

# Appendix P: Glossary—Acronyms and Definitions

## ***Common Acronyms Used in This Guide***

AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
ASB	Accounting Standards Board
AV	Assessed Valuation
BAN	Bond Anticipation Note
CAFR	Comprehensive Annual Financial Report
CCN	Certificate of Public Convenience and Necessity
ETJ	Extraterritorial Jurisdiction
FASAC	Financial Accounting Standards Advisory Council
FASB	Financial Accounting Standards Board
FIRREA	The Financial Institutions Reform, Recovery, and Enforcement Act of 1989
FRF	FSLIC Resolution Fund
GAAFR	Governmental Accounting, Auditing, and Financial Reporting
GAAP	Generally Accepted Accounting Practices
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
GAO	General Accounting Office
GASAC	Governmental Accounting Standards Advisory Council
GASB	Governmental Accounting Standards Board
GASB 34	Governmental Accounting Standards Board Statement No. 34
GFOA	Government Finance Officers Association
MD&A	Management’s Discussion and Analysis
NACSLB	National Advisory Council on State and Local Budgeting
NCGA	National Council on Governmental Accounting
NCMA	National Committee on Municipal Accounting
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SAS	Statement on Auditing Standards
SSAP	Summary of Significant Accounting Policies
TAC	Texas Administrative Code
TSLAC	Texas State Library and Archives Commission
TSI	Texas Supplementary Information
TWC	Texas Water Code

## Definitions

**Accountability**—Being obliged to explain one’s actions, to justify what one does. Accountability requires governments to answer to the citizenry—to justify the raising of public resources and the purposes for which they are used. Governmental accountability is based on the belief that the citizenry has a *right to know*, a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives.

**Accounting Principles Board (APB)**—Authoritative private-sector standard-setting body that preceded the FASB. The APB issued guidance in the form of *opinions*.

**Accounting Standards Executive Committee**—An AICPA committee that is authorized to issue *practice bulletins*. A *practice bulletin* specifically targeted to state and local governments and cleared by the GASB would enjoy Level 2 status on the hierarchy of authoritative sources of GAAP established by SAS No. 69.

**Accrual Basis of Accounting**—A method of accounting that recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows.

**Ad Valorem Tax**—A tax based on the value of the property being taxed.

**Advance Refunding**—A transaction in which new debt is issued to provide monies to pay interest on old, outstanding debt as it becomes due, and to pay the principal on the old debt either as it matures or at an earlier call date. An advance refunding occurs before the maturity or call date of the old debt, and the proceeds of the new debt are invested until the maturity or call date of the old debt. Most advance refundings result in defeasance of debt.

**Adverse Opinion**—Conclusion in the Independent Auditor’s Report that financial statements are not fairly presented.

**Affinity**—A person’s relatives by marriage. An affinity relationship is created only when a single marriage links two individuals. If it takes two marriages to link the individuals, there is not an affinity relationship. Therefore, the spouses of two persons related by blood (consanguinity) are not by that fact related. Death or divorce of a spouse ends relationships by affinity, unless a child of the marriage is living (Government Code Section 573.024). Refer to the Relationship charts printed in Issue 6 of the Water District Update newsletter.

**Agency**—Texas Commission on Environmental Quality.

**Agency Funds**—One of four types of fiduciary funds. Agency funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations or other governments.

**AICPA**—American Institute of Certified Public Accountants.

**Analytical Review**—The process of attempting to determine the reasonableness of financial data by comparing their behavior with other financial and nonfinancial data.

**Appropriated Budget**—The expenditure authority created by a bill or ordinance that is signed into law and related estimated revenues. The appropriated budget would include all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes.

**Arbitrage**—The simultaneous purchase and sale of the same or an equivalent security in order to profit from price discrepancies. In government finance, the most common occurrence of arbitrage involves the investment of the proceeds from the sale of tax-exempt securities in a taxable money market instrument that yields a higher rate, resulting in interest revenue in excess of interest costs.

**Assessed Valuation (AV)**—The value placed upon real estate or other property by a government as a basis for levying taxes.

**Audit Committee**—A group of individuals having specific responsibility for addressing all issues related to the independent audit of the district's financial statements.

**Audit Guides**—A series of AICPA publications that enjoy Level 2 status on the hierarchy of authoritative sources of GAAP established by SAS No. 69, when they are specific to state and local government and cleared by the GASB.

**Audit Report**—Your district's complete audit report package which contains: your Board's discussion and analysis, the independent auditor's report, the basic financial statements, the notes to the financial statements, the required supplementary information, our Texas supplementary information, the notarized filing affidavit, and the auditor's management letter.

**Audit Scope**—The coverage provided by the independent auditor's opinion on the financial statements.

**Auditor Rotation**—Policy where the district periodically changes its independent auditor.

**Auditor's Report on Internal Controls and Compliance over Financial Reporting**—Report issued with a financial audit performed according to GAGAS, where the independent auditor reports on internal control weaknesses and instances of noncompliance discovered in connection with the financial audit, but does not offer an opinion on internal controls or compliance.

**Availability Criterion**—Principle of the modified accrual basis of accounting according to which revenues may only be recognized when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

**Availability Period**—A specified period immediately following the close of the fiscal year by the end of which cash must be collected for related revenue to be recognized in accordance with the availability criterion of modified accrual accounting.

**Balance Sheet Format**—Assets equal liabilities plus net assets.

**Basic Financial Statements**—The minimum combination of financial statements and note disclosures required for fair presentation in conformity with GAAP.

**Basis of Accounting**—The timing of recognition, that is, when the effects of transactions or events should be recognized for financial reporting purposes. The effects of transactions or events can be recognized on an accrual basis (when the transactions or events take place), or on a cash basis (when cash is received or paid). Basis of accounting is an essential part of measurement focus because of a particular timing of recognition is necessary to accomplish a particular measurement focus.

**Board**—The governing Board of elected or appointed commissioners/ directors/supervisors that are responsible for managing the district's affairs.

**Board Resolution**—An official order by the District's Board that authorizes a Board action.

**Bond**—A government-issued interest-bearing certificate of debt obligating the issuer to make specified principal and interest payments to the debt holders.

**Bond Anticipation Note (BAN)**—Short-term interest-bearing note issued by a district regarding a feasible bond application on file with subsequent anticipation of bond proceeds to be received. The note is retired from proceeds of the bonds to which it is related.

**Bond Application**—All documents filed with this Agency for our approval of a bond sale.

**Bond Resolution**—An official order by the district's board authorizing a bond issue that includes the bond's conditions, provisions, and covenants (restrictions).

**Book-Entry System**—A system that eliminates the need for physically transferring bearer-form paper or registering securities by using a central depository facility.

**Budgetary Basis of Accounting**—The method used to determine when revenues and expenditures are recognized for budgetary purposes.

***Budgetary Integration***—The management control technique by which the annual operating budget is recorded in the General Ledger through the use of budgetary accounts. Budgetary integration is intended to facilitate control over revenues and expenditures during the year.

***Budgetary Journal Entries***—Journal entries involving budgetary accounts, budgetary journal entries arise in connection with budgetary integration.

***Budgetary Reporting***—The requirement to present budget-to-actual comparisons in connection with general purpose external financial reporting. Budgetary reporting is required in connection with the basic financial statements for both the General Fund and individual major special revenue funds with legally adopted annual budgets. Budgetary reporting also is required within the comprehensive annual financial report to demonstrate compliance at the legal level of control for all governmental funds with legally adopted annual budgets.

***Business-Type Activities***—One of two classes of activities reported in the government-wide financial statements. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds.

***Calendar Year***—January to December.

***Call Options***—A contract giving the buyer (owner) the right, but not the obligation, to purchase from (call option) the seller (writer) of the contract a fixed number of items (such as shares of equity securities) at a fixed or determinable strike price on a given date or at any time on or before a given date.

***Capital and Related Financing Activities***—Capital and related financing activities include: (a) acquiring and disposing of capital assets used in providing services or producing goods, (b) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and (c) paying for capital assets obtained from vendors on credit.

***Capital Asset Register***—A detailed list of each infrastructure and other capital asset purchased/constructed by the district including: asset description, identification number, the asset purchase or construction date, the source document details, and columns for purchased/constructed costs, the annual and accumulated depreciation, and the asset's total cost. Formerly known as the *General Fixed Asset Account Group*.

***Capital Assets***—Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

**Capital Outlay**—The expenditures consumed in the process of purchasing or acquiring assets, some of which may not be capitalized. Your Board’s capitalization threshold policy will define the assets that will be capitalized.

**Capital Projects Fund**—Fund type used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**Capitalization Threshold**—The dollar value at which a district elects to capitalize tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

**Cash**—The term includes not only currency on hand, but also demand deposits with banks or other financial institutions, including deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the governmental enterprise may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty.

**Cash Equivalent**—Short-term, highly liquid investments that are both: (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. For this purpose *original maturity* means the original maturity to the entity holding the investment.

**Certificate of Public Convenience and Necessity (CCN)**—A permit issued by the Agency which authorizes and obligates a retail public utility to furnish, make available, render, or extend continuous and adequate retail water or sewer utility service to a specific geographic area [defined in Rule 291.3(10) and (11)].

**Collateral**—Security pledged by a financial institution to a district for its deposit.

**Collateral Pool**—A single financial institution collateral pool is a group of securities pledged by a single financial institution against all the public deposits it holds. A multiple financial institution collateral pool is a group of securities pledged by various financial institutions to provide common collateral for their deposits of public funds. In such a collateral pool, the assets of the pool and the power to make additional assessments against the members of the pool, if necessary, insure there will be no loss of public funds because of the default of a member.

**Combining Financial Statements**—Financial statements that report separate columns for individual funds or component units. Combining financial statements normally are required in a comprehensive annual financial report to support each column in the basic financial statements that aggregates information from more than one fund or component unit.

**Commercial Paper**—An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

**Committee on Accounting Procedure**—Authoritative private-sector standard-setting body that preceded the Accounting Principles Board (APB) and the FASB. The cap issued guidance in the form of *accounting research bulletins*.

**Committee on Uniform Securities Identification Procedures (CUSIP)**—The committee that assigns the numbers to securities (bonds) for identification.

**Comparability**—The principle according to which differences between financial reports should be due to substantive differences in the underlying transactions or the governmental structure rather than due to selection of different alternatives in accounting procedures or practices.

**Comparative Data**—Information from prior fiscal periods provided to enhance the analysis of financial data in the current fiscal period.

**Comparative Financial Statements**—Financial statements providing all of the information required by GAAP for two or more fiscal periods.

**Component Unit**—A legally separate organization for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Composite Depreciation Methods**—Depreciation methods applied to groups of assets rather than to individual assets.

**Composite Method**—A group of similar assets or dissimilar assets of the same class are depreciated using the same depreciation rate.

**Comprehensive Annual Financial Report (CAFR)**—A financial report that encompasses all funds and component units of the government. The CAFR should contain: (a) the basic financial statements and required supplementary information, (b) combining statements to support columns in the basic financial statements that aggregate information from more than one fund or component unit, and (c) individual fund statements as needed. The CAFR is the governmental unit's official annual report and also should contain introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data. A CAFR is not required to be prepared by this Agency.

**Condensed Financial Statements**—Abbreviated financial statements sometimes required by GAAP to be presented within the notes to the financial statements in connection with component units, external investment pools, and segments. In addition, GAAP prescribe the

presentation of condensed financial information for the prior fiscal year as part of Management's Discussion and Analysis.

**Conduit Debt**—Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

**Consanguinity**—A person's blood relatives. A person's relatives by degree of consanguinity (kinship) are: the person's parents and child (first degree); the person's siblings, grandparents, or grandchild (second degree); and the person's great-grandparents, great-grandchild, the person's aunt or uncle who are siblings of his parents, or the person's niece or nephew who is a child of a sibling (third degree). A first cousin is a blood relative of the fourth degree. Refer to the Relationship charts printed in Issue 6 of the *Water District Update* newsletter for more information.

**Conservation and Reclamation Districts**—Any district (regardless of district type) whose existence is authorized under Article 16, Section 59 of the Texas Constitution.

**Current Financial Resources Measurement Focus**—Measurement focus according to which the aim of a set of financial statements is to report the near-term (current) inflows, outflows, and balances of expendable (spendable) financial resources. The current financial resources measurement focus is unique to accounting and financial reporting for state and local governments and used solely for reporting the financial position and results of operations of governmental funds.

**Current Refunding**—A refunding transaction in which the proceeds of the refunding debt are applied immediately to redeem the debt to be refunded. This situation differs from an advance refunding, where the proceeds of the refunding bonds are placed in escrow pending the call date or maturity of the debt to be refunded.

**CUSIP**—Committee on Uniform Securities Identification Procedures.

**Debt Service**—Legal payments of principal and interest due on public bonded indebtedness usually paid in installments collected from ad valorem taxes and other revenue sources.

**Debt Service Fund**—Governmental fund type used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest.

**Defeasance**—The netting of outstanding liabilities and related assets on the statement of position. Defeased debt is no longer reported as a liability

on the face of the statement of position; only the new debt, if any, is reported as a liability. Most refundings result in the defeasance of the refunded debt. Defeasance also is sometimes encountered with annuity contracts purchased in connection with lottery prizes and settlements of claims and judgments.

***Deferred Revenue***—Resource inflows that do not yet meet the criteria for revenue recognition. Unearned amounts are always reported as deferred revenue. In governmental funds, earned amounts also are reported as deferred revenue until they are available to liquidate liabilities of the current period.

***Defined Benefit Pension Plan***—A pension plan having terms that specify the amount of pension benefits to be provided at a future date or after a certain period time; the amount of pension benefit specified usually is a function of one or more factors such as age, years of service, and compensation.

***Defined Contribution Pension Plan***—A pension plan having terms that specify how contributions to a plan member's account are to be determined, rather than the amount of retirement income the member is to receive. The amounts received by a member will depend only on the amount contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account.

***Degrees of Relationship***—The blood (consanguinity) and marriage (affinity) relationship limitations are provided in Government Code Chapter 573.

***Demand Bonds***—Long-term debt issuances with demand (*put*) provisions that require the issuer to repurchase the bonds upon notice from the bondholder at a price equal to the principal plus accrued interest. To assure its ability to redeem the bonds, issuers of demand bonds frequently enter into short-term standby liquidity agreements and long-term *take out* agreements.

***Derivative***—Contract whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. The term also is applied to similar transactions, such as structured financial instruments (mortgage-backed securities).

***Designated Fund Balance***—Management's intended use of available (unreserved) expendable financial resources. These designations reflect a district's self-imposed limitation on the use of an otherwise available expendable financial resource in its governmental funds.

***Designations***—Self-imposed constraints on the use of net assets or fund balances. They do not qualify as restrictions because they generally are not legally or externally imposed.

**Direct Costing**—Use of source data (invoices) to establish the historical cost of a capital asset.

**Direct Expenses**—Expenses of a service, program, or department that are clearly identifiable to a particular function.

**Director**—An individual known as either a supervisor, a commissioner, or a director appointed or elected to your district's Board.

**District Type**—A district's type depends on which statute governs its actions. Most districts have a primary, controlling chapter that designates its general law type. The fourteen general law district types are:

- Drainage District (TWC Chapter 56, DD)
- Fresh Water Supply District (TWC Chapter 53, FWSD)
- Groundwater Conservation District (TWC Chapters 35, 36, and 52, GCD)
- Irrigation District (TWC Chapter 58)
- Levee Improvement District (TWC Chapter 57, LID)
- Municipal Management District (Local Government Code Chapter 375, MMD)
- Municipal Utility District (TWC Chapter 54, MUD)
- Navigation District (TWC Chapters 60 and 61 or 62, ND)
- Regional District (TWC Chapter 59)
- Stormwater Control District (TWC Chapter 66)
- Self-Liquidating Navigation District (TWC Chapter 63, SLND)
- Special Utility District (TWC Chapter 65, SUD)
- Water Control and Improvement District (TWC Chapter 51, WCID)
- Water Improvement District (TWC Chapter 55, WID)

Additionally, there are two special law district types we refer to as *Other* and *River Authority*. A district type of *Other* means that the district's special laws refer to more than one controlling statute. We have defined a *River Authority* as those districts referenced in Rule 292.1. When a general law district type chapter is silent, remember to review TWC Chapters 49 and 50 and the other statutes for guidance.

**Economic Resources Measurement Focus**—Measurement focus under which the aim of a set of financial statements is to report all inflows, outflows, and balances affecting or reflecting an entity's net assets. The economic resources measurement focus is used for proprietary and fiduciary funds, as well as for government-wide financial reporting. It also is used by business enterprises and not-for-profit organizations in the private sector.

***Effectiveness***—The degree to which an entity, program, or procedure is successful at achieving its goals and objectives.

***Efficiency***—The degree to which an entity, program, or procedure is successful at achieving its goals and objectives with the least use of scarce resources. Efficiency necessarily presupposes effectiveness.

***Encumbrances***—Commitments related to unperformed (executory) contracts for goods or services.

***Enterprise Fund***—Proprietary fund type used to report an activity for which a fee is charged to external users for goods or services.

***Entity Differences***—A difference between the budgetary basis of accounting and GAAP arising because the appropriated budget either includes or excludes organizations, programs, activities, and functions which may be compatible with the criteria defining the governmental reporting entity.

***Escheat***—The reversion of property to a governmental entity in the absence of legal claimants or heirs. The laws of many governmental entities provide that a rightful owner or heir can reclaim escheat property in perpetuity, provided the claimant can establish his right to the property.

***Escrow Account***—A fund collected in advance by lending institutions used to pay extraordinary debts associated with a transaction.

***Ethics Rule 202***—Ethics rule established by the AICPA that places upon auditors the burden of proof for justifying any material departures from the guidance found on Levels 2, 3, or 4 of the GAAP hierarchy.

***Ethics Rule 203***—Ethics rule established by the AICPA that makes it an ethical violation for an auditor to state that financial statements are *fairly presented in conformity with GAAP* if those statements materially violate standards issued by the FASB, the GASB, or the Federal Accounting Standards Advisory Board (FASAB). A special exception applies when unusual circumstances would make the application of an authoritative standard misleading.

***Exchange Transactions***—Transaction in which each party receives and gives up essentially equal values.

***Exchange-Like Transaction***—Transaction in which there is an identifiable exchange between the reporting government and another party, but the values exchanged may not be quite equal or the direct benefits of the exchange may not be exclusively for the parties to the exchange. Examples include certain fees for regulatory or professional licenses and permits, certain tap fees,

certain developer contributions, certain grants and donations, and other transactions that, regardless of the label applied to them, are based on an exchange of similar but not equal values.

**Expenditure**—Decreases in net financial resources under the current financial resources measurement focus not properly classified as *other financing uses*.

**Explicit Measurable Equity Interest**—Asset resulting from a stipulation in the joint venture agreement that the participants have a present or future claim to the net resources of the joint venture and setting forth the method to determine the participants' shares of the joint venture's net resources.

**Exposure Draft**—A due-process document issued by the GASB soliciting comments from interested parties on a proposed authoritative pronouncement.

**Extraordinary Items**—Transactions or other events that are both unusual in nature and infrequent in occurrence.

**Extraterritorial Jurisdiction (ETJ)**—The perimeter surrounding the boundaries of all incorporated cities, towns, and villages; the population level of the city determines the width of its ETJ.

**FASB**—Financial Accounting Standards Board.

**Fair Value**—The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**Fiduciary Funds**—Funds used to report assets held in a trustee or agency capacity for others and which therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

**Final Amended Budget**—The original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

**Financial Accountability**—The level of accountability that exists if a primary government appoints a voting majority of an organization's governing Board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing Board, a governing Board

appointed by another government, or a jointly appointed Board that is fiscally dependent on the primary government.

***Financial Accounting Foundation***—Not-for-profit organization responsible for overseeing the operations of both the GASB and the FASB.

***Financial Accounting Standards Advisory Council (FASAC)***—Advisory group that assists the FASB. The FASAC includes representatives of all of the FASB’s major constituents.

***Financial Accounting Standards Board (FASB)***—The authoritative accounting and financial reporting standard-setting body for business enterprises and not-for-profit organizations. The FASB is the direct successor of the committee on accounting procedure and the Accounting Principles Board (APB). The GASB and its predecessors have elected to apply a number of the FASB’s standards, as well as those of its predecessors, to state and local governments.

***Financial Audits***—Audits designed to provide independent assurance of the fair presentation of financial information.

***Financial Reporting Entity***—A primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

***Financial Resources***—Resources that are or will become available for spending. Financial resources include cash and resources ordinarily expected to be converted to cash (receivables, investments). Financial resources also may include inventories and prepaids (because they obviate the need to expend current available financial resources).

***Financial Section***—One of the three basic sections of a *comprehensive annual financial report* (CAFR). The financial section is used to present the Independent Auditor’s Report on the financial statements, the basic financial statements (including the notes to the financial statements), required supplementary information, combining statements, individual fund statements and schedules, and supplementary information, as needed.

***Finding***—Published communication of an internal control weakness or instance of noncompliance in connection with an audit conducted in accordance with GAGAS.

***FIRREA***—The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) abolished the insolvent Federal Saving and Loan Insurance Corporation (FSLIC), created the FSLIC Resolution Fund (FRF), and transferred the assets and liabilities of the FSLIC to the FRF.

***Fiscal Accountability***—The responsibility of governments (districts) to justify that their actions in the current period have complied with public decisions concerning the raising and spending of public monies in the short term (usually one budgetary cycle or one year). This term is used in contrast to *operational accountability*.

***Fiscal Dependence***—Situation requiring the inclusion of a legally separate entity as a component unit within the financial reporting entity because the governing Board of the primary government may arbitrarily override the financial decisions of the legally separate entity regarding: (a) its budget, (b) the levying of taxes or the setting of rates or charges, or (c) the issuance of bonded debt.

***Fiscal Year***—Any established twelve month financial reporting period defined under Rule 293.97(a).

***Five Percent Criterion***—Second of two tests used to determine whether a given governmental fund or enterprise fund must be reported as a major fund in the basic financial statements. This test is applied to the combined total assets, liabilities, revenues or expenses/expenditures of all governmental and enterprise funds for which the 10 percent criterion has been met.

***Fixed Coupon Repurchase-Reverse Repurchase Agreement***—A repurchase agreement or a reverse repurchase agreement where the parties agree that the securities returned will have the same stated interest rate as, and maturities similar to, the securities transferred.

***Function***—A group of related activities aimed at accomplishing a major service or regulatory program for which a government is responsible (public safety).

***Fund***—A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

***Fundamental Analysis***—A method of estimating the fair value of a security when it is thinly traded or when quoted market prices are

not available. Fundamental analysis considers assets, liabilities, operating statement performance, management, and economic environment of the issuer in estimating a fair value.

**Fund Balance**—The difference between assets and liabilities reported in a governmental fund.

**Fund Classifications**—One of the three categories (governmental, proprietary, and fiduciary) used to classify fund types.

**Fund Financial Statements**—Basic financial statements presented on the basis of funds. Term used in contrast with *government-wide financial statements*.

**Fund Type**—One of 11 classifications into which all individual funds can be categorized. Governmental fund types include the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Permanent Funds. Proprietary fund types include Enterprise Funds and Internal Service funds. Fiduciary fund types include Pension (and Other Employee Benefit) Trust Fund, Investment Trust Fund, Private-purpose Trust Fund, and Agency funds.

**GAAFR**—The acronym for *governmental accounting, auditing, and financial reporting*, a publication of the Government Finance Officers Association. Also known as the *Blue Book*.

**GAAP**—Generally Accepted Accounting Practices.

**GAAP Hierarchy**—An authoritative list of the sources of GAAP. The GAAP hierarchy for state and local governments is set forth in SAS No. 69, *the Meaning of “Present Fairly in Conformity with Generally Accepted Accounting Principles” in the Independent Auditor’s Report*.

**GAAS**—Generally Accepted Auditing Standards.

**GAGAS**—Generally Accepted Government Auditing Standards.

**GASB**—Governmental Accounting Standards Board.

**GASB 34**—Governmental Accounting Standards Board Statement No. 34. GASB 34 establishes accounting and financial standards for financial reporting by state and local governments, including districts.

**General Law District**—A district created either by the local county commissioners’ court or a state agency.

**General Accounting Office (GAO)**—The investigative arm of the U.S. Congress charged with improving the performance and accountability of the federal government. In the context of accounting, auditing, and financial reporting for state and local

governments, the GAO is best known for issuing *Government Auditing Standards*, which are the source of GAGAS.

**General Fund**—The General Fund is one of five governmental fund types and typically serves as the chief operating fund of a government. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

**General Revenues**—All revenues that are *not* required to be reported as program revenues. All taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax—for example, sales tax, property tax, franchise tax, income tax. All other nontax revenues (including interest, grants, and contributions) that do not meet the criteria to be reported as program revenues should also be reported as general revenues.

**Generally Accepted Accounting Principles (GAAP)**—The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements. The various sources of GAAP for state and local government are set forth by SAS No. 69, *the Meaning of “Present Fairly in Conformity with Generally Accepted Accounting Principles” in the Independent Auditor’s Report*.

**Generally Accepted Auditing Standards (GAAS)**—The rules and procedures that govern the conduct of a financial audit. There are ten basic GAAS classed into three broad categories: general standards, standards of fieldwork, and standards of reporting. The Auditing Standards Board of the AICPA publishes SAS and related interpretations to comment and expand upon these basic standards.

**Generally Accepted Government Auditing Standards (GAGAS)**—Standards for the conduct and reporting of both financial and performance audits in the public sector. The General Accounting Office promulgates GAGAS through its publication *Government Auditing Standards*, commonly known as the *Yellow Book*. The basic GAGAS standards are classed into three broad categories: general standards, fieldwork standards, and reporting standards. The general standards of GAGAS apply to both financial audits and performance audits. GAGAS establish separate fieldwork and reporting standards for financial audits and performance audits. The fieldwork standards and reporting standards used for financial audits build upon the standards of fieldwork and the standards of reporting of GAAS.

**Governmental External Investment Pool**—An arrangement that commingles (pools) the monies of more than one legally separate entity and invests, on the participants’ behalf, in an investment portfolio (one or more of the participants not being part of the

sponsor's reporting entity). An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool.

***Government Finance Officers Association (GFOA)***—An association of public finance professionals founded in 1906 as the Municipal Finance Officers Association. The GFOA has played a major role in the development and promotion of GAAP for state and local government since its inception and has sponsored the Certificate of Achievement for Excellence in Financial Reporting Program since 1946.

***Governmental Accounting Standards Advisory Council (GASAC)***—An advisory body established to assist the GASB. The membership of the GASAC represents all major groups with an interest in accounting and financial reporting for state and local governments.

***Governmental Accounting Standards Board (GASB)***—The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments. The GASB was established in June 1984 to replace the NCGA.

***Governmental Accounting, Auditing, and Financial Reporting (GAAFR)***—A publication of the Government Finance Officers Association. Also known as the *Blue Book*.

***Governmental Activities***—A government's basic programs or services that are usually financed by property taxes, fees, and grants. These activities are usually reported in governmental funds and internal service funds.

***Governmental Financial Reporting Model***—The minimum combination of financial statements, note disclosures, and required supplementary information prescribed for state and local governments, including districts, by GASB.

***Governmental Funds***—Funds generally used to account for tax-supported activities. There are five different types of governmental funds: the General Fund, the Special Revenue Fund, the Debt Service Fund, the Capital Projects Fund, and the Permanent Funds.

***Government-Wide Financial Statements***—Financial statements that incorporate all of a government's governmental and business-type activities, as well as its nonfiduciary component units. There are two basic government-wide financial statements: the statement

of net assets and the statement of activities. Both basic government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

***Impact Fee***—A charge or assessment imposed by a district against new development to generate revenue for funding or recouping the costs of capital improvements or facility expansions needed by the new development [Rules 293.171-293.176 and Local Government Code Chapter 395].

***Implementation Guides***—Guidance on the proper implementation of authoritative accounting and financial reporting standards issued by the staff of the GASB. Implementation guides use a *Question-and-Answer Format* and enjoy Level 4 status on the hierarchy of GAAP for state and local governments established by the AICPA's SAS No. 69.

***Imposed Nonexchange Revenues***—Revenues that result from assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (property taxes and fines).

***Improvement***—An addition made to, or change made in, a capital asset, other than maintenance, to prolong its life or to increase its efficiency or capacity. The cost of the addition or change is added to the book value of the asset.

***Independent Auditor***—Auditors who are independent, *both in fact and appearance*, of the entities they audit. Both GAAS and GAGAS set specific criteria that must be met for an auditor to be considered to be independent.

***Independent Auditor's Report***—The official written communication of the results of an audit. In a financial audit, the independent auditor's report typically will offer (or disclaim) an opinion on whether a set of financial statements is fairly presented in conformity with GAAP (or some other comprehensive basis of accounting).

***Indirect Expenses***—Expenses that cannot be specifically associated with a given service, program, or department and thus, cannot be clearly associated with a particular functional category.

***Inexhaustible Capital Asset***—An asset whose economic benefit or service is used up so slowly that its estimated useful life is especially long.

***Infrastructure Assets***—Long lived capital assets that are normally stationary in nature and which can normally be maintained for a significantly greater number of years than most capital assets

(water, sewer, and drainage systems, dams, tunnels, roads, and bridges).

***In-Substance Defeasance of Debt***—A situation that occurs when debt is considered defeased *for accounting and financial reporting purposes*, even though a legal defeasance has not occurred. When debt is defeased, it is no longer reported as a liability on the face of the statement of position; only the new debt, if any, is reported as a liability.

***Intangible Assets***—Long-lived assets that are useful in operations, not held for sale, and without physical qualities.

***Integrated Budget***—A situation in which the accounting system has been designed to automatically provide timely budgetary information concerning the uncommitted balance of appropriations and unrealized revenues.

***Interfund Activity***—Activity between funds of the primary government, including blended component units. Interfund activities are divided into two broad categories: reciprocal and nonreciprocal. Reciprocal interfund activity comprises interfund loans and interfund services provided and used. Nonreciprocal interfund activity comprises interfund transfers and interfund reimbursements.

***Interfund Loans***—Amounts provided between funds and blended component units of the primary government with a requirement for repayment.

***Interfund Reimbursements***—Repayments from the funds responsible for specific expenditures/expenses to the funds that initially paid for that expenditure/expense.

***Interfund Services Provided and Used***—Sales and purchases of goods and services between funds for a price near their exchange value.

***Interfund Transfers***—Flows of assets (cash or goods) without an equivalent exchange of assets in return and with no repayment requirement.

***Internal Control Framework***—An integrated set of policies and procedures designed to assist management to achieve its goals and objectives. To be truly comprehensive, a government's internal control framework must: (a) provide a favorable control environment, (b) provide for the continuing assessment of risk, (c) must provide for the design, implementation, and maintenance of effective control-related policies and procedures, (d) must provide for the effective communication of information, and (e) must provide for the ongoing monitoring of the effectiveness of control-

related policies and procedures as well as the resolution of potential problems identified by controls.

***Internal Financial Reporting***—Financial reporting specifically designed to meet the needs of management.

***Internal Service Funds***—Proprietary fund type that may be used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.

***Introductory Section***—The first of three essential components of any *comprehensive annual financial report* (CAFR). The introductory section typically provides general information on a government's structure and personnel as well as information useful in assessing the government's financial condition. The contents of the introductory section normally fall outside the scope of the independent audit of the financial statements.

***Investment in Capital Assets, Net of Related Debt***—One of three components of net assets that must be reported in both government-wide and proprietary fund financial statements. Related debt, for this purpose, includes the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of capital assets of the government.

***Invitation to Comment***—A due-process document that may be released by the GASB to solicit the views of interested parties on a topic under study by the Board prior to the release of an exposure draft.

***Joint Venture***—A legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain: (a) an ongoing financial interest, or (b) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share the costs, risks, and rewards of providing goods or services to the joint venture participants directly, or for the benefit of the public or specific service recipients.

***Jointly Governed Organization***—A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

***Landfill Closure and Postclosure Care Costs***—Costs incurred to provide for the protection of the environment that occur near or

after the date that a municipal solid-waste landfill stops accepting solid waste and during the postclosure period. Closure and postclosure care costs include the cost of equipment and facilities (leachate collection systems and final cover) as well as the cost of services (postclosure maintenance and monitoring costs).

**Legal Debt Margin**—The excess of the amount of debt legally authorized over the amount of debt outstanding.

**Legal Defeasance**—A situation that occurs when debt is legally satisfied based on certain provisions in the debt instrument even though the debt is not actually paid. When debt is defeased, it is no longer reported as a liability on the face of the statement of position; only the new debt, if any, is reported as a liability.

**Level (1-4) Guidance**—In the context of the hierarchy of GAAP for state and local governments, a reference to the relative authority of a given source of GAAP guidance. The four levels are set forth in SAS No. 69, *the Meaning of Present Fairly in Conformity with GAAP in the Independent Auditor's Report*.

**Lien Date**—For property (ad valorem) taxes, the date when an enforceable legal claim to taxable property arises (even though a lien is not formally placed on the property at that date). Also called the *assessment date*.

**MD&A**—Management's Discussion and Analysis. The MD&A is *required supplementary information* (RSI) that precedes the financial statements. The MD&A is an objective and easily readable analytical overview of financial activities including the overall financial position and the results of operations.

**Management**—Your district's Board of Directors.

**Major Fund**—A governmental fund or enterprise fund reported as a separate column in the basic fund financial statements. The General Fund is always a major fund. Otherwise, major funds are funds whose revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds for the same item. Any other governmental or enterprise fund may be reported as a major fund if the government's officials believe that fund is particularly important to financial statement users.

**Major Program**—As part of the single audit, the independent auditor must gain an understanding of internal controls over compliance for each major federal award program and then test those controls. In addition, the independent auditor must render an opinion on whether the government complied with laws,

regulations, and provisions of contracts or grant agreements that could have a direct and material effect on each major federal award program.

**Management Letter**—A formal communication by the auditor to management that focuses on internal control weaknesses discovered in the course of the audit of the financial statements. A management letter typically would be redundant in an audit conducted in accordance with GAGAS, which require that the independent auditor publish internal control weaknesses and instances of noncompliance with a formal report on internal controls and compliance. The management letter, as just described, should be distinguished from the *management representation letter*, which is a communication by management to the independent auditor in which management takes formal responsibility for the fair presentation of the financial statements and makes certain specific representations regarding their contents.

**Management’s Discussion and Analysis (MD&A)**—A component of required supplementary information used to introduce the district’s basic financial statements and provide an analytical overview of the district’s financial activities.

**Material Weakness**—A reportable condition (internal control weakness) of such magnitude that it could potentially result in a material misstatement of the financial statements.

**Materiality**—The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that a reasonable person’s judgment would have been changed or influenced by the omission or misstatement. Accountability in financial reporting requires materiality to be judged both quantitatively and qualitatively. Legal and contractual compliance may not have a *material* effect on operating results and financial position but could influence or change a reasonable person’s judgment about how your district has conducted its affairs. Materiality should be determined by the discretion and judgment of your district’s auditor.

**Measurement Focus**—The objective of a measurement; what is being expressed in reporting an entity’s financial performance and position. A particular measurement focus is accomplished by considering not only which resources are measured (financial or economic resources), but also when the effects of transactions or events involving those resources are recognized (the basis of accounting). The measurement focus of government-wide financial statements, proprietary fund financial statements, and fiduciary fund financial statements is economic resources. The measurement focus of governmental fund financial statements is current financial resources.

**Meeting**—Any deliberation between a quorum of members of a governmental body, or between a quorum of a governmental body and another person, at which any public business or public policy over which the governmental body has supervision or control is discussed or considered, or at which any formal action is taken (defined in Government Code Section 551.001).

**Modified Accrual Basis of Accounting**—Basis of accounting according to which: (a) revenues are recognized in the accounting period in which they become available and measurable, and (b) expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on long-term debt and certain similar accrued obligations, which should be recognized when due.

**Modified Approach**—The election *not* to depreciate infrastructure assets that are part of a network or subsystem of a network that meet two specific requirements. First, the government manages the eligible infrastructure assets using an asset management system that has certain specified characteristics; second, the government documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

**Money Market Investment**—A short-term, highly liquid debt instrument, including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Asset-backed securities, derivatives, and structured notes are not included in this term.

**Municipal Finance Officers Association**—Original name of the Government Finance Officers Association of the United States and Canada.

**Municipal Solid-Waste Landfill**—A discrete area of land or an excavation that receives household waste, and that is not a land application unit, surface impoundment, injection well, or waste pile, as those terms are defined in regulations of the environmental protection agency. It may also receive other types of resource conservation and recovery act subtitle d wastes, such as commercial solid waste, nonhazardous sludge, and industrial solid waste. The term *municipal* indicates the primary type of solid waste received by the landfill, **not** its ownership.

**National Advisory Council on State and Local Budgeting (NACSLB)**—A working group created by eight public-sector organizations to establish a comprehensive framework for public-sector budgeting that could be used by state and local governments as an ideal against which to measure and improve the quality of their own budget practices. The Government Finance Officers

Association has formally recommended the NACSLB's *Guidelines* to its members.

***National Committee on Municipal Accounting (NCMA)***—A committee of the municipal finance officers association that served as the authoritative accounting and financial reporting standard-setting body for local governments prior to 1946. The NCMA was one of the predecessors of the GASB.

***National Council on Governmental Accounting (NCGA)***—The immediate predecessor of the GASB as the authoritative accounting and financial reporting standard-setting body for state and local governments. The NCGA issued 7 statements and 11 interpretations prior to its dissolution in June 1984. These statements and interpretations remain effective unless superseded by a subsequent GASB pronouncement.

***NCGA***—National Council on Governmental Accounting.

***NCGA Statement 1***—National Council on Governmental Accounting Statement 1, *Governmental Accounting and Financial Reporting Principles*. NCGA Statement 1 was issued in 1979 and became the financial reporting model for state and local governments. The financial reporting model has been modified by later GASB statements, including the major changes introduced with GASB 34.

***Negotiable Certificates of Deposit***—Transferable certificates of deposit. Because they are transferable, negotiable certificates of deposit are subject to custodial credit risk.

***Net Assets***—The difference between a district's assets and its liabilities. GASB encourages the use of the Net Asset Format in your district's Statement of Net Assets.

***Net Cost***—Term used in the context of the government-wide statement of activities. The difference between functional expenses and program revenues.

***Net General Obligation Debt***—General obligation debt reduced by amounts being paid with other than general resources (general obligation debt associated with proprietary funds and special assessment debt), as well as amounts available in sinking funds for debt repayment.

***Net Pension Obligation***—Term used in connection with defined benefit pension plans. The cumulative difference between annual pension cost and the employer's contributions to the plan, including the pension liability (asset) at transition to GASB Statement No. 27, and excluding: (a) short-term differences, and (b) unpaid contributions that have been converted to pension-related debt.

***No-Commitment Special Assessment Debt***—Special assessment debt that is secured solely by liens on assessed properties and resources provided from bond proceeds and is not backed by either the full faith and credit of the government or by any other type of general government commitment.

***Noncapital Financing Activities***—Noncapital financing activities include borrowing money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. This category includes proceeds from all borrowings (such as revenue anticipation notes) not clearly attributable to acquisition, construction, or improvement of capital assets, regardless of the form of the borrowing. Also included are certain other interfund and intergovernmental receipts and payments.

***Nonexchange Transactions***—A transaction in which a government (including the federal government, as a provider) either gives value (benefit) to another party without directly receiving equal value in exchange or receives value (benefit) from another party without directly giving equal value in exchange.

***Nonfinancial Assets***—A term used in connection with the current financial resources measurement focus and the modified accrual basis of accounting. Assets that are expected to be used in the provision of goods or services rather than converted to cash. Financial statement preparers have the option of treating prepaid items and the inventories of supplies as either a financial asset (consumption method) or as a nonfinancial asset (purchases method).

***Nonoperating Revenues and Expenses***—A term used in connection with the proprietary fund statement of revenues, expenses, and changes in net assets. Revenues and expenses not qualifying as operating items, which typically include interest revenue and expense, taxes, and grants that are not equivalent to contracts for services.

***Normal Costing***—The historical cost of an asset estimated by taking the value of acquiring the asset new today and then discounting that amount by an appropriate inflation factor back to the date of acquisition.

***Office of Management and Budget (OMB)***—An agency of the federal government with regulatory oversight of single audits. In fulfillment of this responsibility the OMB has issued Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

***Open-End Mutual Funds***—An open-end mutual fund is one that continuously offers its shares for sale to the public, compared with

a closed-end company, which may issue only a limited number of shares. Mutual funds generally do not issue share certificates; instead, they send out periodic statements showing deposits, withdrawals, and dividends credited to the investor's account.

***Operating Activities***—Term used in connection with cash flows reporting. Operating activities generally result from providing services and producing and delivering goods, and include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities.

***Operating Revenues and Expenses***—Term used in connection with the proprietary fund statement of revenues, expenses, and changes in net assets. The term is not defined as such in the authoritative accounting and financial reporting standards, although financial statement preparers are advised to consider the definition of *operating activities* for cash flows reporting in establishing their own definition.

***Operational Accountability***—Reporting the extent to which your district's services are being provided efficiently and effectively, using all available resources, and whether your district can meet its future objectives.

***Original Budget***—The first complete appropriated budget. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law.

***Other Financing Source***—An increase in current financial resources that is reported separately from revenues to avoid distorting revenue trends. The use of the *other financing sources* category is limited to items so classified by GAAP.

***Other Financing Use***—A decrease in current financial resources that is reported separately from expenditures to avoid distorting expenditure trends. The use of the *other financing uses* category is limited to items so classified by GAAP.

***Other Postemployment Benefits***—Postemployment benefits provided by an employer to plan participants, beneficiaries, and covered dependents through a plan or other arrangement that is separate from a plan to provide retirement income.

***Other Sources of GAAP***—Potential sources of accounting and financial reporting guidance that may be used in the absence of authoritative guidance on one of the four levels of the hierarchy of GAAP; including concepts statements of the GASB, pronouncements of the FASB that are not authoritative for

government, professional publications, textbooks, and position papers of professional organizations. GASB concepts statements take precedence as another source of GAAP.

***Outcome Measures***—Indicators that measure accomplishments or results that occur (at least partially) because of services provided. Results also include measures of public perceptions of outcomes.

***Output Measures***—Indicators that measure the quantity of services provided; including both measures of the *quantity of service provided* and measures of the *quantity of a service provided that meets a certain quality requirement*.

***Overlapping Debt***—Proportionate share that property within a government must bear of the debts of other local governments located wholly or in part within the geographic boundaries of the reporting government. Except for special assessment debt, the amount of debt of each unit applicable to the reporting unit is arrived at by: (1) determining what percentage of the total assessed value of the overlapping jurisdiction lies within the limits of the reporting unit, and (2) applying this percentage to the total debt of the overlapping jurisdiction. Special assessment debt is allocated on the basis of the ratio of assessments receivable in each jurisdiction, which will be used wholly or in part to pay off the debt, and to total assessments receivable, which will be used wholly or in part for this purpose.

***Overlapping Governments***—All local governments located wholly or in part within the geographic boundaries of the reporting government.

***Pass-through Grants***—Grants and other financial assistance received by a governmental entity to transfer to or spend on behalf of a secondary recipient.

***Payment in Lieu of Taxes***—A payment that a property owner not subject to taxation makes to a district to compensate it for services that the property owner receives that normally are financed through property taxes.

***Pension (and Other Employee Benefit) Trust Funds***—A fiduciary fund type used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans.

***Pension Cost***—A measure of the periodic cost of an employer's participation in a defined benefit pension plan.

***Pension Obligation Bonds***—Bonds issued by employers to finance one or more elements of their pension obligation to employees. Pension obligation bonds may be used to provide funds

for one or more of the following purposes; to reduce or eliminate the employer's net pension obligation, to pay the employer's annual required contribution for the year, or to reduce or eliminate the plan's unfunded actuarial accrued liability.

***Pension Plan***—An arrangement for the provision of pension benefits in which all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of the plan.

***Pension-Related Debt***—All long-term liabilities of an employer to a pension plan, the payment of which is not included in the annual required contributions of a sole or agent employer or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

***Performance Auditing***—Auditing designed to evaluate the effectiveness or efficiency of an organization, program, or activity.

***Performance Measurement***—Commonly used term for service efforts and accomplishments reporting.

***Permanent Funds in the Governmental Fund Category***—Used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used to support the district's programs.

***Perspective Differences***—Differences between the budgetary basis of accounting and GAAP that result when the structure of financial information used for GAAP financial reporting differs from the structure of financial information used for budgetary purposes.

***Potable Water***—Water that is used for or intended to be used for human consumption or household use [defined in Rule 291.3(30)].

***Preliminary Views***—A due-process document issued by the GASB soliciting comments from interested parties on a proposed authoritative pronouncement prior to the issuance of an exposure draft.

***Primary Government***—A state government or general purpose local government. Also, a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. The primary government is the focus of the financial reporting entities.

***Primary Users of General-purpose External Financial Reports***—Those groups of financial statement users whose needs

guide the development of GAAP. For a district, the primary users are: (a) those to whom government is primarily accountable (the citizenry), (b) those who directly represent the citizens (legislative and oversight bodies), and (c) those who lend or who participate in the lending process (investors and creditors).

***Private-purpose Trust Funds in the Fiduciary Fund***

***Category***—Used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

***Program Revenues***—Revenues from the program itself or from parties other than a district’s taxpayers or customers that reduce the net cost of the function financed from the district’s general revenues.

***Projected Unit Credit Actuarial Cost Method***—A method under which the projected benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years. The actuarial present value of benefits allocated to a valuation year is called the normal cost. The actuarial present value of benefits allocated to all periods prior to a valuation year is called the actuarial accrued liability.

***Proprietary Funds***—Funds that focus on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. There are two different types of proprietary funds: enterprise funds and internal service funds.

***Public-Entity Risk Pool***—A cooperative group of governmental entities joining together to finance an exposure, liability, or risk. Risk may include property and liability, workers’ compensation, or employee health care. A pool may be a stand-alone entity or included as part of a larger governmental entity that acts as the pool’s sponsor.

***Qualified Opinion***—A modification of the independent auditor’s report on the fair presentation of the financial statements indicating that there exists one or more specific exceptions to the auditor’s general assertion that the financial statements are fairly presented.

***Questioned Cost***—Term used in connection with single audits. A determination by the independent auditor that an expenditure under a federal grant does not meet all of the grantor’s requirements and therefore may be subject to refund to the grantor.

***Quorum***—A majority of the district’s directors (TWC Section 49.053).

***RSI***—Required Supplementary Information.

**Realized Gains and Losses**—The cumulative effect of appreciation and depreciation in the value of investments reported at fair value at the time those investments are sold.

**Reappropriation**—The inclusion of a balance from the prior year’s budget as part of the budget of the subsequent fiscal year. Reappropriation is common for encumbrances outstanding at the end of a fiscal year that a district intends to honor in the subsequent fiscal year.

**Reasonable Assurance**—The principle that the goal of the independent audit of the financial statements is to ensure that financial statements are free from *material* misstatement. The principle of reasonable assurance rests upon the assumption that it is not cost beneficial to attempt to ensure that financial statements are free of immaterial misstatements.

**Rebatable Arbitrage**—A requirement to remit to the federal government interest revenue in excess of interest costs when the proceeds from the sale of tax-exempt securities are reinvested in a taxable money market instrument with a materially higher yield.

**Reciprocal Interfund Activity**—The interfund counterpart to exchange and exchange-like transactions. This category includes both interfund loans and interfund services provided and used.

**Refunding**—The issuance of new debt whose proceeds are used to repay previously issued debt. The proceeds may be used immediately for this purpose (a current refunding), or they may be placed with an escrow agent and invested until they are used to pay principal and interest on the old debt at a future time (an advance refunding).

**Related Organization**—When defining a financial reporting entity, it is an organization for which a primary government is accountable because that government appoints a voting majority of the Board, but is not financially accountable.

**Related Party Transaction**—A transaction that an informed observer might reasonably believe reflects considerations other than economic self interest based upon the relationship that exists between the parties to the transaction. Often used in contrast with an *arm’s-length transaction*.

**Relative Order of Liquidity**—An order for presenting assets and liabilities on the statement of net assets based upon how readily they may be converted to cash or will require the use of cash.

**Relevance**—The principle that there should be a close logical relationship between the financial information provided and the purpose for which it is needed. Information is relevant if it is

capable of making a difference in a user's assessment of a problem, condition, or event.

**Reliability**—The principle that financial information should be verifiable, free from bias, and faithfully represent what it purports to represent.

**Reportable Condition**—A significant deficiency in internal controls discovered in the course of the financial statement audit that must be communicated by the independent auditor to the district's audit committee.

**Required Supplementary Information (RSI)**—Statements, schedules, statistical data, or other information that the GASB has determined to be necessary to supplement the district's basic statements.

**Reserved Fund Balance**—The portion of a governmental fund's net assets that is set aside for future purposes and therefore cannot be appropriated for general uses.

**Restricted Assets**—Assets whose use is subject to constraints that are either: (a) externally imposed by creditors (through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

**Restricted Net Assets**—A component of net assets calculated by reducing the carrying value of restricted assets by the amount of any related debt outstanding.

**Retail Public Utility**—Any person, corporation, public utility, water supply or sewer service corporation, municipality, political subdivision or agency operating, maintaining, or controlling in the state facilities for providing potable water service or sewer service, or both, for compensation [defined in Rule 291.3(38)].

**Revenue Anticipation Note**—Short-term, interest-bearing note issued by a district in anticipation of revenues to be received at a later date.

**Reverse Repurchase Agreement**—An agreement in which a broker-dealer or financial institution (buyer-lender) transfers cash to a governmental entity (seller-borrower); the entity transfers securities to the broker-dealer or financial institution and promises to repay the cash plus interest in exchange for the same securities or for different securities.

**Rules**—The Agency's Texas Administrative Code Title 30, in particular Chapters 292 and 293. Located on the Internet at [www.sos.state.tx.us/tac/](http://www.sos.state.tx.us/tac/). Also, see the definition of **Title 30 TAC Section 293.94** in this appendix.

***Salary-Related Payments***—Payments by an employer that are directly and incrementally associated with payments made for compensated absences on termination. Such salary-related payments include the employer’s share of social security and medicare taxes and also might include the employer’s contributions to pension plans.

***SAS***—Statement on Auditing Standards.

***Segment***—An identifiable activity (or grouping of activities) required to be accounted for separately which is reported as or within an enterprise fund or an other stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding.

***Segregation of Incompatible Duties***—Used in connection with the evaluation of internal control: no single employee should be placed in a position that allows that employee both to commit and conceal an irregularity in the ordinary course of the employee’s duties.

***Significant Change***—What is significant may vary depending on circumstances (similar to materiality). Agency guideline for significant change is a variance of 10% or more.

***Single Audit***—An audit performed according to the Single Audit Act of 1984 (as amended) and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. The Single Audit Act allows or requires governments (depending on the amount of federal assistance received) to have one audit performed to meet the needs of all federal grantor agencies.

***Single-Program Governments***—A government that budgets, manages, and accounts for its activities as a single program. Single-program governments that use only governmental funds have the option to combine their fund financial statements and their government-wide financial statements into a single, combining presentation.

***Special Items***—Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

***Special Law District***—A district that has been either created by or altered by an act of the Legislature. Each special law district must refer to its enabling legislation as amended to determine its unique powers and duties. Under TWC Section 49.002, in cases of conflict, the special law provisions typically overrule the general law provisions.

***Special Revenue Fund***—A governmental fund type used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes.

***Standard Costing***—Method of estimating the historical cost of a capital asset by establishing the average cost of obtaining the same or a similar asset at the time of acquisition.

***Standby Fee***—A charge, other than a tax, imposed by a district (defined in TWC Section 49.001) upon Agency approval on undeveloped property for the availability of water, wastewater, or drainage facilities and services (Rule 293.141-293.150). A standby fee is not an impact fee, a tap fee, or a connection fee. Agency approval is valid for a period of not more than three successive years. If your district imposes and collects its standby fee in violation of an Agency Rule or Order, the Agency can require the fees and related interest to be refunded [Rule 293.141(i)].

***Statement on Auditing Standards (SAS)***—The Auditing Standards Board (ASB) is the senior technical committee of the AICPA designated to issue auditing, attestation, and quality control standards and guidance. Rule 202 of the AICPA code of professional conduct requires AICPA members who perform professional audit and attest services to comply with standards promulgated by the Auditing Standards Board. The ASB develops and issues standards in the form of statements on auditing standards, statements on standards for attestation engagements, and statements on quality control standards (together, “ASB Statements”) through a due process that includes deliberation in meetings open to the public, public exposure of proposed ASB statements, and a formal vote.

***Statistical Section***—The third of three essential comprehensive annual financial report. The statistical section provides a broad range of trend data covering key financial indicators from the past 10 fiscal years (general government revenues and expenditures, property tax collections, debt burden). It also contains demographic and miscellaneous data useful in assessing a government’s financial condition. The contents of the statistical section normally fall outside the scope of the independent audit of the financial statements.

***Summary of Significant Accounting Policies (SSAP)***—The first of the notes to the financial statements or a separate section immediately preceding the notes to the financial statements. The basic authoritative guidance governing the contents of the SSAP is provided in Accounting Principles Board (APB) Opinion No. 22, *Disclosure of Significant Accounting Policies*.

**Supplementary Information**—Financial information presented together with basic financial statements that is not included within the scope of the audit of those statements. When the presentation of certain supplementary information is mandated by the GASB it is referred to as *required supplementary information*.

**Surcharge**—As reported in **TSI-1**, this amount is the district's charge to its customers that is over and above the direct water and wastewater charges. Examples include: solid waste/garbage fees; TCEQ Regulatory Assessments; and Regional Water Authority Fees.

**Susceptible to Accrual**—Revenues that are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

**System Development Fees**—Fees charged to join or to extend an existing utility system. Also referred to as *tap fees* or *connection fees*.

**TAC**—Texas Administrative Code. Title 30 of this code contains the rules of the TCEQ.

**TSLAC**—Texas State Library and Archives Commission.

**TSI**—Texas Supplementary Information; this Agency's supplemental reporting requirements applicable to *all* districts required to file a copy of their audit report with this Agency.

**TSI Exempt District**—A water district that is not required to but may complete the TSI and include it in its annual audit report. The four categories of TSI exempt districts are:

- districts whose only purpose is to provide irrigation or navigation facilities or services
- groundwater conservation districts
- municipal management districts
- districts identified in 30 TAC Chapter 292, "Special Requirements for Certain Districts and Authorities"

**TWC**—Texas Water Code. Located on the Internet at:  
**[www.capitol.state.tx.us/statutes/watoc.html](http://www.capitol.state.tx.us/statutes/watoc.html)**

**Tap**—Providing water and/or wastewater service to a customer by connection (tap) into the district's distribution lines.

**Tap Fees**—Fees charged to join or to extend an existing utility system. Also referred to as *system development fees* or *connection fees*.

**Tax Anticipation Note**—Short-term, interest-bearing note issued by a district in anticipation of tax revenues to be received at a later date. The note is retired from the tax revenues to which it is related.

***Tax-Increment Financing***—Financing secured by the anticipated incremental increase in tax revenues, resulting from the redevelopment of an area.

***Tax Levy***—The gross amount of money a district can produce by applying a tax rate to its total assessed valuation.

***Tax Rate***—A rate set each year by the district’s Board. It is usually expressed in dollars and cents per hundred dollars of valuation. The tax rate is multiplied by the tax base to determine the district’s total tax levy.

***Technical Bulletin***—A document issued by the staff of the GASB to provide guidance for applying GASB statements and interpretations and resolving accounting issues not directly addressed by them.

***Temporary Accounts***—Accounts that close to net assets at the end of an accounting period (revenues and expenses).

***Ten Percent Criterion***—The first of two tests used to determine whether a given governmental fund or enterprise fund must be reported as a major fund in the basic financial statements. For governmental funds, this test is applied to the total assets, liabilities, revenues, and expenditures of all governmental funds. For enterprise funds, this test is applied to the total assets, liabilities, revenues, and expenses of all enterprise funds. The test need be met for only one of these four items.

***Termination Payments Method***—A method of calculating the liability for earned sick leave for which it is probable that the benefits will result in termination payments. Under this method, the amount of the liability is estimated based on a governmental entity’s past experience of making termination payments for sick leave, adjusted for the effect of changes in its termination policy and other factors.

***The Single Audit Act***—See **Single Audit** in this section.

***Timeliness***—The principle that financial statements must be issued soon enough after the reported events to affect decisions.

***Timing Differences***—Differences between the budgetary basis of accounting and GAAP that occur when the period used for budgeting differs from the period used for GAAP reporting (a special revenue fund that uses a grant-year budget rather than a fiscal-year budget).

***Title 30 TAC Section 293.94***—Title 30 (Environmental Quality) of Texas Administrative Code (TAC), Chapter 293 (Water Districts), Section 293.94 (Annual Financial Reporting Requirements). The TAC is available online at: [www.sos.state.tx.us/tac/](http://www.sos.state.tx.us/tac/)

***Tri-Party Arrangements***—An arrangement in which the custodian serves as agent both of the buyer-lender and of the seller-borrower by agreeing, in the event of default by one, to protect the interests of the other. The custodian holds the securities underlying the agreement in the names of both repurchase agreement parties (the buyer-lender as pledgee and seller-borrower is owner).

***Type A Program***—Term used in connection with the determination of major programs for purposes of single audits. Type A programs are defined on the basis of the relationship between program expenditures and total federal awards expended.

***Type B Program***—Term used in connection with the determination of major programs for purposes of single audits. A Type B program is any program with insufficient program expenditures to qualify as a Type A program.

***Unallocated Claim Adjustment Expenses***—Costs that cannot be associated with specific claims but are related to claims paid or in the process of settlement, such as salaries and other internal costs of the pool's claims department.

***Unallocated Depreciation***—Term used in connection with the government-wide statement of activities. Depreciation not properly reported as a direct expense of a functional category.

***Uncommitted Balance of Appropriations***—The portion of an appropriation remaining after the deduction of expenditures and encumbrances.

***Understandability***—The principle that information in financial reports should be expressed as simply as possible.

***Undesignated Unreserved Fund Balance***—Available expendable financial resources in a governmental fund that are not the object of tentative management plans (designations).

***Undivided Interest***—An arrangement (also known as a *joint operation*) that resembles a joint venture but no entity or organization is created by the participants. An undivided interest is an ownership arrangement in which two or more parties own property in which title is held individually to the extent of each party's interest. Implied in that definition is that each participant is also liable for specific, identifiable obligations (if any) of the operation. Because an undivided interest is not a legal entity, borrowing to finance its operations often is done individually by each participant. An additional consequence of the absence of a formal organizational structure is that there is no entity with assets, liabilities, expenditures/expenses, and revenues-and thus, equity-to allocate to participants.

***Unearned Revenue***—A type of deferred revenue account used in connection with resources that have not yet been earned.

***Unfunded Actuarial Accrued Liability***—The excess of the actuarial accrued liability over the actuarial value of assets. This value may be negative, in which case it may be expressed as: a negative unfunded actuarial accrued liability; the excess of the actuarial value of assets over the actuarial accrued liability; or, the funding excess.

***Unqualified Opinion***—An opinion rendered without reservation by the independent auditor that financial statements are fairly presented.

***Unrealized Gains and Losses***—Cumulative change in the market value of investments prior to their disposition.

***Unrealized Revenues***—The difference between estimated revenues and actual revenues.

***Unreserved Fund Balance***—Portions of fund balances that are available to be appropriated for general uses, less designations.

***Unrestricted Net Assets***—That portion of net assets that is neither restricted nor invested in capital assets (net of related debt).

***Vesting Method***—A method of calculating the liability for earned sick leave for which it is probable that the benefits will result in termination payments. Under this method, the liability amount is estimated based on the sick leave accumulated at the date of the statement of position for those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future. In calculating the liability, these accumulations are reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future are based on assumptions concerning the probability that individual employees, classes, or groups of employees will become eligible to receive termination payments.

***Voluntary Nonexchange Transactions***—Transactions that result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (certain grants and private donations).

***Voucher***—A form attached to a source document to capture key information necessary to process a disbursement of funds.

***Voting Majority***—A situation in which the number of the primary government's appointees to a component unit's board is sufficient to control decisions of the component unit.

***Vulnerability Assessment***—The risk-based systematic prioritization of internal control evaluations.

***Widely Recognized and Prevalent Practice***—Term used in connection with the hierarchy of GAAP for state and local governments established by SAS No. 69. The principle that accounting and financial reporting practice should itself serve as a source of GAAP in the absence of high level guidance.

***Yellow Book***—A nontechnical term commonly used in public-sector auditing to describe the General Accounting Office’s publication *Government Auditing Standards*.

***Yield Maintenance Repurchase–Reverse Repurchase Agreement***— A repurchase agreement or a reverse repurchase agreement where the parties agree that the securities returned will provide the seller-borrower with a yield as specified in the agreement.