Interest income	Income
Other income	Income
Operating grants	Income
Penalties and fees	Income
Sales	Income
Sales taxes	Income
Service charges	Income
Community Revenue Shares	Income
User fees	Income
Bank charges and fees	Expense
Contractual labor	Expense
Electricity	Expense
Employer contributions	Expense
Equipment	Expense
Heating fuel	Expense
Insurance	Expense
Legal	Expense
Meeting fees	Expense
Miscellaneous expense	Expense
Postage and freight	Expense
Professional services	Expense
Rent	Expense
Repair and replacement	Expense
Supplies:	Expense
Janitorial supplies	Expense
Office supplies	Expense
Operating supplies	Expense
Telephone and internet	Expense
Travel and per diem	Expense
Vehicle gas and oil	Expense
Wages	Expense
Water testing	Expense

When adding account, avoid making the chart of accounts so detailed, lengthy or complicated that it becomes difficult to use. In the example on the previous page, there is a single expense line item for travel and per diem. This line item could be broken down into subcategories such as airfare, car rental, lodging, meals, and mileage. For most small communities though, that level of detail is not necessary.

Double Entry Accounting



Double entry accounting is a system in which each financial transaction is recorded in at least two accounts, as a debit and as a credit. Debits and credits must always balance. For example, when you write a check for $50 to purchase office supplies, the checking account decreases by $50 and the expense account increases by $50 – the two entries balance. When a customer pays $100 on an invoice, the accounts receivable balance decreases by $100 and the cash on hand account increases by $100 – again, the two entries balance.

Double entry accounting is used in almost all accounting software packages, including QuickBooks. It helps to ensure that financial records are accurate and balanced. In double entry accounting, the debit and credit entries keep the accounting equation in balance so that Assets = Liabilities + Equity (Fund Balance). It can be difficult to fully understand the concept of double entry accounting. Fortunately, most accounting software programs are set up to perform the double entry accounting automatically when you enter financial data. About the only time you need to make separate debit and credit entries for a transaction is when you make an adjusting journal entry.

Fund Accounting

Fund accounting is a system that identifies revenues based on the purpose for which they are received. In the previous lesson, we learned that governments are required to budget their financial resources for specific purposes. Once the budget is approved, governments must record and track transactions to ensure that revenues are received and spent as authorized. In order to do so, governments create separate "funds" such as a general fund, an enterprise fund, special revenue fund, and capital fund. Each of these funds can be further subdivided into separate categories and subcategories, or departments. (In QuickBooks, these departments are referred to as "classes.")

The following example shows funds and typical subcategories for departments/classes in a small Alaskan community.

GENERAL FUND	ENTERPRISE FUND	SPECIAL REVENUE FUND	CAPITAL FUND
Admin and Finance	Cable TV	Clinic	Clinic Construction
Council	Electric Utility	Library Program	Heavy Equipment Purchase
Public Safety	Fuel Depot	Suicide Prevention	Water Plant Upgrade
Fire	Garbage		
Police	Gaming		
Search and Rescue	Liquor Store		
Public Works	Water Utility		
City Maintenance	*Washeteria*		
Streets and Roads	*Water/wastewater*		

The number of funds and departments an organization has will depend on the sources of revenue, the programs and services provided, and the number of capital projects that the organization has. Once the funds, departments, and chart of accounts is set up, you will be able to record any income or expense transaction and post it to the proper account, department, and fund.

Recording Income

The first step in recording income is to write a receipt. There are many different types of receipts, but perhaps the easiest to use are receipts in a permanently bound receipt book in which receipts are sequentially numbered. The receipt book serves as a journal. Your organization can provide copies of receipts to customers, or include them in customer or income files, but a permanent copy of each receipt should remain in the receipt book.

When writing a receipt, enter the date the payment is received, the source of the income, the amount received, and the purpose of the payment. For example, customer John Hill owes the city $290 for the following: $25 for cable TV, $150 for electricity (including a $5 late payment fee), and $115 for water. On June 1, Mr. Hill pays the full amount due. A receipt should be written indicating that Mr. Hill paid $290 on June 1 for his balance due, and how much to apply toward each account.

City of Moose Creek — Receipt No. 1001
123 Moose Street
Moose Creek, Alaska 98765 — Date June 1, 20____

Received from: _____John Hill_____ $290.00
Two hundred ninety and 00/100 Dollars
Previous Balance $290.00
This payment $290.00 Memo: $25 cable TV/$150 electric/$115 water
Balance $0.00 Received by: Cindy Clerk

The second step in recording income is to post the data from the receipt to the general ledger. Enter the specific amounts paid for each item or account and post them to the appropriate department and fund.

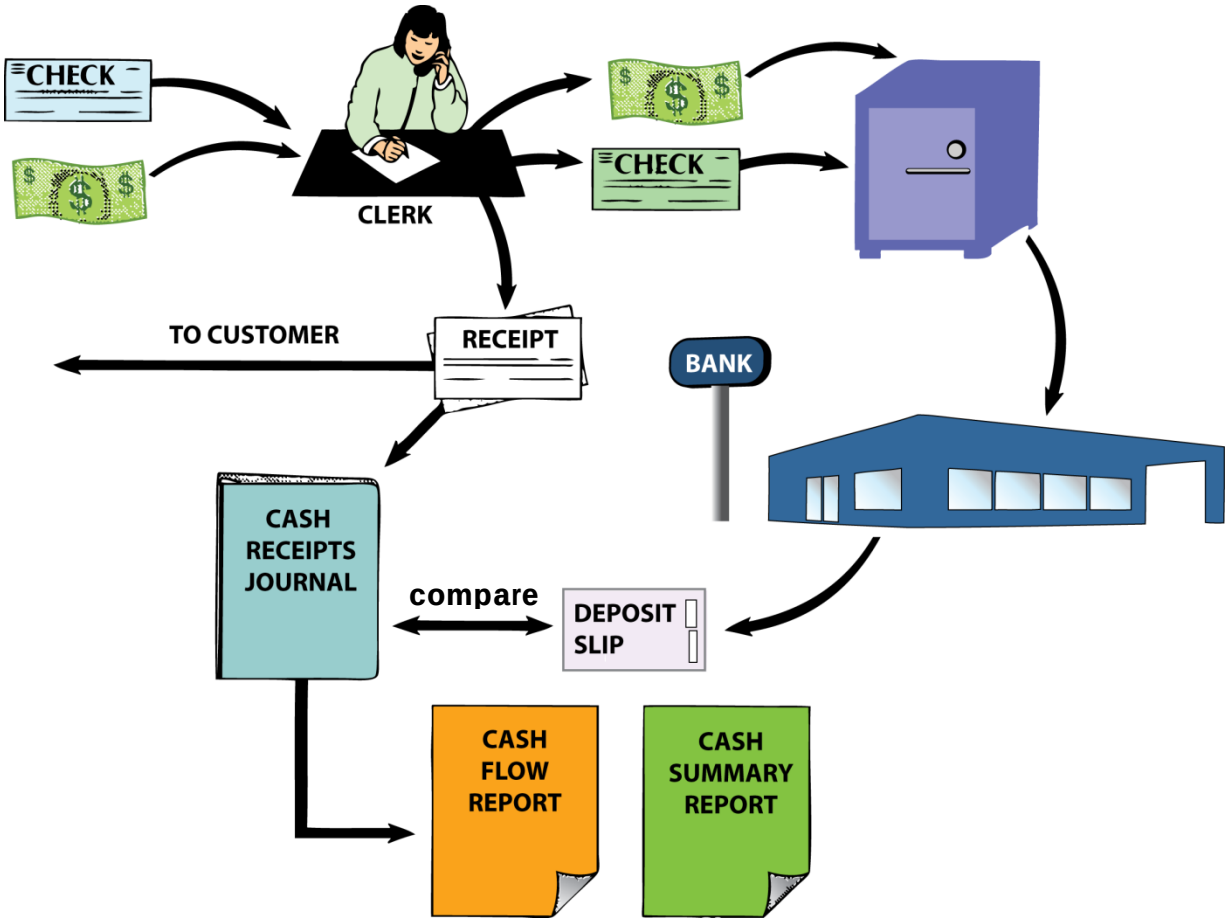
For example:

Account	Cable TV	Electric Utility	Water Utility	Enterprise Fund Total
Penalties/fees		$ 5		$5
User fees	$25	$145	$115	$285
Total Income	$25	$150	$115	$290

Remember, in double entry accounting, money received affects other accounts besides the specific income account for a department or fund. In the above example, Mr. Hill's payment increases the cash in the safe account and undeposited funds account by $290, and decreases his customer account and accounts receivable by the same amount. The amounts must be posted to the appropriate subledgers. In a computerized accounting system, all these postings take place automatically when the receipt information is entered into the computer.

Proper fund accounting must also track what happens to money after it is received. Money received should be placed into a safe until it is deposited to the bank. The amount of the deposit is entered on a deposit slip and in the check register. The following flow chart demonstrates the process of handling cash receipts, from the time money is received to when it is deposited to the bank. When money is deposited, the cash in the safe and undeposited fund accounts decreases, and the bank account increases.

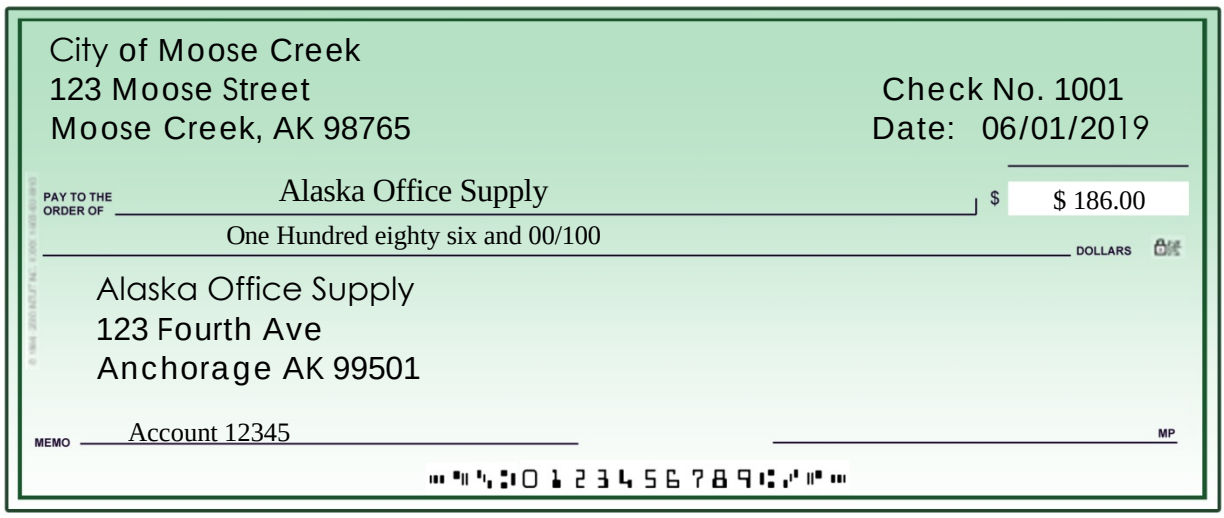
Income Flow Chart



Recording Expenses

Whenever paying expenses, you must record the date the payment is made, the amount of the payment, whom the payment is to, and the purpose of the payment. As a rule, make all payments by check and include all of this information on the check.

For example, the City of Moose Creek owes $186 to Alaska Office Supply for the following: $18 for office supplies for the cable TV department, $72 for office supplies for the electric utility and $96 for office supplies for the water utility. When payment is made, a check for $186 would be written to Alaska Office Supply. The voucher portion of the check should post payment amounts to the appropriate account(s) and department(s).


City of Moose Creek
123 Moose Street
Moose Creek, AK 98765

Check No. 1001
Date: 06/01/2019

PAY TO THE ORDER OF Alaska Office Supply $ $ 186.00

One Hundred eighty six and 00/100 DOLLARS

Alaska Office Supply
123 Fourth Ave
Anchorage AK 99501

MEMO Account 12345

MP

⑈001234567890⑈

City of Moose Creek — Check No. 1001
06/01/2019

Alaska Office Supply

Account	Amount	Memo	Class
Office supplies	$ 18.00	Inv 206 paper	Enterprise fund: Cable TV
Office supplies	$ 72.00	Inv 227 calculator	Enterprise fund: Electric Dept
Office supplies	$ 96.00	Inv 250 toner	Enterprise fund: Water Dept

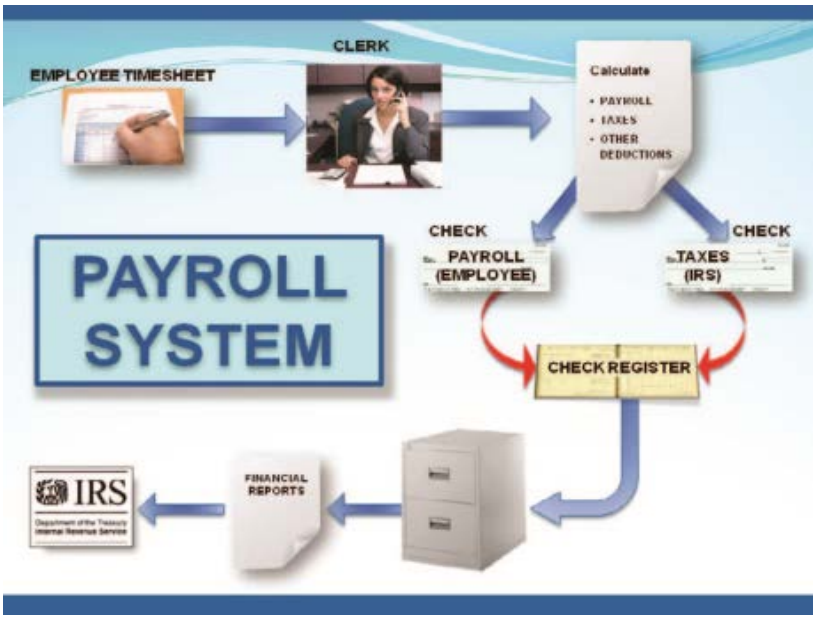
In this case, the amounts would be posted to the general ledger as follows:

Alaska Office Supply

Account	Cable TV	Electric Utility	Water Utility	Enterprise Fund Total
Office supplies	$18	$72	$96	$186
Total Expenses	$18	$72	$96	$186

When an expense is recorded, it affects multiple accounts: expense accounts for a particular fund or department, the checking account, the liabilities account, accounts payable, and vendor accounts. In a manual record keeping system, a single check payment could require multiple journals and entries in order to track this information accurately (entering the payment in the check register, adjusting the checking account balance, posting the data in the general ledger, and adding the totals at the end of each month). In a computerized accounting program such as QuickBooks, the balance in the checking account is automatically adjusted each time a check is written, and amounts are automatically posted to the appropriate account, department, and fund as long as the check data is correctly entered. The computer calculates the effect on each account, and adjusts both running totals and balances accordingly. Summary information can then be presented to the governing body and other users in the form of financial reports. We will take a closer look at financial reports in Lesson 6.

PAYROLL



Recording payroll and payroll taxes is a major function in any organization that has employees. Payroll begins with the employee timesheet, completed by the employee and authorized by the supervisor. Timesheets should include the number of hours and the department(s) for which the hours were worked. In a manual record keeping system, the clerk or bookkeeper calculates the payroll and tax deductions based on the approved hours and the employee's rate of pay. When using QuickBooks or similar accounting software, the accounting program automatically calculates the wages and taxes after you enter the employee hours.

In large business organizations, payroll duties are divided among two or more persons. For example, a supervisor approves the timesheets, a payroll clerk enters the data and prints the paychecks, a company official signs the paycheck, and an accounting clerk prepares the financial reports. In many rural Alaskan communities where only one person works in the city office, this separation of duties is not always possible. When one individual is responsible for all aspects of payroll preparation, it is important that the authorization process be carefully followed and documented. The person who prepares the payroll should not be a check signer.

Every payroll check affects the checking account and the wage expense accounts in the departments and funds for which the payroll check is being written. In addition, each payroll check creates a tax liability that must be paid. When a payroll check is written, the employer withholds the appropriate amount of taxes from the employee's paycheck. The employer is also responsible for providing a share of Social Security, Medicare, and Alaska unemployment taxes. These taxes result in a liability that must be paid to the IRS and the Alaska Department of Labor.

Alaska unemployment tax liabilities generally do not need to be paid until the end of each quarter, but the federal tax liabilities must be paid more frequently. To avoid penalties and interest for late payments, RUBA recommends that employers pay the federal tax liabilities immediately at the end of each pay period.

Each account affected by payroll needs to be tracked. In a manual record keeping system, this is done by making entries into the check register, by maintaining a payroll journal for each employee (as well as a summary report for each pay period), and by updating the general ledger. This requires multiple journals and entries. For example:

John Hill is bookkeeper for the City of Moose Creek. He earns $16 an hour. For the pay period ending October 12, he worked six hours each for the administration and public works departments (general fund), and for the water utility and gaming departments (enterprise fund). After withholding $46.28 in taxes, the employer writes a check to John for $337.72. The employer's share of Social Security, Medicare and Alaska unemployment taxes is $42.38. Payroll information is recorded in the payroll journal, the amount of the check is entered in the check register and the checking account balance is reduced by $337.72. The tax liability account increases by $88.66 ($46.28 + $42.38). It is difficult, tedious, and time consuming to track the effect on all accounts in a manual recordkeeping system.

Payroll Preparation in QuickBooks

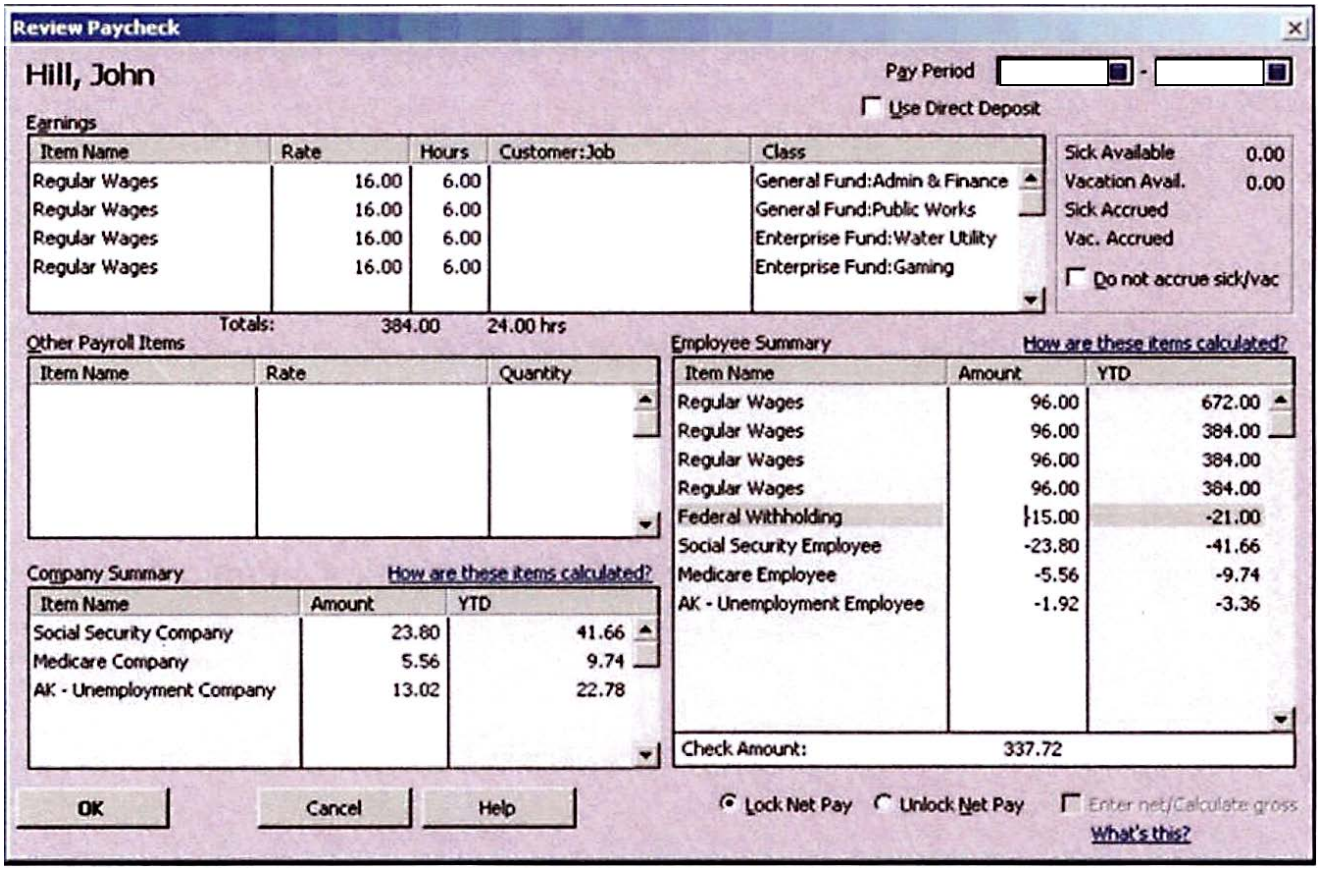
In QuickBooks and similar software programs, payroll preparation, after the initial setup, is fairly automated. Once employee hours are entered, the program will automatically calculate the correct tax and deductions and create the payroll check. The program will also calculate the total tax liabilities, the checking account balance, and the effect of each pay check on expense accounts for each department and fund where employee hours are posted.

Using John Hill's information for the pay period ending October 12, the accounting program would automatically post the amounts to the accounts and departments as shown below.

Expense Account	Admin	Public Works	General Fund Total	Gaming	Water Utility	Enterprise Fund Total	Total All Funds
Payroll tax	$10.60	$10.59	$21.19	$10.60	$10.59	$21.19	$42.38
Wages	$96.00	$96.00	$192.00	$96.00	$96.00	$192.00	$384.00
Total	$106.60	$106.59	$213.19	$106.60	$ 106.59	$213.19	$426.38

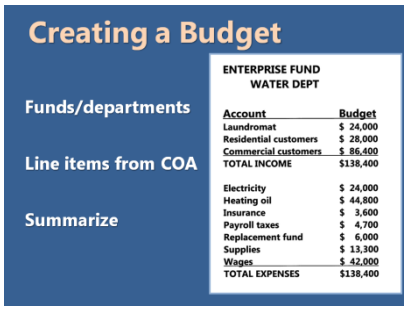
The accounting software will also update an organization's payroll records, including payroll records for each employee. These records provide the information necessary to compute required tax reports, such as quarterly reports to the Internal Revenue Service and the Alaska Department of Labor, as well as W-2 forms to employees at the end of each year.

With QuickBooks and other accounting software, the entire payroll record keeping process is greatly simplified. After the clerk enters the employee hours, the program does the rest of the work with little additional effort from the clerk or bookkeeper. This saves hours of posting for busy staff. In the screen shown below, the bookkeeper entered the employee hours. The computer program automatically calculated all other entries.



CREATING A BUDGET

In fund accounting, the accounting system must show what revenues are budgeted for each fund and department (class). This information can then be summarized to show the totals for a particular fund.



	Cable TV	Electric Utility	Water Utility	Enterprise Fund Total
Income	$15,350	$214,440	$112,500	$342,290
Expenses	$15,350	$214,440	$112,500	$342,290

To accurately show monies that will be received and how they will be spent (a requirement in governmental accounting) you need more information than just the total income and total expenses shown above. To provide the necessary information, you can use the income and expense categories from the chart of accounts to identify monies that will be received and how they will be spent for each department and fund.

An example of a budget for the enterprise fund, using fund accounting and a chart of accounts.

Account name	Cable TV	Electric Utility	Water Utility	Enterprise Fund Total
Income				
Penalties/fees	$150	$700	$600	$1,450
Service charges	$200	$3,000	$3,000	$6,200
User fees	$15,000	$144,000	$108,600	$267,600
Other income	$0	$100	$300	$400
State of Alaska	$0	$66,640	$0	$66,640
Total Income	**$15,350**	**$214,440**	**$112,500**	**$342,290**
Expenses				
Electricity	$480	$960	$18,000	$19,440
Employer contributions	$320	$4,100	$4,100	$8,520
Heating fuel	$0	$158,400	$33,000	$191,400
Insurance	$200	$2,500	$1,800	$4,500
Postage	$500	$500	$500	$1,500
Programming	$10,000	$0	$0	$10,000
Repair/replacement	$650	$4,000	$5,000	$9,650
Supplies	$200	$4,000	$6,000	$10,200
Telephone/internet	$0	$480	$600	$1,080
Travel	$0	$1,500	$1,500	$3,000
Wages	$3,000	$38,000	$38,000	$79,000
Water testing	$0	$0	$4,000	$4,000
Total Expenses	**$15,350**	**$214,440**	**$112,500**	**$342,290**

This same format can be used for each department (class) within the general fund, capital fund, and special revenue fund to create a single overall budget for the entire organization. This format can also be used when providing financial reports.

NUMERICAL SYSTEM

Earlier we pointed out that many business organizations use a numerical system to identify their departments and accounts. Although RUBA does not recommend the numerical system for small communities and utilities, we realize that some organizations do like to use it.

Numerical system

01 General Fund
- 01 Administration and finance
- 02 Council
- 03 Public Works
  - 01 Streets and roads
  - 02 City maintenance
  - 03 Solid waste site
- 04 Public Safety
  - 01 Fire department
  - 02 Police
  - 03 Search and rescue
- 05 Recreation

02 Enterprise Fund
- 01 Cable TV
- 02 Electric utility
- 03 Fuel depot
- 04 Gaming
- 05 Liquor store
- 06 Water utility
  - 01 Washeteria
  - 02 Water/wastewater system

03 Special Revenue Fund
- 01 Clinic
- 02 Library Program
- 03 Suicide Prevention Program

04 Capital Fund
- 01 Clinic Renovation Project
- 02 Heavy Equipment Purchase
- 03 Water/wastewater Project

A numerical system uses sets of two to four digits separated by dashes as identifiers (e.g., 01-03-01-5130). The first two or three sets of numbers, usually two digits each, can be used to identify the funds, departments (classes) and subdivisions within a department (if any).

In a numerical system, accounts are usually identified by using four digit numbers. The five different types of accounts are typically assigned a range of numbers as follows.

1000 - 1999	Asset accounts
2000 - 2999	Liability accounts
3000 - 3999	Fund balances
4000 - 4999	Income accounts
5000 - 5999	Expense accounts

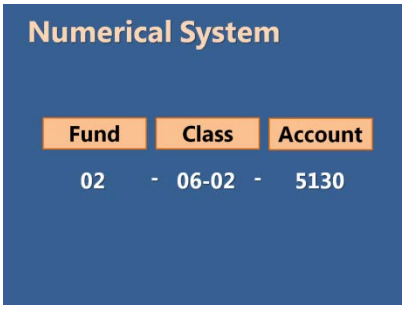
Within each range, numbers are assigned to subcategories and line item accounts as desired and needed. For example:

5100 - 5199 Travel
- 5110 Airfare
- 5120 Lodging
- 5130 Per diem
- 5140 Other travel expenses

Using the numerical system outlined above, income and expense accounts for each department and fund can be numbered separately. For example:

02-06-02-5130 indicates enterprise fund - water utility - water/wastewater system - expense for per diem.

Whether or not you use a numerical system is up to your council and administrative staff. Whatever system you use, your chart of accounts must be developed so that it is easy to understand and use, while still meeting all the needs for accurate financial accounting. A copy of the chart of accounts should be readily available to any staff person responsible for data entry, bookkeeping, budgeting or financial reporting.



Summary

A chart of accounts is a list of all the different accounts in your financial record keeping system. It organizes your accounts into five main categories: assets, liabilities, income, expenses, and equity (fund balances). These categories show what you own, what you owe, what you have received, what you have spent, and how much you have left.

Your organization must develop its own chart of accounts, depending on the number and types of accounts and transactions that it has. It is important to create a chart of accounts that is understandable and easy to use.

In addition to the chart of accounts, your organization should have a fund accounting system that categorizes income and expenses by fund (general fund, enterprise fund, capital fund) and departments. When using a chart of accounts along with a fund accounting system, you will be able to accurately record and track income and expenses for each department and fund as required.

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LESSON 3: BUDGETS

OBJECTIVES

Most public water/wastewater utilities in rural Alaska are owned and operated by local municipal or tribal governments. In the previous lessons, you learned that governments must plan and track the use of their financial resources for specific purposes. You also learned how to identify financial transactions using a chart of accounts and fund accounting. In this lesson, we will take a closer look at how governments plan the use of their financial resources by using budgets. This lesson will:

- Describe what a budget is
- Explain how to prepare a budget
- Describe how to adopt a budget
- Provide tips on how to read a budget
- Explain how to change (amend) a budget

KEY TERMS

- Budget
- Appropriation
- Fiscal year
- Ordinance
- Restricted revenue
- Unrestricted revenue
- Operating revenue
- Carryover cash
- Repair and replacement

What is a Budget?

A budget is a plan for receiving and spending money for a set period of time. The budget identifies the sources and amounts of anticipated revenues. It also identifies specific purposes for which money can be used and sets aside money for these purposes. Money indentified for specific purposes is referred to as appropriations.

In governmental accounting, the budget is established for a fiscal year, a twelve-month period to which the budget and annual financial reports apply. Most municipalities in Alaska use the state fiscal year, which begins on July 1 and ends on June 30 of the following year. Tribal governments typically use the federal fiscal year, which begins on October 1 and ends on September 30 of the following year. Some organizations use a regular calendar year, from January 1 to December 31. The annual budget provides guidelines for the fiscal year based on goals and priorities established by the governing body and it limits the amounts that can be spent per category.

In order to show that funds are spent for the purposes intended, each department, program, or project in governmental accounting must have its own budget identifying the income and expenses for that department. All department, program, and project budgets are part of a single overall budget for the entire organization.

Why Budget?

Budgeting helps ensure that financial resources are used effectively for the purposes intended. For example, if you know what your annual income is, your personal budget would identify how much you need for necessities such as food, utilities, clothing, house payments, gas, etc. By identifying these amounts, you can set aside money to meet your basic needs before spending on lower priority items. Without some type of budgeting, you could easily end up spending more than you can afford. That's what often happens when people purchase on credit: before long, the amount of money they owe exceeds their ability to pay. They find themselves in debt and unable to meet their basic needs. The same thing can happen to local governments and public utilities if they do not budget the use of their financial resources.

A budget is an essential and valuable tool that enables you to protect your organization's financial resources.

A budget:

- Demonstrates that your organization has considered how much money it expects to receive and spend
- Identifies what expenditures can be made
- Establishes spending limits for each expense account
- Guides the governing body regarding income and expenditures during the fiscal year
- Helps show that financial resources are being used as planned

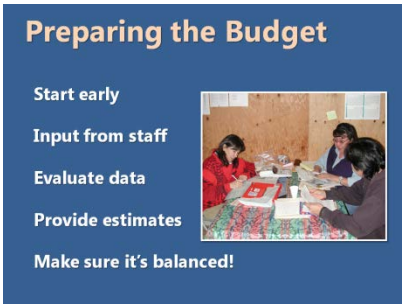
In Alaska, state law requires municipal and tribal governments to submit a properly approved budget in order to receive Community Assistance Program funds. For many communities, the loss of these funds would severely jeopardize a local government's ability to provide even a minimum level of public services. In addition, many communities construct water and wastewater projects with grant funding that requires the utility to satisfactorily meet the requirements of a RUBA assessment as a condition for grant funding. The *RUBA Assessment of Management Capacity Indicators* considers it essential that a utility has a balanced realistic budget that has been adopted by the governing body.

Preparing a Budget

Whether operated by a municipality, a tribal government, or a nonprofit corporation, every utility needs to follow certain basic guidelines when preparing a budget.

Start Early

It takes time and effort to collect and review information, discuss ideas, establish priorities, prepare a draft budget, and allow for public participation before adopting a final budget. Typically, the process includes at least two meetings and a work session. We recommend that the process begin 90 days before the start of a new fiscal year. A sample budget calendar is provided later in this lesson.



Get Input From Staff

When preparing a budget, get comments from your staff and from department heads regarding any specific needs or concerns for the coming fiscal year. This input will help determine what expenses will be required. For example, if your utility operator says that he will need new tires for the sewage haul truck this year, you will need to budget accordingly.

Evaluate All Data And Information

Your current actual year-to-date financial reports provide a good starting point for estimating income and expenses. These reports show a utility's current sources and amounts of income, current assets and liabilities, and current or cumulative spending in comparison to the current budget. However, it is not enough to base your new budget estimates solely on data from the current financial reports. Income and expenses change from one year to the next, some more than others. To accurately estimate income and expenses for the coming fiscal year, you will need to collect and analyze a variety of data and information including:

- Current actual year-to-date financial reports
- Previous year financial reports
- Operational data (fuel consumption and water production records)
- Grant agreements and records
- Changes in local conditions (declining or increasing population)
- Changes in the level of services provided
- An increase or decrease in the number of customers
- The physical condition of your equipment and facilities

Do not Overestimate Income, or Underestimate Expenses

Overestimating income and underestimating expenses may look good on paper, but presents a distorted picture of what to expect. Instead, base your utility's income and expense estimates on available information and realistic expectations. For example:

- If the collection rate from utility customers is 90%, do not base income estimates on a 100% collection rate, otherwise your actual income will be 10% lower than budgeted. (We'll examine collection rates more closely in Lesson 4: Rate Setting.)

- If fuel expenses this year are much lower than normal due to an unusually warm winter, do not expect next year's expense to be the same, otherwise you may run out of money for fuel in the middle of the next winter.

Restricted Revenues

Revenues from capital grants, operating grants, and certain other sources can only be spent for the purposes approved by the funding agencies. These are restricted revenues. If a capital grant or operating grant has a requirement for local matching funds, make sure to include the local match somewhere in the budget. Otherwise you might allocate all available revenues without setting anything aside for the required match.

Establish Priorities

If the amount of funding available is not able to support the level of services desired, your governing body will need to establish priorities. For example, if revenues from customer payments are no longer sufficient to support the water/wastewater utility, the governing body must decide whether to increase rates, reduce services, and/or subsidize the utility with funding from other sources.

If the governing body decides to subsidize the utility with funding from another available source (tribal health shares, gaming revenues) that funding will no longer be available for other programs that may have been desired (dental programs for tribal members or recreation programs).

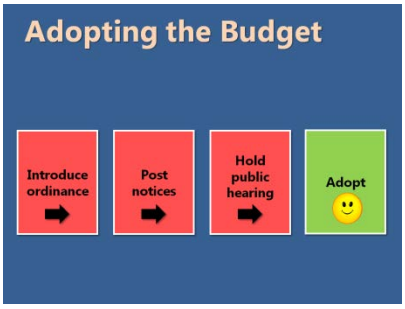
Set Aside Funds for Emergencies, Repair, and Replacement

Do not appropriate all available resources without setting aside funds for emergencies, repair, and replacement. This is especially true for water/wastewater utilities in rural Alaska, which require a higher level of repair and replacement – and often experience unexpected costs – as a result of severe weather conditions and other factors.

Always Prepare a Balanced Budget

A balanced budget is one in which available revenues, (carryover cash plus estimated income), are equal to or greater than estimated expenses. An unbalanced budget is a plan for running out of money. It may be an intricate plan with lots of thought and input, but in the end, your utility will be in debt and unable to pay the bills.

ADOPTING A BUDGET



Alaska law requires municipalities to adopt an annual budget by ordinance. An ordinance is a law enacted by the governing body following certain specific procedures. Most ordinances are intended to permanently establish the rules for the operation of the local government, or to govern the behavior of people within the community. These permanent ordinances are assembled into an indexed book (Code of Ordinances) and are referred to as code ordinances. Some ordinances are intended to be temporary and are referred to as non-code ordinances. The most common example of a non-code ordinance is the annual budget (also called the appropriations ordinance). The budget ordinance is intended to be in effect for one year. For each subsequent year, a new budget ordinance must be adopted.

Alaska law requires municipalities to take specific steps to adopt an ordinance. These steps are intended to give the public an opportunity to review and comment on the proposed ordinance and to see the final ordinance after it is approved.

- The ordinance must be introduced at a public meeting of the governing body. Introduction of the ordinance should be on the meeting agenda. It is the duty of the city manager to prepare and submit the annual budget for consideration by the governing body, in accord with AS 29.20.500(3). If the city does not have a manager form of government, it is the mayor's duty to prepare and submit the annual budget. Preparation of the budget can be delegated to the treasurer or other administrative staff.
- After the ordinance is introduced, the city council must set a date for a public hearing on the proposed ordinance. A majority vote of the governing body is required to set the public hearing date.
- A summary of the ordinance, together with a notice of the time and place for the public hearing, must be posted for no less than five days prior to the scheduled date of the public hearing. Notices can be given using print or broadcast media. Notices must be posted in the principal office of the public entity and they must be posted in a consistent manner. In most small communities, notices are posted in three public places, such as the city office, post office, and community store. If possible, notices for the budget ordinance should be posted longer than the minimum required five days in order to give people a greater opportunity to review the budget.
- At the public hearing, copies of the ordinance must be available to everyone present or else the ordinance must be read in full.
- During the public hearing, all members of the public who wish to speak on the proposed ordinance must be heard by the governing body (time limits can be set on each person's comments).

- After the public hearing, the governing body may adopt the ordinance with or without any changes. A majority vote of the governing body is required to adopt the ordinance. If approved, the ordinance is signed by the mayor and the city clerk. The original signed ordinance is kept on file in the city office.

The adopted ordinance is a public record. The governing body shall print and make available copies of an ordinance that is adopted.

The ordinance takes effect upon adoption or at a later date specified in the ordinance. A municipality cannot legally spend funds until the budget ordinance is approved. A budget ordinance shall be in effect for the designated fiscal year. The actual budget would be attached to the ordinance.

Sample Ordinance

Budget Appropriations Ordinance
Ordinance No. _____

AN ORDINANCE FOR THE CITY OF _____ PROVIDING FOR THE ESTABLISHMENT AND ADOPTION OF THE BUDGET FOR FISCAL YEAR ____

BE IT ENACTED BY THE CITY COUNCIL OF _____, ALASKA

Section 1. Classification.
This is a Non-Code Ordinance.

Section 2. General Provisions.
The attached document is the authorized budget of revenues and expenditures for the period July 1 through June 30 and is made a matter of public record.

Section 3. Effective Date.
This ordinance becomes effective upon its adoption by the city council.

First Reading _____
Public Hearing _____

ADOPTED by the City Council of _____,
Alaska, this _____ day of _____ 20____.

_____
Mayor

ATTEST: _____
City Clerk

Attachment: Authorized FY _____ Revenues and Expenditures

Tribal governments and nonprofit corporations do not have the same requirements as municipalities to adopt an annual budget by ordinance. Adoption of the annual budget for tribal governments and nonprofit corporations should follow procedures set out in the bylaws of the entity. These procedures might include adoption by ordinance or by resolution. A resolution is an official statement of the governing body regarding a particular subject. Whether tribal and nonprofit organizations use an ordinance, resolution, or some other format to adopt a budget, it is highly recommended that the adoption process include an opportunity for all members to review and comment on the proposed budget.

A sample budget resolution is provided.

Native Village of_____
Resolution no._____

A RESOLUTION OF THE NATIVE VILLAGE COUNCIL OF _____ADOPTING AN OPERATING BUDGET FOR FISCAL YEAR 20_____

WHEREAS, the Native Village Council of _____is the entity responsible for undertaking and managing all economic affairs and enterprises of the Native Village of _____; and

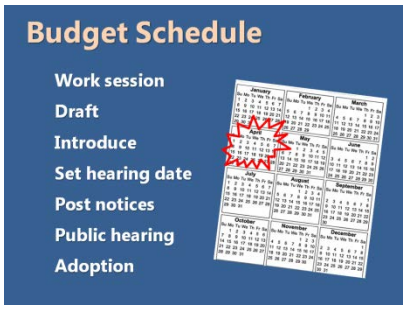
WHEREAS, Article I, Section 2 of the bylaws of the Native Village of _____ requires the _____ Native Village Council prepare an annual operating budget for each fiscal year prior to the start of that fiscal year; and

WHEREAS, Article I, Section 3 of the bylaws of the Native Village of _____ requires the _____ Native Council to adopt the annual operating budget by resolution following a general meeting open to all tribal members giving them the opportunity to review and comment on the operating budget;

NOW THEREFORE BE IT RESOLVED THAT the Native Village Council of _____ hereby adopts the attached document as the authorized budget of revenues and expenditures for the period October 1, 20_____ to September 30, 20____; and

BE IT FURTHER RESOLVED THAT this resolution and the attached document are available to

BUDGET SCHEDULE



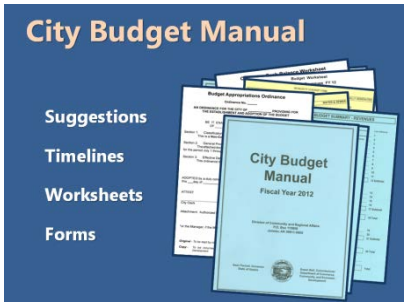
In order to ensure that your budget is well planned and that the governing body and the public have had time to review and comment on the budget, preparation of your annual budget should begin long before the start of the new fiscal year. The following proposed timetable is recommended by the Division of Community and Regional Affairs (DCRA) for preparation and adoption of a municipal budget ordinance. Tribal governments and nonprofit corporations can adopt a similar schedule.

Proposed Timetable for Preparing a Municipal Budget for Communities with a July 1 – June 30 Fiscal Year	
April	• Mayor requests department heads provide a list of any special needs or requests for new fiscal year. • Mayor directs treasurer to prepare draft budget of estimated revenues (including carryover funds) and expenditures for new fiscal year. • Council holds budget work session to review draft budget, and to set spending priorities. • Additional work session, if necessary. • Mayor directs treasurer to prepare budget (as budget ordinance).
May	• Budget ordinance is introduced at city council meeting (first reading). • City council schedules date for public hearing on the budget ordinance. • City clerk posts notices of public hearing for at least five days and in at least three public places.
June	• City council holds public hearing on the budget ordinance. • Council considers public comments and adopts budget ordinance. • Clerk submits copy of adopted budget to DCRA.
July 1	• Beginning of the new fiscal year. If the budget ordinance has not been adopted by this date, the city can neither receive nor spend money in the new fiscal year until the ordinance is adopted.

Once adopted, the budget is used by mayors, administrators, managers, clerks, department heads, and other staff as a guide for how utility funds may be spent. Only expenditures authorized in the budget are allowed.

The City Budget Manual

DCRA mails a copy of the *City Budget Manual* to every incorporated community in the state before the start of each new fiscal year. The manual provides suggestions, timelines, worksheets, and forms for preparing a municipal budget. Although written specifically for municipalities, the manual can be used as a guide for tribal governments and nonprofit organizations as well.



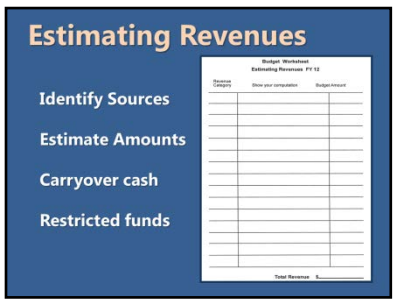
Worksheets in the *City Budget Manual* provide a format for calculating income and expense amounts in your budget. Whether you use these worksheets or some other format, worksheets are an essential tool in the budgeting process. Entering calculations on the worksheets shows how the budgeted amounts were estimated and helps ensure that estimates are based on realistic expectations rather than just guesswork or unsupported numbers. The worksheets also provide a reference when preparing budgets in subsequent years.

The *City Budget Manual* contains budget forms for listing income and expenses and for comparing current year and proposed budget amounts. Detailed income forms list revenues in two main categories: locally generated revenues and revenues from outside sources. Detailed expense forms include a separate page for each department, grant, and special project/program. Forms are also provided for summarizing the budget data and for adopting the budget ordinance. Many municipalities submit their budgets using the forms provided in the *City Budget Manual*. Whether you use these or other forms, the budget must clearly identify where revenues come from and how they will be used. In order to be able to track whether or not revenues are received as expected and used for the purposes intended, the categories in your fund accounting system must match the categories in your budget, and vice versa.

Estimating Revenues

The first part of preparing a budget is to estimate your organization's revenues. The process for estimating revenues consists of:

- Identifying revenue sources
- Estimating the amount of revenue from each source
- Estimating carryover cash
- Restricted funds



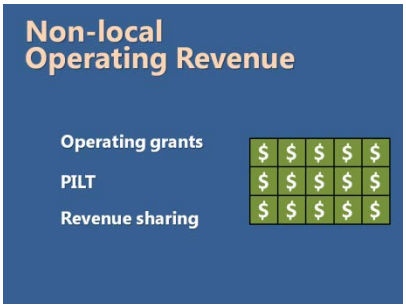
Identifying Revenue Sources

You need to identify where revenues come from to know whether they are restricted or unrestricted. Restricted revenues can only be used for the purposes intended by the funding agency; a grant received for construction of a water utility project can only be used for that specific project. Unrestricted revenue is money that can be used for any purpose approved by the local government and not otherwise prohibited by law. Local sales tax or Community Assistance Program funds are unrestricted revenue.

The current year budget and financial statements provide a starting point for identifying the revenue sources. Some revenues are available from one year to the next, while others are not. Revenue from user fees is generally available from one year to the next. Revenue from equipment rent to a contractor working on a local project is available only for the duration of the project. In addition to the current year budget and financial statements, examine any grant agreements, lease and rental agreements, contracts, local economic trends, and other available data to determine what revenues will be available for the new fiscal year.

Locally generated revenue is money that is earned or generated within the community, usually in the form of local taxes and fees, or in exchange for products and services provided by your organization. Most, if not all, locally generated revenue is considered operating revenue; it is used for paying operating expenses. These funds tend to be generated year after year, although the amounts may vary from one year to another. Here are some examples of locally generated revenue sources:

- Local taxes – sales tax, property tax, bed tax
- Contracts for airport maintenance, or maintaining the clinic as part of a clinic lease
- Building and equipment rent
- Charges for services such as water and wastewater, washeteria, cable television, and garbage hauling
- Sales from city owned enterprises (fuel sales, community-owned liquor store sales)
- Bingo and pull tabs
- Other sources such as interest income, donations, fines, fees, penalties, etc.



Typically, locally generated revenues are unrestricted. They may be designated for a specific purpose and any unused revenue can be saved or reallocated to a different purpose. For example, if a city receives $60,000 under a contract to provide airport maintenance, it is required to provide a certain level of maintenance as specified in the contract. If the city is able to provide the required level of maintenance for the duration of the contract at a lower cost than $60,000, the unused portion could be saved or reallocated to some other purpose.

Most communities receive at least some operating revenues from outside sources, such as the state or federal government, or private foundations. These revenues can be restricted or unrestricted, depending on the funding source. For example, money received from the Community Assistance Program, and shared fisheries taxes, is generally unrestricted, and can be used to pay for operating expenses. In fact, many small Alaskan communities rely heavily on such revenue to pay for general administration, road maintenance, and other activities that do not generate sufficient revenues on their own. On the other hand, grant money received for a suicide prevention program, or a library program is restricted. It can only be spent for the designated program, and each such program should have its own budget included as part of the overall budget. Any unused money from these operating grants must be returned to the granting agency.

The amount of money available from funding agencies can change substantially, and in some cases, may not even be available from one year to the next. This is especially true of funding from the State of Alaska for programs such as the Community Assistance Program. When preparing income estimates, always check with the funding agency to find out what amounts will be available. Be aware of any requirements that an agency may have before funds can be released and make sure you have complied with those requirements. For example, in order to receive Community Assistance Program funds, a municipality must submit a resolution, an annual budget, a certified financial statement or audit and must have held regular elections. Some communities have lost substantial amounts of funding because they did not meet these minimal requirements.

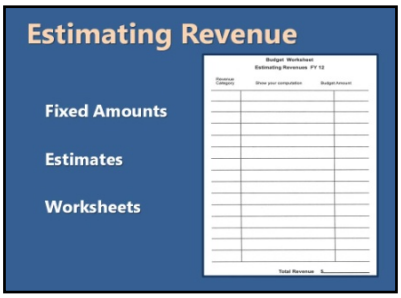
Capital Project Revenues

Capital or special project revenues from outside sources are monies received in the form of grants from the State of Alaska, the federal government, or other funding sources for a specific capital project. These funds are always restricted.

They can only be used for the purpose intended in the grant application, approved by the funding agency, and specified in the grant award and/or agreement. Examples of capital or special projects include feasibility studies, design or construction of public facilities, and purchase of land or equipment. Any unused funds must be returned to the funding agency, unless the community requests – and receives – permission to reallocate the funds.

Estimating Revenue Amounts

Once you have identified your sources of income, you will be able to budget the amount of funds you will receive from each source. In some cases, you can determine the exact amount to budget. For example:



- A fixed rate for water/wastewater services to the local school
- A clinic lease agreement for a fixed amount each month
- Community assistance program funds

In other cases, you will need to estimate income based on current financial reports, current rates, the number of customers, changes in the number of customers or in the services provided, and on other factors. Here are some examples of estimating revenues:

- Available records show that income from washeteria user fees has been about $39,000 for each of the last five years. In this case, it would be reasonable to estimate $39,000 for the coming fiscal year.
- Available records show that income from washeteria user fees was $39,000 for four of the last five years, but dropped by $4,000 during the current fiscal year after 20 homes were hooked up to the piped water system last August. Ten additional homes are being hooked up to the piped system this summer. It would be reasonable to expect an additional drop of approximately $2,000. Estimated income for the new fiscal year would be $33,000.
- The city has 80 residential customers connected to its piped water/wastewater system and charges each customer a flat rate of $100 per month for services. In addition to the 80 residential customers there are three teacher housing units: the teachers leave the community for three months each summer, during which time their piped water service is disconnected. The estimated income for piped water/wastewater service would be calculated as follows:

(80 customers x $100 x 12 mo) + (3 x $100 x 9 mo) = $98,700

However, because utilities typically are not able to collect 100% of customer payments, you should examine your collection rate and make adjustments as appropriate. For instance, if the collection rate in our example is 95%, estimated revenue would be: $98,700 x 95% = $93,765

Without making such an adjustment, you may be overestimating your income. Using the lower estimate does not mean you should not try to collect from all customers, or that you should continue providing service to customers who do not pay. It simply means that you are basing the estimates on realistic expectations. We'll spend more time looking at the issue of collection rates and strategies in Lesson 4 Rates and Lesson 5 Collections.

The *City Budget Manual* provides a sample worksheet that can be used for estimating revenues. The following example of estimated revenues utilizes a sample worksheet from the *City Budget Manual*. Whether using this or some other format, always provide some evidence to show how the estimates are calculated.

Budget Worksheet Estimated FY__ Revenue		
Revenue Category	**Show your computation**	**Amount**
AVEC (Electric)	$3,100 per month x 12 months	$37,200
Bingo/pull tabs	$95 average x 4 days x 52 weeks	$19,760
Building rents	$400 x 12 months	$4,800
Clinic	$1,920 per month x 12 months	$23,040
Community Assistance Program	As per DCRA	$104,000
Copies	estimated 1,000 x $.50 each	$500
Equipment rental	estimated 120 hours x $90	$10,800
Fuel Sales: gas	Gas: $5 x 10,000 gallons	$50,000
Fuel sales: heating oil	Heating oil $5.20 x 10,000 gallons	$52,000
Interest	Savings account: $25,000 x 2%	$500
Washeteria	Estimated user fees (Current year minus $2,000)	$33,000
Water/sewer - school	School: 9.5 months x $2,000 per month	$19,000
Water/sewer - residential	[(80 x $100 x 12months) + (3 x $100 x 9 months)] x 95%	$93,765
	TOTAL ESTIMATED FY____ INCOME	**$448,365**

After the revenue budget worksheets are completed, the revenue amounts can be inserted into a draft budget, whether you use the forms in the *City Budget Manual*, QuickBooks, or some other format.

CARRYOVER CASH

When estimating revenues, it is important to include the amount of money available at the end of one fiscal year and carried over into the next. To determine this amount:

- Calculate all current balances in the safe, bank accounts, and other "cash" accounts
- Add any anticipated revenues for the remainder of the current fiscal year. For example, if the new fiscal year begins July 1, and you submit a draft budget in early May, include estimated revenues for May and June
- Subtract any anticipated expenditures for the remainder of the fiscal year

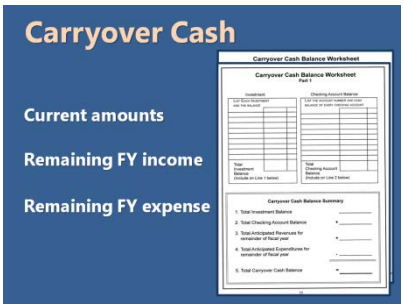
The final amount is referred to as carryover cash and is the starting balance for the new fiscal year. The following example shows how to estimate carryover cash using a worksheet from the City Budget Manual.

Carryover Cash Balance Worksheet

List each investment and the balance			**List Account Number and Cash Balance of every checking account**		
CD	12-55-789	$10, 000	General	15126	$ 11,864
CD	13-66-891	$10, 000	Clinic	23891	$ 24,833
CD	56-23-151	$ 5,000	Water	55891	$ 16,758
			Bingo	45897	$ 8,423
Total>>>>>>>>>>>		**$25, 000**	**Total>>>>>>>>>>>>>>>**		**$61,878**

Carryover Cash Balance Summary

Total Investment Balance		$ 25,000
Total Checking Account Revenue	+	$ 61,878
Total Anticipated Revenues for Remainder of Fiscal Year	+	$ 83,379
Total Cash		**$ 170,257**



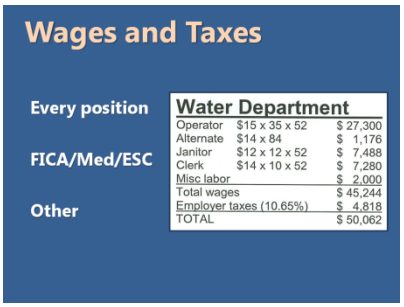
Carryover cash can be restricted or unrestricted. For example, at the end of the fiscal year, the City of Moose Creek has $50,000 available in carryover cash. This amount includes a grant payment of $15,000 that was received for a capital project, but which the city has not spent yet. In this example, $15,000 of the carryover cash is restricted: the remaining $35,000 is unrestricted.

Estimating Expenses

The *City Budget Manual* includes separate pages for each department's expense budget. Forms in the manual break expenses down into six main categories: personal services, travel, facility expenses, supplies, equipment, and other operating expenses. Each category is subdivided into separate line item expense accounts. Whether you use the forms in the manual or some other format, fund accounting requires you to provide an expense budget for each department, enterprise, grant, etc; and to include these budgets as part of your overall budget.

Let's look at what some of these expenses are – particularly for a water/wastewater utility – and how to estimate their cost.

Wages and Payroll Taxes



Wages are normally one of the largest expenses of an organization; it is important to estimate the wages accurately. For each position, you can estimate the annual wages by multiplying the rate of pay by the number of hours worked. If employees take time off for training or personal leave, be sure to include estimates for alternates. Some departments, such as a water/wastewater utility, occasionally approve extra hours or hire extra help for special maintenance or repairs. You should check with your operators and department heads to get an estimate of what, if any, additional hours will be needed and include wages for those hours in your budget. Your budget worksheets should include your calculations showing how gross wages were determined for each department. During the course of the fiscal year, these calculations can also serve as a guide to help prevent employees from working more hours than are approved or necessary.

Sometimes an employee works for more than one department. The bookkeeper might spend two hours a day working on water/wastewater utility record keeping, two hours a day on the electric utility, and the remaining time on general administration and finance. In fund accounting, you must budget the wages for each department separately. The employee will still receive the same amount of pay; however, his or her wage expense will be budgeted to more than one department.

Whenever wages are paid, the employer has an additional expense for the employer's share of FICA (or Social Security) tax, Medicare tax, and Alaska unemployment tax (Employment Security Contribution or ESC). Some employers participate in the state Public Employee Retirement System (PERS) in addition to or instead of Social Security. The employer's share for all these taxes must be included as part of the expense for each department.

The employer's share of payroll taxes is a fixed percentage of gross wages. The percentages for FICA (6.2%) and Medicare (1.45%) have been constant for many years. The percentage for ESC varies from one employer to another and from year to year, depending on the amount of employee turnover and your payment history. Typically, the ESC rate for employers is between 3% and 5%. To estimate employer contributions for each department, multiply the gross wages by the percent total for all contributions. For example:

$45,244 gross wages x [(6.2% FICA) + (1.45% Medicare) + (3% ESC)] = $4,818

Wage Estimates for Water Dept.

	Rate Hrs. Wks.		
Operator	$15 x 35 x 52	$	27,300
Alternate	$14 x 84	$	1,176
Janitor	$12 x 12 x 52	$	7,488
Clerk	$14 x 10 x 52	$	7,280
Misc, labor		$	2,000
Total wages		$	45,244
Employer contributions (10.65% x wages)		$	4,818
Total wages and employer contributions		$	50,062

This calculation should be performed for each department or grant that pays wages. If you provide other contributions, such as PERS, be sure to include those contributions in your budget.

Communications

The budget for telephone and for internet expenses can be based on current year records and rates. Some rural communities place restrictions on communications in order to reduce costs. Examples of such restrictions include blocking collect calls and requiring the use of calling cards for long distance calls.

Critical spare parts

Keeping a critical spare parts list is one of the sustainable indicators in the RUBA Assessment. Critical spare parts are those parts and supplies necessary to prevent interruption of service that could result in loss of revenue and/or potentially costly damage. If the furnace or boiler in the water plant quits during the winter because a coupling on the burner motor wore out, you will not be able to heat your building until the coupling can be replaced. In rural Alaska, if you do not have a spare coupling on hand, it may take several days or longer to have one delivered. In the meantime, the building could freeze, service could be interrupted, water lines could break, and equipment could be damaged…all because of a broken coupling.

Critical spare parts and supplies include small inexpensive items such as electrical breakers and fuses, fuel nozzles, filters, and pipe fittings, as well as larger items such as boiler and furnace parts, control boxes, spare pumps, and motors. To determine what your utility needs to have on hand as critical spare parts and supplies, check with your operators and maintenance staff and with the remote maintenance worker for your community. Keep a list of critical spare parts and vendors on file and check the parts inventory on a regular basis. As items from the parts inventory are used, they should be replaced. You can estimate the budget amount for critical parts and supplies based on your current inventory and on price information from the suppliers.

Some utilities include critical spare parts under another heading in the chart of accounts, such as parts and supplies, operating supplies, maintenance, and repairs. No matter how you label it, be sure that you have the necessary parts and supplies on hand and that you budget for them.

Electricity

The cost of electricity is a major expense in rural Alaska, especially for water/wastewater utilities. You can estimate the annual cost of electricity based on your available records – average kilowatts (KWHs) used per month, current rates, etc. When calculating your average KWHs, be sure to make adjustments for changes in usage. If electrical consumption at the water plant increased dramatically this year after a new subdivision was connected to the

piped water supply, base your calculations on this year's usage, otherwise your estimated expenses will be low. Because rates for electricity change periodically, contact your supplier for information regarding current rates and any expected rate changes. Base your estimates on those rates.

Equipment purchases

Occasionally a utility will need to order new equipment or replace existing equipment such as a copier, new computer, portable space heater or portable generator. The best way to budget for the cost of equipment purchases is to determine what purchases will be necessary, based on information from department heads, then call vendors to get a price quote. Be sure to include estimates for the cost of freight, special supplies (toners and cartridges for a new copier), and service agreements, if any.

Heating oil

The cost of heating oil is another major expense, especially for water/wastewater utilities. You can estimate the cost of heating oil based on how much fuel you need and the cost per gallon.

The amount of fuel needed from year to year varies, depending on a number of factors including weather, maintenance, and changes in operating conditions. If you keep good fuel records, you will have a good idea of what to purchase in the new fiscal year. In communities where fuel is delivered in bulk during the summer months, always measure the level of fuel in the storage tanks before ordering. For example, if you purchase an average of 9,000 gallons per year but because of an unseasonably warm winter, you have 2,000 gallons left over from last year's order, you will only need to order 7,000 gallons this year.

Contact your utility's fuel supplier to find out the price per gallon. Communities that purchase bulk fuel during the summer will have a fairly accurate price quote. For communities that purchase fuel year round, be sure to make allowance for price changes over the course of the year. Typically heating oil prices go up in the winter when demand for fuel is higher. In recent years fuel prices have fluctuated sharply making it difficult to predict price changes. For budgeting purposes, it is better to overestimate the price of fuel than to underestimate it. If there are unexpected changes in the price of fuel during the course of the fiscal year, you may need to amend the budget.

Insurance

To estimate insurance costs for the new fiscal year, contact the insurance provider for your utility. You will need to provide some information to get an accurate estimate. The cost of property insurance depends on the value of the property insured, the amount of liability exposure, etc. For communities purchasing general

liability insurance through the Alaska Municipal League, the cost of general liability insurance is based on the total payroll.

The cost of workers' compensation insurance — which is required for all employees —depends on the amount of wages paid and on job classifications. For example, the workers' compensation rate for clerical employees is less than 1% of gross wages paid; the rate for water plant operators is approximately 5%; the rate for janitors is approximately 7%; and the rate for brush cutters is 43%. Once you get current rates from the insurance provider, you can calculate your workers' compensation costs for each department.

For budgeting purposes, it is a good idea to synchronize the insurance policy period with your utility's fiscal year. Also, if you purchase auto insurance, make sure to update your vehicle information each year. At least one community was paying insurance for vehicles that were no longer in use, while using new vehicles that were uninsured.

Meeting fees

If your organization pays meeting fees to council members and/or board members on a regular basis, the budget should include an appropriation for meeting fees. Do not forget to include payroll taxes on meeting fees in your budget. For example:

Utility Board meeting fees: 5 members x $25 x 12 meetings = $1,500
Utility Board: payroll taxes: $1,500 x 10.65% (FICA, Medicare) = $160

Miscellaneous expenses (Not otherwise coded)

The chart of accounts should include a line item expense account for any miscellaneous expense items that cannot be readily included in another expense category. This classification should be for truly miscellaneous expenses. The amount budgeted for miscellaneous expenses should never be a significant part of the budget.

Operating supplies

Operating supplies are supplies that are consumed on a regular basis in the day-to-day operations of an organization. One way to estimate the cost of supplies is to base the estimate on the average annual cost for each category of supplies. For example, if you spend an average of $4,000 per year on janitorial supplies, it would be reasonable to estimate the same amount for the new fiscal year, plus approximately 5% for inflation.

A more accurate way to estimate expenses for operating supplies is to contact the department heads and other appropriate personnel to find out what supplies are needed in each category. Make sure to include all supplies needed for the coming

year, and check the inventories to see what is currently on hand. Will you need to order more water treatment chemicals, pre-printed checks, toner and ink cartridges for the copier, motor oil for department vehicles, new accounting software for the QuickBooks program, etc? Once you determine what supplies are needed and check your current inventories, you can then base a budget estimate on current needs and on current price information from the suppliers.

Postage

You can estimate postage costs based on available data. For instance, if your postage expense for the current year is $680, it is reasonable to expect a similar expense for the new fiscal year. However, if you are adding new customers who will be billed on a monthly basis, you should increase the postage budget to allow for the additional mailings. For example:

$680 current year + $70 (estimated increase) = $750

If postal rates are expected to increase, be sure to include the rate increase when estimating postage expenses.

Maintenance

Major maintenances can be quite expensive, and if not planned for, they become "budget busters." You should always include some money in your budget for repairs and maintenance.

Some maintenance expenses are a result of routine or scheduled maintenance. Ask the operators and maintenance personnel to fill out work orders for any major maintenance projects planned for the new fiscal year (painting exterior of water plant building, cleaning out water storage tank). The work orders should include the number of labor hours and a list of materials needed to complete the order. You can estimate the cost based on information in the work orders.

Some maintenance costs are the result of unexpected events. It is difficult to plan for such events and it is wise to allocate some extra money in the budget for them (sometimes this is referred to as a contingency fund). The amount of money allocated can be based on your utility's current and previous years' records.

Travel

Travel expenses include all travel costs such as airfare, per diem, lodging, mileage allowances, cab fare, registration fees, and other miscellaneous travel expenses associated with travel on official business. Travel can be by employees, elected officials or other authorized persons. Water utility operators, clerks, managers, mayors, council members, and other personnel and officials occasionally require travel for training, meetings, conferences, and workshops.

When preparing the budget, check with the mayor, department heads, the water plant operator, and others to find out what travel needs they may have for the coming year and/or what travel requests have been approved.

To estimate travel costs, determine the number of trips anticipated for the new fiscal year and compute the costs of transportation, lodging, per diem, and other expenses for each trip. Contact the air carriers for information regarding airfares. Estimate lodging and per diem costs based on the number of days of travel and on your utility policies. Some utilities pay a flat per diem amount to cover lodging and meals, while some pay lodging at actual cost, plus a fixed rate for meals, and some pay different rates based on the destination city. Estimate miscellaneous travel costs such as cab fare or auto mileage based on available current year records.

Vehicle gas and oil

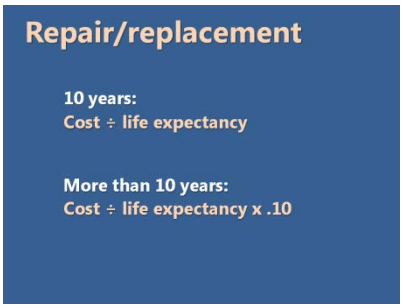
Vehicle gas and oil can be a significant line item expense in the water department. Estimate the vehicle gas and oil budget by determining how much gas and oil is needed and multiplying the amount by the current price. Information on fuel needs is available from your fuel records and from staff. Check with the fuel suppliers for price information and remember to allow for possible price increases.

Water testing

Public water utilities are required to have certain water tests conducted by an approved testing laboratory. The testing requirements vary depending on the size and type of water system that you have. The price for specific tests varies from approximately $50 for a monthly Total Coliform Bacteria test to hundreds of dollars for a Volatile Organic Chemicals test. Some tests are required monthly, some annually, and some every two or three years. Costs can vary significantly from one year to the next. Contact your water plant operator or the remote maintenance worker for information on specific testing requirements for your water system. You can also get a summary of your system's monitoring requirements from the Alaska Department of Environmental Conservation (ADEC).

When estimating testing costs, be sure to include the cost for shipping. Some communities list water testing as a separate line item expense in the budget, even though the cost applies to only one department. Other communities include the water testing expense under a different line item expense account, such as professional fees.

Repair and replacement



Almost all equipment, vehicles, and facilities require repair and replacement eventually because of normal wear and tear. To be sustainable, your utility must set aside funds to replace these items.

For replacement of items with a life expectancy of more than one year but not more than 10 years, your utility must set aside 100% of the replacement value in order to purchase the item when needed. To calculate the amount to set aside each year, simply divide the replacement cost of an item by its life expectancy. For example, if water meters have a life expectancy of five years and a total replacement value of $3,000, set aside $600 each year. In five years time, you will have saved enough to purchase new meters as scheduled.

Most major equipment, vehicles, and facilities have a life expectancy of more than 10 years, and the cost of replacing these major items can be substantial. It may be impossible to accumulate enough funds to replace these major items, but having a portion of the necessary funds saved will allow a utility to apply for grants that require matching funds, or for loans that require down payments. For replacement of items with a life expectancy of more than 10 years, we recommend accumulating 10 percent of the replacement value of each item.

To determine how much to set aside each year, multiply the estimated replacement cost by 10 percent, and divide that by the life expectancy of the asset. For example, a facility with an estimated replacement cost of $1,000,000 and a life expectancy of 40 years should set aside $2,500 each year. [($1,000,000 x .10) divided by 40 years = $2,500]. When calculating the amount to set aside as reserves for repair and replacement, be sure to include all the items that will need replacement. A sample worksheet is provided below.

Item	Life in Years	Value	Percent	Total Amount	Annual Amount
Large Washers	15	$14,000	10%	$1,400	$93
Lift station pumps	15	$16,000	10%	$1,600	$107
Meters	5	$3,000	100%	$3,000	$600
Small washers	8	$6,000	100%	$6,000	$750
Portable pumps	10	$2,000	100%	$2,000	$200
Water tank	40	$300,000	10%	$30,000	$750
Building	40	$1,000,000	10%	$100,000	$2,500
Total					**$5,000**

In the above example, $5,000 should be set aside each year for repair and replacement. This amount should be included in the budget.

PUTTING IT ALL TOGETHER

Below is a sample budget worksheet estimating income and expenses for a water utility that includes a public washeteria and piped service to 80 residential customers and the school.

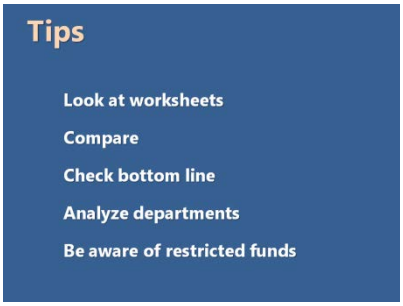
FY ____ BUDGET WORKSHEET		
Enterprise Fund: Water/Wastewater Department		
Income Accounts	**Computation**	**Budget**
Washeteria	Estimated user fees	$33,000
Residential customers	[(80 x $100 x 12 months) + (3 x $100 x 9 months)] x 95%	$93,765
School	School: 9.5 months x $2,000 per month	$19,000
TOTAL INCOME		**$145,765**
Expense Accounts	Computation	Budget
Electricity	Avg. 7,233 KWH x .32 x 12 months	$27,775
Equipment purchase	New space heater	$1,910
Heating fuel	9,000 gallons x 3.75	$33,750
Insurance	General liability	$1,080
	Vehicle insurance (2 x $800)	$1,600
	Workers' compensation	$1,963
Meeting fees	Utility board: 5 x $25 x 12 months	$1,500
Miscellaneous (NOC)		$750
Operating supplies	See attachment	$11,000
Payroll taxes	($45,244 + $1,500 meeting fees) x 10.65%FICA/Med/ESC	$4,948
Postage	$690 (current year) + $70 (estimated increase)	$750
Repair and replacement	See schedule	$5,000
Telephone and Internet	$110 x 12 months	$1,260
Travel and per diem	See attachment	$1,510
Vehicle gas and oil	$200 x 12 months	$2,400
Wages	See attachment	$45,244
Water testing	(Bacti =$100 x 12 months) + $2,125 for lead, copper, VOCs	$3,325
TOTAL EXPENSES		**$145,765**

This worksheet provides information explaining how budget amounts were calculated. In this example, the budget is balanced.

In most rural Alaskan communities, the water/wastewater utility budget is just one part of the total budget for the local municipal or tribal government. Applying the principles of fund accounting discussed in the previous lesson, each department, grant, and special project or program must have its own budget included under the appropriate fund (general fund, enterprise fund, capital fund, special program fund). All these budgets together comprise the total budget for the entity. The final budget should include a summary of all budgets for each department.

Tips for Reading a Budget

Reading and understanding a budget can be difficult, especially for utilities with multiple funds, departments, and accounts. All worksheets and draft budgets need to be examined to ensure that they are accurate, complete, and presented in an understandable format. If the worksheets and drafts are not provided in an understandable format, ask that they be changed.



Compare New Budget with Current Year Budget

Failure to include all anticipated income and expenses can lead to adoption of an unbalanced budget. One way to ensure that the proposed budget contains all income and expenses is to compare it with current year income and expenses. This comparison can reveal whether necessary items are being included in the proposed budget and whether the proposed budget is reasonably accurate. The comparison will also reveal any significant changes from one year to the next, including new or deleted items. Whenever there are significant changes, make sure they are clearly understood before the budget is approved, otherwise, you may end up with problems. (The forms in the *City Budget Manual* include columns for the current year amounts and the proposed budget amounts.)

Check the Bottom Line

One of the first things to do when reading a budget is see if the total budget is balanced. Total available revenues must be equal to or greater than total expenditures. A budget with insufficient revenues is a plan for failure, and obviously needs to be adjusted, by either increasing revenues, decreasing expenditures, or a combination of both strategies.

Information regarding whether or not the total budget is balanced is available on your summary sheets. Typically, the balance amount is entered on the last line. Checking the ending balance is referred to as checking the bottom line. A good suggestion for reading a budget is to check the bottom line first.

"If your outgo is greater than your income, your upkeep will be your downfall." - Anonymous

Analyze Each Department and Fund Budget

Not every department or fund generates sufficient revenues to pay for its own expenses. In such cases, the specific department is subsidized. Unrestricted revenues (Community Assistance Program funds, local taxes, community owned liquor store sales) from one department or fund can be used to subsidize expenses for the utility if user fees are not enough to cover expenses.

While it is recommended that each utility be a self-sustaining enterprise, it is permissible to subsidize the utility's operation with funds from other sources if the governing body chooses to do so, as long as the subsidizing funds are from an unrestricted and reliable source and identified in the budget.

Check for Restricted Funds

It is very important that you understand which revenues are restricted and which are unrestricted. Even if total revenues appear to be greater than total expenditures at first glance, look to determine where revenues are coming from, and to ensure that restricted funds are not being budgeted for non-allowable expenditures.

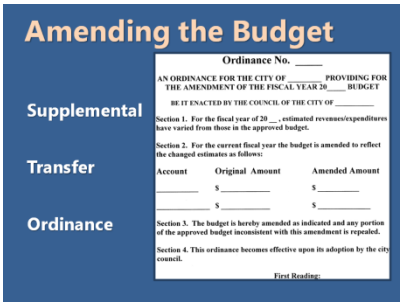
The Budget is Adopted. Now what?

Budgeting is not an isolated activity that ends after the budget ordinance is approved. In governmental accounting, the budget establishes the purposes for which funding may be spent and sets spending limits on line item expenditures. To ensure that revenues are spent as intended, your organization must:

- Use a fund accounting system that matches income and expense categories in the budget with those in the chart of accounts
- Track all actual income and expenditures
- Provide monthly financial reports that compare actual year-to-date income and expenses with the budget
- Make changes as necessary
- Prepare a year-end certified financial statement or audit as required.

Monthly financial reports comparing actual year-to-date income and expenditures with the budget should be analyzed. If revenues are lower than expected or expenses higher than expected, you can take corrective action as appropriate (increase rates, cut employee hours, etc.).

Amending a Budget



Budgets are plans and even the most carefully prepared budgets cannot foresee everything that will occur during a fiscal year. Some situations arise that require you to add new revenues or expenditures to your budget. Once a budget is adopted, new appropriations are referred to as supplemental appropriations. Supplemental appropriations are generally made when additional funds are placed in the budget to cover unexpected expenses that cannot wait until the next fiscal year. For example, an oil spill can result in thousands of dollars in unexpected costs and the governing body must appropriate the use of available money for this new expense.

Some situations may permit or require you to move money from one line item in your budget to another.

For example, halfway through the fiscal year you realize that the costs for operating supplies will be much higher than expected and your utility's fuel costs have been lower than predicted because of mild weather.

In this example, the governing body could authorize the increased expenditure for operating supplies by taking a corresponding amount from the budgeted amount for fuel. Appropriations that move money from one line item to another are referred to as transfer appropriations. Transfer appropriations do not affect the available fund balance.

In municipalities, because the budget is adopted by ordinance, any significant or substantive changes to the budget must be made by adopting an ordinance to amend the budget. The process for adopting the amendment ordinance is the same as that for adopting any ordinance. It must be introduced at a public meeting, a public hearing must be held, and it must be approved by the governing body. Similarly, tribal governments and nonprofit organizations should adopt budget amendments using the same procedure they followed for adopting the original budget.

The following sample budget amendment ordinance shows a transfer appropriation, moving funds from the water department supplies budget to the water department fuel budget.

Budget Amendment Ordinance
Ordinance No. _____

AN ORDINANCE FOR THE CITY OF _____ PROVIDING FOR THE AMENDMENT OF THE FY ____ BUDGET.

BE IT ENACTED BY THE CITY COUNCIL OF _____, ALASKA

Section 1. Classification. This is a non code ordinance.

Section 2. General Provisions. For the current fiscal year of 20 _____ , revenues and/or expenditures have varied from the estimates in the approved budget. The budget is hereby amended as indicated below and any portion of the approved budget inconsistent with this amendment is repealed.

The current fiscal year budget is amended as follows:

Expense Account	Original Amount	Amended Budget	Difference
Water Department:			
Supplies	$11,000	$ 9,000	- $ 2,000
Heating Oil	$33,750	$ 35,750	+$ 2,000
Totals	$44,750	$ 44,750	-0-

Section 3. Effective Date. This ordinance becomes effective upon its adoption by the city council.

First Reading: _____
Public Hearing: _____

ADOPTED by the City Council of _____
Alaska, this _____ day of _____, 20_____.

Mayor:_____

Attested by City Clerk:_____

SUMMARY

In governmental accounting, a budget is a financial plan that approves spending revenues for specific purposes during a given time period known as a fiscal year. In Alaska, municipal governments are required to adopt budgets by ordinance. The ordinance process ensures that the public has an opportunity to review and comment on the budget ordinance before it is adopted.

Preparing a budget takes considerable time and effort. The budget should identify all sources of income and all necessary expenditures, and estimate the amounts as accurately as possible, based on available information. In governmental accounting, each department and fund should have a separate budget to help ensure that revenues are spent only for the purposes intended.

The combined budgets of each department and fund should be summarized to show the total budget. Revenues in the total budget must be equal to or greater than the budgeted expenses, otherwise the budget is a plan to run out of money. The budget should be carefully examined to ensure that restricted revenues are used only for the purposes intended and are not used for subsidizing other departments and funds. The budget can be amended during the course of a fiscal year to authorize changes in revenues and expenditures based on changing conditions, circumstances, and needs.

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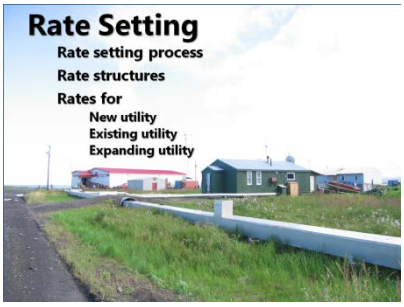
LESSON 4: RATE SETTING

OBJECTIVES



Sanitation utilities need to be able to recover their costs by charging customers fairly for the services they receive. In this lesson, we will take a close look at how to establish rates that are fair and equitable. This lesson will:

- Provide participants with an understanding of the rate setting process
- Provide participants with an understanding of different rate structures
- Provide a basic outline of how to go about establishing rates for:
    - A new utility
    - An existing utility
    - Expansion of an existing utility

KEY TERMS

- Operating expenses
- Reserve requirements
- Collection rate
- Breakeven
- Rate structures
- Uniform flat rate
- Single block rate
- Base rate
- Increasing block rate
- Decreasing block rate
- Repair and replacement fund
- Capital replacement fund
- Cost of service
- Customer classes
- Fixed expenses
- Variable expenses

What Is Rate Setting?

Water utilities in rural Alaska are often small and depend on part-time operators and office staff for management. Water is one of several utilities and services managed by the community. The costs to operate may be overlooked or lumped together in a community budget making it difficult to clearly determine what the community is paying to provide the service or what the utility should be charging to recover those costs. Each utility managed by the community should be managed as an independent and sustainable enterprise with its own budget that includes all costs for operation, maintenance, and replacement of the utility. To be sustainable, the utility must know what its costs are and recover those costs by charging customers accurate and fair rates for the services provided.

Rate setting is the process of establishing, in a fair and equitable manner, a per customer charge to recover the costs of operating, maintaining, and replacing a water utility. The key to setting rates is to have an accurate picture of the utility's operating expenses, reserve requirements, and collection rate. Operating expenses are the costs that keep the system working every day, (electricity, fuel, chemicals, supplies, water testing, and operator's wages), as well as costs for administration and overhead. Reserve requirements are the funds necessary for replacement of worn out equipment and facilities. The collection rate is the portion of the amount billed by a utility that is actually collected. Operating expenses, reserve requirements, and the collection rate will all be discussed in detail later.

Guiding Principles for Rate Setting

- The water utility should be self-supporting. Customers pay for the services received at a level that recovers all costs associated with providing the services in a safe, lawful, and financially sound manner. This includes costs for producing and distributing the water and costs for eventual repair and replacement of equipment and facilities. While a public water utility may be subsidized with revenue from the general fund or from other sources, this practice should be avoided because there is no assurance that those other funds will be available from one year to the next.
- A sustainable utility operates at a breakeven level or better. Breakeven is the point at which revenues equal expenses. If the utility generates more revenues than are needed, the excess revenues are used for improving utility service or to reduce the cost to the customers. The main idea is that revenue received from utility customers does not subsidize other activities or programs.
- Rates must be fair and equitable. Customers are charged only what is necessary

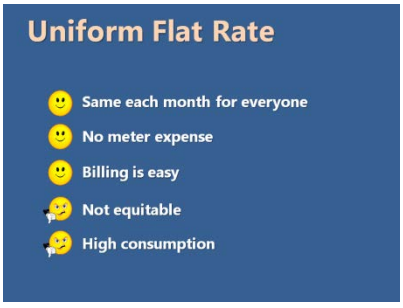
to sustain the operation of the utility. The costs are distributed among all the customers in an even and fair manner.

- Rates are based on accurate information. Rates or rate increases should not be arbitrarily set without basis in actual costs. For rates to be fair and equitable, it is essential to have good financial reports, budgets, and customer and operator records. For new utilities without a track record, an engineer's estimates and records from similar systems can be used.
- Rates are not permanent. Utility rates should be reviewed at least once a year, during the budget development process, and changed as needed.
- Keep the public informed and the process transparent. Invite the public to take part in the budget process. Customers who understand the costs involved with providing water will be more likely to support the utility's management and to accept rate increases. Post the rate structure and be sure people understand it. Make sure you can explain the factors involved that make a rate adjustment necessary, and that the public is informed.

Rate Structures

A rate structure is an orderly system, or method, of determining a per customer charge that distributes the cost of service among the consumers of that service. Customers are divided into classifications such as residential, commercial, industrial, and public facilities. Rates can be structured to satisfy different situations and desires of the utility board. Different rates are sometimes charged for each classification.

Uniform Flat Rate



A uniform flat rate is one in which all customers pay the same amount per month regardless of the quantity of water used. This rate structure is considered the least desirable, but is necessary with systems that lack meters. It is the most commonly used rate structure in rural Alaska. The advantage of this system is that there are no expenses to install, maintain, and read water meters and customer billing is easy: a disadvantage is that it may not be equitable. Because the rate is not based on actual water usage, homes with only one resident pay as much as those homes with large families. Because billing is unrelated to actual water consumption this rate structure may also encourage high water consumption.

Single Block Rate

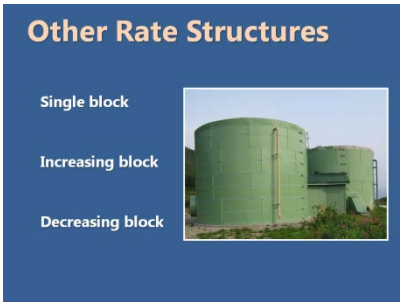
Customers are charged a constant price per gallon regardless of the amount of water used, often in addition to a minimum monthly charge for the service. The minimum monthly charge – sometimes referred to as a base rate or service charge – recovers the fixed cost of service.

For example, the minimum monthly charge might be $50 for the first 1,000 gallons used and four cents per gallon for everything over 1,000 gallons. The cost to the customer is fair because it is based on the actual amount of water used.

This rate structure may encourage water conservation. However, it may discourage industries such as fish processors that consume large amounts of water from locating in the service area.

Increasing Block Rate

In addition to a monthly minimum or base rate, customers are charged varying amounts that increase as the quantity consumed increases. The varying amounts are charged for "blocks" or predetermined quantities of water measured in thousands of gallons. Based on the desire to conserve water, each succeeding consumption block is more expensive. For example:



$30.00 for first 1,000 gallons (base rate)
$.03 per gallon for 1,001 - 3,000 gallons
$.04 per gallon for 3,001 - 10,000 gallons
$.05 per gallon for 10,001 or more gallons

This rate structure is recommended for utilities that have a limited water supply or high treatment costs because it encourages conservation. A disadvantage of this system is that it may discourage industries that require high volumes of water from locating in the service area.

Decreasing Block Rate

In addition to a monthly minimum or base rate, customers are charged varying amounts that decline as the quantity of water consumed increases. The varying amounts are charged for "blocks," or predetermined quantities of water measured in thousands of gallons. Based on the assumption that production costs decline with increased volume, each succeeding consumption block is cheaper. For example:

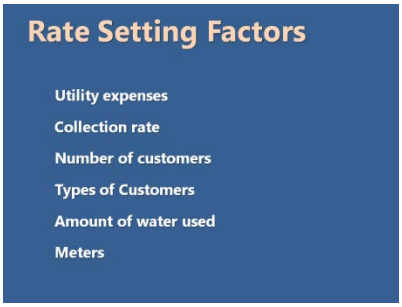
- $50.00 for first 1,000 gallons (base rate)
- $.04 per gallon for 1,001 - 3,000 gallons
- $.03 per gallon for 3,001 - 10,000 gallons
- $.02 per gallon for 10,001 or more gallons

This rate structure is attractive to large volume users, but does not promote conservation of water and production costs may not decrease enough with the increase of gallons produced. A decreasing rate should only be used if there is no need to conserve water and if the utility can clearly confirm that the cost of service decreases with increased volume, otherwise low volume users may be subsidizing large volume users.

Factors that Affect Water Rates

To calculate a water utility rate, many factors need to be analyzed, including the following:

- Utility expenses
- Collection rate
- Number of customers
- Types of customers and how they are classified
- Amount of water used
- Metered or unmetered flat rate system



Building Reserves

While it may seem obvious that rates need to recover day-to-day operating costs, what may not be obvious, and is often overlooked, is the need for a utility to build reserve funds. To be sustainable, a utility's rates must also pay for the less frequent expense associated with replacing worn out equipment, and ultimately, to replace the facility itself. There are two types of reserve funds and each should appear as an expense item in the utility's budget. Throughout the fiscal year, portions of the budgeted amounts are taken from utility revenues and set aside in separate accounts for each fund.

Repair and Replacement (R&R) Fund

The R&R fund is used to replace equipment that has a useful life of less than 10 years. The amount to be set aside each year is determined by dividing the cost of the equipment by the estimated life of the equipment, in years. For example, if a piece of equipment is to be replaced in five years and costs $5,000 new, then $5,000 divided by five years, or $1,000, should be budgeted in the repair and replacement fund in each of the next five years.

Capital Replacement Fund

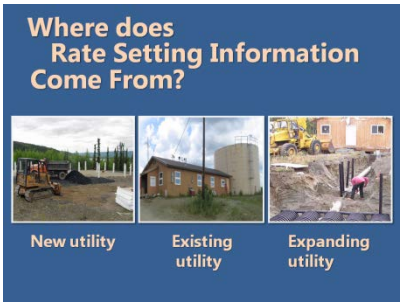
The average life of a system is about 20 years, after which major renovations or replacement of the facility will be necessary. It may be impossible for a utility to accumulate enough funds to replace the entire system. Having a portion of the cost saved will allow the project to be financed using loans which require down payments or grants which require matching funds. At least 10 percent of the total amount necessary to replace the system should be set aside in the capital replacement fund. The amount to set aside each year is determined by dividing 10 percent of the replacement cost by the 20 year estimated life of the facility. For example, a facility that will cost $2,000,000 to replace should be saving $10,000 each year.

($2,000,000 X .10 = $200,000 / 20 years = $10,000)

Rate Setting Information Source

The information needed and used in the rate setting process comes from various sources depending on whether the rates are for a brand new utility, a utility that is already in operation, or an existing utility undergoing expansion.

- **A new utility**



Information needed to establish utility rates for a brand new utility comes from the actual or estimated cost of construction and the design engineer's estimates of what it will cost to maintain and operate the utility. Estimates for labor, including administration and billing, office expense, employee benefits, liability and property insurance, electric, and heat need to be determined. Sometimes this information is provided in the form of a business plan or feasibility plan. Your governing body should carefully review these estimates with the design engineer to make sure that they are as accurate as possible based on available information, local conditions, and on the desired level of service. Using this information, the expense portion of a utility budget can be created to show what the revenue level should be to operate the utility. Actual costs from similar, existing facilities may also be used to estimate operating expenses.

- **An existing utility**

For an existing utility, information for utility revenues and expenses comes from your current and previous year financial reports and budgets. Operator reports and meter readings, if available, will provide information about quantities of water produced and consumed. Considered together, all of this information will allow you to conduct a rate study to determine if the present rates are adequate.

- **An existing utility under expansion**

If the utility is to be expanded, new or adjusted rates need to be calculated. The information required to calculate the rate adjustments comes from existing financial and management reports, the estimated or actual cost of new construction, and the estimated cost of providing service to the new areas.

Rate Setting Plan of Action

Putting together a good plan of action for the rate setting committee will simplify the process of determining and setting new and revised rates. A rate setting action plan should include the following steps:

1. Discuss the need for increased utility rates
2. Determine a rate setting committee
3. Establish a time frame
    a. Propose a work schedule and location
    b. Dates of meetings
    c. Date for completing the rate study
    d. Date for presentation to the full board or council
    e. Date for implementation

4. Assemble required financial and operational information
    a. Current financial reports
    b. Prior year financial reports
    c. Management reports
    d. Engineer's report or business plan for new utilities

5. Determine rate structure and compute rates
    a. Uniform flat rate
    b. Single block rate
    c. Decreasing block rate
    d. Increasing block rate

6. Discuss board's philosophy on rate setting and document as written policy
    a. Public relations policy
    b. Communications to users
    c. Subsidized users
    d. Fairness of the proposed rates

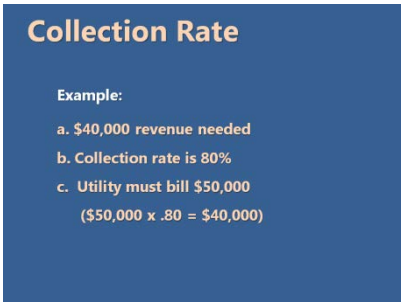
7. Future requirements and use
    a. Water requirements
    b. Engineering reports regarding proposed upgrades
    c. Cost of providing future services
    d. Other considerations

THE MECHANICS OF RATE SETTING

The method presented here emphasizes sharing the cost of service equally among users based on their consumption. While sharing the burden equally is a good goal, it should be used as a starting point for discussion by the rate setting committee. Committee members should examine their ideas of how best to share the costs of providing the service while considering the community's priorities. No rate structure is going to be 100 percent fair to all customers because each community will approach the issue of sharing the burden differently.

Some communities may want to favor certain customers such as elders over other customers who may be financially able to bear more of the burden. Some utilities may need to encourage certain classes to conserve water by charging more for higher than average consumption. The principles and ideas used for setting the rate structure should be documented and posted with the rates. It is important that people know the rates and understand the thought process that went into making the rates as fair and equitable as possible.

Determine the collection rate

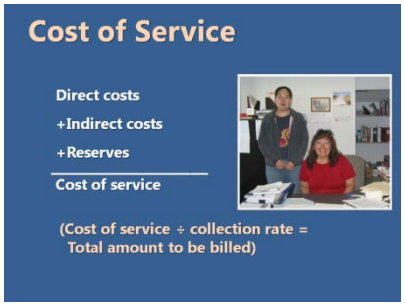


A factor that greatly affects the revenue received by the utility is the collection rate. The collection rate is that portion of the total amount billed that was actually collected by the utility, usually expressed as a percentage. For various reasons utilities rarely receive 100 percent of what is billed. The collection policy may not be enforced, or people may leave the community unexpectedly without paying their bill. Whatever the reason, if the amount needed to operate the utility is not collected, the utility will have to be subsidized from the general fund or it will fail financially. To ensure sufficient revenue for operations, the utility must include the amount that would otherwise be lost because of nonpayment of the utility rates.

For example, if a system costs $40,000 per year to operate and $40,000 is billed, but at the end of the year, only $32,000 is collected, the collection rate is 80 percent (32,000 divided by 40,000 = .80). The utility will have a deficit of $8,000 because some of the customers did not pay. For the utility to breakeven, the amount to be billed will need to be increased to an amount that will yield $40,000 with an 80 percent collection rate. To determine the correct amount, divide the cost of service by the collection rate. In this example, $50,000 should be billed to ensure that the utility receives $40,000 (40,000 divided by .80 = 50,000).

The collection rate is not a stable figure. It should be reviewed on an annual basis. Non-paying customers should be disconnected in accordance with your policies. They should not be allowed to receive continued service indefinitely. The issue of collections and disconnections will be covered in more detail in *Lesson 5: Collections*.

Determine the cost of service



The total of all costs associated with operating, maintaining, and replacing a water utility is called the cost of service. It includes direct costs, such as operator salaries and water treatment chemicals, as well as indirect costs, such as insurance, operator training, and billing expense. Before determining a rate, existing utility expenses must be reviewed to see that all costs to the utility are being included in the utility budget. Examine the budget or financial reports for the current year and, if available, for the last two or three years. Be sure all expenses including line items for the R&R fund and capital replacement fund are included in the budget. Lesson 3: Budgets explained the use of budget worksheets and how to calculate various expenses.

The cost of service for a new utility will have to be estimated. Actual or estimated cost of construction and the design engineer's estimates of what it will cost to maintain and operate the utility should be considered. In addition, estimates for labor, including administration and billing, office expense, employee benefits, liability and property insurance, electric, heat, etc. will need to be determined. Using this information, the expense portion of a utility budget can be created which will indicate what the revenue level should be to operate the utility. Actual costs from similar, existing facilities may also be used to estimate operating expense.

The cost of service for an existing utility that has undergone expansion or renovation of its treatment or distribution systems needs to combine current costs, as determined from financial reports and budgets, with estimates of operating costs for the new water treatment or expansion of service. The actual costs of the capital improvements need to be considered to revise the R&R and capital replacement contributions.

When all expenses to operate and maintain the utility for a year have been identified, including funds for reserves, the result is the annual revenue requirement, or cost of service. Taking into consideration that not all revenue will be collected, a higher target revenue amount needs to be determined using the collection rate. Divide the cost of service by the collection rate to arrive at the total amount to be billed to receive the necessary revenue. Rates will be based on this gross revenue figure, with the understanding that actual revenues received will be the lower cost of service figure.

Determine customer classification and usage

What types of customers does the utility serve and how are they classified? Typical water customers include:

- Residential homes
- Commercial businesses
- School
- Washeteria
- Clinic

Any customer that can reasonably be expected to consume large quantities of water (the school, a fish processing plant, etc.) should be metered and billed accordingly, usually using a per gallon rate. Businesses such as stores, restaurants and bed and breakfast facilities are usually classified and billed at a commercial rate. In most rural Alaskan communities, residential customers are not metered and are typically charged a flat "residential" rate. Facilities such as schools and clinics may use the commercial rate or be charged a separate rate. Total usage by each customer class may be determined in one of three ways:

- Use meter readings if they are available
- Use operator calculations if available
- Use an estimate based on gallons used per person

RUBA advisors have estimated that average communities use water at the following rates per person:

- Estimated per day usage on piped system is 60 gallons
- Estimated per day usage on piped and haul system is 30 gallons
- Estimated per day usage on haul system is 7 gallons
- School students and teachers estimated at 5 gallons per school day per student and per teacher
- Clinic average use is 26 gallons per day per health aide

Determining the quantity of water used by each customer class is easy if everyone has a water meter. Simply use the meter readings to determine a total quantity sold to each customer class and the total amount sold by the utility.

For systems where residential users are not metered, first ask the utility operator for the total gallons of water used in the community. Next, determine how many gallons each commercial customer uses by adding the meter readings from the store, washeteria, fish processing plant, etc.

Deduct that usage from the total. The remainder will be the amount used by the residential and other unmetered customers such as the school and clinic. Quantities for these other customers can be estimated using the above estimated rates, by multiplying gallons per person per day, times population, times days.

Residential use can be estimated as well, if data regarding the total amount of water produced is not available. For example, a community of 240 people on a piped water system has a washeteria with a water meter that indicates 98,000 gallons were consumed in a year. However, operator's records regarding total gallons of water produced are not available. We can estimate that the community will consume 5,256,000 gallons for residential use.

(60 gallons X 240 residents X 365 days)

If the school has 47 students and 3 teachers, we can estimate that an additional 45,000 gallons would be consumed. (5 gallons X 50 people X 180 school days)

The community's clinic, which is staffed by three health aides six days per week, would consume an estimated 24,336 gallons. (26 gallons X 3 people X 312 days)

To summarize, the community's water consumption is estimated as:

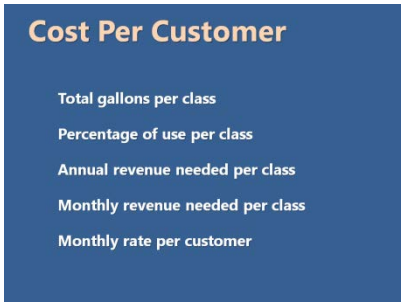
Washeteria use = 98,000 gallons (metered)
Residential use = 5,256,000 gallons (estimated)
School use = 45,000 gallons (estimated)
Clinic use = 24,336 gallons (estimated)
Total estimated usage = 5,423,336 gallons

When the estimated totals for residential, school, and clinic use are added to any amounts that are metered, the resulting total probably will not equal the total quantity of water produced as reported by the utility operator. Besides estimates not being exact, there may be some losses or unaccounted uses in the system caused by leaks, flushing distribution lines, use at the water plant, fire hydrant use, etc. Nonetheless, these estimates should represent accurate proportions used by the different classes of customers.

Finally, express the actual or estimated usage by different customer classes as a percentage by dividing the quantity used by each customer or customer class, by the total quantity used. The result is the percentage used by each:

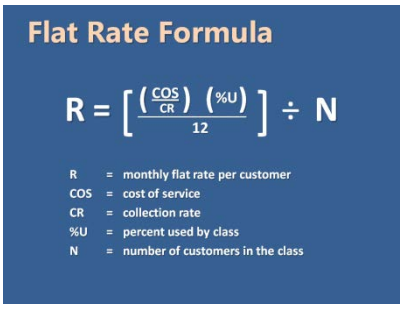
- Washeteria: 98,000 gallons used / 5,423,336 total gallons = .0181 or 1.8%
- Residential: 5,256,000 gallons used / 5,423,336 total gallons = .9691 or 96.9%
- School: 45,000 gallons used / 5,423,336 total gallons = .0083 or .8%
- Clinic: 24,336 gallons used / 5,423,336 total gallons = .0045 or .5%

Divide cost between customers



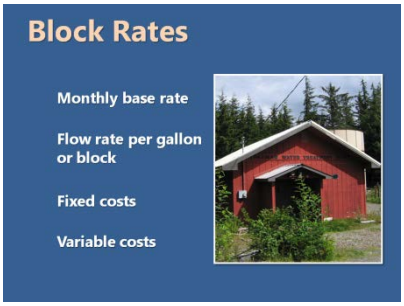
For each customer or class of customers for which a percentage of use has been calculated, multiply the gross revenue requirement (cost of service divided by the collection rate) by the percentage used, to get the annual dollar amount to be billed. Then divide the annual dollar amount by the months of service to get the monthly rate. For a class of customers, such as residential users, the monthly rate is then divided by the number of individual customers (households) within the class. This will result in the monthly flat rate for each residential customer.

The annual dollar amount for the washeteria can be divided by the number of gallons consumed to determine a price per gallon. (Alternatively, some other method can be used to collect the dollar amount depending on how the washeteria is managed.) If the gross revenue requirement for our example community is $50,000, the rates would be as follows:



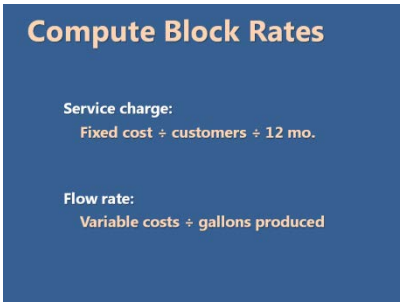
- Washeteria: $50,000 X .018 = $900 per year, or $75 per month to be collected in user fees, or as a per gallon charge.
- Residential: $50,000 X .969 = $48,450 per year. If the community has 65 customers charged the residential rate, each would pay $745.39 per year, or $62.12 per month.
- School: $50,000 X .008 = $400 per year, or $33.33 per month.
- Clinic: $50,000 X .005 = $250 per year, or $20.83 per month.

Utilities with water meters for all customers will use a block rate structure that generally divides the rate into two parts: a monthly base or service charge, and additional charges for pre-set quantities or blocks of water consumed. To calculate the two parts, the cost of service is split into fixed expenses and variable expenses.



Fixed expenses are those that occur each month regardless of the quantity of water sold and include funding for R&R and capital replacement accounts, office expense, insurance, and billing costs. Variable expenses are those that change from month-to-month depending on the quantity of water produced and include the cost of chemicals, utilities, operator salaries, and repairs.

Fixed expenses are generally recovered in the minimum monthly service charge. The charge is determined by dividing the total fixed expenses by the number of customers. Dividing the result by 12 gives a monthly rate for the service charge that represents each customer's fair share of the fixed costs of the utility. Often, the service charge includes the first 1,000 or 2,000 gallons and should be set high enough to cover variable costs associated with producing that amount of water.



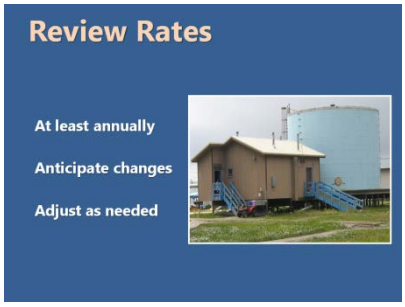
Variable expenses are recovered in the flow charge, which is the rate charged per 1,000 gallons. The utility's average cost to produce 1,000 gallons of water is determined by dividing the total monthly variable expenses by the total average water use in thousands of gallons. By charging a fixed price per gallon (or per thousand gallons) with the service charge, the utility would be utilizing a single block rate.

If all customers in our example community had water meters, a uniform block rate could be used. Assuming that metered usage equals the estimated amount and the $50,000 gross revenue requirement is divided into fixed costs totaling $28,300 and variable costs totaling $21,700 (including allowance for the collection rate), a monthly base or service charge and a flow rate for each gallon or thousand gallon block can be determined.

The service charge is determined by dividing fixed costs by the number of customers.

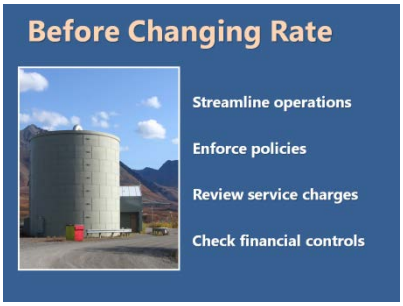
Flow rate is determined by dividing variable costs by the number of gallons produced.

How Often Should Rates Be Adjusted?



The question of adjusting rates should be addressed at least once a year when the utility's budget is drafted. As we have seen, it is essential that the utility manager have an accurate picture of the utility's operating costs so that those costs can be recovered with sufficient user revenues. Comparing actual utility expenses and revenues with budgeted amounts for the last year should indicate if a rate adjustment is necessary. However, even if the revenues were sufficient to cover costs last year, recent or anticipated changing conditions may require a rate adjustment. Increases in the cost of fuel, wages, insurance or necessary supplies and freight; new regulatory requirements; and an increase or decrease in the number of customers are examples of changing conditions. When considering rate adjustments, always examine your budget to see if expenses can be cut anywhere before increasing your rates.

Streamline your operation



When faced with the realization that utility revenues are not matching expenses, a final consideration before beginning the process of adjusting the rates is to be sure the utility is managed well. Customers should not be expected to pay for inefficiency and waste. Below is a list of some questions to ask before considering a rate increase:

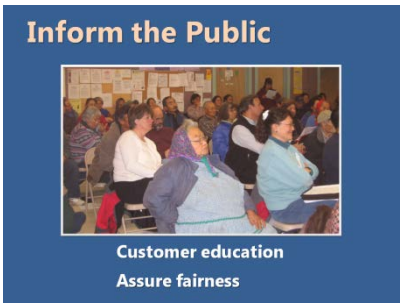
- Have you minimized your system's water loss by locating and repairing leaks?
- If meters are installed, are they in working order and when were they last calibrated?
- Are customers billed on a regular basis? Are payments made in a timely manner? Is your collection policy strictly enforced?
- Do fees and service charges for performing re-connects, service hook-ups and other actions reflect the actual cost to perform these services?
- Are penalties enforced against those who cheat the system?
- Are chemicals and supplies purchased in quantity or in the most cost effective manner?
- Do you have good internal financial controls to eliminate unauthorized spending, errors and fraud?
- Are thermostats adjusted as appropriate to reduce fuel consumption? Are lights turned off when not needed? Are buildings and equipment properly winterized?
- Do operators perform preventive maintenance as required, or do they wait for problems to occur first?
- Do employees regularly work more hours than approved in the budget? If yes, why? Are employees evaluated on a regular basis to determine whether they

are doing the work required within the hours provided?
- Do you keep an inventory of tools and critical spare parts on hand to minimize loss of revenue caused by interrupted service?

Any of these items could cause considerable unnecessary expense to a utility and addressing them could remove the necessity of a rate adjustment. When a utility is managed efficiently and a rate adjustment becomes necessary, being able to point to cost saving measures already in place will assure the customers that the utility is being managed well and they may be more receptive to a rate increase.

Inform the public

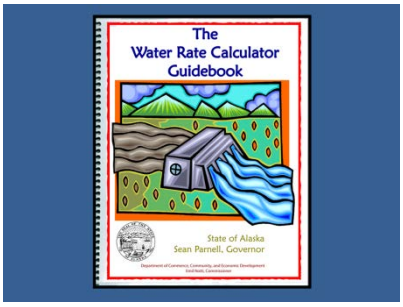
Educating customers should be an ongoing part of your utility's operation. The utility customers really are the owners as well, and their support is critical in maintaining a sustainable utility. Rate increases are never popular, but the more the public knows about the issues that affect the utility and what it costs to run it, the more supportive they will be of increases to the rates.



In the event that a rate increase is necessary, address the three following points in public meetings, and in writing, by publicly posting or directly mailing information to your customers:

- The rate increase is needed to cover the full cost of producing, treating, storing, and distributing water to customers. Explain that to provide safe, dependable water on a sustainable basis, the utility must be self-supporting, and not rely on funds from other sources that may not always be available. In order to pay for itself, the utility must rely on user fees to cover all of the costs. Encourage public participation in the budget process, allowing the public to better understand all of the expenses involved, and post special notices inviting them to budget meetings.
- The new rates are as equitable as possible, with each class of customers paying its fair share of the costs. Customers who understand the rate structure and believe that it is equitable and fair to all customers will be more willing to support a needed rate increase. Be sure customers know and understand the rates by posting them, and include documentation of the principles, priorities, and method followed to determine the rates. Be prepared to explain the rates and how they were determined.
- Explain any specific reasons for the proposed rate increases. For example: if the utility needs to increase rates to comply with new regulations, explain how regulatory compliance in meeting water quality standards contributes to the health and well-being of the community.

The Water Rate Calculator Guidebook



RUBA has published a Water Rate Calculator Guidebook as a resource to help rural utilities establish water utility rates. The guidebook includes a user-friendly interactive spreadsheet on CD that helps you:

- Identify all your expenses related to the production of water
- Determine your collection rate
- Determine annual water production, and water usage by customer type
- Create a rate structure using a concept known as "weighting"
- Identify the amount of revenue needed per customer

The Water Rate Calculator Guidebook also includes a "Fuel Cost Calculator" that allows you to calculate how much more revenue your utility will need to cover rising fuel costs. Although the guidebook makes assumptions that will not fit every water utility perfectly, you can adapt it to fit your community's water utility by changing some of those assumptions to reflect the situation in your community. Of course, accuracy of the calculator depends on accuracy of the financial and water production/usage records that you enter into it.

Summary

In its simplest form, rate setting divides costs among consumers of a commodity or service. In order for a water utility to be sustainable, it is important to carefully identify and recover all costs associated with providing the service, including costs of replacing the facility and its equipment. These costs must be recovered from the customers who receive the utility services. Rate setting is the process of establishing a per customer charge that will recover the full cost of providing the service in a manner that is fair and equitable. For utility rates to be fair, the utility must be operated and managed effectively and efficiently; customers should not be expected to pay for inefficiency and poor management.

Utilities often classify their customers in different groups based on their water-use characteristics or on specific service requirements. Costs are then generally allocated among the classes in a manner that charges each in direct proportion to how much water they consume, although the actual price each class of customer pays may vary in consideration of factors such as their ability to pay or conservation concerns. It is important that the customers know and understand the utility's rate structure. The more they are involved in the rate setting process and understand the costs and issues facing the rate setting board, the more they will support the utility and its rates.

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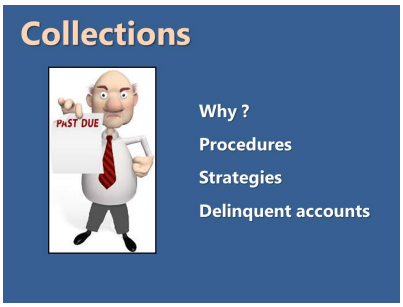
LESSON 5: COLLECTIONS

OBJECTIVES

Establishing fair and equitable rates is only part of the process for generating revenue from utility customers. To be sustainable, a utility must also be able to effectively collect revenue for the services provided to its customer. In this lesson we will take a closer look at:



- The importance of billing and collections
- What to include in billing and collections procedures
- How to promote customer payments
- How to deal with delinquent accounts

KEY TERMS

- Collections policy
- Utility ordinance
- Service agreement
- Delinquent accounts
- Disconnect procedures
- Invoice
- Accounts receivable report
- Aging report
- Customer statements
- Positive strategies
- Negative strategies
- Deferred payment plan

THE IMPORTANCE OF BILLING AND COLLECTIONS

A STORY OF ONE COMMUNITY

One community had a piped water/wastewater system and a washeteria constructed with funding from the State of Alaska. The local governing body elected not to bill community members for the services of the utility. A customer left town, shut off all heat in his house, and the line to the house froze and broke. This break weakened the entire loop and soon more than half the community members had no sewer or water service and they were not happy.

To make matters worse, the washeteria had deferred maintenance problems. Washers and dryers did not work because simple repair parts were not ordered; the door was left open, the water lines froze, and the building was vandalized. Unfortunately, because the community had elected not to bill customers, it did not have funds for major repairs, so the water line remained broken and the washeteria was shut down.

Only a few years after it was constructed, the washeteria was useless and the piped water system could not afford to operate. Community officials approached the state for funding, but the state was reluctant to provide financial aid because of the community's failure to maintain its own system. It took years to secure funds to repair the piped system and to build a new washeteria. Funding was provided only after the community adopted a utility ordinance ensuring customer payments and collections.

The point of this story is to show that utilities are enterprises and as such need to be self-supporting. Although this story may seem to be an extreme example, the fact is that many utilities in rural Alaska are struggling to survive because of difficulties collecting customer payments. Utilities are dependent on customer payments to pay for operating expenses and need to receive those payments to be economically viable. When one or more customers do not pay:

- The budget is not balanced
- The utility will have inadequate revenues to pay for ongoing expenses
- The utility is forced to reduce services
- An unfair burden is placed on other customers
- Eventually the utility will fail

The collection of customer payments is one of the most important – and sometimes difficult – tasks the utility is faced with. Without payment for services, the utility cannot continue to operate for long. For the utility to function effectively, it is essential that all customers pay for the services received in a timely manner.

In grant agreements with communities, the Village Safe Water Program requires that each community receiving funds for water/wastewater projects must pass a Rural Utility Business Advisor (RUBA) assessment of management capacity indicators. Two of the capacity indicators considered essential are that a community must be receiving enough revenue to cover the cost of doing business, and that it must adopt – and enforce – a collection policy. In the previous lesson, we looked at how to establish rates to generate the required level of revenue. In this lesson, we will look at how to make sure you are actually collecting the required revenues from your customers.

WHAT TO INCLUDE IN BILLING AND COLLECTIONS PROCEDURES

WHAT IS A COLLECTION POLICY?

A collection policy is a set of written procedures designed to get all customers who owe the utility money to pay in a timely manner. A collection policy has three basic components:

- Authorization to collect funds
- Written procedures
- Practical strategies

Failure to implement any one of the three components can jeopardize the ability to collect customer payments and the financial viability of the utility.

Authorization

Authorization to provide service and to collect fees comes from various sources. In city owned utilities, this authorization is established in the utility ordinance. The water utility is a separate department of the city, and Alaskan cities are required to establish departments by ordinance. Among other things, the utility ordinance should describe the rules and regulations of the utility, services that will be provided, the utility and customer responsibilities, the rate structure and method for changing rates, and the procedures for billing, payment and collections.

Utilities owned by tribal governments are not required by state law to adopt a utility ordinance; however, they must adopt the necessary rules and procedures needed to give them authority to operate. Adoption of either a utility ordinance or rules and regulations is one of the essential indicators in the RUBA assessment.

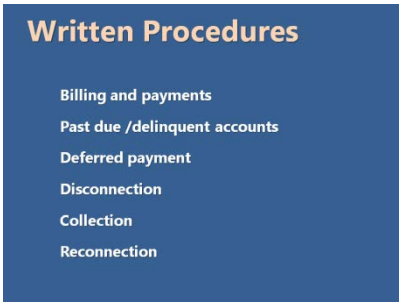
Authorization to collect fees also comes from two documents that establish the relationship between the utility and its customers -- an application for connection, and a service agreement.

The application and agreement may be combined as a single document. An application for connection is used by new customers requesting that a new service connection be installed. The application should be completed before any new connection is made.

A service agreement is for new customers with existing service connections. It describes terms and conditions between the customer and the utility. It should include a description of the customer's and the utility's responsibilities, billing and collection procedures, contact information, current rates, and possible additional charges.

The application for connection and service agreement are signed by the customer indicating agreement to the terms. If the utility does not have a signed agreement, the customer can challenge the utility's authorization to collect payment. A small claims court will not uphold the utility's right to payment without a signed agreement.

Written procedures



No collection system is effective without written procedures. Your utility ordinance (or rules and regulations) should include a section that describes the billing and collection process. The billing and collection procedures are written to allow the utility to collect payment or take appropriate action before a customer's past due amount is allowed to accumulate beyond a certain level. Customers who do not pay should not be allowed to receive service indefinitely. It is recommended that by the time a customer account is 60 days past due, the service should be disconnected, unless a payment agreement has been approved.

Written provisions specify:

- Billing procedures.
  All bills will be mailed on or before the _____ business day of each month. All bills will include the following statement: "Contact us if you have a complaint about your water or wastewater service. If you are not satisfied after contacting us, you may then file a complaint with the Regulatory Commission of Alaska. The Regulatory Commission of Alaska may be contacted toll-free at 1-800-390-2782, or TDD (907) 276-4533."

- Who is responsible for paying utility bills.
  The person signing the service agreement is responsible for payment of all services until written notice has been provided to the utility that the service is no longer desired.

- Payment due date.
  All bills are due within ____ days.

- Past due date.
  Provisions will state a certain number of days.

- Penalty for late payment.
  The utility may charge a late payment penalty or fee for past due amounts and will state the amount.

- Delinquent accounts.
  Bills not paid within ___ days of the billing date will be considered delinquent.

- Procedures for dealing with delinquent accounts.
  Written procedures will explain when a notice of delinquency will be mailed and describe further consequences, if any.

- Provisions for payment agreements.
  A utility may adopt payment agreements for past due accounts. The agreement may restore or continue service if the customer agrees in writing:
  - to make a down payment of _____% of the delinquent amount
  - to pay the remaining balance in _____monthly installments
  - to make payments on any new charges in a timely manner

- Disconnect procedures.
  Provisions describe when and how to send notice and to disconnect.

- Other action.
  A utility may state alternate methods of collection such as using a collection agency, small claims court, or assignment of the customer's Permanent Fund Dividend.

- Provisions for restoration of service.
  A utility will have written procedures for conditions describing how services will be restored to a customer.

Written procedures for billing and collections give your staff clear guidelines on when to bill customers and how to deal with late payments and delinquent accounts. Implementation of the procedures helps ensure that staff take appropriate action to collect customer payments necessary for the successful operation of the utility.

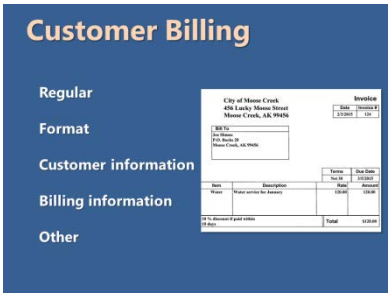
When writing collection procedures, make sure they are clear and adequate. For example, if your ordinance states that "the utility may charge a late payment fee or penalty on delinquent accounts," make sure you specify the type of fee or penalty and when it will be applied. Otherwise, the staff will not know what specific action to take. Will they need to bill a single, one-time fee or will it be a recurring finance charge?

Procedures should be practical. Using the example above, for a small utility staff it may be more practical to adopt a single fee for late payments than a recurring monthly finance charge.

Procedures should also be enforceable. If you do not have the means to disconnect customer services during the winter when the ground is frozen, it does little good for your procedure to say "service to delinquent customers will be disconnected no more than 15 days after the bill is delinquent." Whatever collection procedures you adopt, be sure the utility is willing and able to implement and enforce them.

How to Promote Customer Payments

Customer Billing



The first step in collecting customer payments is to bill your customers. Even if the utility charges a flat rate each month and the customers know that the same amount is due each month, it is important to bill each customer monthly. A utility is far more likely to receive customer payments on a regular and timely basis if it bills customers regularly. If your utility sends customer bills each month on the same date, customers will be able to budget their funds and they are likely to get in the habit of paying at the same time each month. If you are irregular or unreliable in billing for services, customers will be irregular and unreliable in paying.

When billing, use an invoice format that provides all of the appropriate information the customer needs. An invoice (or bill) is a source document issued by the utility to the customer indicating the product or service provided and the price. All invoices should include the customer's name, the billing date, billing period, payment due date, and invoice amount. The Regulatory Commission of Alaska requires water utility invoices to include a statement to customers regarding customer complaints (see sample invoice for required wording). We recommend that the monthly invoice also include the previous balance, payment received (if any), and the total balance due. In this way, customers will be kept up to date on the total amount they owe the utility.

Sample invoice form

Invoice
No. _____

City of Anytown
Water and Sewer Utility
PO Box 100
Anytown, AK 99111
Billing date_____
Payment due date_____

Customer Name_____
Customer address_____
_____
_____

Previous balance_____
Late fee_____
Current Month_____
Amount Paid_____
Balance due_____

You should contact us first if you have a complaint about your water or wastewater service. If you are not satisfied after contacting us, you may then file a complaint with the Regulatory Commission of Alaska. The Regulatory Commission of Alaska may be contacted toll-free at 1-800-390-2782, or TDD (907) 276-4533. *

If customers are metered, the invoice should also show the number of gallons used, along with the beginning and ending meter readings.

Maintain good accounting records

The utility should maintain an accurate and current record of each customer's bills and payments. These records are necessary to keep track of what customers owe and to assure customers that billing information is correct.

A receipt should be written for each payment received and the payment should be properly posted to the customer's account. When billing and payment information is kept current, you will be able to respond quickly and accurately to any questions customers may have regarding their accounts.

Most, if not all, computerized accounting software programs include an accounts receivable sub-ledger in which you can effectively track all invoices, payments, and balances for each customer. The accounts receivable report will show the total amount due from each customer. An aging report will show how long unpaid amounts from each customer have been outstanding (current, 30 days, 60 days, 90 days, 120 days overdue). These reports should be examined each month to ensure that customers are making payments in a timely manner as required.

If you do not use a computerized accounting system, you will need to keep manual records for each customer. A ledger card or file for each customer that details all activity (charges, payments, credits, and running balances) in the customer's account is updated monthly. The ledger will include a record of the total accounts receivable.

Customer statements

A customer statement provides a detail of the customer's billing and payments for a specified period of time (typically a month). It includes the beginning balance, a list of all charges and payments for the current period, and the balances due (current and past due). Some utilities mail out customer statements in addition to the monthly invoice. An advantage of customer statements is that it provides more information to the customer regarding a payment history – this is particularly helpful for businesses in which customers receive more than one invoice each month. A disadvantage of providing customer statements is that it requires additional cost for time and postage.

If your invoice includes the starting balance, current charges, and the total amount due, it is probably unnecessary to send a monthly customer statement in addition to the monthly invoice. However, if a customer has a complaint or question about the account, a customer statement showing all billing and payment records for the period may answer their questions or concerns. Most computerized accounting software will allow you to provide such statements quickly and easily.

COLLECTION STRATEGIES

There are two basic types of collection strategies: positive and negative. Positive strategies encourage advance or timely payment by customers, promote customer support, and provide options to customers who are behind in making payments.

[+] Positive strategies include:

- + Being clear about the requirement to pay for services
- + Providing the customer with a clear understanding of rate information
- + Meeting the customers' expectations for service
- + Billing regularly and consistently
- + Offering a discount for cash payment prior to a certain date
- + Offering one month free service when the first eleven months are paid in advance
- + Conducting a raffle for people who pay on time
- + Holding an annual meeting, with refreshments, prizes, and information about the utility
- + Voluntary assignment of the Permanent Fund Dividend check
- + Offering a seasonal payment plan
- + Offering a payment plan for customers with past due bills

[-] Negative strategies are typically applied to accounts that are past due and attempt to force a customer to pay.

- – Posting names of past due account holders
- – Adding late-payment penalties and fees
- – Disconnecting service
- – Turning the bills over to a collection agency
- – Pursuing legal action through small claims court

Any strategy that results in collection of fees is a good strategy, however it should not be applied arbitrarily. Your utility ordinance (or rules and regulations) should clearly identify when and how to apply any discounts, special rates, late payment fees, penalties and interest, and other collection strategies.

Provide excellent service

Customers expect good service. If you provide excellent service, you will have fewer complaints and better collections.

Discounts and credits

Discounts and credits are positive strategies that encourage customer payments and help to improve customer relations. Some utilities provide discounts to customers under certain circumstances.

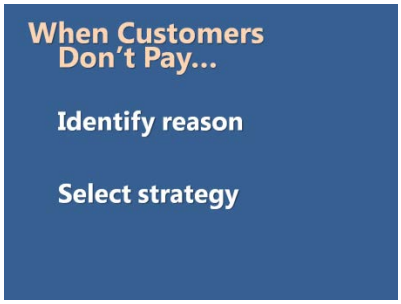
Examples may be:

> Two percent discount if payment is received within ten days of billing.
> Or one month free if customer pays for six months in advance.

When offering discounts, always consider the impact on the total revenue. For example, if everyone suddenly paid for six months in advance because the utility offers one month free service for such payment, the result would be more than a fifteen percent loss of total revenue. The utility could not afford such a loss without making significant changes to the budget or to services.

There may also be times when a customer is given partial or full credit for items that were billed (to resolve a customer complaint or contested service). Your utility ordinance or rules and regulations should include provisions regarding when and how to apply discounts and credits.

When customers don't pay



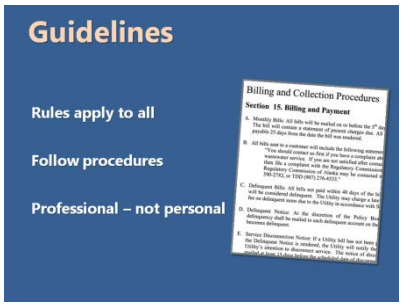
Customers have various reasons for not paying, but most excuses fall into one of two categories: they have a gripe about the service or they do not have the money. The first step is to try to understand why the customer is not paying. Once the reason has been identified, an appropriate strategy can be selected.

If the customer is not paying because he has a complaint, the utility should address the complaint. If the customer feels he was overcharged because of an incorrect meter reading, the meter readings should be re-checked. If the customer was right, the bill should be corrected, and the customer is only responsible for paying the corrected amount. If the customer was wrong, the utility should notify the customer that the meter readings are correct and the bill must be paid.

If the customer is delinquent because he has no money, then assignment of the Permanent Fund Dividend check, or creation of a payment plan may offer the customer a way to pay the utility without disconnecting service or turning the bill over to a collection agency. Any offer of a payment plan to pay for delinquent accounts should include specific terms and timelines for payment. The use of a payment plan to pay past due accounts does not preclude the customer from paying any new charges in a timely manner. If customers on a payment plan fail to

make any payments as required, their service should be disconnected, and payment of the full amount due is required before service is restored.

Rules apply to all



In order to be fair, the collection procedures must be applied consistently to everyone. This can be difficult in small communities, especially if the delinquent customer is a relative, council member, or fellow employee. However, it is important that all the customers, no matter the relationship or the position in the community, be treated equally.

Whatever action you take to collect customer payments, it should always be in accordance with the written collection procedures. These procedures tell you what to do and when to do it. Following the procedures helps you maintain equal and consistent action toward all customers in accordance with the utility's rules.

Remove the personal element

In small communities, collection of delinquent accounts can be very difficult because many customers are related to utility personnel. It can be difficult to send a late payment letter or disconnect notice to your grandmother, brother, or next door neighbor. However, utility staff must realize that enforcing collections is not a personal matter but a legitimate and necessary part of sustaining the utility. The best way to remove the personal element from the collection process is to stick to the written procedures at all times and use approved forms (such as a standard delinquent notice or disconnect notice) for all correspondence regarding collections. The approved forms should be included in the utility ordinance or rules and procedures.

HOW TO DEAL WITH DELINQUENT ACCOUNTS

ENFORCE SERVICE DISCONNECTION

In some communities, where disconnecting customer service requires digging up buried lines to get to the service tap, it can be difficult and costly to disconnect services especially in the winter. Nonetheless, customers must not be permitted to continue receiving service without some action being taken. Customers with delinquent accounts must be disconnected according to the provisions of the utility ordinance. Once customers realize that the utility is willing and able to enforce disconnection procedures, they are much more likely to pay their delinquent amounts.

Service After Disconnection

If a customer is disconnected for non-payment, the utility should still try to collect the delinquent amount. One option is to take a delinquent customer to small claims court. A disadvantage of going to small claims court is that it requires additional time, effort, and expense by the utility. Some communities turn past due accounts over to a collection agency: this option has the advantage of freeing utility staff from having to deal with the delinquent customers.

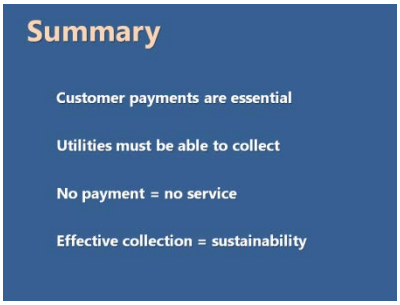
Customers who have been disconnected for non-payment should not be allowed to reconnect service until they have paid the delinquent amount along with any appropriate disconnect/reconnect fees.

If the balance due is more than the customer can pay at once, and your procedures allow for a payment plan or assignment of the Alaska Permanent Fund Dividend, the customer must agree in writing to pay all new charges in a timely manner while making the agreed upon payments on the delinquent account.

Enforce your collection policy

A collection policy is of little use if the manager and the governing body are unwilling to enforce it. If one or more customers are allowed not to pay, it undermines the ability of the utility to collect from other customers. When collection policies are not enforced, the number of delinquencies will increase, delinquent amounts will grow, and revenues will decline. Failure to implement the collection policy jeopardizes the utility's ability to meet customer expectations, to provide quality service, and to pay the expenses needed to operate. The utility's governing body must be willing to support utility staff when action to collect payment or to disconnect service is taken in accordance with the collection policy. Without such support, the governing body will undermine its own policies and procedures. The governing body can support the collection policy by reviewing the monthly financial reports and directing staff to take appropriate action to collect on past due accounts.

Summary



Utilities depend on customer payments in order to generate the revenues needed to operate. These payments must be made in a timely manner. In order to collect customer payments as needed, utilities must have authorization to collect revenues, written procedures for billing and collections, and practical strategies for collecting customer payments. Utilities must be able to identify and track amounts customers owe and to take appropriate action to collect amounts that are due. Customers who do not pay in a timely manner should not be allowed to receive continued service indefinitely. Effective collection strategies and procedures will help your utility maintain a good collection rate in order to generate the revenues necessary to achieve sustainability.

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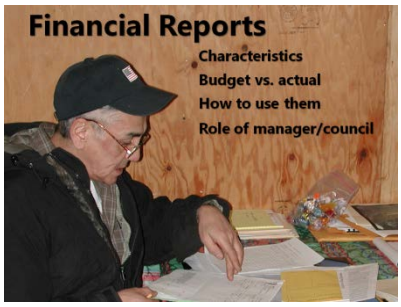
LESSON 6: FINANCIAL REPORTS

OBJECTIVES



Effective financial management requires the use of regular financial reports. This lesson will help you:

- Identify characteristics of financial reports
- Understand the importance of monthly budget vs. actual income and expense reports
- Learn about financial reports and how they can help ensure financial accountability
- Understand the role of the manager and the governing body in ensuring that reporting requirements are met

KEY TERMS

- Budget vs. Actual
- Variance
- Balance sheet
- Accounts receivable report
- Accounts payable report
- Cash flow report
- Audit
- Single audit
- Program audit
- Certified financial statement

CHARACTERISTICS OF FINANCIAL REPORTS

Utility managers and councils need financial information in order to make good decisions about the utility.

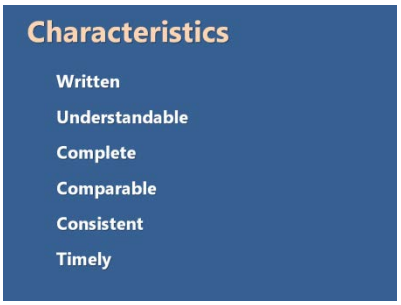
- Is the utility operating efficiently?
- Is revenue being received as expected?
- Is money being spent as approved in the budget?
- Where is our money coming from and going to?
- Can we account for all our funds or is money being misspent or missing?
- Are customers paying a fair amount or do we need to raise rates?
- Can we afford to purchase new equipment?
- Can we afford to increase washeteria hours or should they be reduced?

Managers and council members need accurate and timely financial information to answer these and similar questions, and to make informed decisions about the utility. Much of this needed information is provided in the form of financial reports.

In this lesson, we will discuss:

- Characteristics of financial reports
- Monthly financial reports
- Annual reports
- Wage and tax reports

In particular, we will examine one of the most important tools for effective financial management – the monthly financial report comparing actual income and expenses to the budget.



Before we discuss different kinds of financial reports, let's look at some characteristics that make up a typical financial report, no matter what kind it is.

First of all, any financial report presented to the manager or council should always be provided in writing. Verbal financial reports that are not accompanied by appropriate backup documents simply do not allow the manager or council members to see and understand the information they need.

In order to be useful, a financial report must be:

Understandable to the intended users. Each financial report should have a title or heading that describes the type of report it is and the reporting period. (E.g. Budget vs. Actual – Cash Basis. July 1 – 31, 20__). The information in the report (department headings, account names, line items) must be clearly identified and it should be presented in a format that is understandable. Pages should be numbered.

Relevant to the people who will be using the information. To be relevant, the information should help the manager and council make decisions about current and future activities and provide feedback about previous decisions.

Reliable and dependable. The report should be free from error.

Verifiable. Your organization should have source documents (invoices, receipts) to support the financial information presented in the reports.

Complete. Reports can be as detailed or concise as the governing body wishes and they should include all relevant facts. If a report is not complete, ask for a new report that provides the complete information.

Neutral and unbiased. That is, not favoring one group or another. Biased information can be misleading.

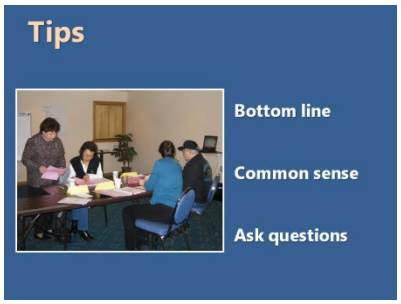
Comparable and consistent. Users of the financial reports must be able to compare reports from one period to another and from one fund or department to another. If you have decided to use cash basis accounting, then you need to be consistent in your reporting and use the same method each time. This is also true for the format of your financial reports. Changing the format from one reporting period to the next makes it very difficult to compare reports. If you are not satisfied with a particular format, request that it be changed – the new format, if approved, will then be used for all subsequent reports.

Timely. Financial information should be presented in time to allow the users to take appropriate action. Some financial reports have specific deadlines by which they must be submitted; otherwise, the entity will be penalized. For example, failure to submit an annual *Certified Financial Statement* by a specific date can result in loss of funding. We will look at some of those specific reports and their deadlines later in this lesson.

Financial reports come in many different sizes and shapes, from a single page report to many pages with multiple columns on each. It is not always easy to read and understand financial reports. They can seem confusing and intimidating, especially for people who are not familiar with accounting. Nonetheless, it is important that managers and council members take the time to know and understand the

information in the reports. If necessary, conduct a local work session – especially for new council members – in which the manager, treasurer, or other staff can explain how to read the financial reports.

Read from the bottom up



In most financial reports, the last line of each section shows the totals for that section, and the last line – or bottom line – of the report shows the totals for the whole report. The bottom line provides a snapshot of the financial report. When reading a financial report, it is often helpful to look at the bottom line first to get a quick picture of the financial situation.
After glancing at the bottom line, you should still take the time to review the detail lines, in order to understand how your organization arrived at the bottom line.

Use common sense

You do not need to be an expert to tell if something in a financial report makes sense or not. It would not make sense if the amount entered for miscellaneous expenses is 50 percent of your total budget. Some additional detail should be provided to define those "miscellaneous expenses" and they should be no more than five percent of any budget!

Ask questions

Never be afraid to ask questions. If the report contains information that you do not understand, ask the manager or the person who prepared the report to explain it in a way that you can understand. You may find that other people have the same questions but are afraid to ask.

MONTHLY FINANCIAL REPORTS

Why is it important to provide monthly financial reports? Your utility needs to provide financial reports often enough to allow the governing body to make decisions in a timely manner; otherwise, by the time information is received, it may be too late to act. If the utility is losing $4,000 per month because of increasing costs and poor collections and the governing body only receives quarterly, semi-annual or even annual financial reports, by the time they review the report, the utility will have lost $12,000, $24,000 or $48,000 respectively.

Monthly financial reports allow you to review your financial situation frequently enough that you can take appropriate corrective actions before a situation gets out of hand.

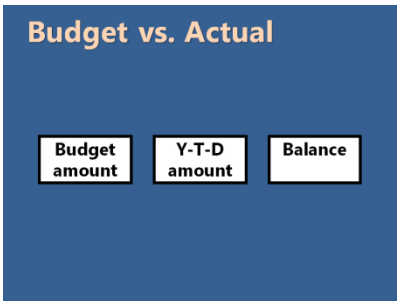
In order to receive capital project funding from the State of Alaska for water and wastewater projects, rural Alaskan communities must meet Best Practices financial management criterion, which include a requirement that monthly financial reports be prepared and submitted to the policy making body. The reports must be on a cash basis and must compare actual income and expenses to the approved annual budget amounts.

A monthly financial report displaying the organization's adopted budget amounts versus the actual revenue and expenses is one of the best tools available for building an effective financial management system. When provided on a monthly basis, this report enables you to:

- Monitor spending
- Compare actual revenues and expenditures to the budget
- Detect variances from the budget
- Take appropriate action in a timely manner
- Avoid overspending
- Avoid unauthorized spending
- Ensure adequate funding for the programs and services identified
- Comply with State of Alaska and funding agency reporting requirements
- Assess the cost of local programs and services
- Make informed financial decisions
- Ensure financial accountability

BUDGET VS. ACTUAL

In private enterprise, businesses use an income and expense report to show income received and the expenses paid for a specific reporting period. This type of report is often called a profit and loss report because the bottom line shows whether the company is making a profit or losing money. However, even though a profit and loss report provides useful information, it is not adequate to meet the needs of governmental accounting.



Remember that in governmental accounting, the budget is not merely a planning tool. It is an official document that establishes the specific purposes for which available revenue can be spent. Governing bodies have a responsibility to ensure that public funds are used as intended in the budget. At a minimum, governmental accounting requires the ability to compare actual income and expenses to the budget. A report comparing the budget to actual income and expenses must include the budget amount per line item and the actual year-to-date amount per line item.

The format of the report should match the format of the budget; that is, the report should use the same funds (general fund, enterprise fund), the same department headings, the same accounts and line items, and the same amounts as those in the approved budget. If the budget has been amended during the course of the fiscal year, the amended amounts should be entered in the new monthly financial reports.

Below is a monthly financial report using budget vs. actual figures for one department.

RUBA recommends including columns for the monthly amounts received, in addition to the budgeted and year-to-date amounts; however, some organizations find that including monthly amounts makes the report more difficult to read, especially when there are many different departments. One benefit of including monthly expenses and revenues, though, is that it allows management to spot seasonal trends.

To be on track with the budget, actual income should be at a level equal to or greater than the budgeted amount, and actual expenses should be at a level equal to or less than the budgeted amounts. Adding a fourth column to the report to show the variance (difference) between the budgeted amounts and the actual year-to-date amounts makes it much easier to see if you are on track with the budget. By checking the variance, you can tell if revenues are being received as expected and if expenses are being made within the approved spending limits. The variance can be expressed as a dollar amount or a percentage of the budget. Sometimes this variance is referred to as "Remaining balance" or "$ Over/under budget."

Monthly Financial Report: September 20__
Reporting Period: July 1 - September 30, 20__
Department: Water/wastewater

CASH BASIS		
ACCOUNT	**Budget**	**Y-T-D**
Revenue		
Washeteria user fees	$33,000	$8,112
Residential customers	$93,765	$19,152
Commercial customers	$19,000	$3,000
Total Revenue	$145,765	$30,264
Expenditures		
Electricity	$27,775	$6,762
Equipment purchase	$1,910	$0
Heating fuel	$33,750	$8,450
Insurance	$2,680	$2,680
Meeting fees	$1,500	$200
Miscellaneous	$750	$380
Operating supplies	$11,000	$2,260
Payroll taxes	$4,948	$1,204
Postage	$750	$160
Repair/replacement fund	$5,000	$0
Telephone/Internet	$1,260	$315
Travel and per diem	$1,510	$0
Vehicle gas and oil	$2,400	$720
Wages	$45,244	$11,310
Water testing	$3,325	$300
Worker's comp	$1,963	$1,963
Total Expenditures	**$145,765**	**$36,704**
Net Income / Loss	**-0-**	**($6,440)**

Monthly Financial Report: September 20__
Reporting Period: July 1- Sept. 30, 20__
Department: Water/wastewater

CASH BASIS				
A	**B**	**C**	**D**	**E**
Account	**Budget**	**Current Month**	**Y-T-D**	**$ Over/under budget**
Washeteria user fees	$33,000	$2,508	$8,112	-$24,888
Residential customers	$93,765	$7,200	$19,152	-$74,613
Commercial customers	$19,000	$2,000	$3,000	-$16,000
TOTAL INCOME	**$145,765**	**$11,708**	**$30,264**	**-$115,501**
Electricity	$27,775	$2,580	$6,762	-$21,013
Equipment purchase	$1,910	$0	$0	-$1,910
Heating fuel	$33,750	$3,412	$8,450	-$25,300
Insurance	$2,680	$0	$2,680	$0
Meeting fees	$1,500	$100	$200	-$1,300
Miscellaneous	$750	$92	$380	-$370
Operating supplies	$11,000	$920	$2,260	-$8,740
Payroll taxes	$4,948	$401	$1,204	-$3,744
Postage	$750	$48	$160	-$590
Repair/replacement fund	$5,000	$0	$0	-$5,000
Telephone/Internet	$1,260	$105	$315	-$945
Travel/Per diem	$1,510	$0	$0	-$1,510
Vehicle gas/Oil	$2,400	$260	$720	-$1,680
Wages	$45,244	$3,770	$11,310	-$33,934
Water testing	$3,325	$100	$300	-$3,025
Workers comp.	$1,963	$1,963	$1,963	$0
TOTAL EXPENSES	**$145,765**	**$13,751**	**$36,704**	**-$109,061**
Net Income	**$0**	**-$2,043**	**-$6,440**	**-$6,440**

In the above example, Column E shows the difference between the budget and the actual year-to-date amounts received and spent.

In our example, since September 30 marks the end of the first quarter of the fiscal year, actual income should be one quarter or more of the budget amount and actual expenses should be one quarter or less of the budget amount. Any deviations, especially large ones, should be examined. Small deviations from the expected variances do not always indicate a problem, but they can grow into big problems if they are ignored.

Not all deviations from the expected variance indicate a problem. If the annual workers compensation insurance premium is paid as a single lump sum at the beginning of the fiscal year, the fact that there is no remaining balance does not indicate a problem because no additional workers compensation expense is anticipated for the remainder of the fiscal year.

To effectively manage your utility's financial resources, you must also be aware of seasonal changes in the income and expenses. If your utility purchases fuel on a monthly basis, your heating costs are typically much higher in the winter than in the summer. You will need to take seasonal differences into account when reviewing your monthly financial report. If you have already spent one-fourth of the fuel budget in July, August, and September and the coldest months of the year are still ahead, fuel costs for the year will be higher than anticipated. You will need to either take steps to reduce the fuel cost for the remainder of the year or make some adjustment to the budget.

When reading the monthly financial report, always watch out for any line items and amounts that are not included in the approved budget and ask for an explanation. An entry for an unbudgeted line item or amount might simply be a bookkeeping error. The bookkeeper may have posted an approved expenditure to the wrong line item. On the other hand, an entry for an unbudgeted line item or amount might also indicate an unauthorized expenditure.

Corrective Action

If the monthly financial report shows that your utility is deviating from the approved budget, corrective action should be taken. When changes are noticed in time, relatively minor steps might be enough to get the budget back on track (lowering thermostats and turning off lights to reduce fuel and electric costs).

Examples of corrective action include:

- Better enforcement of collections procedures
- Adjusting facility hours
- Adjusting employee hours
- Cutting back on approved expenditures
- Raising rates
- Transferring funds from one line item to another

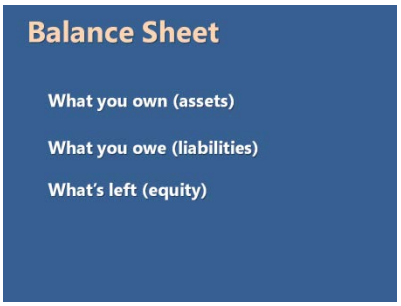
Failure to take appropriate corrective action in a timely manner will lead to more serious problems that can jeopardize the entire utility.

Other monthly reports

The monthly financial report is one of your most effective tools for building sound fiscal management, but it does not provide all the financial information you need. Other monthly reports that promote effective financial management include:

- A balance sheet
- An accounts receivable report
- An accounts payable report
- A cash flow report

BALANCE SHEET



A balance sheet is a summary of funds. It provides a snapshot of assets, liabilities, and equity on a specific date, typically the last day of the month, quarter, or fiscal year. Here is an example of a very basic monthly balance sheet.

City of Anytown Balance Sheet September 30, 20__		
Assets:		
Cash Assets:		
	Checking account	$50,225
	Investment account	$8,400
	Repair/replacement fund	$11,500
	Cash in safe	$4,248
	Total Cash Assets	**$74,373**
Accounts Receivable:		$6,300
Total Assets		**$80,673**
Liabilities:		
	Accounts Payable	$6,458
	Payroll Liabilities	$792
	Long Term Loan	$20,000
Total Liabilities:		**$27,250**
Equity		$53,423

Like all financial reports, the balance sheet can come in various formats. Most accounting software, including QuickBooks, will print a one or two page monthly balance sheet that includes numerous asset, liability and equity accounts including:

- Current assets: cash, accounts receivable, supplies for resale, inventory assets, payroll advances, and undeposited funds
- Fixed assets: land, property, equipment, vehicles, and depreciation

- Current liabilities: accounts payable, payroll liabilities (federal, FICA, Medicare, and ESC payables), accrued leave, and wages payable
- Long term liabilities: loans,extended payment plans, etc.

- Equity accounts: fund balances, retained earnings, net income

In the accounting formula, Assets minus Liabilities = Equity. On computer generated balance sheets, this is often shown as Assets = Liabilities plus Equity.

The number of asset, liability, and equity accounts depends on your utility and varies from one organization to another. Many people unfamiliar with accounting find it difficult to understand a computer-generated balance sheet. Here are a few things to look for when reading a balance sheet.

- Check total cash assets. If the number is very low, you may have a serious cash flow problem, or the numbers were entered incorrectly.

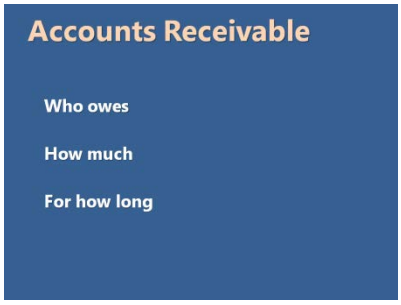
- Compare total current assets (cash assets and accounts receivable) with liabilities. If liabilities are greater than current assets, you will not be able to pay all of your bills.

- Check the balance in accounts receivable. If the number is high, it may indicate that customers are not paying their bills in a timely manner.

- Check the balance in accounts payable. If the number is high, it may indicate that bills are not being paid on time.

- Check the balance in payroll liabilities. If the number is high, it may indicate that payroll taxes are not being paid in a timely manner. Late payment of payroll liabilities can result in significant penalties and fees.

Accounts receivable report



In order to effectively collect payments from customers, water/wastewater utilities must bill customers on a monthly basis and must have an accounts receivable system that tracks customer billings and payments. The accounts receivable system can be manual or computerized. Either way, the system will track each customer's account, the amount the customer owes, and how long the amounts have been due. Most accounting software programs, including QuickBooks, can easily produce an Accounts Receivable (AR) report that provides this information.

Sample accounts receivable report:

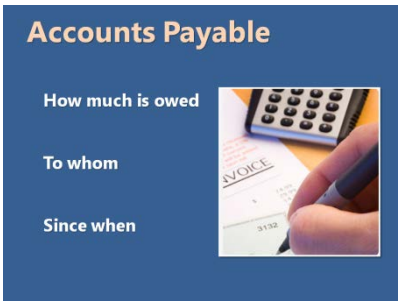
Moose Hill Water Utility
Accounts Receivable Report: June 30, 20___

Customer Name	Current	30 days	60 days	90 days	120 days	TOTAL
Arnold, Arnie	100	100	0	0	0	200
Buchanan, Bucky	0	0	0	0	300	300
Cleveland, Clem	100	100	0	0	0	200
Dahl, Ken, and Barbie	100	0	0	0	0	100
Dixon, Hickson	100	100	0	0	0	200
Duckworth, Donald	100	100	0	0	0	200
Hoody, Harvey	100	0	0	0	0	100
Lake, Luke	100	0	0	0	0	100
Little, Lulu	100	100	100	0	0	300
Madison, Addison	0	0	100	100	100	300
McKinley, Denali	100	0	0	0	0	100
Small, Sam	100	0	0	0	0	100
Woodsman, Tin	100	0	0	0	0	100
TOTAL	**$ 1,110**	**$ 500**	**$ 200**	**$ 100**	**$ 400**	**$ 2,300**

By reviewing an AR report on a monthly basis, the utility manager can tell which customers are paying on time and which accounts are past due or delinquent. Normally the governing body does not need to see the AR report: the accounts receivable amounts on the balance sheet usually provide enough information for the governing body.

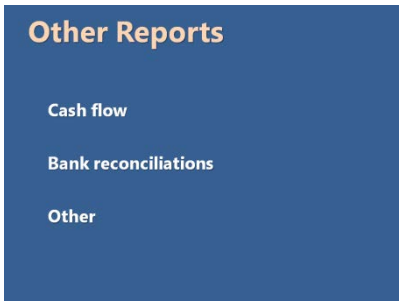
However, if the amount for accounts receivable is very high, or if the utility has problems collecting past due accounts, the governing body may wish to see the AR report to decide what action is needed.

Accounts payable report



An accounts payable (AP) report is similar to an accounts receivable report, except that it lists vendors to whom your utility owes money, the amounts that are owed, and how long the amounts have been owed. By reviewing an AP report on a monthly basis, the utility manager can tell if bills are being paid on time. Normally the governing body does not need to see the AP report unless the amounts due are very high or have been due for a long time.

Cash flow report



A monthly cash flow report shows the change in cash balances and includes beginning cash balances, cash in and cash out, and ending cash balances.

The cash flow report summarizes cash activity for a given period of time. It also is a useful planning tool. When provided on a monthly basis, cash flow reports make it easier for managers to analyze changes in cash flow and to predict future ones. This information helps managers decide when and how to make expenditures. Depending on cash flow, a manager may decide to postpone a planned purchase or work project until later in the fiscal year when cash is expected to be more readily available.

Here is an example of a cash flow report:

City of Anytown Cash Flow Report September 30, 20___	
Starting balances September 1, 20___	
Checking account	$ 52,063
Investment account	$ 8,200
Repair/replacement fund	$ 11,500
Cash in safe	$ 4,653
Starting cash Sept.1, 20___	**$ 76,416**
September income received	$ 11,708
September expenses paid	-$ 13,751
Ending balance Sept. 30, 20___	
Checking account	$ 50,225
Investment account	$ 8,400
Repair/replacement fund	$11,500
Cash in safe	$ 4,248
Ending cash Sept. 30, 20___	**$ 74,373**

Bank reconciliation

Bank reconciliation compares the numbers in your check register with those shown on your bank statement in order to uncover any discrepancies. Discrepancies can occur for a number of reasons including:

- One or more checks that cleared the bank were not entered in the check register
- Deposit or check amounts were incorrectly entered in the check register
- Deposited checks returned for non-sufficient funds were not entered in the check register
- Bank charges and fees were not entered in the check register

Bank reconciliation will also reveal if payments were taken from the bank account without the owner's knowledge as a result of lost or stolen checks. Bank reconciliations help you catch mistakes that you or the bank made and to ensure that your check register is accurate. They allow you to make the appropriate adjustments to the check register or bank account so that the amounts in your checkbook and your bank account balance.

Reconciliations should be completed each month after you receive your monthly bank statement. Typically, the treasurer, bookkeeper, accounting clerk, or other designated staff is responsible for performing the bank reconciliations. For effective internal control, it is recommended that the person who writes the checks and makes the deposits should not be the one who reconciles the bank statements. This is not always possible or practical in rural Alaskan communities with limited staff.

Normally, the governing body does not need to see the actual bank reconciliation sheets. However, the governing body should receive some assurance that the bank reconciliations are successfully completed in a timely manner.

ANNUAL REPORTS

Municipalities in Alaska are required to submit an annual budget and an annual financial report to the State of Alaska, Division of Community and Regional Affairs each year in order to comply with state law and to receive Community Assistance Program funding. Depending on the type of municipal government and on the amounts of state and federal money expended during a given fiscal year, each municipality is required to submit either an annual audit or a certified financial statement.

First class cities in Alaska are required to submit an annual audit. Second class cities may submit a certified financial statement instead of an audit, depending on the amount of funds received and expended.

AUDITS

A financial audit is a professional examination of an organization's financial records performed by a certified public accountant. The auditor determines whether the organization's financial statements fairly represent its financial conditions and whether records of financial transactions comply with generally accepted accounting principles.

A single audit is an audit of the entire entity and all its programs. There are both federal and state single audit requirements. The United States Office of Management and Budget, Circular A-133, provides that unless state or federal law imposes additional requirements, an entity spending $750,000 or more in federal financial assistance within a fiscal year is required to submit an annual single audit report for that year. *The State of Alaska Audit Guide and Compliance Supplement for State Single Audits* stipulates that an entity spending a total of $750,000 or more in state financial assistance during the entity's fiscal year is required to submit a state single audit. The supplement includes a section on calculating the cumulative total grant funds, and exclusions to that total.

A program audit is an audit of a specific program or grant for which funds are received. Program audits are often required by the funding agencies as a grant condition. Always check with your funding agency for information regarding specific audit requirements for that grant or program.

A professional audit is quite expensive. It will probably cost at least $10,000, and depending on the amount and condition of your financial records, can cost quite a bit more. If your financial records are not organized or properly maintained, it will be difficult to complete an audit and the cost will be higher. For this reason, it is very important to have a well-organized financial recordkeeping system and to keep your records up to date. When hiring an auditor, specify what type of audit your organization needs. Find out what documents the auditor needs to review, and have the documents ready for the auditor.

Upon completion of an audit, the auditor will produce a set of reports, and the auditor's opinion about your utility's financial records. The auditor's opinion will be one of the following:

- An unqualified (clean) opinion which states that the auditor believes the information to be materially correct as presented
- A qualified opinion which states that except for a non-GAAP item, the information is materially correct as presented

- A disclaimed opinion which states that the auditor cannot give an opinion on the presentation because of a lack of information or a departure from GAAP

Audits also include financial statements and a management letter, if requested. A management letter gives the entity information on areas of management the entity needs to change. If the audit is either a state or federally mandated single or program audit, reports on compliance with the rules and regulations of that funding program will be included.

For questions regarding state single audit requirements, contact the Alaska Statewide Single Audit Coordinator in Juneau (907-465-4666), or review the previously mentioned supplement available from the Alaska Department of Administration, Division of Finance at: http://doa.alaska.gov/dof/

For information regarding federal audit requirements, a copy of Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations is available at: http://www.whitehouse.gov/omb/circulars_default

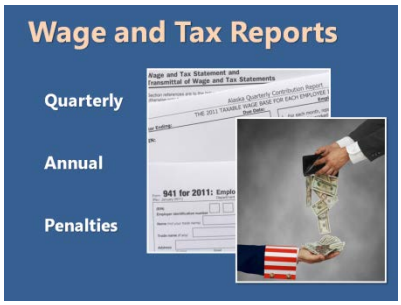
Annual certified financial statement

An annual certified financial statement is a statement of the income and expenditures of a second class city, compared to the budget. It is accompanied by a resolution of the governing body certifying that the information is true and correct. These statements are usually prepared by the treasurer or other designated staff and adopted by city council at a public meeting.

The Division of Community and Regional Affairs provides a digital copy of a *Certified Financial Statement Reporting Manual* on its wepsite. The manual includes instructions and forms for completing and submitting a certified financial statement. Some communities use the forms from the manual, others use their own forms.

If your city produces a financial report each month comparing actual amounts to the budget, then the report for the final month of the year will have almost all of the information you need to complete an annual certified financial statement. Some communities submit this final financial report along with a one-page overview that shows the starting balances, the cash in, cash out, and ending balances and a resolution, to meet the requirements for a certified financial statement.

Wage and Tax Reports



Every employer is required to comply with state and federal tax laws. The laws include requirements for withholding taxes, for providing an employer's share of certain taxes (Social Security, Medicare, ESC), for depositing taxes, and for reporting wages and taxes. Failure to comply with these regulations will result in penalties, interest, and other serious consequences. Your financial recordkeeping system must include a way to accurately calculate, track, and report employee wages and payroll tax liabilities.

Each employer is required to submit certain payroll and tax reports to the state and federal government. The most common required reports are listed below:

- Employer's Quarterly Federal Tax Return: Form 941 (due within 15 days after the end of each quarter of the calendar year)
- Alaska Quarterly Contribution Report (due within 30 days after the end of each quarter)
- Wage and Tax Statement for each employee: Form W-2 (submit annually to the Social Security Administration)
- Transmittal of Wage and Tax Statements: Form W-3 (submit annually to the Social Security Administration)

It is not the governing body's responsibility – and usually not the manager's responsibility either – to prepare and submit the wage and tax reports. However, the manager and the governing body are responsible for ensuring that designated staff submits the required reports and payroll liability deposits in a timely manner.

SUMMARY

Financial reports are an effective tool in helping managers and governing bodies ensure financial accountability. These reports provide managers and governing bodies a picture of the financial status of the utility. Your governing body needs to receive and review financial reports on a regular basis in order to make effective financial decisions in a timely manner.

A monthly financial report that compares the adopted budget to actual income and expenses is one of the best tools managers and governing bodies have for ensuring effective financial management. This report allows them to monitor spending, ensure the budget is followed, and avoid unauthorized spending. Other financial reports that can help you manage your financial resources more effectively include balance sheets, accounts receivable reports, accounts payable reports and cash flow reports.

Some financial reports, such as an annual audit or certified financial statement, are required in order to receive Community Assistance Program funds from the state. Rural utilities are required to provide monthly financial reports in order to be eligible to receive capital project funding from the state. All employers are required to comply with federal and state wage and tax reporting requirements. Managers and governing bodies have a responsibility for ensuring that designated personnel submit the required reports in a timely manner.

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LESSON 7: MANAGERIAL REPORTS

OBJECTIVES

In order to promote long-term sustainability, a utility manager must understand the relationship between the utility's finances and its operations. The utility manager should also be able to provide relevant information about those relationships to the governing body of the utility. In this lesson, we will:

- Discuss efficiency and effectiveness
- Explain capacity development
- Describe managerial reports
- Show how using managerial reports can improve effectiveness and efficiency

KEY TERMS

- Effectiveness
- Efficiency
- Technical capacity
- Financial capacity
- Managerial capacity
- Best Practices
- Sustainability

EFFECTIVENESS AND EFFICIENCY

Utilities must be managed effectively and efficiently in order to provide quality service and long-term sustainability. Effectiveness is the ability to produce a desired effect. For example, an effective utility would:

- Provide a dependable supply of safe drinking water
- Maintain washers and dryers at the washeteria with a minimum of down time
- Provide year-round piped water service

A utility can be effective, but if the cost of producing the desired result is too high, the utility will not be able to sustain itself for long. Efficiency is the ability to produce the desired effect with a minimum of expense, effort, or waste, and to do as much as possible with available resources. A utility that is managed effectively and efficiently will provide dependable service at the lowest possible cost to its customers.

Can a utility be effective without being efficient? Of course! For example, a utility can hire an operator to work eight hours every day when really the work can be completed in six hours per day. It can also be efficient without being effective. This is sometimes called "being cheap." For example, the utility might be able to provide service at a lower cost, but the quality of the service might not be very good.

When utilities provide service effectively and efficiently, they are able to provide quality service at a lower cost to their customers. Effectiveness and efficiency lead to excellence. Managerial reports provide information that will help governing bodies manage their utilities effectively and efficiently.

CAPACITY DEVELOPMENT

The 1996 Safe Drinking Water Act (SDWA) emphasizes the need to develop the capacity of drinking water systems. For water utilities, the Environmental Protection Agency (EPA) describes capacity as the ability to:

- Ensure consistent compliance with drinking water standards
- Use measures that bring about efficiency, effectiveness, and service excellence
- Promote continuous improvement

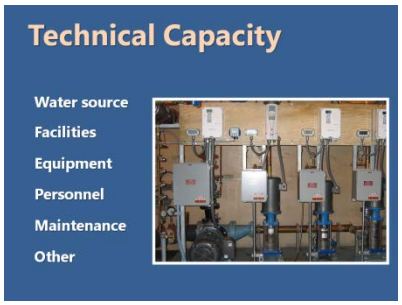
A utility that does not consistently comply with drinking water standards, that is not effective or efficient, that does not provide good service, and does not strive to continually improve will not be sustainable. In utility management, sustainability is the ability to provide the desired level of service at an affordable cost to the utility and to its customers. In effect, capacity is the ability to promote long-term sustainability.

The EPA identifies three distinct areas of capacity that are essential for achieving long-term sustainability:

- Technical (operational) capacity
- Financial capacity
- Managerial capacity

Each of these areas is interrelated with the others. Technical capacity depends on financial resources and managerial support. Financial capacity depends on operational input and managerial support. Managerial capacity depends on input from financial and operational systems. By themselves, none of the areas is sufficient, but together, they promote effectiveness, efficiency, and long-term sustainability. The Best Practices program evaluates a utility's management capacity by identifying specific criterion within each of the three major capacity components.

Technical Capacity



The EPA defines technical capacity as the ability to meet SDWA requirements. This ability requires an adequate water source, adequate infrastructure (water treatment, storage, and distribution system), and trained and capable personnel who can operate and maintain the utility system and equipment in order to provide service that protects public health and meets the customers' needs. Development of technical capacity includes, but is not limited to:

- Source water protection
- Operator training and certification
- Operation and maintenance of facilities and equipment
- Preventive maintenance
- Monitoring and reporting
- Inventory control
- Risk management

All of these elements are related to each other and are necessary to maintain – and improve – technical capacity. If one or more of these elements is missing, the utility will not be able to operate as effectively and efficiently as possible. For example, lack of preventive maintenance can lead to unnecessary and costly interruption of service; improper monitoring and reporting can result in poor water quality and perhaps even fines and penalties; lack of risk management can lead to accident, injury, and financial loss. By maintaining technical capacity, utility managers and operators help to ensure the long-term sustainability of the utility.

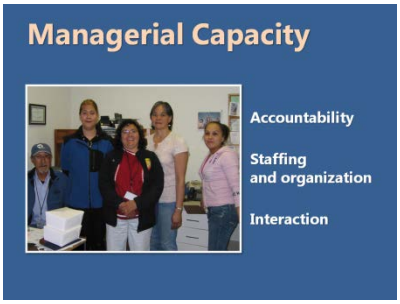
Financial Capacity

Financial capacity is the ability to acquire and manage sufficient financial resources. To achieve financial capacity, the utility must be able to identify the cost of providing service, and to receive sufficient revenues from its customers.

Development of financial capacity requires, and is not limited to, all of the elements we have discussed in the previous lessons: accounting systems, budgeting, financial reporting, rate structures, and collection policies. It also requires, but is not limited to:

- Trained, capable, and reliable personnel
- Adequate time and resources
- Financial policies, procedures, and controls
- Support from the governing body

Managerial Capacity



Managerial capacity can be defined as the overall ability of the utility to conduct its affairs in a way that promotes sustainability. Key components of managerial capacity include ownership accountability, staffing and organization, and effective interaction with customers, regulators, and other entities. To develop managerial capacity, a utility must have someone designated to oversee the day-to-day operation, maintenance and management of the utility, and to keep the governing body informed of the status of the utility.

Most rural Alaskan utilities owned and operated by the city or tribal government do not have the luxury of hiring a utility manager. Typically, the role of utility manager is carried out by someone with a different title. In first class cities, it will usually be the city manager. In second class cities, it might be the mayor, city administrator, operator, clerk or some other person. In tribal governments, it will typically be the tribal administrator. Whoever it is, they must be adequately trained, capable, reliable, and must possess the necessary skills to ensure that the utility is managed effectively and efficiently.

The development of managerial capacity also requires that the governing body provides direction and support to the utility staff. At the same time, utility staff must provide information to the governing body to enable it to make good decisions. In this lesson, we will focus on how managerial reports can provide this information to the governing body, in particular, information that helps to explain the financial reports and that helps to promote effectiveness and efficiency.

What is a Managerial Report?

A managerial report is a summary report on the status of the utility and a snap shot of any problems, issues, or concerns that should be brought to the attention of the governing body. It explains what is happening and helps to anticipate any changes, trends, or problems that need to be addressed. It can include information regarding operation and maintenance issues, collections, personnel, current activities, work orders or requests, future plans, and any other relevant information regarding the utility.

A managerial report can be presented separate from the financial and operational reports, or as a single combined report. It can be verbal or written, in narrative format or on standardized reporting forms, short or detailed, depending on the needs, conditions, and circumstances of your utility, and on the desires of the governing body. Managerial reports can:

- Explain information on the financial reports
- Summarize operational data and activity
- Compare operational data with financial data
- Compare data over time to analyze trends
- Analyze expenses by function
- Provide options and recommendations for change
- Provide other relevant information

Like financial reports, the managerial reports should be:

- **Useful and relevant.** If the information does not help the governing body understand current conditions in the utility or make decisions about the utility, then do not include it.
- **Understandable and complete.** Use plain, straightforward language and make sure all relevant information is included. The length and content of the reports may vary greatly from month to month depending on changing conditions, circumstances, and needs. The governing body should determine the general format for the reports (e.g. verbal or written; narrative or standardized forms.)
- **Reliable and dependable.** Make sure your facts are correct and your data is accurate.
- **Timely.** Management information should be provided in time to allow the governing body to take appropriate action as needed. Like the budget vs. actual financial reports, the management reports should be provided on a monthly basis.

Explain information in the financial reports

One of the most important parts of a managerial report is an explanation of information in the financial report. In Lesson 6, we learned that managers and governing bodies need accurate and timely financial reports in order to make good decisions and ensure financial accountability. However, financial information alone is not always enough. Often, additional information is needed to help interpret the financial information and to determine if the utility is operating effectively and efficiently.

A managerial report should explain any significant variances between the budgeted amounts and the actual amounts and should point out anything in the financial report that might affect the ability to stay on track with the budget, or that might require a budget amendment.

- If revenues are less than expected, why are they less?
- If expenditures are higher than expected, why are they higher?

- What affect do current levels of income and expenses have on the entire budget?
- Are there any trends that affect the budget?
- Are there any planned or anticipated activities that will affect the budget?

A good managerial report will include information that helps to answer the types of questions that arise from viewing a financial report. If the information is not included in the managerial report, the governing body should request it.

Sample financial report

Account	Budget	Month	Current Y-T-D	Balance
REVENUE				
Washeteria user fees	$33,000	$2,508	$8,112	$24,888
Residential customers	$93,765	$7,200	$19,152	$74,613
Commercial customers	$19,000	$2,000	$3,000	$16,000
Total Revenue	**$145,765**	**$11,708**	**$30,264**	**$115,501**
EXPENDITURES				
Electricity	$27,775	$2,580	$6,762	$21,013
Equipment purchase	$1,910	$0	$0	$1,910
Heating fuel	$33,750	$3,412	$8,450	$25,300
Insurance	$2,680	$0	$2,680	0
Meeting fees	$1,500	$100	$200	$1,300
Miscellaneous	$750	$92	$380	$370
Operating supplies	$11,000	$920	$2,260	$8,740
Payroll taxes	$4,948	$401	$1,204	$3,744
Postage	$750	$48	$160	$590
Repair/replacement account	$5,000	$0	$0	$5,000
Telephone/Internet	$1,260	$105	$315	$945
Travel and per diem	$1,510	$0	$0	$1,510
Vehicle gas / oil	$2,400	$260	$720	$1,680
Wages	$45,244	$3,770	$11,310	$33,934
Water testing	$3,325	$100	$300	$3,025
Worker's comp insurance	$1,963	$1,963	$1,963	0
Total Expenditures	**$145,765**	**$13,751**	**$36,704**	**$109,061**
Net Income/loss	**$0**	**(-$2,043)**	**(-$6,440)**	

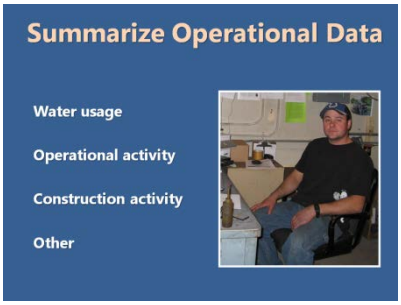
In this financial report, total revenues and total expenditures are each less than anticipated, and the result is a net year-to-date loss of $6,440.

What does this mean for the water/wastewater department budget? Does it mean that rates need to be raised right away and that expenses need to be cut immediately in order to stay on track? It is difficult to tell, without knowing more about the numbers. For example:

- Are any of the year-to-date amounts one-time payments or subject to seasonal fluctuations?
- Is the rate of income expected to stay the same for the rest of the fiscal year? If not, is it expected to increase or decrease?
- Are customer payments lower than expected because customers are behind in making payments, or because there are fewer customers than expected (some customers left town or were disconnected for non-payment)?
- Should actual heating fuel costs be right around 25 percent of the budget at the end of September, even though this is for three of the warmest months of the year when less fuel is needed? Does the actual cost represent the cost of fuel used or fuel purchased? How much of the purchased fuel is still available?
- Why are there no actual expenditures in the repair/replacement account or for travel and per diem?
- Why are year-to-date expenses for water testing only $300? Is this rate expected to continue for the remainder of the fiscal year? Are water tests being submitted as required?

The answers to these and similar questions are not evident from the financial report alone: the answers will help the governing body decide whether it needs to take any action. A managerial report can provide some of these answers. If customer revenue is low because customers are behind in making payments, enforcement of collection procedures may resolve the problem. However, if customer payments are low because there are fewer customers than expected, the governing body may need to consider a rate increase for the remaining customers. If the fuel expense is for fuel purchased and much of the fuel is still on hand, it may not be necessary to change the fuel budget. If most of the purchased fuel has already been used, the total fuel cost will probably be higher than budgeted.

By explaining information in the financial report, the managerial report gives the governing body a clearer picture of whether any action is needed to bring actual income and expenses in line with the budget, or to amend the budget. Will the utility be able to set aside money for the repair and replacement fund as budgeted? Will it be able to pay for travel and per diem for operator training as budgeted? A good managerial report will provide answers to these types of questions.



Summarize operational data

Managerial reports will often include a summary of operational data and activity for the reporting period.

Operational information might include:

- A summary of water usage data for the month
- A summary of work completed for the month
- A summary of new work scheduled
- A summary of hours worked by staff (regular hours, overtime hours)
- An explanation of any outages, interuptions of service, or other events during the reporting period that required additional work or special attention, outages or interruption of service
- A report on ongoing construction activities - if any - that affect the utility
- The total of new customers or disconnected customers
- Other items of interest regarding the utility

The summary of operational activity can be as brief or as detailed as the governing body desires; in any case, the focus should be on providing information that will help the governing body manage the utility effectively and efficiently. (See sample report on the following page.)

Operational report example:

Operational Activity for Month of October 20__		
	This month	**Previous month**
Water treated	130,630 gallons	125,456 gallons
Heating fuel used	750 gallons	840 gallons
KWh used	8,760 KWH	9,650 KWH
Operator hours	192 regular/35=OT	156 Regular
Extra labor	60 reg hrs/32overtime	-0-
Operator report submitted	**X** Yes	__ No
Bacti water test	**X** Yes	__ No
Task list from previous month	**Current status**	
Repair small washer in washeteria	Completed 10/14/20__	
Winterize equipment	Completed 10/31/20__	
Replace broken dryer door	Waiting to receive parts ordered	
New work orders	**Estimated cost**	
Replace broken dryer door	$360	
Repair leak in water treatment room	$250	
Replace starter on standby generator	$400	
Activities		
Water lines froze following a power outage on October 28. Standby generator at water plant was not operable because of faulty starter. By the time regular power was restored, water and sewer lines had frozen. Operators and two temporary laborers worked 4 days at 12 hours a day to locate and repair damaged lines. Extra cost for emergency repairs:		
	$3,002 for wages	
	$320 payroll taxes	
	$150 worker's comp	
	$750 supplies	
Other		
Operator scheduled to attend training next month	$562 travel	
	$420 alternate operator	

Operational data versus financial data

Managerial reports will often compare operational data with financial data to help explain the financial reports, to point out trends, and to show whether the utility is operating effectively and efficiently.

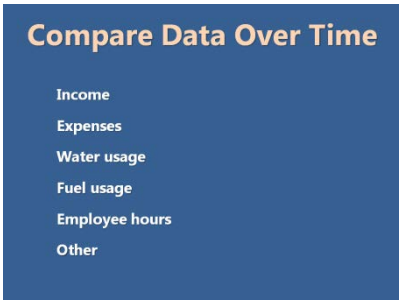
For example:
The monthly financial report for a water utility for July 1 – October 30, 20___includes the following information:

	Budget	Current Month	Y-T-D	Balance
Wage expense	$45,244	$6,772	$18,082	$27,162

The financial report suggests that wages are higher than expected, but offers no explanation of why this is so. If wages for the rest of the fiscal year were to be paid at the same level ($6,772) as for the current month, the available balance of $27,162 will be depleted within four months. The sample manager's report on the previous page shows that total hours worked in October were far greater than in the previous month due to regular and overtime hours for extra temporary labor for the operators. The managerial report shows that the extra hours were for four days of emergency repairs following a major freeze-up that occurred after a power outage. Additional information from the operational reports will help the manager and governing body decide which changes to make to the budget and to the operation and maintenance program of the utility.

Compare data over time

Managerial reports can include a comparison of changes in income, expenses, water usage, fuel usage, employee hours, and other data over a period of time. This comparison can help detect changes and trends and can help predict future patterns.



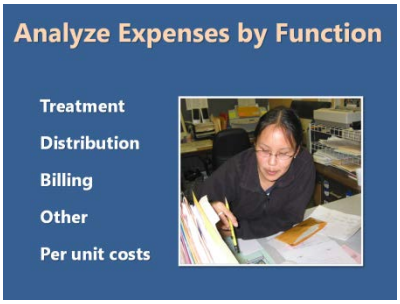
For example: if a comparison of utility income for the past six years shows that income from washeteria user fees has consistently been around $39,000 each year, and conditions in the utility have remained the same, it is probably safe to predict that revenue for the coming year will be approximately $39,000 again.

Comparing data over time can help with planning and budgeting. For example: comparing annual fuel consumption from one year to the next gives you a fairly accurate idea of how much fuel to budget for in the coming year. In some cases, a comparison of data over time can detect problems.

Real life example: A comparison of daily fuel meter readings over time showed that the utility used an average of 15 gallons of fuel per day during the winter. However, about once a week it jumped to 25 gallons per day. In this case, the comparison revealed a problem – someone was stealing 10 gallons each week!

Analyze expenses by function

One way for water utilities to determine how effective and efficient they are is to analyze expenses by function, such as the cost for treatment, the cost for distribution, or the cost for billing. Managers will use operational data and financial data to analyze these costs. Often, the analysis is expressed as a per-unit cost, such as the cost per gallon of water, the cost per water haul or sewer haul.



This type of analysis provides more information regarding the true expenses for operating the utility, and is especially helpful when trying to determine what rates to charge your customers, and whether or not the rates are fair.

	FY___	**FY___**
Gallons used	1,660,000	2,043,000
Total cost	$ 84,000	$ 99,193
Cost per gallon	$ 0.051	$ 0.045

In this example, the financial data shows that the total cost has increased. However, by comparing financial data with the operational data (gallons produced) the manager can see that the cost per gallon produced has decreased. Even though total costs have increased, the increase is due at least in part to the fact that more water is being used. Despite the increased total cost, the comparison of financial data with operational data indicates that the utility operated more efficiently in FYzz than in FY___. This information will be helpful when determining what, if any, rate adjustment is needed.

Provide options

If any problems, trends or anticipated changes are revealed in the financial and operating reports, the managerial report should also include some options and recommendations for dealing with them. Let's look at the example on the following page.

Financial Report: Cash Basis
Reporting Period: July 1 – September 30, 20____
Department: Water/Wastewater

Account	Budget	Month	Current Y-T-D	Balance
REVENUE				
Washeteria user fees	$33,000	$2,508	$8,112	$24,888
Residential	$93,765	$7,200	$19,152	$74,613
Commercial	$19,000	$2,000	$3,000	$16,000
Total Revenue	**$145,765**	**$11,708**	**$30,264**	**$115,501**
EXPENDITURES				
Electricity	$27,775	$2,580	$6,762	$21,013
Equipment purchase	$1,910	$0	$0	$1,910
Heating fuel	$33,750	$3,412	$8,450	$25,300
Insurance	$2,680	$0	$2,680	0
Meeting fees	$1,500	$100	$200	$1,300
Miscellaneous	$750	$92	$380	$370
Operating supplies	$11,000	$920	$2,260	$8,740
Payroll taxes	$4,948	$401	$1,204	$3,744
Postage	$750	$48	$160	$590
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Worker's comp insurance	$1,963	$1,963	$1,963	0
Total Expenditures	**$145,765**	**$13,751**	**$36,704**	**$109,061**
Net Income/loss	**$0**	**(-$2,043)**	**(-$6,440)**	

MANAGER'S REMARKS: The collection rate for July – September is 81% (about $4,290 less than anticipated). Total revenue is roughly $6,000 less than anticipated for this point in the fiscal year. We need to increase the collection rate in order to stay on track with the budget.

Three customers have already been disconnected: loss in revenue for remainder of fiscal year is 3 x $100 x 9 months = $2,100. No year-to-date expenditures have been made for the repair/replacement line item. The utility should be placing $417 each month into the repair/replacement account for scheduled future replacement of equipment and facilities.

No year-to-date expenditures have been made for travel and per diem. Travel is scheduled for the operator to attend annual training in Fairbanks in November and in May.

The $300 Y-T-D expense water testing is for three months of regular bacti tests. Bacti tests are required each month. An estimated $1,825 is also needed for lead and copper tests and VOC tests scheduled for January 20___.

If revenues and expenditures were spread evenly over the fiscal year, actual year-to-date amounts for the reporting period in the above example should be approximately one-quarter of the budget. At first glance, total year-to-date expenses in the above example seem to be on track with the budget, but as the manager's report points out, no money has been placed into the repair/replacement account and year-to-date expenses do not include anything for travel and per diem or for special water tests.

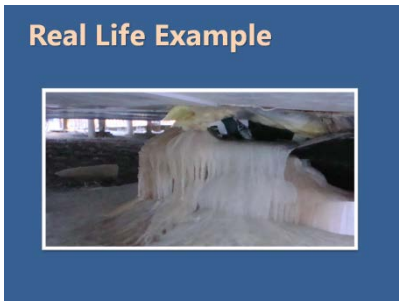
When considering available options, the utility should always seek to increase effectiveness and efficiency before raising rates or cutting services.

In this example, the manager's report might include the following options:

- Lower room thermostats when washeteria is closed. Estimated savings: $ 1,200.
- Washeteria is currently open six days per week/14 hours per day. Average income of $106 per day is less than half of what it would be if washers and dryers were in use all 14 hours. Recommend reducing washeteria schedule to five days per week/10 hours per day. Estimated savings from reduced employee hours, lower electric and heat consumption: $3,468. Estimated loss in revenue: $0.00.
- Increase monthly customer rates $5.00. Estimated increase in annual revenues: $4,200.
- Transfer money from general fund.
- Cancel schedule to place $5,000 into repair/replacement account
- Cancel scheduled operator training
- All work schedules must be preapproved by manager

Providing information about available options gives the governing body a better idea of what action can be taken to promote effectiveness and efficiency.

A Real Life Example...



A community operated a small washeteria and provided water/wastewater service to the school. To keep the washeteria facility heated, the operator had to transfer fuel from the bulk fuel storage tank once a week. The fuel transfer pump was out of order since July and the operator transferred fuel to the washeteria's day tank using a hand pump. During the summer, this was not a serious problem. However, in the winter months, it was critical to keep the day tank filled.

The manager's reports did not include any mention of this problem. In mid-November when outdoor temperatures were 30 degrees below zero, the washeteria's day tank ran out of fuel over the weekend and no one noticed until Monday morning. By that time, many of the water lines and wastewater lines were frozen. The washeteria had to be closed and the school was without water and wastewater service. It took several days and thousands of dollars to repair the damage.

If the governing body had known of the problem with the fuel transfer pump when it first occurred in July, it could have taken action to ensure that the problem would be addressed before cold weather arrived. Unfortunately, the manager's reports never mentioned the problem and the governing body was unaware of it until it was too late.

Other information

A manager's report should also include a brief explanation of any other relevant information that will help the governing body understand the current status of the utility and make effective management decisions, including the following:

- A status report on any utility projects being planned or currently underway.
- If the utility is required to comply with Best Practices as a condition for applying for or receiving capital project funding, the manager's report should include a brief explanation of the utility's current Best Practices status. Does the utility meet all of the Best Practices criterion? If not, what must it do to receive maximum Best Practices points?
- An explanation of any significant outstanding accounts payable (payroll tax liabilities, long term loans, bulk fuel purchases) including a brief description of plans to pay them.

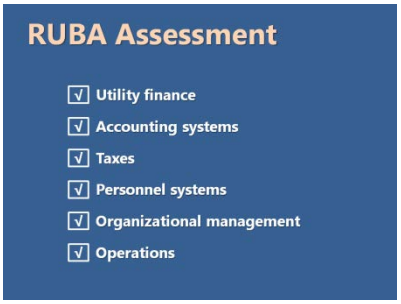
- A summary of planned activities, scheduling changes, or personnel actions. For example: "Service will be off July 12-13 for annual cleaning of the water tank. The operator is scheduled to attend a one-week training class next month. The alternate operator will fill in during that week. If any problems occur at the utility during that time, please contact the alternate operator at_____. The utility clerk is taking two weeks annual leave next month. The approved substitute clerk has been hired to work two hours per day during that time to collect revenues from the washeteria, receive customer payments, check the utility's mail, and answer the phone."
- An explanation of any changing conditions that may affect the utility's ability to generate sufficient revenues or to provide the desired level of service. Some examples of changing conditions include:
  - a decline in the local population and the number of utility customers
  - changes in the water quality
  - declining water flow from the well pump (lower flow could mean the well is running dry)
  - significant changes in water usage patterns

Any other concerns regarding the utility's ability to operate efficiently and effectively should be explained. The sooner the governing body is aware of such conditions or concerns, the better chance it has for taking appropriate action in a timely manner.

RURAL UTILITY BUSINESS ADVISOR (RUBA) PROGRAM

Managing and operating a public water/wastewater facility can place a huge administrative and financial burden on a community. The Rural Utility Business Advisor (RUBA) program was created by the Alaska Department of Commerce, Community, and Economic Development (DCCED), the Alaska Department of Environmental Conservation (ADEC), and the U.S. Environmental Protection Agency (EPA) to help rural Alaskan communities meet the challenge of managing and operating sustainable sanitation utilities. The RUBA program tries to achieve this goal by conducting regional utility management training classes, and by assigning RUBA staff members to work with specified communities. RUBA staff is available to provide on-site training, at the request of the local governing body, although with recent cuts to the DCRA budget, communities requesting such on-site training will have to bear the cost of staff travel and lodging for the onsite training. RUBA staff might also be able to provide on-site training in cases where funding for travel and lodging is provided by a third party entity. On-site assistance can include training for council members, managers, clerks, bookkeepers, and other staff, and can cover a wide range of topics to promote effective local government and effective utility management.

What is a RUBA management assessment?



A RUBA management assessment is a formal survey that evaluates the community's ability to successfully manage a public utility. It is a managerial report conducted by a RUBA staff person visiting the community. Typically, the RUBA assessment is conducted because the Alaska Village Safe Water (VSW) Program requires communities to pass a RUBA assessment before they can apply for or receive VSW grant funds for water/wastewater projects. In these cases, the purpose of the assessment is to assure the funding agency that the community has the ability to manage and operate the proposed utility for the design life of the facilities (generally 20-30 years).

However, communities with existing utility facilities can request a RUBA assessment even if they are not required to do so by a funding agency. Based on the RUBA assessment, a work plan may be developed to help strengthen the community's ability to provide long-term sustainability of the sanitation utility. The work plan would spell out ways to address any deficiencies identified during the RUBA management assessment.

The RUBA assessment examines 54 specific criteria in the following six areas:

- Utility Finance
- Accounting Systems
- Taxes
- Personnel Systems
- Organizational Management
- Operation of Utility

Criteria for each section are categorized as either essential or sustainable indicators. Essential indicators identify policies and practices that are critical to successfully manage a utility. If a community does not meet all of the essential indicators, the utility will have serious problems, and will likely fail in the next one to three years. A utility will not be able to survive if its expenditures are greater than its revenues. A utility will not be able to function very long or ensure the safety of its customers if it does not have an adequately trained operator. Meeting all of the essential indicators is one of the requirements for applying for construction funds.

Sustainable indicators identify policies and practices that make a utility cost-effective to operate and increase the likelihood of long-term success. It is much more likely that the utility will achieve sustainability if it receives enough revenue each year to establish a repair and replacement fund. Other sustainable indicators include a chart of accounts that identifies income and expense categories and bank reconciliations that are completed on a regular basis.

Essential indicators in the RUBA assessment look at many of the topics we have addressed in this course including the following:

- Are all revenues and expenses for the utility listed in the utility budget?
- Has the utility adopted a balanced realistic budget?
- Are monthly financial reports prepared and submitted to the policy making body?
- Is the utility current in paying its electric bills?
- Does the utility have a year's adequate fuel supply, or a financial plan to purchase an adequate supply?
- Is the utility receiving sufficient revenues to cover operating expenses?
- Has the utility adopted a collection policy, and does it actively follow it?
- Does the utility bill its customers on a regular basis?
- Does the utility have an accounts receivable system that tracks and reports customer accounts and payments?
- Does the utility have an accounts payable system?
- Does the utility have a payroll system that correctly calculates and tracks payroll?
- Does the utility have a cash receipt system for recording and identifying income received?
- Does the utility have a cash disbursement system that records how money was spent?
- Is the utility able to accurately calculate, track and report payroll tax liabilities?
- Is the utility current on filing federal and state tax reports?
- Is the utility current on making federal and state tax deposits?
- If there are any past due tax liabilities or liens is the utility paying them as required?

A good utility manager will make sure that all of the essential indicators are met. If a RUBA assessment indicates that essential or sustainable indicators are not being met, RUBA program staff will be available to help the utility develop its management capacity to meet the indicators and promote long-term sustainability.

Summary

Proper financial accounting and reporting alone do not guarantee that your utility will be able to operate effectively and efficiently. To make effective decisions that promote long-term sustainability for the utility, the governing body and utility managers need additional information about the cost of providing services, any changes in costs, and changing conditions in the utility and community. This additional information should be provided to the governing body in the form of regular managerial reports that help to explain the financial reports, point out any current or potential problems, provide options and recommendations, and provide a snapshot of the management of the utility.

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Appendix

FINANCIAL MANAGEMENT APPENDIX

TABLE OF CONTENTS

Sample Budget Forms

Budget Worksheet - Carryover Cash 2
Budget Worksheet - Estimating Revenue 3
Budget Worksheet - Estimating Payroll and Payroll Taxes 4
Budget Worksheet - Estimating Non Payroll Expenditures 5
Budget Worksheet - Budgeting For Reserves – Renewal and Replacement Fund 6
Budgeting For Reserves Worksheet - Capital Replacement Fund 7
Budget Appropriations Ordinance Form 8
Budget Amendment Ordinance 9

Sample Budget City of Porcupine Hill

Sample Budget- City of Porcupine Hill 11
Sample Budget City of Porcupine Hill – FY ____ Budget Overview 12

Sample Water Utility Forms

Application for Connection 16
Water and Sewer Utility: Service Agreement 17
Notice of Delinquency and Request for Payment 18
Service Disconnection Notice 19
Deferred Payment Agreemen 20

Sample Billing and Collection Procedures

Sample Billing and Collections Procedures from a Utility Ordinance 21

Sample Reports

Managerial Report 25

RUBA Assessment Report Form

Assessment of Management Capacity Indicators 27

Glossary 33
Commonly Used Abbreviations 40
Available Resources 41

Best Practices Scoring Criteria Guidance

Budget Worksheet Carryover Cash

Date:_____

A. Cash and bank balances (enter the account name and amount):

Account Name:	Amount
Total Cash and Bank Balances	

B. Total anticipated income for remainder of fiscal year

Source	Amount
Total anticipated income for remainder of fiscal year	$

C. Total anticipated expenses for remainder of fiscal year

Description	Amount
Total anticipated expenses for remainder of fiscal year	$

A. Total cash and bank balances _____
B. Anticipated revenues +_____
C. Anticipated expenditures +_____
D. Carryover cash =_____

Budget Worksheet-Estimating Revenue

Revenue Category	Show your computation	Budget Amount

Total Revenue _____

BUDGET WORKSHEET -ESTIMATING PAYROLL AND PAYROLL TAXES

Name of Department and/or Grant _____

1. Estimating Payroll

Job Title	Hourly pay rate	x	Hours per week	x	No. of weeks	=	Total
		x		x		=	
		x		x		=	
		x		x		=	
		x		x		=	
		x		x		=	
		x		x		=	
		x		x		=	

Total Gross Wages $_____

NOTE: For employees on a salary receiving the same gross pay each pay period, use the following computation formula: [Gross pay x No. of pay periods] = Total. If the city does payroll on the 16th and the beginning of the month, there are 24 pay periods in the fiscal year.

2. Estimating Payroll Taxes (Employer's Share)

_____% FICA (or PERS)

_____% Medicare

_____ % SUI

_____% PERS (if applicable)

_____% Total X $_____ Gross Wages = **Payroll Taxes $**_____

(To determine the upward limit of wages subject to Medicare and ESC taxes review IRS Circular E.)

Budget Worksheet - Estimating Non Payroll Expenditures
FY___

Name of Department and/or Grant _____

Expenditure Category	Show your computation	Budget Amount

Total Expenditures _____

Budget Worksheet - Budgeting For Reserves — Renewal and Replacement Fund

For equipment for which utility must save 100% of the replacement cost - generally non-major equipment with a life expectancy of 10 years or less.

Item	Replacement Cost	÷	Life Expectancy	=	Amount to save per year
		÷		=	
		÷		=	
		÷		=	
		÷		=	
		÷		=	
		÷		=	
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		÷		=	

Total to save per year $_____

Budgeting For Reserves Worksheet - Capital Replacement Fund

For major equipment and facilities - generally with a life expectancy of 10 years or more - for which utility must save at least 10% of the replacement cost.

Item	Replacement cost	10% of cost	÷	Life expectancy	=	Amount to save per year
			÷		=	
			÷		=	
			÷		=	
			÷		=	
			÷		=	
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			÷		=	
			÷		=	

Total to save per year: $_____

BUDGET APPROPRIATIONS ORDINANCE FORM

ORDINANCE NO. _____

AN ORDINANCE FOR THE CITY OF NULATO PROVIDING FOR THE ESTABLISHMENT AND ADOPTION OF THE BUDGET FOR FISCAL YEAR _____

BE IT ENACTED BY THE COUNCIL OF THE CITY OF _____, ALASKA

Section 1. Classification.
This is a Non-Code Ordinance.

Section 2. General Provisions.
The attached document is the authorized budget of revenues and expenditures for the period July 1 through June 30 and is made a matter of public record.

Section 3. Effective Date.
This ordinance becomes effective upon its adoption by the city council.

First Reading _____
Public Hearing _____

ADOPTED by a duly constituted quorum of the City Council of _____, Alaska, this _____ day of _____ 20___.

Mayor

ATTEST:

City Clerk

Attachment: Authorized FY _____ Revenues and Expenditures.

Original To be kept by the City

Copy to be returned to the Department of Commerce, Community and Economic Development

Budget Amendment Ordinance

Ordinance No. _____

AN ORDINANCE FOR THE CITY OF _____ PROVIDING FOR THE AMENDMENT OF THE BUDGET FOR FISCAL YEAR 20____

BE IT ENACTED BY THE COUNCIL OF THE CITY OF _____

Section 1. For the fiscal year of 20 __ , estimated revenues and/or expenditures have varied from the estimates in the approved budget.

Section 2. For the current fiscal year the budget is amended to reflect the changed estimates as follows:

Budget Category	Original Budget	Amended Budget
_____	from $ _____	to $ _____
_____	from $ _____	to $ _____

Section 3. The budget is hereby amended as indicated and any portion of the approved budget inconsistent with this amendment is repealed.

Section 4. This ordinance becomes effective upon its adoption by the city council.

First Reading:_____
Public Hearing:_____

ADOPTED by a duly constituted quorum of the City Council of _____ Alaska, this _____day of _____, 20 .

Mayor

ATTEST:_____
City Clerk

Original to be kept by city
Copy to be returned to the Department of Community and Economic Development.

FY 20____COMMUNITY ASSISTANCE PROGRAM
BUDGET FORM

(Name of Municipality)

Please describe below how your municipality proposes to use its estimated FY 20 Community Assistance Program payment.

FUEL	$_____
ELECTRICITY	$_____
INSURANCE	$_____
EDUCATION	$_____
WATER/SEWER	$_____
PUBLIC SAF E TY	$_____
FIRE	$_____
ROAD MAINTENANCE	$_____
HARBORS	$_____
HEALTH	$_____
LOCAL TAX RELIEF	$_____
GENERAL ADMINISTRATION	$_____
OTHER	$_____
OTHER	$_____
OTHER	$_____
ESTIMATED PAYMENT	$ _____

Sample Budget- City of Porcupine Hill

Attached is a sample budget overview for the City of Porcupine Hill. This sample budget uses the principals of governmental fund accounting to identify revenue and expenses for four major funds and for the departments within those funds as follows:

- General Fund
- Administration and Finance
- Council
- Public Safety
- Public Works
- Enterprise Fund
- Water Department
- Fuel Depot
- Special Revenue Fund
- Clinic
- Suicide Prevention Program
- Capital Fund
- Office Equipment Upgrade
- Teen Center Renovation

In a municipal budget, some departments might operate at a loss while others might operate at a profit. As long as excess revenue is unrestricted, it can be used to subsidize other departments. For example, expenses for the Public Works Department exceed revenues by $48,627, and expenses for the Water Department exceed revenues by $8,500. This sample budget clearly shows that the excess revenue from the Fuel Depot ($57,127) subsidizes the Public Works Department and the Water Department. Remember that restricted revenues (program grants, capital grants) cannot be used for subsidizing other programs and departments without being reallocated by the funding agency.

In the attached budget, total income from State shared revenues (Community Assistance Program payments) is $112,359: this revenue is unrestricted, and is used in the budget to subsidize various departments that do not generate sufficient revenues on their own (Admin and Finance, Council, Public Safety, and the Water Department.) The budget clearly identifies how the State shared revenues will be used.

As you can see in the attached budget, the Water Department does not generate sufficient revenue from customers to pay for its estimated expenses. The source of additional revenue needed to balance the Water Department budget is clearly identified as $27,277 from State shared revenues and $8,500 as an inter-fund transfer from the Fuel Depot.

Sample Budget City of Porcupine Hill – FY _____ Budget Overview

	General Fund Admin/Finance	General Fund Council	General Fund Public Safety	General Fund Public Works	General Fund Total
INCOME					
Charges for Services					
Fundraisers			12,000.00		12,000.00
Grants					
Miscellaneous income	2,000.00				2,000.00
Rents and leases	6,000.00			18,000.00	24,000.00
Sales					
State shared revenues	57,548.00	8,300.00	19,234.00		85,082.00
TOTAL INCOME	**65,548.00**	**8,300.00**	**31,234.00**	**18,000.00**	**123,082.00**
EXPENSE					
Capital purchase				5,200.00	5,200.00
Electricity	1,500.00		960.00	5,975.00	8,435.00
Heating oil	2,800.00		2,800.00	7,000.00	12,600.00
Insurance	2,413.00	180.00	3,021.00	5,299.00	10,913.00
Meeting fees		6,000.00			6,000.00
Operating supplies	3,000.00		1,700.00	5,000.00	9,700.00
Other NOC	500.00	300.00	300.00	500.00	1,600.00
Payroll taxes	5,095.00	459.00	1,861.00	2,214.00	9,629.00
Professional services					
Repair and renewal				4,000.00	4,000.00
Supplies for resale					
Telephone	2,400.00		620.00	420.00	3,440.00
Travel and per diem		1,361.00			1,361.00
Vehicle gas/oil			2,500.00	4,053.00	6,553.00
Wages	47,840.00		17,472.00	26,966.00	92,278.00
TOTAL EXPENSE	**65,548.00**	**8,300.00**	**31,234.00**	**66,627.00**	**171,709.00**
Profit or Loss	0.00	0.00	0.00	-48,627.00	-48,627.00
Interfund transfer				48,627.00	48,627.00
BALANCE	0.00	0.00	0.00	0.00	0.00

		Enterprise Fund Fuel Depot	Enterprise Fund Water Dept.	Enterprise Fund Total
INCOME				
	Charges for Services	2,300.00	120,000.00	122,300.00
	Fundraisers			
	Grants			
	Miscellaneous income			
	Rents and leases			
	Sales	283,980.00		283,980.00
	State shared revenues		27,277.00	27,277.00
TOTAL INCOME		**286,280.00**	**147,277.00**	**433,557.00**
EXPENSE				
	Capital purchase		2,000.00	2,000.00
	Electricity	1,176.00	27,710.00	28,886.00
	Heating oil	1,400.00	29,050.00	30,450.00
	Insurance	2,667.00	6,657.00	9,324.00
	Meeting fees		1,800.00	1,800.00
	Operating supplies	400.00	6,000.00	6,400.00
	Other NOC		700.00	700.00
	Payroll taxes	2,148.00	6,230.00	8,378.00
	Professional services		4,000.00	4,000.00
	Repair and renewal		8,500.00	8,500.00
	Supplies for resale	200,710.00		200,710.00
	Telephone	480.00	1,210.00	1,690.00
	Travel and per diem		1,750.00	1,750.00
	Vehicle gas/oil		1,670.00	1,670.00
	Wages	20,172.00	58,500.00	78,672.00
TOTAL EXPENSE		**229,153.00**	**155,777.00**	**384,930.00**
Profit or Loss		57,127.00	-8,500.00	48,627.00
	Interfund transfer	-57,127.00	8,500.00	-48,627.00
BALANCE		0.00	0.00	0.00

		Special Revenue Fund Clinic	Special Revenue Fund Suicide Prev Program	Special Revenue Fund Total
INCOME				
	Charges for Services	26,109.00		26,109.00
	Fundraisers		10,000.00	10,000.00
	Grants		18,000.00	18,000.00
	Miscellaneous income			
	Rents and leases			
	Sales		8,000.00	8,000.00
	State shared revenues			
TOTAL INCOME		**26,109.00**	**36,000.00**	**62,109.00**
EXPENSE				
	Capital purchase		1,900.00	1,900.00
	Electricity	1,700.00	1,440.00	3,140.00
	Heating oil	3,500.00	2,800.00	6,300.00
	Insurance	2,033.00	1,204.00	3,237.00
	Meeting fees			
	Operating supplies	1,800.00	2,000.00	3,800.00
	Other NOC	500.00	500.00	1,000.00
	Payroll taxes	864.00	1,874.00	2,738.00
	Professional services			
	Repair and renewal	3,000.00		3,000.00
	Supplies for resale		4,500.00	4,500.00
	Telephone	2,600.00	480.00	3,080.00
	Travel and per diem		1,702.00	1,702.00
	Vehicle gas/oil	2,000.00		2,000.00
	Wages	8,112.00	17,600.00	25,712.00
TOTAL EXPENSE		**26,109.00**	**36,000.00**	**62,109.00**
Profit or Loss		0.00	0.00	0.00
Interfund transfer				
BALANCE		0.00	0.00	0.00

	Capital Fund Office Equip Upgrade	Capital Fund Teen Rec Renov.	Capital Fund Total	ALL FUNDS TOTAL
INCOME				
Charges for Services				148,409.00
Fundraisers				22,000.00
Grants	25,000.00	40,000.00	65,000.00	83,000.00
Miscellaneous income				2,000.00
Rents and leases				24,000.00
Sales				291,980.00
State shared revenues				112,359.00
TOTAL INCOME	**25,000.00**	**40,000.00**	**65,000.00**	**683,748.00**
EXPENSE				
Capital purchase	25,000.00	31,336.00	56,336.00	65,436.00
Electricity				40,461.00
Heating oil				49,350.00
Insurance		1,094.00	1,094.00	24,568.00
Meeting fees				7,800.00
Operating supplies				19,900.00
Other NOC		400.00	400.00	3,700.00
Payroll taxes		690.00	690.00	21,435.00
Professional services				4,000.00
Repair and renewal				15,500.00
Supplies for resale				205,210.00
Telephone				8,210.00
Travel and per diem				4,813.00
Vehicle gas/oil				10,223.00
Wages		6,480.00	6,480.00	203,142.00
TOTAL EXPENSE	**25,000.00**	**40,000.00**	**65,000.00**	**683,748.00**
Profit or Loss	0.00	0.00	0.00	0.00
Interfund transfer				0.00
BALANCE	0.00	0.00	0.00	0.00

Application for Connection to the City of_____, Alaska Water and Sewer System

Date: _____ Date installation requested by: _____

Services requested: o Residential o Commercial o Other_____ o Water o Sewer

Property Owner:

Name:_____
Phone number:_____
Mailing address:_____
Location address:_____

(Use space below – or provide attachment – to show property lines, street and structures)

By signing this document the Applicant agrees:

1. That connection to the Utility's system is at the discretion of the Utility and that if such connection is made I am obligated to pay all cost of the connection as required, in accordance with terms established by the Utility.
2. To grant the Utility the necessary easements and/or right-of entry to perform the work requested on my property.
3. To grant the Utility the right to inspect any work that I perform and any equipment or materials that I install on my property (including in my residence) as part of this service request in order for the Utility to assure compliance with applicable building and construction codes.

By signing this document the Utility agrees:

1. Upon inspection of the applicant's property, to provide the applicant with an accurate description of the work that must be performed, and the materials that must be used in order to make the service connection in compliance with applicable building and construction codes and requirements, and to provide the Applicant with a copy of – or access to – such codes and requirements
2. To provide the Applicant with a work order listing the labor, materials, equipment and costs (including any deposit amount) for work that will be performed by the Utility to make the requested service connection.
3. To perform the work requested as efficiently and effectively as possible, with the minimal amount of disruption to the Applicant's property.

Signature of Applicant Date

_____ _____

Signature and Title of Authorized Utility Representative Date

_____ _____

Attachments: o Legal Description
o Right of Entry
o Easement

CITY OF _____, ALASKA
WATER AND SEWER UTILITY: SERVICE AGREEMENT

Customer's name: _____ Phone number:_____
Mailing address:_____
Service address:_____
(street address or legal description)

Type of Service requested: residential___ commercial_ other_____
Service requested to begin on (date):_____ Date actual service began:_____

This agreement is made between _____(hereinafter called "Customer") and the City of _____ Water and Sewer Utility (hereinafter called "Utility") P.O. Box_____, _____ AK, 99_____, and is effective the date service begins.

By signing this agreement the Customer agrees to the following:

1. To abide by the water and sewer ordinances, rules, and policies adopted by the Utility.
2. To pay any connection fee, deposit, or pre-payment required by the Utility prior to connection of service.
3. To pay the Utility, a monthly service fee for water/sewer at the rate and under the terms established by the Utility.
4. That delinquent bills are subject to penalties and actions as described in the Utility's ordinances, rules and policies, including, but not limited to, imposition of interest charges, late payment fees, deposit forfeiture, referral to a collection agency and disconnection of service.
5. To accept responsibility for maintaining the pipes and plumbing on the Customer's property and within the residence, from the point where the Utility service connection is made.
6. To maintain adequate heat, insulation and/or circulation for the plumbing on the Customer's property so as to prevent freezing that could cause damage or loss to the Utility; and to accept responsibility for turning on – and paying for the use of – heat tapes controlled by switches located in the customer's residence for the purpose of thawing customer's frozen service lines as needed.
7. To not continuously run water during cold weather to keep the pipes from freezing, or else to pay an "Excessive Use Charge" as set by the Utility for continuously running water.
8. In the event of water shortages, the Customer agrees to work with the Utility on measures to conserve water use.
9. To grant to the Utility, its officers, employees, agents and assigns, the right of ingress and egress to the property and residence for purposes of reading meters, and for inspection of piping, plumbing, fixtures and other appurtenances intended to carry water, sewage, and waste water when such inspection is warranted. The ingress and egress shall be at a reasonable time, and whenever possible the Utility shall provide advance notice of any inspection.

By signing this agreement the Utility agrees to:

1. Provide a continuous and sufficient supply of potable water at adequate pressure to the Customer, in an effective and efficient manner.
2. Provide adequate sewer service as described in the Utility's ordinance, in an effective and efficient manner. Attachment: _____Utility billing and collection policies and procedures.
3. Notify the Customer of any proposed or actual change in service in a timely manner.
4. Bill the Customer on a regular monthly basis for water/sewer service.
5. Repair or pay for repair of Customer's property caused by action of the Utility.

All bills, invoices, statements, payments, notices or correspondence shall be sent to the respective parties at the mailing addresses stated above:

_____ _____
(Customer) (date)

_____ _____
(Utility: signature) (date)

Name of Utility_____ Phone Number_____

Address_____

Notice of Delinquency and Request for Payment

Customer's name: _____

Address: _____

This is to inform you that your account is past due in the amount of $__.___.
Please pay the amount due in full no later than _____.

If you cannot pay the full amount, you may enter a deferred payment agreement or complete a voluntary assignment of your Permanent Fund Dividend to transfer all or a portion of your dividend to the Utility to pay off your debt.

Failure to pay in full, enter into a payment agreement, or complete an assignment of dividend form by_____ will result in additional fees being charged to your account, and the initiation of disconnect procedures.

Date: _____

Utility Representative: _____

Name of Utility_____ Phone Number_____

Address_____

SERVICE DISCONNECTION NOTICE

Customer's name: _____
Address: _____

You were provided notice on _____ that your account in the amount of _____ for water/sewer service is delinquent. You have failed to pay this service bill in full by the due date and you have not made other satisfactory arrangements for payment.

Your failure to pay constitutes a violation of Chapter _____, Section ___ _____of the _____Utility ordinance. Because you have failed to pay the amount due as required, the Utility hereby gives notice that your water and sewer service will be disconnected on

If you have not made arrangements for payment by _____, a final notice will be delivered to your service location three working days prior to the scheduled disconnection date. Your account will be billed an additional fee of _____for delivery of the final notice.

Failure to pay the required amounts, to enter into an approved deferred payment agreement, or to complete a voluntary assignment of your Permanent Fund Dividend to transfer all or a portion of your dividend to the Utility to pay off your debt, before the scheduled disconnection date will result in your service being disconnected, in additional fees, and in further action to collect the amounts due.

Date: _____

Utility Representative: _____

Name of Utility_____ Phone Number_____

Address_____

Deferred Payment Agreement

Customer's name_____

Address: _____

Balance Due:_____

I have previously received notice that I have a past due account for water/sewer services. I am unable to pay the past due amount in full at this time. In order to avoid disconnection of my water/sewer service because of non-payment, and in order to stay in compliance with requirements established by the _____ Utility, I agree to the following:

1. to immediately make a down payment of _____ on my past due account for water/sewer services (the down payment must be at least _____% of the past due amount);

2. to pay the remaining balance in _____monthly installments of $_____ each, due no later than the 5th business day of each month, until the balance is paid in full;

3. to pay, in addition to the above, any current and future bills for water/sewer services in a timely manner so as not to increase the past due amount in any way, until such time as the past due account is paid in full.

I understand that if I am late in making any payment as agreed to above, the Utility may disconnect my water/sewer service at any time without further notice, and may also seek other remedy for collecting any amounts due.

Customer:_____

Approved by: _____

Date: _____

Sample Billing and Collections Procedures from a Utility Ordinance

Utility rates to be charged for the various classifications of services are published in Schedule A. Utility rates may be revised on a periodic basis as needed to allow the Utility to recover the cost of providing service to its customers. Such rates can be revised by resolution of the Policy Board.

Section 13. Notices

A. Notices to Customers: Notices to customers from the Utility will normally be in writing and will be mailed or delivered to the customer at the address on file with the Utility. Where conditions warrant, and in an emergency, the Utility may notify customers by telephone, messenger, or radio.

B. Notices from Customers: Notices from the customer to the Utility may be given in writing, or verbally by the customer or his authorized representative at the Utility office. However, notices that result in a change in service or in work being performed by the Utility for the customer must be accompanied by the appropriate application required by Section 7(C) or a signed repair order or work order.

Section 14. Security Deposit

A. At the time of application for service, the applicant shall submit a security deposit to the Utility, equal to one month's charges for services. The deposit will not be considered as payment on the account, but will be retained by the Utility until such time as service to the customer is terminated. At such time, the deposit will be applied toward the closing bill, with any excess refunded to the customer.

B. If an account becomes delinquent and it is necessary to discontinue the service, the security deposit amount shall be applied to the unpaid balance of the account. Service will not be restored to the customer until such time as the security deposit is replaced, along with payment of all delinquent amounts due, and payment for labor and materials expended by the Utility for the service disconnect/reconnect.

C. The security deposit is assumed to reside with the person signing the Utility Application Form, not the premises served. No interest shall be paid on the security deposit money.

Section 15. Billing and Payment

A. Monthly Bills: All bills will be mailed on or before the third business day of each month. The bill will contain a statement of present charges due. Payment of each monthly bill will be due within 25 days from the date of the bill. The Policy Board may, by resolution, change the due date, but not to less than 15 days after the date of mailing.

   Customers are liable for payment of all services rendered until written notice has been received at the City office that the service is no longer desired. Such notice shall be provided at least thirty days before the customer desires to terminate the service. Failure to receive a bill for any given period of time will not relieve the customer of the liability for payment of the service.

   All bills sent to a customer will include the following statement: "You should contact us first if you have a complaint about your water or wastewater service. If you are not satisfied after contacting us, you may then file a complaint with the Regulatory Commission of Alaska. The Regulatory Commission of Alaska may be contacted toll-free at 1-800-390-2782, or TDD (907) 276-4533."

B. Delinquent Bills: All bills not paid within 15 days of the due date will be considered delinquent. The Policy Board may, by resolution, change the delinquency date. The Utility shall charge a late payment penalty on delinquent sums due to the Utility in accordance with Schedule A. The amount of the penalty shall be established by resolution of the Policy Board and included in Schedule A.

C. Delinquent Notice: A notice of delinquency shall be mailed to each delinquent account within three business days from the date the account becomes delinquent. The Policy Board may, by resolution, change the time frame for sending delinquent notices.

D. Service Disconnection Notice: If a Utility bill has not been paid a week after the Delinquent Notice is rendered, the Utility will notify the customer of the Utility's intention to disconnect service. The notice to disconnect service will be mailed at least 15 days before the scheduled date of disconnection. Three working days prior to the date of disconnection the Utility will deliver a door hanger notice to the residence of the delinquent customer, notifying him/her of the date and time of the impending disconnection. The Utility may terminate the service at any time after the date and time indicated in the disconnect notice without any further notification, unless deferred payment arrangements are made in accordance with Section 15 E.

E. Deferred Payment Agreements: If a residential customer demonstrates that economic hardship prevents payment in full of a delinquent bill, the Utility will restore or continue service to the customer if the customer agrees to a deferred payment contract, signed by both the Utility and customer. The contract will meet the following requirements:

1. The customer agrees to pay one-third (or less at the Utility's option) of the outstanding bill at the time the deferred payment agreement is signed.
2. The customer agrees to pay all future bills for Utility service in accordance with the provisions of this section.
3. The customer agrees to pay the remaining outstanding balance in installments over a period not to exceed 12 months. If the outstanding balance predates the adoption of this tariff, the Utility may allow a repayment period of over 12 months if the customer has a large balance.

The Utility will not require any deferred payment agreement to have a duration of less than 3 months. The Utility will offer comparable terms and conditions to customers with similar payment problems. In determining a reasonable deferred payment schedule, the Utility will discuss with the customer and consider the following conditions:

1. size of the delinquent account;
2. customer's ability to pay;
3. customer's payment history;
4. length of time the debt has been outstanding;

5. circumstances that resulted in the outstanding debt;
6. any other relevant factors related to the circumstances of the customer.

If a customer fails to fulfill the terms of a deferred payment agreement, the Utility is not required to provide the customer with all the notices described in Section 15(D) prior to disconnection; however, at least three working days before disconnection the Utility will attempt to give written or telephone notice of the disconnection to the customer.

F. Deposit for Reconnection: In all cases where service has been disconnected due to delinquency, the customer must file a new application and again meet the security deposit requirements set forth in Section 14 before service will be reconnected.

G. Responsibility for Payment of Utility Bills: In all cases the person signing the Utility application form is responsible for the Utility bills regardless of who owns the property served. However, in the case of multi-family housing or business complexes with more than one unit the Utility reserves the right to bill the owner of the facility for all of the services provided by the Utility.

Section16. Administration and Enforcement

A. These rules and regulations shall be administered and enforced by the Policy Board, or the person designated by the Policy Board to manage the Utility. The Policy Board, shall have the authority to establish and regulate rates for the water and sewer system and collection services for all customers.

B. A current file of rates adopted by the Policy Board under this code shall be available for public inspection during regular business hours at the Utility office. Monies collected for water, sewer and waste disposal services shall be used for maintenance, extension, repair, capital improvement, and operation of the water, sewer and waste disposal systems. Monies will be accounted for separately by the Utility.

C. The Policy Board may adopt such additional regulations, provisions, and procedures pertaining to water, sewer, and waste disposal services as the Board deems proper.

Schedule A – City of Anytown Utility Rates and Fees
As of _____, 20___

A1 -- Security Deposit
- A. Residential Service
- B. School Service
- C. Commercial Service
- D. Contract Service

A2 -- Water and Sewer Rates
- A. Residential Water Service
  Residential Sewer Service
- B. School Water Service
  School Sewer Service
- C. Commercial Water Service
  Commercial Sewer Service
- D. Contract Water Service
  Contract Sewer Service
- E. Metered rates

A3 -- Non Recurring Fees
- A. Service connection
- B. Water Meter Installation
- C. Late Payment Penalty
- D. Door Notice
- E. Service Disconnection
- F. Service calls:
  Day rate
  After hours call
- G. Penalties
  Excessive Use Fee
  Returned Check Fee
  Unauthorized Usage Fee
  Unsafe Usage Fee

A4 -- Washeteria Fees
A. Washing Machine – Large Capacity
Washing Machine – Small Capacity
B. Dryer
C. Shower
[Revisions to Schedule A can be adopted by resolution.]

Managerial Report

River City Water Department
Period ending September 30, 2009

Budget Overview
The financial report shows that net income for the Utility for the period July 1 – Sept. 30 was a minus $6,570. The minus amount is somewhat misleading because:

- expenses for this period include the total *annual* amount for the insurance premiums ($2,810 plus $1,963 for Workers Comp). No additional expense is anticipated for the Insurance line items for the remainder of the fiscal year.
- Revenue is expected to increase by $1,600 per month starting in October, after 16 new homes are connected to the Utility as part of the new Water/sewer project.
- At current levels, total annual income, which was based on a 95% collection rate, will be within $85 of the budget estimate.
- At current levels, the annual expense for meeting fees and operating supplies will be $1,740 less than anticipated.

Areas of concern include the following:

- Year-to-date consumption of electricity and fuel is higher than expected for this time of year. Consumption – and cost - increases between October and March, during the dark and cold winter months. Unless we can cut back on our electrical and fuel consumption, I expect actual costs for electricity and fuel to be approximately $4,199 higher than budgeted.
- At current levels, the annual expense for vehicle gas and oil will be $720 higher than anticipated.
- Year-to-date expenditures for water testing appear to be much lower than anticipated, but we have not yet submitted tests for lead and copper or for VOCs. Those tests, estimated at $2,125, are not due till after January 1.

Unless we can cut expenses, and/or raise revenue, annual expenditures will exceed revenues by $3,107.

I believe the following steps will enable us to balance the budget:

- Collection action has been taken in accordance with utility policy, against customers with past due or delinquent accounts. Delinquent notices have been sent to all customers (3) whose accounts are more than 40 days past due.
- I've instructed the water plant operator to lower room thermostat settings to 60 degrees overnight and on days when the washeteria is closed; to monitor the water temperature in the storage tank, and to make seasonal adjustments as appropriate.
- I've instructed the operator to insulate hot water pipes, to clean tubes in the heat exchanger, and to replace exterior lights and entry lights with motion controlled lighting.

Recommendations:
In order to improve efficiency in the water department I recommend that we change the washeteria hours as follows:

Current schedule	Proposed schedule
Sundays: closed	Sundays: closed
Mondays – Saturdays: 8 AM – 10 PM	Mondays: closed
	Tuesdays- Saturdays: 9 AM – 8 PM

The proposed changes will result in lower costs for wages, along with lower electrical and fuel consumption, without a corresponding loss in revenues.
Estimated savings: $3,000 - $3,500 per year.
These savings will enable us to counter expected increases in costs next year due to inflation and to a scheduled 2.5% wage increase for the operator and Utility clerk (pending satisfactory evaluations).

OTHER ISSUES:

- We budgeted $1,510 for travel and per diem for the operator and the manager to attend training. Operator training is scheduled for November; manager training is scheduled for February.

- The budget includes $1,910 for the purchase of a commercial size space heater, elephant trunk and a wet/dry vac. The new equipment will be ordered later this month. It will be stored at the water plant, and will be restricted to water department use only (not to be loaned out to residents).

- No money has been placed into the repair replacement fund to date. However, we expect to be able to place the budgeted amount of $5,000 into the R&R fund by the end of the fiscal year, after all other expenditures have been made.

- Water/sewer project:
  The water sewer project is proceeding on schedule without any significant delays or interruptions.
  Six residential units were connected to the system in mid September as scheduled. Eleven units are scheduled to be connected in October, and an additional five units are scheduled for connection by November 15. After November 15, remaining work on the project will consist of the following:
  - Completion of improvements inside the water treatment building
  - Project cleanup.
  - Submittal of the revised Operations and maintenance manual

  All project work is scheduled for completion by January 31.

CITY OF XXX

ASSESSMENT OF MANAGEMENT CAPACITY INDICATORS

XXX
Rural Utility Business Advisor (RUBA) Program
Division of Community Advocacy
Commerce, State of Alaska
XXX XX, 20___

INTRODUCTION

The XXX report was completed by the Rural Utility Business Advisor Program (RUBA) as a requirement for a projected VSW grant-funded project. The report was completed with the voluntary assistance of the utility and based on information utility staff provided to the RUBA program.

The goal of the RUBA Program is to help small communities implement utility management practices that will improve the utility's ability to provide safe drinking water to their communities on a sustainable basis. The RUBA Assessment evaluates essential and sustainable indicators necessary for the managerial and financial health of the utility. These indicators are organized under the following sections:

- Utility Finance
- Accounting Systems
- Tax Problems
- Personnel System
- Organizational Management
- Operation of Utility

Essential Indicators identify policies and practices that are critical to the short-term operation of a utility. ***Sustainable Indicators*** identify policies and practices that make a utility cost-effective to operate and increase the likelihood of long-term financial success.

The Major Recommendations are limited to those items needed to meet deficient essential indicators. Only the essential indicators are required to be met under the grant conditions.

The XXX operates and manages the following utility services:

- XXX
- XXX

CAPACITY INDICATORS

On XXX XXX, 20___, XXX met with XXX staff to complete a RUBA Assessment of Management Capacity Indicators. City staff provided documentation supporting the conclusions in this report. Specific documents used in this report XXX.

Utility Finance

Essential Indicators

Yes	No	
☐	☐	All revenue and expenses for the utility are listed in the utility budget.
☐	☐	The utility has adopted a balanced realistic budget.
☐	☐	Monthly financial reports are prepared and submitted to the policy making body.
☐	☐	The utility is current paying all water/wastewater electric bills.
☐	☐	The utility has on hand a year's adequate fuel supply or it has a financial plan to purchase an adequate supply.
☐	☐	The utility is receiving revenues (user fees or other sources) sufficient to cover operating expenses.

Sustainable Indicators

☐	☐	The utility is receiving revenues (user fees or other sources) sufficient to cover operating expenses and Repair & Replacement (R&R) costs.
☐	☐	YTD revenues are at a level equal to or above those budgeted.
☐	☐	YTD expenditures are at a level equal to or below those budgeted.
☐	☐	A monthly manager's report is prepared.
☐	☐	Budget amendments are completed and adopted as necessary.

Insert Comments Here

Accounting Systems

Essential Indicators

Yes	No	
☐	☐	The utility has adopted a collection policy and actively follows it.sz
☐	☐	The utility bills customers on a regular basis.
☐	☐	An accounts receivable system is in place which tracks customers and reports past due accounts and amounts.
☐	☐	An accounts payable system is in place.
☐	☐	The payroll system correctly calculates payroll and keeps records.
☐	☐	A cash receipt system is in place that records incoming money and what it was for.
☐	☐	The utility has a cash disbursement system that records how money was spent.

Sustainable Indicators

☐	☐	A chart of accounts is used that identifies categories in a reasonable, usable manner.
☐	☐	Monthly bank reconciliations have been completed for all utility accounts.

☐ ☐ The utility has a purchasing system that requires approval prior to purchase, and the approval process compares proposed purchases to budgeted amounts.

Insert Comments Here

Tax Problems

Essential Indicators

Yes	No	NA	
☐	☐		The utility has a system to accurately calculate, track, and report payroll tax liabilities.
☐	☐		The utility is current on filing federal and state tax reports.
☐	☐		The utility is current on making federal and state tax deposits.
☐	☐	☐	If there are any past tax liabilities, a repayment agreement has been signed and repayments are current.

Insert Comments Here

Personnel System

Essential Indicators

Yes	No	
☐	☐	The utility has a posted workers compensation insurance policy in effect.

Sustainable Indicators

- ☐ ☐ The utility has adopted and uses a Personnel Policy, which has been reviewed by an attorney, AML, or DCCED for topics and language.
- ☐ ☐ The utility has adequate written job descriptions for all positions.
- ☐ ☐ The utility has adopted and follows a written personnel evaluation process that ties the job description to the evaluation.
- ☐ ☐ The utility has an adequate written hiring process.
- ☐ ☐ The utility has personnel folders on every employee that contain at least: I-9, Job Application and Letter of Acceptance.
- ☐ ☐ The utility has a probationary period for new hires that includes orientation, job-training/oversight, and evaluations.
- ☐ ☐ The utility provides training opportunities to staff as needed and available.

Insert Comments Here

Organizational Management

Essential Indicators

Yes	No	
☐	☐	The entity that owns the utility is known and the entity that will operate the utility is set.
☐	☐	The policy making body is active in policy making of the utility.
☐	☐	The policy making body enforces utility policy.

☐ ☐ The utility has an adequately trained manager.
☐ ☐ The utility has an adequately trained bookkeeper.
☐ ☐ The utility has an adequately trained operator(s).
☐ ☐ The utility has adopted the necessary ordinances (or rules and regulations) necessary to give it the authority to operate.

Sustainable Indicators

☐ ☐ The utility has adopted an organizational chart that reflects the current structure.
☐ ☐ The policy making body meets as required.
☐ ☐ The utility complies with the open meeting act for all meetings.

Insert Comments Here

Operation of Utility

Essential Indicators

Yes No

☐ ☐ The utility operator(s) are actively working towards necessary certification.
☐ ☐ The utility has a preventative maintenance plan developed for the existing sanitation facilities.

Sustainable Indicators

☐ ☐ The manager receives a monthly O&M report from the utility operator and routinely "spot checks" the facilities to see that the maintenance items are being completed.
☐ ☐ The utility has a safety manual and holds safety meetings.
☐ ☐ Utility facilities have not suffered any major problems/outages due to management issues that are still unresolved.
☐ ☐ The utility is operating at the level of service that was proposed.
☐ ☐ The operator provides status reports to the manager on a routine basis.
☐ ☐ The utility has completed and distributed its Consumer Confidence Report (CCR).
☐ ☐ The utility meets all required regulations (is not on the Significant Non-Compliance (SNC) list).
☐ ☐ The utility maintains an inventory control list.
☐ ☐ The utility maintains a critical spare parts list.

Insert Comments Here

Major Recommendations

The XXX has not met all of the essential capacity indicators. In order to meet them, the utility must take the following actions:

- XXX

Conclusion and Next Step

In addition to the Major Recommendations, the XXX can work to improve Sustainable Indicators in the areas of "Utility Finance," "Tax Problems," "Personnel System," "Organizational Management," and "Operation of Utility."

It is recommended that:

- XXX
- XXX

By implementing the above recommendations, the XXX will put itself into position to better meet unanticipated financial costs and ensure that employees are aware of their conditions of employment.

The XXX staff was open and helpful with providing information to complete this assessment. They realize the importance of community health, financial stability, effective utility management practice and sustainability.

RUBA staff is available to provide assistance for any sustainable capacity indicators that are not being met.

GLOSSARY

A

Accounting – The process in which financial information about an organization is systematically recorded, classified, summarized and interpreted.
Accounts payable – money owed to others for goods and services received.
Accounts payable report – A financial report that lists vendors to whom a person or business owes money, and the amounts that are owed.
Accounts receivable – All money owed to you by others.
Accounts receivable report – A financial report that shows amounts due from each customer.
Accrual basis accounting – A system of accounting in which income is recorded when earned (invoiced), and expenses are recorded when incurred (invoiced). This is the favored method of accounting in most for-profit businesses.
Aging report – In accounting, a report that shows how long amounts have been due, usually divided into 30 day increments
Agreement for service – An agreement between the utility and a customer, describing the terms and conditions between the utility and the customer, and outlining the responsibilities of each.
Application for connection – An application requesting that a new service be installed or connected.
Appropriation – Money set aside for a specific purpose.
Asset – Anything of value that you own, including cash, accounts receivable, inventory, equipment, vehicles, and land.
Audit – A financial audit is a professional examination of an organization's financial records, performed by a certified public accountant.

B

Balance sheet – A summary of an organization's financial status providing a snapshot of assets, liabilities, and equity (fund balances) on a specific date, typically the last day of a month, quarter or fiscal year.

Balanced budget – A budget in which available revenues are equal to or greater than estimated expenses.
Bank reconciliation – A comparison of entries in your bank statement with those in your check register, in order to uncover and correct any discrepancies.
Base rate – A minimum monthly charge designed to recover the fixed cost of service.
Breakeven level – The point at which revenues equal expenses.
Budget – A plan for receiving and spending money for a set period of time; in governmental accounting, a budget is an official document that identifies revenues and establishes specific purposes for which available revenues can be

spent during a fiscal year.
Budget ordinance – An ordinance formally adopting and approving the annual budget; also referred to as "appropriations ordinance".
Budget vs. Actual Report – A financial report that compares budgeted amounts to actual year-to-date income and expense amounts, per line item, for a specified period of time.

C

Capital fund (or capital project fund) – In governmental accounting, revenue received specifically for the purchase, construction, or improvement of major capital equipment or facilities.
Capital Replacement Fund – A fund in which revenues are set aside to help pay for eventual renovation or replacement of major equipment and facilities with a life expectancy of 20 years or more.
Carryover cash – The amount of money available at the end of one fiscal year and carried over into the next.
Cash assets – Money in a cash box, safe, checking account, savings account, or any other place where you have ready access to it.
Cash basis accounting – A system of accounting in which income is recorded when it is actually received, and expenses are recorded when actually paid.
Cash flow report – A financial report that shows the change in cash balances during a specified period of time (monthly) and includes beginning cash balances, cash in and cash out, and the ending cash balance.
Certified Financial Statement – An annual statement of the income and expenditures for a second class city compared to the budget and accompanied by a resolution of the governing body certifying that the information is true and correct; usually prepared by the treasurer or other designated staff.
Chart of accounts – A list of all the different asset, liability, equity, income, and expense accounts in your financial recordkeeping system, in a systematic order.
Class – See *department*
Code ordinance – A permanent ordinance assembled into an indexed book (Code of Ordinances).
Collection policy – A set of written procedures designed to get all customers to pay what they owe in a timely manner.
Collection rate – The portion of the amount billed that is actually collected, usually expressed as a percentage.
Cost of service – The total cost of operating, maintaining and replacing the water utility.
Customer classes – Categories of customers based on water usage patterns or other factors (residential homes, commercial business, school).
Customer statement – A statement that provides a detail of a customer's billing and payments for a specified period of time (typically a month).

D

Decreasing block rate – A rate structure that decreases rates for each additional block of water consumed, in addition to a monthly minimum or base charge. The blocks are predetermined quantities of water measured in thousands of gallons.
Deferred payment plan – An agreement whereby a customer with a delinquent account agrees to pay the amount due under specific terms, usually in equal monthly installments over a specified period of time.
Delinquent account – Term describing bills that are not paid within a specified period of time as required.
Department – In governmental accounting, a subcategory of any of the major funds (the water department is a subcategory of the enterprise fund). In QuickBooks, departments are referred to as classes.
Depreciation – A decrease in value of an asset through wear, deterioration or obsolescence.
Disconnect procedures – Procedures that describe when and how to disconnect service to a customer
Double entry accounting – A system of accounting in which each transaction is recorded in at least two accounts, as a debit and as a credit, in which the debits and credits must always balance.

E

Effectiveness – The ability to achieve desired results.
Efficiency – The ability to achieve desired results with a minimum of effort, expense or waste.
Enterprise fund – In governmental accounting, the category that includes revenues and expenditures generated from activities conducted by the government in which goods or services are provided to the public for a fee in order to recover the cost of those goods and services (water/wastewater service).
Equity – Anything left over after all liabilities have been subtracted from assets (also referred to as fund balance, or net worth).
Expense – Money you pay to others, usually for goods and services received; expenditure.

F

Federal Fiscal Year – The accounting period of the federal government, from October 1 of one year through September 30 of the following year.
Fiduciary funds – Money held in trust on behalf of others.
Financial capacity – The ability to acquire and manage sufficient financial resources effectively and efficiently.
Financial management – The process of controlling financial resources to ensure that they are used effectively and efficiently.

Fiscal year – A twelve month period of time to which the budget and annual financial reports apply.
Fixed assets – Assets that are not expected to be consumed or sold during the normal course of business (buildings, equipment, land, vehicles); assets and property that will be used for an extended period of time.
Fixed costs (fixed expenses) – For a water utility, expenses that occur regardless of the amount of water consumed (insurance, billing expenses, water testing).
For-profit organization – A business organization whose primary goal is to make a profit and to accumulate wealth for its owners.
Fund accounting - An accounting system that identifies and tracks the source of revenues and the purposes for which they are used in separate categories or "funds" (general fund, enterprise fund, special revenue fund, capital project fund). Each of these funds can be subdivided into smaller categories often referred to as departments (water department).
Fund balance – Anything left over after all liabilities have been subtracted from assets (also referred to as equity, or net worth.)

G

GAAP (Generally Accepted Accounting Principles) – Financial accounting principles and standards that have been developed by accountants and auditors and formalized by organizations such as the Financial Accounting Standards Board and the American Institute of Certified Nonprofit Accountants.
General fund – In governmental accounting, the category that includes all assets and liabilities except those assigned for specific purposes in a specialized fund; (sales taxes, Community Assistance Program payments).
Governmental accounting – A system of accounting designed to show that available resources are being used for the specific purposes intended.

I

Income – Revenue; money you receive.
Increasing block rate – A rate structure that increases rates for each additional block of water consumed, in addition to a monthly minimum or base charge. The blocks are predetermined quantities of water measured in thousands of gallons.
Inter-fund transfer – Money that is transferred from one fund to another.
Inventory – Consumable goods and supplies that you have on hand for use or resale; an itemized list of such goods and supplies.
Invoice – A source document indicating the product or service provided and the price for said product or service.

J

Journal – A book of original entry, such as a check register, payroll journal, receipt book, or sales book.

L

Ledger – A book of final entry, in which financial data is categorized and summarized.
Liability – Anything owed to others, including accounts payable, payroll liabilities, credit card payments, accrued payroll or personal leave owed to employees, amounts due for repayment of loans, lawsuits or legal actions that are currently undecided, court judgments or penalties.
Locally generated revenue – Money that is earned or generated locally (local taxes, contracts, building and equipment rents, charges for services, sales from local enterprise activities, revenue from gaming activities).

M

Managerial capacity – In utility management, the overall ability of the utility to conduct its affairs in a way that promotes sustainability.
Managerial report – A summary report on the status of an organization, including a summary of any problems, issues or concerns that should be brought to the attention of the owners or the governing body.

N

Negative strategies – In collection procedures, strategies that are designed to force a customer to pay, usually applied to accounts that are past due.
NOC – Acronym for Not Otherwise Coded
Non-code ordinance – A temporary ordinance, usually in effect for no more than one year; the annual budget ordinance is the most common example of a non-code ordinance.
Non-profit organization - An organization whose primary goal is to provide services to the public or to its members. Assets of a non-profit organization belong to the organization.

O

Operating revenue – Money used for paying operating expenses.
Operating expenses – The costs for the day to day operations of an organization (cost for electricity, fuel, supplies, wages, administration).
Ordinance – In Alaska municipalities, a law enacted by the local governing body following certain specific procedure; local laws established to provide rules and procedures or to govern behavior of people within the community.

P

Positive strategies – In collection procedures, strategies that are designed to encourage prepayment or timely payment by customers, promote customer support, and provide options to customers who are behind in making payments.

Program audit – A financial audit of a specific program or grant for which funds are received.
Proprietary funds – Funds belonging to a proprietor (owner).
Proprietor – Owner, as in one who owns and operates a business establishment.

R

Rate setting – The process of establishing in a fair and equitable manner a per customer charge to recover the costs of operating, maintaining, and replacing the utility.
Rate structure – An orderly system or method of determining a per customer charge that distributes the cost of service among the consumers of that service.
Repair and replacement (R&R) fund – A fund in which revenues are set aside for the purpose of eventually replacing equipment that has a useful life of less than ten years.
Reserve requirements – In utility management, the funds necessary for eventual replacement of worn out equipment and facilities.
Restricted revenue – Money that can only be used for a specific purpose (capital project grants, program grants).
Revenue – Income; money you receive.

S

Service agreement – See *Agreement for service.*
Single audit – A financial audit of an entire entity and all its programs; required for entities expending $300,000 or more in direct state assistance or $500,000 or more in federal assistance within a fiscal year.
Single block rate – For water utilities, a rate structure that charges a constant price per gallon regardless of the amount of water used, often in addition to a minimum monthly charge for service.
Special revenue fund – In governmental accounting, the category of revenue received for specific programs (library grant, suicide prevention program grant); restricted revenues that can only be used for the programs for which those funds were provided.
State fiscal year – In Alaska**,** the accounting period from July 1 of one year through June 30 of the following calendar year; most Alaska municipalities use the state fiscal year.
Sustainability – In utility management, the ability to provide the desired level of service at a fair cost to the customers for the life expectancy of the utility.

T

Technical capacity – In water utility management, the ability to meet Safe Water Drinking Act requirements.
Transaction – In accounting, any exchange of money or resources for a service or product.

U

Uniform flat rate – For water utilities, a rate structure in which all customers pay the same amount per month regardless of the quantity of water used.
Unrestricted revenue – In governmental accounting, money that can be used for any purpose approved by the local government and not otherwise prohibited by law (Community Assistance Program funds, local sales taxes, rental income.)
Utility ordinance – An ordinance describing the rules and regulations of the utility, services to be provided, utility and customer responsibilities, rate structure and method for changing rates, procedures for billing, payment and collection, and other rules and procedures giving the utility the authority to operate.

V

Variable costs (expenses) – For a water utility, expenses that change depending on the amount of water produced and consumed (cost of chemicals, electricity).
Variance – In a budget vs. actual report, the variance is the difference between the budgeted amounts and the actual year-to-date amounts per line item for income and expenses, expressed as an amount or a percentage.

COMMONLY USED ABBREVIATIONS

AANHS	Alaska Area Native Health Service
ADEC	Alaska Department of Environmental Conservation
AICPA	American Institute of Certified Public Accountants
ANTHC	Alaska Native Tribal Health Consortium
AP Report	Accounts payable report
AR Report	Accounts receivable report
AWWA	American Water Works Association
AWWMA	Alaska Water Wastewater Management Association
CPA	Certified Public Accountant
CFS	Certified Financial Statement
DCCED	Department of Commerce, Community and Economic Development (State of Alaska)
DCRA	Department of Community and Regional Affairs (State of Alaska)
DNR	Department of Natural Resources (State of Alaska)
DOL	Department of Labor (State of Alaska)
EPA	Environmental Protection Agency
ES Tax	Employment Security Tax (also known as state unemployment insurance tax
ESC	Employment Security Contribution (same as ES tax)
ESD	Employment Security Division (State of Alaska, Dept. of Labor)
FASB	Financial Accounting Standards Board
FICA	Federal Insurance Contribution Act (also known as Social Security Act)
FUTA	Federal Unemployment Tax Act
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Audit Standards
GASB	Governmental Accounting Standards Board
IHS	Indian Health Service (same as AANHS) *see also ANTHC*
IRS	Internal Revenue Service
MFR	Monthly financial report
O&M	Operation and maintenance
OEH	Office of Environmental Health
OIT	Operator in Training
P&L	Profit and Loss
PERS	Public Employee's Retirement System
PHS	Public Health Service (same as AANHS) see also IHS
PM	Preventive maintenance
R&R	Repair and replacement; renewal and replacement
RASC	Rural Alaska Sanitation Coalition
RCA	Regulatory Commission of Alaska
RMW	Remote Maintenance Worker
RUBA	Rural Utilities Business Advisor
SNC	Significant non-complier
SS tax	Social security tax (also known as FICA tax)
SUI tax	State unemployment insurance tax (also known as ES tax)
VSW	Village Safe Water
Y-T-D	Year to date

AVAILABLE RESOURCES

- **Publications available on State of Alaska Division of Community and Regional Affairs website:**

  http://www.commerce.state.ak.us/dca/

A Plain English Guide to Sanitation Utility Accounting (2004)
Alaska Sanitation Planning Guide for Small Communities (1999)
An Agency Guide to Community Tax Issues (2009)
Budget Forms 2009
Business Planning for Rural Alaska Utilities (2003)
City Budget Manual Fiscal Year 2009
FY 2008 Certified Financial Statement
FY 2008 Manual for Certified Financial Statement
Model Financial Recordkeeping System 1994

- **Federal tax forms and publications :** http://www.irs.gov/formspubs/
- **Local Government Online**

  http://www.dced.state.ak.us/dca/LOGON/home.cfm

- **Safe Drinking Water Act (SDWA)**

  http://water.epa.gov/lawsregs/rulesregs/sdwa/index.cfm

- **Small Public Water Systems and Capacity Development**

  http://water.epa.gov/type/drink/pws/smallsystems/index.cfm

- **State of Alaska Employment Security Tax forms and publications:**

  http://www.labor.alaska.gov/estax/

- **The Water Rate Calculator CD and Guidebook…available from Alaska Division of Community and Regional Affairs (contact the Local Government Specialist for your community).**
- **Wikipedia, the free encyclopedia** http://en.wikipedia.org