



RG-080
Revised March 2004

Water District Financial Management Guide

Water Supply Division

printed on
recycled paper

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Water District Financial Management Guide

effective for all audited financial statements
for periods ended after June 15, 2004

Prepared by
Water Supply Division

RG-080
Revised March 2004



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Published and distributed
by the
Texas Commission on Environmental Quality
PO Box 13087
Austin TX 78711-3087

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PREFACE

This publication presents the information the Texas Commission on Environmental Quality (TCEQ; formerly the Texas Natural Resource Conservation Commission, or TNRCC) has prepared on the topic of good financial management practices for water districts. Formerly, this information was presented in several different publications:

- the *Water District Accounting Manual* (TNRCC publication RG-080, December 1995),
- *Annual Audit Report Requirements for Texas Water Districts* (TNRCC publication RG-081, December 1995), and
- various editions of the annual *Water District Update* (TCEQ publication PD-003).

In consolidating this information into a single publication, we hope to make it easier for everyone who needs any part of this body of information to be sure they have the latest word. However, we realize that bits and pieces of this information will have to be revised over time. To make this consolidated publication flexible enough to accommodate those changes, we have added informative footers at the bottom of each page. These footers show:

- the short title of the publication
- the publication number
- the date that portion of the publication was last revised (a “portion” is an individual chapter or appendix)
- the page number

As our resources allow, we will edit this *Guide*, one portion at a time, to make it even more readable and user-considerate. When we publish an edited chapter or appendix, we will enter the new revision date by its entry in the table of contents as well as in the footer of that chapter or appendix. You will be able to easily determine whether you have the latest version of any part of this publication by checking your copy against the table of contents posted on our Web site: www.tceq.state.tx.us.

ACKNOWLEDGMENTS

We are very appreciative of the many individuals who have reviewed and commented on this revision to the Agency's accounting and auditing manuals to help us ensure that this publication represents the situations that a typical general law district will encounter as it conducts its operations.

We would like to thank the members of the *Drinking Water Advisory Work Group's Subcommittee on Water Districts and GASB 34* for its participation. We are also grateful for the continuing support of:

Patsy Waldrop of BKD, LLP
Debbie Gibson and Michael McCall of McCall Gibson & Company, PLLC
Mark L. Roth, CPA
David L. Merritt of David L. Merritt, PC
Mark McGrath of Null Lairson, PC
Angela M. Stepherson of the Law Offices of Clay E. Crawford, PC
Mary Jarmon and Bill Russell of Myrtle Cruz, Inc.
Jeannie Hargis of Paula J. Hargis, CPA
Shirley McLennan and Vicki Busboom of Progressive Data Management
Bob Ideus of Municipal Business Services, Inc.
Godfrey S. Baldwin, CPA

GENERAL FINANCIAL GUIDANCE

Every year, each water district and authority must complete a report on its financial status. The type of financial report that your district is required to prepare depends upon your district's financial activity.

This *Water District Financial Management Guide (Guide)* provides standards for a typical district to follow when preparing and reporting on its annual activities. While the information and examples contained in the *Guide* are focused on a **small general-law single-purpose district that provides retail water and wastewater services and uses only governmental fund accounting**, this *Guide* is applicable to all districts, including large, multipurpose entities that use proprietary fund accounting. If your district's operations are complex or if your district uses proprietary fund accounting, you may need to adapt the *Guide* to fit your district's needs.

The *Guide* replaces both the *Water District Accounting Manual (WDAM, publication RG-80, 1995 Edition)* and the *Annual Audit Report Requirements of Texas Water Districts and Authorities (AARR, publication RG-81, 1995 Edition)*.

Purpose of This Guide

The *Guide* is designed to:

- Provide minimum standards for maintaining your district's fiscal records to comply with *Texas Water Code (TWC)* Section 49.196.
- Provide a reference source for your district when establishing its accounting system to meet your district's management needs.
- Provide the *Texas Commission on Environmental Quality's* (Agency) reporting requirements.
- Provide a reference source for your independent auditor who must evaluate and report on your district's internal control system.
- Instruct your district and its auditor on how to comply with the annual audit requirements of TWC Chapters 49 or 36 and the Agency's *Texas Administrative Code* Section (Rule) 293.94.

Districts Subject to This Guide

This *Guide* applies to all districts and authorities created under the Texas Constitution in either Article 3, Section 52 or Article 16, Section 59 [defined as a "conservation and reclamation district"] that must comply with TWC Chapter 49. We have not granted any exceptions to this *Guide's* applicability.

The Texas Legislature (Legislature) has defined the terms “water district” and “district” we use in this publication in TWC Section 49.001. While that definition does not include a navigation district or port authority, TWC Section 60.002 does require a navigation district to follow this *Guide*. The definition in TWC Section 49.001 excludes a Groundwater Conservation District (GCD) or Municipal Management District (MMD); however, those districts may choose to use the *Guide* to enhance their financial reporting responsibilities. To find laws specific to GCDs and MMDs, look under “Exempt from TWC Chapter 49” in the table on page O-6 in **Appendix O**.

Review Rule 293.94(e) and (f) and the *Guide’s Audit Report Requirements* section on page 3-1 for information on the statutory exceptions granted by the Legislature to preparing an audit.

When we refer to your *Board of Directors* (Board), we are referring to the district’s elected or appointed directors, commissioners, or supervisors who have been charged with the responsibility for guiding the district in fulfilling the needs for which it was created.

When we refer to your district’s *management*, we are referring to your district’s Board of Directors, even though they may have delegated some duties to the general manager or other district staff.

When we refer to your district’s *audit report*, we are referring to the complete audit report package, which may contain the following items in this order of presentation:

- the notarized filing affidavit
- your auditor’s opinion letter
- your Board’s discussion and analysis
- the district’s basic financial statements
- the notes to the financial statements
- the required supplementary information
- our supplementary information, if required
- the auditor’s management letter, if required

Legal Status of This Guide

Accounting Principles

TWC Section 49.192 requires your district’s financial statements to be prepared according to *generally accepted accounting principles* (GAAP) as adopted by the *American Institute of Certified Public Accountants* (AICPA).

The phrase *generally accepted accounting principles* is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. It

includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard to measure financial presentations.

Your auditor's opinion is based upon his judgment of whether:

- the accounting principles selected and applied have general acceptance
- the accounting principles are appropriate in the circumstances
- the financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation
- the information presented in the financial statements is classified and summarized in a reasonable manner (neither too detailed or too condensed)
- the financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits (limits that are reasonable and practicable to attain in financial statements).

The determination that a particular accounting principle is generally accepted can be difficult as no single reference source exists. The sources of established accounting principles that are generally accepted in the United States are:

- **Level 1:** Accounting principles published by a body designated by the AICPA's Council to establish such principles (under Rule 203 of the AICPA's Code of Professional Conduct).
- **Level 2:** Publications of bodies (composed of expert accountants) that deliberate accounting issues in public forums for the purpose of establishing accounting principles or describing existing accounting practices that are generally accepted, provided those pronouncements have been exposed for public comment and have been cleared by a body referred to in Level 1 above.
- **Level 3:** Publications of bodies, organized by a body referred to in Level 1 above and composed of expert accountants, that deliberate accounting issues in public forums for the purpose of interpreting or establishing accounting principles or describing existing accounting practices that are generally accepted, or publications referred to in Level 2 above that have been cleared by a body referred to in Level 1 above but that have not been exposed for public comment.
- **Level 4:** Practices or publications that are widely recognized as being generally accepted because they represent prevalent practice in a particular industry or the knowledgeable application to specific circumstances of pronouncements that are generally accepted.

If the accounting treatment of a transaction or an event is not specified in a publication covered by the AICPA’s Rule 203, your auditor should consider whether the accounting treatment is specified by another source of established accounting principles.

GAAP Hierarchy Summary

	Nongovernmental Entities	State & Local Governments (Districts)
Established Accounting Principles		
Level 1	FASB Statements and Interpretations, APB Opinions, and AICPA Accounting Research Bulletins	GASB Statements and Interpretations, plus AICPA and FASB publications if made applicable to state and local governments by a GASB Statement or Interpretation
Level 2	FASB Technical Bulletins, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position	GASB Technical Bulletins and the following publications if specifically made applicable to state and local governments by the AICPA: AICPA Industry Audit and Accounting Guides and AICPA Statements of Positions
Level 3	Consensus positions of the FASB Emerging Issues Task Force and AICPA Practice Bulletins	Consensus positions of the GASB Emerging Issues Task Force and AICPA Practice Bulletins if specifically made applicable to state and local governments by the AICPA
Level 4	AICPA accounting interpretations, “Q’s and A’s” published by the FASB staff, as well as industry practices widely recognized and prevalent	“Q’s and A’s” published by the GASB staff as well as industry practices widely recognized and prevalent
Other Accounting Literature		
	Other accounting literature, including FASB Concepts Statements, AICPA Issues Papers; International Accounting Standards Committee Statements; GASB Statements, Interpretations, and Technical Bulletins; publications of other professional associations or regulatory agencies; AICPA <i>Technical Practice Aids</i> ; and accounting textbooks, handbooks, and articles	Other accounting literature, including GASB Concepts Statements; publications in Levels 1 through 4 of the hierarchy for nongovernmental entities when not specifically made applicable to state and local governments; FASB Concepts Statements; AICPA Issues Papers; International Accounting Standards Committee Statements; pronouncements of other professional associations or regulatory agencies [in this case, the TCEQ]; AICPA <i>Technical Practice Aids</i> ; and accounting textbooks, handbooks, and articles

The AICPA recognizes the *Governmental Accounting Standards Board* (GASB) as the standard-setting authority for GAAP for state and local governments. GASB has designated the *National Council on Governmental Accounting* (NCGA) Statements and Interpretations issued before the formation of GASB to be the authoritative support for determining GAAP for

state and local governments **unless they have been superseded by GASB statements**.

NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, issued in 1979, became the financial reporting model for state and local governments. When GASB was created in 1984 it agreed to reexamine the financial reporting model. Modifications were made to the model by various GASB statements and a comprehensive revision was introduced in 1999 with the issuance of *GASB Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* (GASB 34). For more information, refer to the GASB and AICPA publications listed in **Appendix O**.

Water Code

TWC Section 49.192 authorizes this Agency to adopt accounting and auditing manuals. This *Guide* complies with this directive and is intended to be an aid to your Board, its employees, and consultants.

Your district’s Board is responsible for maintaining the district’s accounting system. TWC Section 49.196 requires your district’s fiscal records be prepared on a timely basis and maintained according to GAAP. The *Guide* includes the **minimum** details of an accounting system necessary to comply with that statute.

As this Agency and its publications do not set governmental accounting principles or auditing standards, if there are any inconsistencies with the AICPA’s standards or principles and this *Guide*, then the AICPA’s standards and principles control.

Ultimately, it is your Board’s responsibility, with the help of its contractors, consultants, and auditor, to be aware of and implement changes set forth in the statutes, the Agency’s Rules, GAAP, or *generally accepted auditing standards* (GAAS).

Legal Environment of Districts

General versus Special Law Districts

Districts derive their core powers and duties from either the various chapters of the Water Code (depending upon each district’s type) or special laws enacted by the Legislature. Districts must also follow other laws, including the Election Code, Government Code, Health and Safety Code, Local Government Code, Penal Code, Property Code, and Tax Code (Texas Statutes, **Appendix O**).

General law districts must follow the TWC Chapter under which they were created as well as TWC Chapters 49 and 50 which are applicable to most districts.

Special law districts have 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. In cases of conflict, a district's special law provisions typically overrule the general law provisions (TWC Section 49.002).

When TWC Chapters 49, 50, and a district's general law chapters are silent, a district should refer to the other state laws as well as the district's bond resolutions and other legal restrictions to determine that district's legal circumstances. **This Guide does not provide guidance for legal compliance.** Your Board should contact its attorney who can interpret the laws and other restrictions according to your district's unique situation.

Rule 293.91(b) states that each general law district should comply with the reporting requirements provided in the TWC chapter under which it was created. A special law district may be subject to unique reporting requirements of the special act under which it was created or amended.

Continuing Right of Supervision

TWC Section 12.081 and Rule 293.3 clarify that the powers and duties of all districts and authorities created under the Texas Constitution in either Article 3, Section 52 or Article 16, Section 59 are subject to the continuing right of supervision by the Agency, including but not limited to:

- requiring audits or other financial information, inspections, evaluations, and engineering reports
- issuing rules necessary to supervise the districts and authorities

Financial Requirements

TWC Section 49.051 establishes that a district is governed by its Board.

TWC Section 49.057 makes your Board, not its consultants or employees, responsible for the management of your district's affairs.

Annual Budget

Regardless of whether your district uses governmental fund accounting or proprietary fund accounting, Rule 293.97(b) requires your Board to adopt an operating budget before the fiscal year begins. Additionally, GASB requires your Board to annually adopt a comprehensive operating budget (Codification of Governmental Accounting and Financial Reporting Standards, Section 1700, paragraph 101, "The Budget and Budgetary Accounting").

Amending the Budget. Your Board may make budget amendments from time to time at its discretion. The adopted budget and any subsequent amendments must be passed and approved by a resolution of your Board and must be made part of the Board's meeting minutes.

Is It Appropriated? For general law districts the adopted budget is not a spending limitation (a legally restricted appropriation); however, your Board may adopt rules to limit the spending authority of the district's directors and its general manager. These adopted limitations should be recorded in your district's manual (**District Manual**, page 1-18).

We Do Not Need a Copy of the Interim Budget. While our rules require your Board to adopt a budget for the upcoming year before the start of your district's fiscal year, we do not want or require you to send us a copy of your district's adopted budget. Your district's operating budget, as adopted and as amended, is required to be included in your district's audit report which is submitted for our review.

External Review. If your district provides wholesale potable water and wastewater services, TWC Section 49.200 requires your Board to adopt a program that provides your wholesale customers an opportunity to review and comment on your district's budget as it applies to their services before your Board can adopt the budget.

Purpose of the Budget. Your district's operating fund budget should serve as a planning tool. Depending on the district's development, plans should be implemented to determine your district's growth rate, the age of its facilities, all possible revenue sources, and a method to build a reserve for unplanned expenses.

Who Is Involved in the Budget Process? The following list explains some of the many roles your Board may request of its consultants.

- ***Bookkeeper.*** Coordinates the budget's preparation as he has the prior years' financial information and is responsible for providing the comparisons to your Board.
- ***Attorney.*** Usually works with the district's developer to establish and organize your district. Your attorney has input on alternate funding methods and pending elections or litigation and should be knowledgeable about the many laws affecting districts.
- ***Engineer.*** Has knowledge about your district from its inception and may make recommendations about major repairs and capital improvements.
- ***Operator.*** By working in the district on a daily basis, he has knowledge of pending repairs and system maintenance needs.
- ***Tax Collector.*** Has knowledge of property values in the district if a maintenance tax is needed.
- ***Financial Advisor.*** Should know if the district's operating reserve can support a good bond rating.
- ***Insurance Agent.*** Can provide information on policy coverage.

Selecting a Fiscal Year

TWC Section 49.158 and Rule 293.97 require your Board to adopt by resolution your district's fiscal year within 30 calendar days of becoming financially active. Your Board should consider the following issues when selecting its fiscal year:

- ***The Business of the District.*** Consider the needs of your district's principal business activity and your district's interaction with other entities [the local Agency watermaster, other districts, a primary government (a city), or a component unit].
- ***The Effect on Tax Collection Reporting.*** If the district assesses taxes on October 1, then a September 30 fiscal year end would allow a full 12 months of collections to be reported in your district's audit report.
- ***Your Auditor's Workload.*** Your auditor will have certain months of the year with a very heavy workload (tax season). Your district may want to set its fiscal year end at a date which will allow your auditor to timely perform your district's audit.
- ***Your Bookkeeper's Workload.*** If your district uses a contracted bookkeeping service, your Board should also consider the number of year-end closings that the bookkeeper must complete that month for their clients to ensure that your bookkeeper can be responsive to your auditor's needs.

TWC Section 49.158 allows a district to change its fiscal year end once during a 24-month period. Your Board then has 30 calendar days to notify us of an adopted or changed fiscal year end. If your Board has changed the district's fiscal year, you can prepare and submit a combined audit report to cover a fiscal period not to exceed 18 months.

Customer Deposits

TWC Section 49.212 allows your district to charge a deposit for any services or facilities that it provides. That section also allows your Board to decide whether it will allow the customers' deposit to earn interest at a rate determined by your Board. Most districts have chosen not to pay interest on their customers' deposits.

Your district cannot condition its services to a new customer on the payment of an outstanding charge incurred by a prior customer *unless* a legal relationship between the two customers causes the new customer to be liable for the debts of the other, or unless the new customer had agreed in writing to be responsible for the charges incurred by the previous customer. The prior customer's deposit must be used to recover any amounts owed. If that deposit does not cover the outstanding balance, your district's only recourse is to pursue the nonpaying customer.

We recommend that your Board annually evaluate the district's required deposit to ensure that the current deposit is sufficient to cover a typical

unpaid account or damage to the district's facilities depending upon your district's recent historical experience.

Insurance

There are no general law insurance coverage requirements for a district unless mentioned in your district's protective bond covenants. When considering your district's current coverage, we encourage your Board to annually evaluate your district's:

- potential risks
- financial ability to cover any losses, damage, and/or lawsuits

Bond Coverage

TWC Section 49.055 states that, before beginning to perform the duties of office, each director must execute a \$10,000 bond conditioned on the faithful performance of that director's duties.

TWC Section 49.057 compels your Board to require its directors, employees, and consultants who routinely collect, pay, or handle district funds to furnish a bond, payable to the district in an amount that your Board determines to be sufficient, to safeguard the district's assets. Your Board can also require a bond of its other consultants who do not routinely collect, pay, or handle district monies. That bond must be conditioned on the faithful performance of that person's duties and on the accounting for all of the district's funds and property. Your Board is allowed to pay the premium on the required surety bonds out of any available district funds, including bond proceeds.

Revenue Notes

TWC Section 49.153 and Rule 293.80 require Agency approval on most revenue notes executed by your district for a term longer than three years.

Developer Reimbursement

Rule 293.70 addresses the minimum procedures to be performed by your auditor when preparing his *agreed upon procedures* reimbursement report to the Board. Refer to this *Guide's* **Appendix M** and the **Developer Reimbursements** section of the Accounting Chapter on page 2-26 for more information.

Additionally, Rule 293.95(b) requires all districts to maintain sufficient records to determine the amounts paid by a developer or by any other parties on the district's behalf, including all contingent and actual liabilities. Those third-party payments are required to be disclosed by your district in its audit report, financial report, or financial dormancy affidavit.

Signing Checks

TWC Section 49.151 requires checks, drafts, orders, or other instruments to be signed by either:

- a majority of your district's directors
- the general manager, treasurer, bookkeeper, or other district employee *if authorized by Board resolution*

Unclaimed Property

An unclaimed deposit is not free money for your district. Unclaimed customer deposits and overpayments and employee wages and workers' compensation benefits remain the property of your district's customer or its employee under the Texas Unclaimed Property Law. These deposits, overpayments, and benefits are considered abandoned after a three-year period if there has been no contact from your district's former customer or employee. The Comptroller of Public Accounts is responsible for tracking and maintaining these deposits (Property Code Chapters 72 through 75). See this *Guide's* **Appendix O** (Texas Statutes) for more information.

Duty to Audit

TWC Sections 49.191 or 36.153 and Rule 293.94 require your Board to have the district's fiscal accounts and records audited each year. The audit must be performed by either a *certified public accountant* (CPA) or a public accountant in good standing with the Texas State Board of Public Accountancy (**Appendix O**). However, a district is exempt from the audit requirement if it meets the criteria for filing a financial dormancy affidavit or an annual financial report (Refer to **Audit Report Requirements** on page 3-1).

Your district's audit report must be completed within 120 calendar days after the close of your district's fiscal year (TWC Section 49.191). This allows your Board 15 calendar days to hold the required board meeting, approve the report, *AND* file the audit report with this Agency (TWC Section 49.194).

Additionally, Rule 293.91 requires your Board to submit a certified copy of any audit report on the district's affairs (other than its annual financial audit under TWC Section 49.191) within 15 days of its completion.

Your Auditor's Opinion

Your auditor will prepare a report on his audited financial statements. The Independent Auditor's Report will contain your auditor's opinion on the district's financial statements taken as a whole. The four audit opinions are:

- unqualified
- qualified
- adverse
- disclaimed

An *unqualified opinion* is commonly called a clean opinion. Your auditor is stating that the district's financial statements fairly present *in all material respects* the district's financial position according to GAAP. Your auditor may also need to add explanatory language to his Independent Auditor's Report on the district's financial statements that do not affect his unqualified opinion.

A *qualified opinion* is used when your auditor must state that, *except for* _____, the district's financial statements fairly present in all material respects the district's financial position according to GAAP. Your auditor might issue a qualified opinion following a natural disaster (flooding of the district's offices and the resulting destruction of the board meeting minutes) because there is a lack of sufficient competent evidential matter that has led the auditor to conclude that he cannot express an unqualified opinion and he has also concluded not to disclaim an opinion. When an auditor expresses a qualified opinion he will disclose his substantive reasons in an explanatory paragraph to the Independent Auditor's Report.

Your auditor will issue an *adverse opinion* when the district's financial statements **do not** fairly present the district's financial position according to GAAP.

If your auditor does not express an opinion on the district's financial statements, by default he is issuing a *disclaimer of opinion*.

The Single Audit Act, OMB Circular A-133, and Federal Grants

The Single Audit Act requires a district with a federal grant in excess of \$500,000 for fiscal periods ending after 12/31/2003 to prepare a "yellow book" audit following *generally accepted government auditing standards* (GAGAS, **Appendix P**). Your Board should be aware that, for a yellow book audit, your auditor is prohibited from serving as your district's bookkeeper under the national independence restrictions. While this Agency does not require the submission of a yellow book audit, our review process for districts receiving federal funds will include a verification that a yellow book audit was performed when necessary.

Where to File Your Audit Report

TWC Section 49.194 requires most districts to file a copy of their audit report with the Agency **within 135 calendar days** after the district's fiscal year end. That section also requires each district to submit an executed (notarized) filing affidavit (**Appendix N1**, on page N-2) with its audit report.

Please note that the Legislature has statutorily fixed this filing criteria. The statutes do not give this Agency the authority to extend your district's filing date or to allow your district to substitute other financial documents for those specified in the law.

Under TWC Section 49.194(b) if your Board refuses to approve the audit report, your Board must send us a copy of that report and the Board's statement explaining the reasons for the Board's failure to approve the report. This Agency's response will take into consideration the Board's stated circumstances.

In August 1994, we revised the Filing Affidavit (form TCEQ-0723) to incorporate information contained in the Board Certificate. A Board Certificate cannot be submitted in exchange for the required notarized Filing Affidavit. And, in September 1995, we revised the Filing Affidavit to reflect the legislative change that removed the requirement calling for a copy of the district's audit report to be filed with the local city or county clerk's office. We request that you file only one (1) copy of your district's audit report and filing affidavit with this Agency as we will recycle the extra copies.

The TWC currently exempts most GCDs and MMDs from the requirement to file their audited financial statements with us; however, we request that these districts send us a courtesy copy that we can make available to the public.

Additionally, districts with outstanding bonded indebtedness are required to file a copy of their audit report with the State Information Depository, which the Governor's May 25, 1995 Executive Order GWB 95-4 has designated as the *Municipal Advisory Council of Texas* (MAC). Refer to **Appendix O** for MAC's mailing address.

If your Board is considering issuing bonded debt within the next two fiscal years, your district must file a copy of its audit or annual financial report with the MAC. See this *Guide's* Chapter on Auditing Guidance and TWC Chapter 49's Subchapter G (*Audit of Districts*) for more information on your district's financial reporting, auditing, and filing requirements.

Your district must retain at least one (1) copy of the financial report for its records according to the Local Government Records Act (Local Government Code Chapters 201 through 205). Your copy of the district's financial report is the district's original record. Each district is responsible for maintaining an original, permanent record of its financial report in the district's official files.

In the 78th Regular Legislative Session House Bill 1541 revised TWC Section 49.194 to give your Board the option of electronically submitting your district's audit report with this Agency. If you choose to submit the audit report electronically, prepare a copy in **Adobe Portable Document Format** (PDF) and send it by e-mail to utildist@tceq.state.tx.us. For more information on PDF files, refer to:

www.tceq.state.tx.us/AC/help/site/help_pdf.html

Keep these points in mind:

- Put “District Audit” in the subject line of your e-mail.
- Put your name and telephone number in your message so we can call you if necessary.
- Make sure that your e-mail comes from an address that can receive replies, because we will reply to confirm that we received your audit report.
- If you do not receive a confirming reply worded something like:
Thank you for submitting the [*name of your district*] District’s [*month year*] audit report and related filing affidavit, which we received on [*date*].
then please contact us. There might have been a problem with your electronic submission. For example, there is a limit on the size of e-mails we can receive. If your files are larger than this limit (which changes as technology improves), you will not receive our confirmation e-mail. Call us at 512/239-4691 or e-mail us to ask about alternative methods of submitting your report.

Our Address

One (1) copy of your district’s audit report (including the completed filing affidavit) must be sent in PDF format by e-mail to utildist@tceq.state.tx.us or in hard copy to this address:

Texas Commission on Environmental Quality
Districts Review Team, MC 152
Utilities and Districts Section
Water Supply Division
PO Box 13087
Austin, Texas 78711-3087

Filing Deadlines

According to TWC Section 49.194(a), a district must submit an audit report to the executive director for filing within 135 calendar days after its fiscal year end. Or, according to TWC Section 49.198(c), a qualified district can submit a financial report within 45 calendar days after its fiscal year end. Or, according to TWC Section 49.197(d), a qualified district can submit a financial dormancy affidavit by January 31st following the year of financial inactivity (Refer to **Audit Report Requirements** on page 3-1). We have not been granted authority by the Legislature to extend this deadline.

Consult our Web site for a list of the financial reporting due dates (TCEQ publication RG-378) which reflects the date the Agency must receive your district’s report. We do not allow you to extend your statutory filing deadline by accounting for the report’s postmarked date (the date that the report was placed into the U.S. Postal System). Please allow enough time for the report to arrive at the TCEQ’s mailing address by the statutory due date. The due dates on our web site have been adjusted to account for days when the actual statutory due date falls on a weekend and/or a holiday.

Administrative Issues

Required Policies

TWC Section 49.199 requires districts to adopt certain administrative policies and a code of ethics. An example of these policies is included in **Appendix J**.

Recommended Practices

We encourage your Board to routinely evaluate the services provided by each of your consultants to ensure that your district's needs are being met. The Board should consider how often it issues *Requests for Proposals* (RFP) on its consultants. We recommend that your Board issue RFPs on all of its consultants (including your auditor) every fifth year so your Board and its customers can be satisfied that your district is getting the best return for its monies from the most qualified professional service providers.

TWC Section 49.057 requires districts to follow the Professional Services Procurement Act (Government Code, Chapter 2254, Subchapter A) when seeking services for a licensed or registered professional, including:

- attorney (required under TWC Section 49.057)
- financial advisor (required under TWC Section 49.057)
- CPA
- architect
- landscape architect
- land surveyor
- professional engineer
- state certified or state licensed real estate appraiser

Your Board cannot select or award a contract to these professional service providers on the basis of competitive bids. It must make the selection and award:

- on the basis of demonstrated competence and qualifications to perform the services
- for a fair and reasonable price

We suggest that your Board rank the proposals according to technical factors. You can also compare the estimated cost against the estimated hours. An unreasonably low estimate of hours or cost may be a reason for rejection.

Refer to **Appendix G** for a sample RFP on your district's independent auditor. Also, see the **Consultant Selection** section below for information on how to select your district's auditor. The sample RFP is designed to ensure that all proposals received will be in compliance with the Professional Services Procurement Act.

Refusing Cash

While your district can refuse the offer of cash as payment for a utility bill it cannot turn off the customer's services if the customer cannot or does not offer an alternative method of payment. Your Board should be willing to consider requests for an exception to its 'no cash' policy, especially from an elderly person who has a restricted bank account, which allows only a limited number of personal checks to be issued during his bank's billing statement period before he incurs an excess check charge. Your district's policies should not cause an unreasonable economic hardship upon its citizens.

Under TWC Section 49.057 your Board has the authority to manage all of the district's affairs, including the authority to make reasonable policy exceptions to accommodate certain customers' limitations. Your Board might offer the alternative of paying two months of bills by one check, with no late payment penalty for an elderly person with a restricted checking account.

Excess Bond Money

While your district is obligated to levy only enough taxes to retire its debt, your district could have bond monies remaining after a bond series has matured due to the receipt of delinquent tax payments. According to Attorney General Opinion JM-142 (**Appendix O**), *if your district is not affected by any other legal requirements* for the disposition of the surplus money, there are two ways your Board can dispose of these funds:

- refund the excess to the taxpayers
- if a refund is impractical, transfer the monies to your district's general operating fund

Refer to **Use of Surplus Funds** on page K-3 for information on the use of surplus funds during (not after) a bond's life cycle.

We recommend the Board seek the advice of its attorney or bond counsel to determine whether any other legal requirements exist that would affect how your district can dispose of its excess bond money.

Consultant Selection

While the following paragraphs focus on your Board's relationship with its CPA, many of the factors discussed below can be applied to your other professional service providers after your district has issued its RFPs.

When you receive proposals from various auditing firms, your Board should rank them according to each firm's individual qualifications. Your Board must make its selection on the basis of demonstrated competence and qualifications to perform the services. Remember to also compare each firm's estimated cost based upon estimated hours and the experience level of the staff involved. We recommend that your Board request the candidates present their written proposals at a regular board meeting and be available to answer

any questions the directors might have. This in-person meeting is helpful in evaluating how well a CPA (and other consultants) can communicate with your Board on complex issues.

Your Board cannot negotiate the proposals received by an attorney, an auditor, or most other service providers. Those proposals stand as submitted. If your Board engages *architectural, engineering, or land surveying services* it is **required** to negotiate the costs and other terms with the chosen qualified firm (Government Code, Chapter 2254). When your Board cannot come to an agreement with its *engineer, architect, or land surveyor*, your Board must formally end its negotiations with that candidate and select the next most highly qualified service provider and try to negotiate a contract with that candidate. Continue the selection and negotiation process until a contract is entered into.

Engagement Letter

Make sure your auditor's Engagement Letter clearly confirms the terms agreed upon and provides sufficient information about the scope of the audit that will be performed on your district as this will prevent misunderstandings. Unless your Board has hired its independent auditor to perform a specific type of audit, your auditor **will not** be performing a fraud audit (actively searching the district's records for evidence of fraud); rather he will prepare a standard financial audit where he will determine his 'level of comfort' and may look at a specific number of transactions, all transactions during a specific period of time, or transactions over a set dollar (threshold) amount during the course of his review of the district's financial condition.

The Engagement Letter is your auditor's formal communication with his client (your Board) in which he explains the terms of his audit. Your Board should carefully review the auditor's Engagement Letter as this letter documents your auditor's understanding about what your Board has asked him to do.

The Engagement Letter or other written documentation from the auditor should include information on the basis for his fee. The Engagement Letter is **not** a binding contract for the audit's total cost. Ethics rules prevent your CPA from guaranteeing the total cost of the audit by agreement with his client.

Audit Committee

To ensure good communication exists between your Board and its auditor, your Board should designate an audit committee made up of one or two directors to be the auditor's primary contact. If the auditor determines that the actual cost of the audit may exceed the estimate, he should communicate this situation to your district's audit committee who will bring any matters before the entire Board for its consideration and possible action at its next board meeting. Your Board may want to request a detailed listing of the audit's costs for its review.

How Your Auditor Audits

Your auditor will perform an intensive review of the district's accounting records, systems, and controls to test its compliance with state law, its bond resolutions, and GAAP. The audit involves reviewing your district's files, contracts, and board meeting minutes to verify the chosen transactions. He **may** look at a set number of transactions, all transactions during a set period of time, or transactions over a specific dollar amount and will exercise independent judgment to:

- Test customer billings for compliance with your district's rates;
- Review construction disbursements to determine whether and how the developer and other parties shared costs;
- Test the collection of interest earned on investments;
- Determine whether the district is receiving all appropriate revenues;
- Examine and analyze sources of income and disbursements;
- Analyze the district's bonded indebtedness;
- Review the district's accounts receivable and payable;
- Analyze the systems and controls used by the district's consultants;
- Evaluate the district's accounting system;
- Review the board meeting minutes;
- Review the district's contracts and agreements;
- Examine bond sale proceeds placed in escrow and determine if the escrowed funds were segregated and on deposit throughout the fiscal period or if they were disbursed; and
- Confirm compliance with state laws.

As your district's audit involves many tests of selected transactions and physical or written verification of some transactions, your auditor may question all of your district's consultants to determine that the accounting records are accurate and properly documented and all appropriate disclosures have been made.

While your auditor is aware that embezzlement can and does occur, it can be difficult to detect. Your Board cannot rely on the district's audit for fraud detection. Any questionable transaction noted by the auditor will be brought to the attention of your district's audit committee and/or the Board.

When conducting your district's audit, your auditor will address different interests from varying perspectives. Your auditor will review the district's records and accounting systems and suggest improvements to the Board, if any are noted during this process. He will examine compliance with the district's bond resolutions and the preparation of required reports. To meet these multiple objectives and best serve his public function, your auditor must maintain a professional independence from your district.

Your auditor will form a professional opinion on your district's financial statements. His opinion will not state that the district's financial statements are absolutely accurate. Your auditor will report on the district's financial statements "taken as a whole" and not on individual items within the financial statements. The information presented in the district's annual report is your Board's representation. Your auditor will present the annual report to your Board for its review before your auditor issues his final report. Your auditor will report all questionable transactions that he is aware of to your Board.

Your district's annual report may be included as part of the "official statement" used in the district's bond rating application and bond sale disclosure materials.

District Manual

We recommend your Board adopt a manual to address your district's unique procedural, administrative, and accounting practices. We recommend that your District Manual include information on limitations to each director's and the general manager's spending authority. Your Manual should also address your district's policies and limitations on the use of commercial transportation. If your Board has elected to provide its directors with the district's credit card, we recommend your Manual include clear limitations and documentation standards to limit each director's liability and to control opportunities for unauthorized expenditures. This *Guide* is not intended to replace, but to supplement, any manuals adopted by your Board.

Management Issues

Director Fees

TWC Section 49.060 was revised by House Bill 3214 during the 78th Regular Legislative Session to allow most boards to pay their directors a *fee of office* for each day a director spent *performing his duties*, which are defined in the Bill as participating in board or committee meetings and other activities involving substantive deliberation of district business or participation in related educational programs.

That section caps the *fees of office* at \$150 per day and requires your Board to set its own cap (up to \$7,200) by resolution on the total annual *fees of office* your district's directors can receive during the district's fiscal year. In Rule 293.97(a) we have defined a district's annual financial statutory limitation as the fiscal year adopted and used for reporting the district's financial activities. Refer to **TSI-8** on page N-29 for reporting clarification about the director fees.

Also, at your Board's discretion, a director may be reimbursed for his actual expenses reasonably and necessarily incurred while engaging in activities on your district's behalf. We recommend that your district set a policy to ensure that sufficient documentation is submitted to provide an audit trail of the director's actual expenses. The use of a district's credit card should be

limited to prevent a director or district employee from abusing this tool and circumventing the Board's formal approval process for district expenditures.

House Bill 3214 also:

- clarified what director activities **are not** eligible as a *fee of office*
- removed the option that had allowed a director to receive *per diems* instead of *fees of office*

If a majority of the directors during an open public board meeting turn down your *fee of office* or expense reimbursement request, the majority decision of the Board rules. There is no guarantee of payment, nor is there a guaranteed *fee of office* amount. While the Legislature has authorized a *fee of office* of **up to** \$150 per day and **up to** \$7,200 per fiscal year for each day's substantive performance (defined in TWC Section 49.060), your Board can restrict these amounts by setting a lower per day or per fiscal year cap. These restrictions should be recorded in your District Manual (**District Manual**, page 1-18).

Before a director can be paid a *fee of office* that director must submit his verified statement along with a general description of the duties he has performed for **each day of service**. We encourage your Board to define the elements necessary for reimbursement, including a descriptive statement of the services performed by the director.

If you and another board member attended your district's audit committee meeting with your auditor, and a third district director met with your engineer on that same day, and each of you filed a statement stating the actual date of service (11/10/2003) and a general description "attended a meeting," a review of the district's records would show that three out of the district's five directors (a majority of the Board) "attended a meeting" on the same day in November 2003. This has caused questions about whether a violation of the Open Meetings Act has occurred. Please ensure that your verified statement's description provides sufficient detail to ensure that no questions will occur about whether a quorum of your Board met without proper notice.

Director Qualifications

Each district must refer to its specific TWC chapter to determine its directors' qualification requirements. For an Agency appointment, Rule 293.32 applies.

Director Removal

The only way to remove a director is either to prove that the director is disqualified from service under TWC Section 49.052(a) or, if that director has missed at least half of the district's regular meetings scheduled during the prior 12 months, under TWC Section 49.052(g) the remaining board members by unanimous vote may remove a board member; however, the

removed director can petition this Agency for reinstatement under Rule 293.35. There are no recall election provisions to allow your district's voters to recall a director.

Director Relationships

We commonly receive calls about whether a director is disqualified because of some relationship with one of his relatives. TWC Section 49.052 disqualifies a director that is related within the third degree of affinity (marriage) or consanguinity (blood) to: a developer of property in the district; any other member of the Board; or, the manager, engineer, attorney, or other person providing professional services to the district. With few exceptions, relatives cannot serve on the same district's Board. The *degrees of relationship* are defined in Government Code Chapter 573.

That said, TWC Section 49.052 does not apply to special water authorities (defined in TWC Section 49.001), a district defined in TWC Section 49.181(h)(4), or a district whose principal function is to provide irrigation water to agricultural lands or to provide nonpotable water *for any purpose*. When in doubt we encourage your Board to seek the advice of your district's attorney.

Continuing to Serve

A director continues to perform the duties of his office under Article 16, Section 17 of the Texas Constitution until his successor has qualified for office (Attorney General Opinion JC-6; **Appendix O**).

Powers

The Prime Directive

While TWC Section 49.211 grants a district the functions, powers, and rights that will permit it to accomplish the purposes for which it was created, a district "may exercise only such powers as have been expressly delegated to it by the Legislature or which exist by clear and unquestioned implication." *Tri-City Fresh Water Supply Dist. No. 2 v. Mann*, 142 S.W.2d 945, 946 (Tex. 1940). Implied powers are those that are 'indispensable to the ... accomplishment of the purposes' for which the political subdivision was created; powers 'merely convenient' or 'useful' cannot be implied and may not be assumed by the political subdivision. *Id.* at 947 (Attorney General Opinion JC-202; **Appendix O**).

Texas courts narrowly construe enabling statutes holding that districts have only the power to do those things that are specifically stated or implied by the statutes. If your Board cannot find clear authority for a specific action or power, we encourage your Board to seek the advice of its attorney. If your Board does not have an attorney, we strongly encourage your Board to retain one that is knowledgeable in water district law. It's true: An ounce of prevention is worth a pound of cure.

Disconnections

TWC Section 49.212(c) allows your district to discontinue any or all facilities or services to prevent an abuse or to enforce payment of an unpaid charge, fee, or rental due the district, including taxes that have been delinquent for six months or more.

If your district provides only retail sewer services and it needs to enforce a delinquent account, upon request by your Board and subject to the existence of an agreement, another district can disconnect its water service to that customer. Rule 291.88(e) states where sewer service is provided by one **retail public utility (Appendix P)** and water service is provided by another retail public utility, the retail public utility that provides the water service shall disconnect water service to a customer who has not paid undisputed sewer charges:

- if requested by the sewer service provider, **AND**
- if an agreement exists between the two retail public utilities regarding such disconnection

Open Meetings

The Law

TWC Section 49.064 requires your district to hold “such regular and special meetings as may be necessary for the proper conduct of the district’s business.” Government Code Chapter 551 contains the Open Meetings Act. TWC Section 49.063 states “neither failure to provide notice of a regular meeting nor an insubstantial defect in notice of any meeting shall affect the validity of any action taken at the meeting.”

Handbook

The Office of the Attorney General has produced an *Open Meetings Handbook* that is a very useful reference source if you need more information on this Act (**Appendix O**).

Quorum

TWC Section 49.053 states that a majority of the Board makes up a meeting’s quorum, and the agreement of the *majority* of your Board is sufficient for transacting the district’s business. So if your Board is made up of five directors, three directors must be present to establish a quorum before your Board can meet **and** the unanimous agreement of all three directors present at that meeting is needed to transact your district’s business.

TWC Section 49.064 clarifies that a meeting of *less than a quorum* of your Board (a committee meeting) is not subject to the Open Meetings Act’s requirements.

Violations

The Open Meetings Act provides civil remedies and criminal penalties for violations of its provisions. Refer to that Act for more information.

District courts have original jurisdiction over criminal violations of the Open Meeting Act as misdemeanors involving official misconduct. Complaints about possible violations should be presented to your local district attorney or criminal district attorney. Neither the Attorney General's Office nor this Agency is authorized to enforce the Open Meetings Act.

Open Records

The Law

TWC Section 49.065 and Rule 293.95 requires your Board to keep a complete account of all meetings and proceedings and to preserve its minutes, contracts, records, notices, accounts, receipts, and other records in a safe place. Your district must comply with the Public Information Act (formerly called the Open Records Law; Government Code Chapter 552) and with the record retention provisions in Local Government Code Subtitle C (Chapters 201 through 205).

Rule 293.95 and TWC Section 49.196 allow your district's auditor to remove the District's fiscal records to record the district's fiscal affairs and prepare the audit report.

Although the public is allowed to inspect and make copies of the district's records under the Public Information Act, they may not remove records from your district's office. The Public Information Act restricts you from questioning the requestor except to establish proper identification or, when a large amount of information has been requested you can discuss how the scope of the request might be narrowed; otherwise, you are not allowed to inquire about the purposes for which the information will be used.

Handbook

The Attorney General's Office (**Appendix O**) has produced a *Public Information Handbook* if you need more information on the Public Information Act.

Assistance

Contact the Texas Building and Procurement Commission at (512) 475-2497 for questions on the allowed charges for providing public information.

The Attorney General's Office maintains an Open Government Hotline (toll-free at (877) 673-6839) that can provide assistance to your district's Board in informally resolving complaints and misunderstandings.

Violations

The Public Information Act provides civil remedies and criminal penalties for violations of its provisions. Refer to that Act for more information.

This Agency is not authorized to enforce the Public Information Act. Complaints about possible violations should be presented to your local district attorney or county attorney.

Maintenance of Administrative Records

The Law

Districts are subject to the Public Information Act which reads, in part, “it is the policy of this state that each person is entitled, unless otherwise expressly provided by law, at all times to complete information about the affairs of government and the official acts of public officials and employees,” and *public information* means “information that is collected, assembled, or maintained under a law or ordinance or in connection with the transaction of official business by a governmental body.” Proper maintenance of your district’s administrative records is important to ensure your district’s compliance with the Public Information Act and the Local Government Records Act (Local Government Code Chapters 201 through 205).

Records Management Program

The Local Government Records Act requires an active and continuing program for the creation, maintenance, and management of your district’s records. Your district records should include:

- all accounting records
- all engineering records
- all records which involve bonds, taxes, contracts and insurance documents
- inventory and cost records
- legal records and documents
- payroll and related personnel records
- all purchasing and receiving records

Your district should maintain a retention schedule so it can destroy non-useful records on a systematic basis.

Assistance

The *Texas State Library and Archives Commission’s* (TSLAC) State and Local Records Management Division’s staff (**Appendix O**) can assist your district in its efforts to comply with the records management laws. The TSLAC has issued records retention schedules applicable to districts. Their schedules state the retention period required by federal or state law, or court ruling. Refer to **Appendix F** for our recommended retention schedule.

Other Requirements

Filing Information

Rule 293.92 and TWC Section 49.455 require specific financial and technical information be filed with this Agency and your district's county clerk, including the:

- district's complete and accurate legal description and a map or plat of the district's boundaries
- most recent rate of district taxes
- date the district was confirmed, if required
- total amount of bonds outstanding that have been approved by the district's voters
- total initial principal amount of all district bonds payable in whole or in part by taxes which have been previously issued and remain outstanding
- district's complete Notice to Purchasers form required under TWC Section 49.452

We encourage you to seek the advice of your district's attorney if your Board is not sure whether TWC Section 49.452 or Rule 293.92 applies to your district.

Dissolution

Rule 293.92(1)(K)(vi) requires your Board to file a statement of dissolution and provide this Agency with a copy of the document evidencing the effective date upon the district's dissolution, annexation, or consolidation. If your district has prepared an audit report through the dissolution date, we would appreciate receiving a copy of that final closeout report.

CCN

TWC Section 49.215(d) exempts a district from the requirement to hold a *Certificate of Convenience and Necessity* (CCN) as a precondition for providing retail water or sewer service to any customer or service area. This subsection **does not** authorize a district to provide services within an area certified by another retail public utility or within the boundaries of another district without that district's consent, unless the district has a valid CCN to provide services to that area.

If your district has a CCN, your Board will need to review Rule 291.85 (Response to Requests for Service by a Retail Public Utility Within Its Certificated Area) and note the time limits for establishing service upon receipt of the service request.

TCEQ's Role

Reference Source

We are available as a reference source if you need assistance; however, we defer to your consultants as they are the experts in their chosen professional

fields and are aware of your district's unique situation and the laws that govern its operations.

Inspection

Under TWC Section 49.196 we may inspect a district's fiscal and financial records, and any other records we consider necessary. That section and Rule 293.4 also require that a district's fiscal records be available for public inspection during regular business hours. While the Legislature has not defined "regular business hours" within TWC Chapter 49, regular business hours are commonly understood to be Monday through Friday from 8:00 a.m. until 5:00 p.m. unless otherwise established by a resolution of your Board during an open board meeting.

Compliance

TWC Section 49.195 provides that we may perform a review on the audit report of each district. Refer to this *Guide's* Chapter on Auditing Guidance for more information. During our review we are required to notify the Board and its auditor if we note any violations or if we have any recommendations. TWC Section 49.195 prevents us from accepting your audit report for filing until your Board and the auditor remedy our objections and correct noted violations. If we determine that a penal law has been violated, we are required to notify the appropriate county or district attorney and the Attorney General.

TWC Section 49.194 requires us to file with the Attorney General the names of districts that do not comply with TWC Chapter 49, Subchapter G (*Audit of Districts*) provisions. Additionally, TWC Section 49.003 and Rule 293.94(j)(2) authorize us to seek civil penalties of up to \$100 per day against a district for its willful failure to comply with the filing provisions of the TWC after receiving our written notification. If your Board is late in filing its required financial status report, we may send you a reminder letter regarding your district's statutory duties, but it is ultimately the responsibility of your Board to ensure that the district is in compliance with the statutes. Refer to the Agency's **Report Review** section in the *Guide's* Chapter on Auditing Guidance on page 3-4 for more information.

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ACCOUNTING GUIDANCE

Overview of the Administrative System

Objectives

A district's administrative system includes its accounting system, the maintenance of non-accounting records, employee and consultant relations, and other management concerns. An effective administrative and management system for districts includes four important functions:

- safeguarding of assets
- planning and control
- demonstrating legal compliance
- timely reporting

Safeguarding of Assets

Your Board is responsible for the stewardship and protection of your district's assets. The assets may include cash, accounts receivable, investments, inventories, supplies, equipment, buildings, and infrastructure. Your district's administrative system must identify and quantify those assets to ensure accountability. Your Board must also ensure that the district's assets are not used unnecessarily or for non-district purposes.

Planning and Control

An efficient administrative system makes it easier for the district to manage its resources and plan for future events. Your district's accounting system should provide meaningful and accurate reports for the Board's use in controlling operations. Records should be available to inform the Board of past operations, contract provisions, and historical trends. Employee guidelines should provide for employee accountability. The duties of consultants should be specified by contract and monitored on a periodic basis. As mentioned in this *Guide's* Chapter on General Financial Guidance, we recommend that a district issue RFPs on its consultants every five years.

TWC Section 49.199(a)(6)(A) requires the adoption of a formal budget by your Board before the fiscal year begins. The formal budget should be used to help control expenditures and as a reference for decision making. It may also be used as a spending limitation for your staff and consultants should your Board determine that a spending limitation is in the district's best interest. Refer to **Annual Budget** section on page 1-6.

Demonstrating Legal Compliance

A primary concern of your district is compliance with the many state statutes, federal laws and mandates, contractual provisions (including bond orders), and district board resolutions. Your district's record keeping system must retain key records and ensure that those records are readily accessible. Your

district's accounting system must ensure that the funds are separated and used according to the authorizations. The district's personnel and consultant management system must be able to document compliance with federal mandates and contractual agreements.

Timely Reporting

Each district is accountable to the public, state agencies, and its bondholders. Your district's administrative system must ensure that the data required for the annual audit and other reports are captured by the accounting system and that procedures are in place to submit these required reports on a timely basis.

Overview of the Accounting System

Checks and Balances

Your district's accounting system must capture and quantify each change in assets, liabilities, and fund balance. This is done by a double-entry system of bookkeeping which ensures that for each transaction, the affect on assets is balanced by a corresponding effect on liabilities or fund balance; or, for every debit entry there is a corresponding credit entry.

There are a variety of accounting systems and methods, both in manual and automated formats. An accounting system has the following books:

- a general ledger
- general and/or specialized journals (or transaction register)
- a chart of accounts

These books provide the foundation for your district's system of recording, classifying, and reporting accounting information.

The Accounting Cycle

The accounting system gathers and summarizes your district's complete financial data in a clear, concise manner with the intent to organize the information to enable your district's personnel to better perform their duties.

The foundation of an accounting system is the **Chart of Accounts** (Refer to **Appendix B** for a sample Chart of Accounts). This document determines how data is classified and summarized for future reporting. If your district's expenditure accounts are defined as "other" and "miscellaneous" significant details would be lost as many different types of transactions will be merged together in the summaries.

The Chart of Accounts should provide a balance in the level of detail. A very detailed system of accounts will provide more information on specific transactions. However, working with a large number of accounts may be too unwieldy. Most systems provide for summary accounts which consolidate a

number of defined accounts. In this way the details are not lost and the summaries can be used for reporting purposes.

The Chart of Accounts should be accessible to all employees involved in authorizing, classifying, and recording the district's financial data so their use of each account remains consistent throughout the district's records.

The financial data come from many **source documents**. The source documents provide supporting or underlying evidence for all of your district's financial transactions. Examples include: purchase invoices, billing stubs, and cash receipt slips. Since source documents are often the only evidence of a financial transaction, they should be filed in the district's records in a consistent and logical manner for future reference.

Source documents received from or verified by outside parties provide more reliable evidence of accounting transactions than internally generated documents. When it is not possible to obtain external evidence of a transaction, a statement as to the nature of the transaction, the authorization, and the contact person should be included in the district's records and cross-referenced in the journals.

The original book of entry of a transaction into your district's accounting system is usually in a journal (or a **transaction register** for computerized systems). The journals may be highly specialized for the specific type of transaction, or they may be more generic to capture a variety of transactions. The purpose of the journal is to provide a chronological listing of all transactions and how the transactions are classified into accounts, with sufficient references to the source documents. The journals allow for common transactions to be summarized on a periodic basis before posting to the General Ledger.

The total cash received should match the total on the deposit slip recorded by the bank. The increase in cash (a debit) is posted to the **General Ledger** to the appropriate cash account, and the decrease in accounts receivable from the customer (a credit) is posted to the General Ledger account which summarizes the individual account balance.

A check register can act as a **Cash Disbursements Journal** if it is sufficiently detailed to provide a cross-reference to the source document and to the accounts affected by the transaction. The account totals are periodically summarized and posted to the General Ledger. The posting frequency should be according to your district's accounting policies and procedures as documented in your district's manual.

The **General Ledger's** purpose is to organize and summarize the individual transactions listed in the journals. The General Ledger is broken down into the account categories which are listed in your district's Chart of Accounts. The summary totals from the journals are posted to the General Ledger so

that the effect of transactions on each account category can be determined. The General Ledger should cross-reference the journals so you can trace the transaction back to the source.

The General Ledger provides the basis for reporting financial information. All transactions recorded in the journals or by other means should be summarized in the General Ledger under the appropriate account category.

At the end of your district's accounting cycle, the General Ledger is balanced to ensure that the debits and credits are equal. This helps to determine any errors in accounting or data entry; however, a "balanced" set of books **does not** ensure that all transactions have been entered; that the transactions have been correctly classified; or, that the transactions were properly authorized.

Authorization

The most common district transaction is the receipt and disbursement of funds. It is imperative that a formal authorization process be adopted to control the inflow and outflow of district funds. Access to the district's cash (receipts and disbursements) should be limited. In addition, the ability of an individual to both initiate and complete a transaction should be avoided, where possible.

The authority to disburse funds or to credit accounts should be traceable to your Board. This could be in form of direct authorization by the Board of every expenditure or a Board resolution authorizing a person to disburse funds of **up to a set amount**. All direct or indirect authorizations should be a result of board action at an open board meeting and noted in the Board's meeting minutes.

Vouchers are often used to indicate the authorization and classification of a disbursement. Vouchers are a form attached to the source document to capture key information necessary to process a disbursement, such as vendor name, vendor code, authorizing initials or signatures, and the transaction classification by account codes. Your Board can use this form to indicate the date of the board meeting where the Board approved the expenditure or other transaction information.

Classification

Classifying transactions is a key component in an accounting system. Transactions should be classified according to the Chart of Accounts (**Appendix B**) by the person most familiar with the nature of the transaction. All personnel who initiate or supervise disbursements should be familiar with your district's Chart of Accounts codes so they can properly identify and classify the transaction.

Segregation of Duties

Your district's accounting system should include a system of checks and balances, including those precautions mentioned above and procedures detailing a segregation of duties, where possible. A good example of segregation of duties is the separation of operational responsibility from recording responsibility. A bookkeeper should not handle cash nor should the cashier have access to the ledger account records.

Segregation of duties and a formal authorization procedure are examples of elements of internal control. As the size and complexity of your district's accounting system increases so should the district's internal control procedures.

Internal Control

The topics addressed above form your district's **internal control** procedures. The purpose of an internal control procedure is to provide for the prevention and detection of errors and irregularities occurring in the normal course of business. A sample checklist of internal control procedures is in this chapter's section on **Financial Procedures and Accounting Controls** on page 2-22.

Your auditor is a valuable source of information on your district's internal control system. He may provide your Board with an evaluation of the district's system of internal controls and suggest recommendations for improvement. This information may be given verbally or documented in the audit report's **management letter** (Refer to Auditing Guidance Chapter and **Appendix N8**). It is your Board's responsibility to consider the recommendations in your auditor's management letter and to require any changes where appropriate.

Basics of Fund Accounting

Fund Definition

A fund is an accounting entity created by a government for the purpose of tracking the finances of a particular activity or group of activities. Each fund has a self-balancing set of accounts containing only those asset, liability, fund balance, revenue, and expenditure accounts needed to track the financial results of the activity or group of activities. A fund has only those accounts that are necessary to reflect your district's specific operations for which the fund is established.

Major Funds

Major funds include:

- the General Fund,
- any governmental or enterprise fund whose assets, liabilities, revenues, or expenditures/expenses are at least 10 percent of the

corresponding total (assets, liabilities, revenues, expenditures/ expenses) for all funds of that type, and at least 5 percent of the corresponding total for all governmental and enterprise funds combined, and

- any other governmental or enterprise fund that the district believes is important to financial statement users.

Fund Types

- **Governmental** funds track the finances of the district's basic services.
- **Proprietary** funds track the district's activities that are operated like a private business, by charging its customers a fee in return for goods or services.
- **Fiduciary** funds track activities in which the district acts as trustee or agent for resources that belong to others.

Governmental Funds

As governmental entities, most districts can perform several functions including:

- water treatment and distribution services
- sewage collection and treatment services
- fire protection
- construction and maintenance of recreational areas

To properly account for its varied activities, your district may need to use several governmental funds. However, districts should establish only the minimum number of funds consistent with its operating requirements, legal requirements, and fund purposes. Too many funds can make your district's financial accounting and reporting unduly complex.

The focus for governmental funds is on the sources, uses, and balances of current financial resources and often has a budgetary perspective. The following briefly describes the purpose of each governmental fund.

General Fund accounts for all financial resources except those required to be reported in another fund. This fund accounts for most of your district's general revenues, expenses, current assets, and current liabilities.

Special Revenue Fund accounts for revenues that are legally restricted to be used for specific purposes.

Capital Projects Fund accounts for financial resources, including general obligation bond proceeds, to be used to acquire or construct major capital facilities.

Debt Service Fund accounts for resources to be used to pay long-term debt. Debt Service Funds are required if the district is accumulating resources to

pay principal and interest maturing in future years. Other Debt Service Fund expenditures include the cost of:

- assessing property values
- levying and collecting taxes
- fiscal agent fees

Bond orders, an integral part of every bond issue, contain provisions and resolutions dictating how bond proceeds are to be used and how revenues are to be generated. It is important that your Board seek professional guidance on issues concerning the district's bonded debt.

Typically, your district's actual collection of taxes is performed by a tax collector. The Debt Service Fund entries may occur monthly or at year end, subsequent to receiving the information from the tax collector.

Permanent Funds account for resources that are legally restricted so that only earnings, and not principal, may be used to support the district's activities.

Proprietary Funds

The focus for proprietary funds is on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. Proprietary funds are used for activities similar to those found in the private sector. The following briefly describes the purpose of each proprietary fund.

Enterprise Fund accounts for activities that the district charges fees to users for goods and services. Generally fees are set high enough to cover most or all of the costs of providing the goods and services.

Enterprise funds are permitted for any activity that a fee is charged to users for goods and services. Enterprise funds are *required* if any of the following conditions are met when applied in context of the activity's principal revenue sources:

- The activity's net revenues from fees and services are the only security for the activity's debt, even though the debt may be secured in part by a portion of the debt's proceeds. If the debt is also secured by the full faith and credit of a related primary government or component unit, the use of an Enterprise Fund is not required.
- Laws or regulations require the activity's costs of services, including capital costs (such as depreciation or debt service), be recovered through fees and charges, rather than with taxes or similar revenues.
- Fees and charges are designed to recover the district's costs, including capital costs (depreciation or debt service).

Most districts will not meet any of the conditions above and will use only governmental funds. While some districts may have activities that would permit (but not require) the use of Enterprise Funds, we recommend your district use governmental funds when possible. We think governmental funds are more appropriate for activities that are supported by taxes or similar revenues. The information and examples in this *Guide* are focused on a typical district that uses only governmental fund accounting. If your district uses proprietary funds accounting, you will need to modify the information in this *Guide* to fit your district's needs.

Internal Service Fund accounts for activities that provide goods or services to other district funds or departments, or to other governments on a cost-reimbursement basis if the district is the primary participant in the activity.

Fiduciary Funds

The focus of fiduciary funds is on net assets and changes in net assets. Fiduciary funds are held in trust for others and cannot be used to finance the district's own programs. Districts should use fiduciary funds if they have activities that meet the criteria for using those funds. The following briefly describes the purpose of each fiduciary fund.

Pension Trust Fund accounts for resources held in trust for members and beneficiaries of benefit and pension plans.

Investment Trust Fund accounts for the portion of the district's investment pool that belongs to other governments.

Private-Purpose Trust Fund accounts for trust arrangements where the principal and income benefits individuals, private organizations, or other governments.

Agency Fund accounts for resources held by the district in a purely custodial capacity.

Financial Reporting Model—A General View

GASB 34 revised the financial reporting model to provide more understandable and useful financial information that will result in greater accountability to your citizens.

Accountability

Accountability is a broad concept but it describes the process and procedures to hold an organization responsible for its performance. GASB has recognized accountability as the primary objective of government financial reporting.

In the past, government financial statements focused on:

- fiscal accountability for governmental activities
- operational accountability for business type and certain fiduciary activities

Fiscal Accountability is ensuring that current period actions have complied with public decisions on the raising and spending of public monies in the short term.

Operational Accountability is reporting the extent to which services are being provided efficiently and effectively, using all resources available for that purpose, and whether the government can meet its objectives in the future.

The new financial reporting model combines the traditional focus of government fund financial statements (fiscal accountability and the modified accrual basis of accounting) with new forms of reporting to meet the need for longer-term financial information and to improve the operational accountability of governments. The new financial statements will provide information by fund as well as on the entire government as an economic entity.

The revised model:

- creates new information and restructures old information
- integrates traditional modified accrual accounting with new forms of governmental financial reporting
- requires a reformatted financial report
- requires financial managers (your Board) to share their insight

GASB 34 Financial Statement Elements

An overview of the financial statement elements of the revised financial reporting model include:

- Management's Discussion and Analysis (MD&A)
- Basic Financial Statements
 - Government-Wide Statements
 - Statement of Net Assets
 - Statement of Activities
 - Fund Financial Statements
 - Governmental Funds Financial Statements
 - Balance Sheet
 - Statement of Revenues, Expenditures, and Changes in Fund Balances
 - Required Reconciliation Schedules
 - Proprietary Funds Financial Statements
 - Statement of Net Assets

- Statement of Revenues, Expenses, and Changes in Fund Net Assets
- Required Reconciliation Schedules
- Statement of Cash Flows
- Fiduciary Funds Financial Statements
 - Statement of Fiduciary Net Assets
 - Statement of Changes in Fiduciary Net Assets
- Notes to the Financial Statements
- Required Supplementary Information (RSI) other than MD&A

Management’s Discussion and Analysis

The MD&A is *required supplementary information* (RSI) that comes before the financial statements. The MD&A is an objective, easily read analytical overview of your district’s financial activities, including its overall financial position and the results of its operations. Your Board should work with its auditor, financial advisor, attorney, and other district consultants and staff in preparing your district’s MD&A and supporting information. See **Appendix N3**’s outline on page N-4 for the MD&A’s required elements.

Basic Financial Statements

The basic financial statements are the heart of your district’s annual financial report. These statements contain the principal information about your district’s finances and include: the government-wide statements, the fund financial statements, and the notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide comprehensive financial information about your district’s activities. The purpose is to present the district’s financial position and the results of its operations taken as a whole. The government-wide financial statements do not include fiduciary activities.

The government-wide financial statements are the Statement of Net Assets and Statement of Activities. They are prepared using the *economic resources measurement focus* and the *accrual basis of accounting* (**Appendix P**).

The Statement of Net Assets presents the district’s financial position and includes all financial and capital resources. This statement tells you about what your district owns and owes at its fiscal year end. All assets and liabilities are presented in a *net assets format* (assets minus liabilities equal net assets) or in a *balance sheet format* (assets equal liabilities plus net assets). GASB encourages your district to use the net assets format. We prefer that format for consistency in reporting for all districts.

The Statement of Activities tracks your district's yearly revenues, expenses, and transactions that increase or decrease net assets in a format that reports the net revenue (expense) of individual functions. This statement's purpose is to:

- report the relative financial burden of each of the district's functions to the taxpayers
- identify whether each function is supported by the district's general revenues or is self-financing through user fees.

Fund Financial Statements

The fund financial statements provide a more detailed look at your district's major programs and present information on the district's management and control of its short term financial resources. They also provide fiscal accountability information to assess whether monies raised for a particular purpose were used for that purpose.

The government-wide financial statements present both short- and long-term activities that include assets, liabilities, revenues, and expenses related to the district's functions. The fund financial statements present a more detailed short-term view of district functions that include only the most readily available assets, presently due liabilities, and the resources that flow into and out of the district during the year or shortly thereafter.

Governmental Fund Financial Statements

The governmental fund financial statements present the sources, uses, and balances of current financial resources for the district's basic services. These statements are prepared using the *current financial resources measurement focus* and the *modified accrual basis of accounting* (**Appendix P**). Required governmental fund statements are the balance sheet and the statement of revenues, expenditures, and changes in fund balances.

The Balance Sheet presents information on the assets, liabilities, and fund balances for each major governmental fund in separate columns and for all nonmajor governmental funds totaled in a single column. Assets, liabilities, and fund balances are shown in a *balance sheet format* (assets equal liabilities plus fund balances).

The Statement of Revenues, Expenditures, and Changes in Fund Balances presents information on the inflows, outflows, and balances of current financial resources of each major governmental fund in separate columns and for the nonmajor governmental funds in total.

Required Reconciliation Schedules. Two reconciliations are required:

- Net assets to fund balance
- Change in net assets to change in fund balance

The purpose of the reconciliation schedules is to provide an explanation for the differences between:

- fund balances in the fund financial statements and net assets in the government-wide financial statements
- the net change in fund balances of governmental funds in the fund financial statements and the change in net assets in the government-wide statements (the effect of long-term accruals not reported in the funds)

Other differences are the result of the difference in the measurement focus and basis of accounting between the government-wide financial statements and the fund financial statements and the possible inclusion of internal service funds in the governmental activities in the government-wide presentation. The reconciliations should be presented at the bottom of the fund financial statements or in separate schedules.

Proprietary Fund Financial Statements

The proprietary fund financial statements present the district's financial activities that operate similarly to a private business with the focus on operating income, changes in net assets (cost recovery), financial position, and cash flows. Proprietary fund financial statements are prepared using the *economic resources measurement focus* and the *accrual basis of accounting* (**Appendix P**). Remember that this *Guide* focuses on a small general-law single-purpose district that uses only governmental fund accounting.

The Statement of Net Assets presents the financial information for each major enterprise fund in a separate column. Nonmajor enterprise funds should be totaled and displayed in a single column, and a combined total column should be presented for all enterprise funds.

Assets and liabilities should be presented in a *classified format* to distinguish between current and long-term assets and liabilities.

The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents the revenues, expenses, and changes in proprietary fund net assets.

The Statement of Cash Flows tracks the sources and uses of cash flows. This statement uses the direct method and includes cash flows from:

- operating activities
- non-capital financing activities
- capital and related financing activities
- investing activities

The direct method requires the reconciliation of operating income to cash provided by the district's operations.

Fiduciary Fund Statements

The fiduciary fund statements present financial information for pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and agency funds. Financial statements of fiduciary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for the recognition of certain liabilities of defined benefit pension plans and certain post-employment healthcare plans.

The Statement of Fiduciary Net Assets presents information about the assets, liabilities, and net assets for each fiduciary fund type.

The Statement of Changes in Fiduciary Net Assets presents information about the year's additions, deductions, and net increase (decrease) in net assets for each fiduciary fund type (except agency funds) and should provide information about significant year-to-year changes in net assets

Notes to the Financial Statements

The notes to the financial statements communicate information essential for the fair presentation of the financial statements that is not displayed on the face of your district's financial statements and are an integral part of the financial statements. They provide information on your district's significant accounting policies, including the basis of accounting used, policies for capitalizing assets, and policies for estimating the useful lives of assets when calculating the district's depreciation expense.

Required Disclosures for Capital Assets by major asset class (land, infrastructure, buildings and improvements, vehicles, machinery and equipment, and construction in progress) include:

- Beginning and ending balances with accumulated depreciation shown separately from historical cost
- Capital acquisitions
- Sales or other dispositions
- Current-period depreciation expense, including the amounts charged to each of the functions in the Statement of Activities.

Required Disclosures for Long-Term Liabilities provide information for long-term debt instruments (bonds, notes, loans, and leases payable) and other long-term liabilities (compensated absences, claims, and judgments) including:

- Beginning and ending balances
- Increases and decreases (separately presented)
- The portions of each item that are due within one year of the statement date
- Information on the governmental funds typically used to liquidate long-term liabilities in prior years

Required Supplementary Information Other Than MD&A

Required supplementary information to be presented with the district's financial statements include:

- Budgetary comparison schedules (required for the General Fund and major Special Revenue Funds with legally adopted budgets)
- Modified approach for reporting infrastructure when used

Budgetary Comparison Schedules, under GASB, are required for governments with legally adopted (appropriated) budgets. The schedules compare the original and final budgets for the reporting period to actual results (inflows, outflows, and balances). Most districts' operating budgets are non-appropriated.

Our rules require your district to adopt its annual operating budget prior to the start of your district's fiscal year and to include a budgetary comparison statement (actual, budget, and variances) in the financial statements or as supplementary information (Rule 293.97). The budgetary comparison schedule is required for all districts, including those using proprietary fund accounting.

The Modified Approach for Reporting Infrastructure requires disclosures on the assessed condition of your district's infrastructure assets. The modified approach is probably not feasible for most districts due to the effort involved in gathering the required information. Any district that uses the modified approach should consult the various AICPA and GASB publications for additional information.

Financial Reporting—District-Specific

Districts Engaged in a Single Program

Districts engaged in a single governmental program may combine their fund financial statements with their government-wide statements by using a columnar format that reconciles individual line items of fund financial data to the government-wide data in a separate column. If a columnar format is used, a single-program district must provide the required reconciliation information between the fund financial data and the government-wide data. Descriptions of the reconciling items must be presented on the face of the financial statements, in an accompanying schedule, or in the notes to the financial statements.

Most districts are single-program governments since their one predominant function is to provide water related services; we view other activities as minor activities. While our general guidance is to view districts as special-purpose districts engaged in a single program, some districts will have characteristics or conditions that will not allow them to be viewed as single-program special-purpose governments. As such, we encourage districts to use

the columnar format for the financial statement presentation, unless a district is better served by another, generally accepted format.

A district may not be considered a single-program government if it budgets, manages, or accounts for its activities as multiple programs. Refer to various AICPA and GASB publications (**Appendix O**) for additional information on special-purpose governments, including those engaged only in business-type activities or only in fiduciary activities.

The focus of the following topic is the classified format financial statement presentation. If your district uses another financial statement presentation format it should adopt the essence of this topic to correspond with the format used.

Capital Assets

Capital assets are tangible and intangible assets used in your district's operations that have useful lives of more than a year, including:

- Land and Land Improvements
- Infrastructure
- Buildings and Building Improvements
- Machinery and Equipment
- Vehicles
- Easements (rights of way)
- Water Rights

Capital assets are recorded at historic cost or estimated fair value at the date acquired. The cost of capital assets includes the purchase price or construction cost plus all costs necessary to place the asset in service. This includes all professional fees and other costs directly related to the installation of facilities.

When original cost information is not available, you can use the asset's current cost and deflate that amount back to when your district first acquired the asset or placed it in service. Your district must report its capital assets (including infrastructure assets) in the Statement of Net Assets at historic cost, net of accumulated depreciation.

Capitalization Policy. We encourage your district to evaluate its assets and establish a capitalization policy. If an asset is capitalized, then it would be depreciated.

Value thresholds for assets would be useful and could vary according to district size. Asset grouping to identify groups that comprise at least 80% of the total system value would provide some of the same advantages as thresholds. We encourage your Board to group or classify its assets to simplify the accounting and reporting process. A sample capital asset classification for districts is in **Appendix A**.

Different classes of assets can have different capitalization policies and different thresholds can be set for management control purposes or for compliance with laws and regulations. Your district is required to disclose its capitalization policy, including the dollar value above which your district's asset acquisitions are added to the district's capital accounts. We recognize that not all capital outlays will be capitalized. Your Board's capitalization threshold will define what will be capitalized.

Infrastructure Assets are long-lived capital assets that are usually stationary and can be preserved for many more years than other capital assets (water, sewer, and drainage systems, dams, tunnels, roads, and bridges). Your district must begin capitalizing and reporting its major general infrastructure assets when it implements GASB 34. GASB 34 requires retroactive implementation back to your fiscal year ending after June 30, 1980. However, we encourage your district to research its records to capitalize and report all major general infrastructure assets regardless of when each asset was first acquired or placed in service so that your district's overall financial position is fairly presented.

Modified Approach for Reporting Infrastructure. The financial reporting model allows for the use of a modified approach for reporting infrastructure assets. Your district has the option of using the modified approach; however, your Board and its consultants must consider the additional requirements and related costs. Any district that uses the modified approach should consult the various AICPA and GASB publications for additional information. We recommend your district use the traditional capitalization and depreciation approach to account for and report on its infrastructure assets.

Facilities Map. We strongly encourage your district to develop a facilities map as the base for the inventory of its system's infrastructure assets. Like all governments, your district will experience turnover in its governing Board, consultants, and personnel. Relying on the historical memories of involved parties can be spotty at best. It is our opinion that a map documenting your system's various components is critical to the district's overall fiscal, managerial, and operational health.

The facilities map could be an electronic scaled diagram that accurately shows all aboveground and below-ground system components (property lines, streams, pipelines, tanks). The distribution and collection lines would be shown by size and location. We have seen many situations in past years where a map of a district's facilities would have saved the day. We recommend that additional inventory information be added to a district's facility map, including asset installation date and original cost, to ensure the map will provide the information necessary for the capitalization and depreciation of your district's infrastructure assets.

Intangible Assets—Easements and Water Rights. Easements are intangible assets characterized as rights that were granted, purchased, or acquired by

eminent domain. If they are recorded in your county's records and held in perpetuity, they attach to the land and transfer with the land if the land is sold. As a part of the land they are inexhaustible and not depreciable.

Easements that are not recorded in your county's records are exhaustible and, if the purchase price exceeds your district's capitalization threshold, it is depreciated over the lesser of its useful life (as determined by your Board's capitalization policy) or 40 years. If it is acquired by a grant or by condemnation procedures it will appear on your district's books at zero cost.

Water rights are also intangible assets characterized as rights that have been granted or purchased. If the purchase price exceeds your district's capitalization threshold they are depreciated over the lesser of their useful life or 40 years. Water rights appear to be inexhaustible, but since they are bought and sold, they are a depreciable asset. If acquired by a grant, they will appear on your district's books at zero cost to properly record the existence of the water right.

Depreciation of Capital Assets

Capital assets are depreciated over their estimated useful lives unless they are inexhaustible. An inexhaustible capital asset is one whose economic benefit or service is used up so slowly that its estimated useful life is extraordinarily long. Depreciable capital assets should be reported in the Statement of Net Assets at historical cost, net of accumulated depreciation. Net assets should be displayed in three components including:

- invested in capital assets, net of related debt
- restricted
- unrestricted

Non depreciable capital assets that are inexhaustible (land) are reported as a separate line item on the Statement of Net Assets. Construction-in-progress should be included with the nondepreciable capital assets in the Statement of Net Assets.

Accumulated depreciation is reported in the Statement of Net Assets on the face of the statement. Regardless of the presentation in the Statement of Net Assets, the notes to the financial statements should disclose accumulated depreciation separately in addition to changes in accumulated depreciation (see **Required Disclosures for Capital Assets** on page 2-13). Depreciation expense for capital assets is reported in the Statement of Activities.

Accounting for Bonds

Most districts can issue three types of bonds:

- general obligation bonds
- revenue bonds
- a combination of tax and revenue bonds

General obligation bonds are secured by your district's taxing authority. Revenue bonds are secured by a lien on the revenues generated when your district provides services to its customers. Combination tax and revenue bonds are secured by both the district's taxing authority and a lien on the district's service revenues.

Accounting for general obligation bonds requires the use of multiple funds. Separate funds are needed to account for these separate functions of your district: bonded indebtedness; capital assets; construction of capital assets; debt service payments; district operations; and any special revenues. Accounting for revenue bonds requires only a single fund be used. All activities accounted for in that fund are used to pay off your district's bonded debt.

Combination tax and revenue bonds are similar to general obligation bonds as the primary security is your district's taxing authority. Repayment of the bonds and the interest expense comes from the district's service revenues. When the service revenues cannot meet your district's debt obligations, your Board can use district tax revenues to extinguish its debt.

Districts with Industrial Development or Pollution Control Bonds should follow the State Auditor's financial reporting guidelines in **Appendix L**.

Property Taxes

For governmental funds, only those property taxes collected within the current period or soon thereafter (not to exceed 60 days after fiscal year end) to pay the district's current liabilities should be reported in your district's revenues. The uncollected property taxes and taxes collected in advance must be reported as deferred revenue.

Inventory of Materials, Supplies, and Prepaid Expenditures

Your district may report its supplies, insurance, and other expenditures using the *consumption method* or it may report these amounts as expenditures when acquired under the *purchase method*. Your district must report significant amounts (in your Board's opinion) of ending inventory on its balance sheet.

Debt Issue Proceeds

Long-term debt proceeds must be reported as a financing source. Short-term borrowing must be reported as a liability to the applicable fund.

Capital Outlay

Capital outlay includes all costs incurred for construction of facilities and related direct costs which are presumed to benefit both your district's current and future fiscal years. This includes:

- upgrading facilities
- adding to facilities
- major overhauls of equipment

Not all capital outlay expenses are transferred to capital assets, only those that are for general government purposes. Specific fund assets are accounted for in their respective funds. Not all capital outlays will be capitalized. Your Board's capitalization threshold will define what will be capitalized.

Reserves

In a governmental fund, use of the term *reserve* should be limited to that portion of the fund balance that is not available for expenditure or is legally reserved for a specific future use. If part of the fund balance is reserved, the remainder should be reported as a *designated* or an *unreserved* fund balance.

Accounting System

A district's accounting may be done by a computerized or a manual system. Whichever method is chosen, the accounting records should be maintained using GAAP and the guidelines set forth in this *Guide*. While the *Guide*'s information and examples are focused on small single-purpose districts that use only governmental funds, the *Guide* is applicable to all districts including large multipurpose districts that use proprietary funds. **The goal of this *Guide* is not to prescribe rigid accounting procedures, but to establish general guidelines.**

Records Needed

All accounting records described in the *Guide* should be maintained according to your district's fiscal year. Your district's accounting system will include many accounting records, journals, registers, and source documents. Depending on your district's activities and needs, its accounting system may use journals and registers beyond these basic records:

- Chart of Accounts
- Special Journals
- General Journal
- General Ledger
- Capital Asset Register
- Check Register
- Bank Statements
- Source Documents

Chart of Accounts

Your district's Chart of Accounts establishes the capability to classify accounting transactions in a variety of combinations pertinent to the operating and reporting requirements of the district. Any item posted to your district's records will be coded to an account found on the district's Chart of Accounts. An example of a Chart of Accounts with appropriate account descriptions is provided in **Appendix B**.

Special Journals

Special journals are used for efficiently recording transactions that occur frequently. The number of special journals maintained by your district depends on the extent and nature of your district's activities. In computerized systems, the journals may take various forms and may be integrated with the check register (Cash Disbursements Journal); however in any system there must be a listing of transactions and accounts to which the transactions were classified, and each transaction must be entered with equal debits and credits. See **Appendices D, H, and I**.

General Journal

The General Journal is also called the *book of original entry*. This journal's purpose is to record unique or infrequent transactions that are not appropriately recorded in any of the special journals (including adjusting journal entries).

All entries to the General Journal should:

- classify the transaction by account
- appear in chronological order
- include an explanation for the entry with supporting documentation and approval by a responsible person

General Ledger

The ledger's purpose is to summarize transactions according to your district's account classifications. Column totals from the journals are tallied and transferred to the appropriate accounts in the General Ledger. If the governmental accounting method is chosen, the General Ledger is organized by fund. All General Ledger accounts within a given fund are in account number sequence according to your district's Chart of Accounts.

Capital Asset Register

The Capital Asset Register (formerly known as General Fixed Asset Account Group) maintains a list of infrastructure and other capital assets purchased/constructed by the district (**Appendix A**). Each recorded asset should include:

- a description
- identification number
- the purchase or construction date
- the source document details
- columns for purchased/constructed costs, the annual and accumulated depreciation, and the asset's total cost

Ideally, the Capital Asset Register would be combined with an electronic facilities map to record information on the district's capital assets (see **Facilities Map** on page 2-16).

Check Register

A check register must be maintained for each checking account. All account transactions (cash disbursements, cash receipts, and other transactions) must be recorded in your district's check registers. Your check register must be reconciled upon receipt of your bank statement.

Bank Statement

A bank statement should be received for each account maintained. The statement may be received monthly, quarterly, or annually depending on each account's activity or type. The bank statement should be reconciled to your district's check register.

Source Documents

The source documents provide the support for the accounting entry. They include:

- the cash receipts source document
- the cash disbursements source document
- the journal voucher

Cash Receipts. These source documents include all cash receipt transactions regardless of their origin, including:

- service charge receipts
- receipts from the sale or redemption of investments
- tap connection fees
- proceeds from bond sales
- all other cash receipts

Cash Disbursements. These source documents include all cash disbursement transactions, including:

- debt service payments to your district's paying agent
- all operating and nonoperating expenditures
- purchases of land and rights-of-way
- improvements to land
- constructing and purchasing capital assets
- all other disbursements made by your district

Journal Vouchers. The Journal Voucher source documents are used to record all transactions not included in cash receipts or cash disbursements, including:

- all adjusting and closing entries
- all other transactions not involving cash received or disbursed

Cash Transactions

The cash transactions of a General or Enterprise Fund begin with recording the current billing to Revenue and Accounts Receivable accounts. Expenditures are reported to the proper expense account and to the Cash account. The sample Chart of Accounts in **Appendix B** has some expense classifications that your district can use. The receipt of cash payments is recorded to the Cash and the Accounts Receivable accounts and the receipt should be logged into the Cash Receipts Journal.

The General Ledger provides an important control over transaction entries as it summarizes all changes in cash. The reconciled cash balance should be the same amount for the account listed in the General Ledger.

Accounting for Other Transactions

Tap and Other Fees

Tap fees should be collected with a tap fee application. The application may contain:

- the legal description of the lot
- the physical address
- the lot's square footage
- the meter size
- the name of the person requesting the tap
- the amount of the tap fee

Once your district confirms the application is complete, the district should accept the tap fee payment and record the receipt in its Tap Fee Journal. Remember to include the check number and the work order number assigned to each tap in the Journal.

Tax Assessment

Tax assessments are recorded as *Property Tax Revenue* and *Taxes Receivable* at the beginning of the year. The General Fund and the Debt Service Fund each record its proportional share of *Taxes Receivable* and *Property Tax Revenue* according to the tax assessment. **Appendix C** provides examples of fund accounting entries.

Financial Procedures and Accounting Controls

Accounting controls should be incorporated into all phases of your district's accounting system. A short list of useful financial control procedures follows.

Cash Receipts

As your district's most liquid asset, cash requires the most supervision. A standard method to account for cash receipts is to use prenumbered receipts that contain:

- the customer's name
- the customer's account number
- the payment amount
- the payment date
- the period for which the payment is made

A receipt should be given to your customer. Your district should retain one copy of the receipt with the clerk receiving the cash and one copy in the district's accounting department. Payments received in the mail are accounted for in a similar fashion and the same information that is included on a cash receipt should be found on the remittance notice.

Whether the receipt of cash is by mail or in person, each day's total of all cash receipts and remittance notices should equal the total of cash and checks collected that day. A daily reconciliation of receipts to the amount of deposits should be performed. Most important, all checks should be restrictively endorsed **For Deposit Only**.

Bank Statements

Bank statements should be reviewed and reconciled by someone other than the person responsible for preparing checks. The reconciliation should be reviewed by a third person; the third person could be a district board member if your district does not have many employees or contracted consultants.

Journal Entries

Journal entries should have appropriate backup documentation to explain the entry being made. The entry should be approved by either a board member, consultant, or third party.

Invoices

Invoices received requesting payment should be reviewed by your district's general manager or authorized representative. Upon authorization of the invoice, he should indicate:

- the amount to be paid
- the date of approval
- the account to be charged

These authorized invoices should then be recorded in the Accounts Payable system and filed in an open invoice file before the next regularly scheduled board meeting.

During the next regular board meeting, all authorized invoices should be submitted to your Board for their approval, along with the prepared checks. After your Board has approved the invoices and signed the checks, the invoices should be stamped **Paid**. Then, make a copy of each check, attach the copy to the invoice (or, record the check number and date paid on the

invoice), and file it in your district's paid invoice file. Finally, mail the check to the payee with a copy of the invoice your district is paying.

We recommend that your Board consider approving all transactions that the general manager has authorized under the your Board's delegated authority (TWC Section 49.151) at each regular board meeting to ensure that your Board is aware of all financial transactions and to provide an additional control measure for the district's funds.

Accounts Receivable

General Ledger amounts for Accounts Receivable must be reconciled to the customer billing ledger on a regular cycle. Differences must be investigated and, where appropriate, an adjusting entry should be made to reconcile any differences.

Customer Deposits

The customer deposit accounts must be reconciled to the total of customer deposits recorded in the billing ledger. Any differences should be investigated and appropriate action taken.

Tax Collections

The entry to record tax collections must originate with the report of taxes collected by your district's tax assessor/collector. It is important that the amounts collected and reported by the tax collector reconcile with the Taxes Receivable records kept by your district so your Board is aware of the amount and percentage of taxes collected.

The tax accounts must be separate from your district's operating accounts. Take care to avoid the accumulation of a larger than necessary balance. You should transfer amounts out of this account and into the Debt Service and operating accounts according to your district's bond requirements and operating procedures.

Budgets

The most effective tool to monitor and control your district's revenues and expenditures can be the Board's formally adopted budget (refer to the *Guide's Annual Budget* section of the General Financial Guidance Chapter on page 1-6). It is important that accurate and timely budget reports and other information be available to your board members on a regular basis to aid in their management of your district's affairs.

Budgets should be prepared before your district's fiscal year begins. Budget and accounting line items must be very similar to make comparisons meaningful and easily monitored. A budgeted to actual report, with monthly and year-to-date figures, should be generated monthly or quarterly and any variances investigated. Material differences that appear permanent usually require your Board to amend the district's existing formal budget.

Reports to Your Board

Most boards meet regularly to pay the district's bills and to discuss important matters. Your Board may contract with various consultants to perform services for your district and report to the Board on their accomplishments. The following paragraphs describe the most common service providers and their responsibilities to your Board.

Bookkeeper's Responsibilities and Reports

With the continuing evolution of governmental accounting, your bookkeeper's position is more complex than in the past. Each fund has a particular function and your bookkeeper is responsible for ensuring that all accounts are kept "pure" with no intermingling of monies without the specific direction of your district's attorney or this Agency. Your bookkeeper maintains the district's accounting records and is charged with the responsibility of maintaining all records in conformity with GAAP.

Board Treasurer. Your district may elect a board treasurer who may act with your district's investment officer to instruct the bookkeeper in investing the district's funds appropriately.

Most bookkeepers prepare the checks for approval and signature by your Board. Although not authorized to sign checks, your bookkeeper can transfer funds on the district's behalf. They must maintain adequate records to allow your district's auditor to perform his audit of the district's records.

Other bookkeeper duties include: making sure bond payments (due semiannually) are made in a timely manner; advising your Board of any financial problems which may arise due to inadequate or inaccurate rate structures; maintaining investment schedules to mature in a timely fashion to meet the district's monthly bills; submitting timely revenue and expenditure statements; and working closely with your district's attorney, engineer, tax collector, general manager, financial advisor, auditor, or other professionals.

Cash Reports. A revenue and expenditure report for all funds should be prepared by your bookkeeper and submitted to your Board for its approval. The report may be presented to the Board at its regular meetings and should show beginning balances, cash received by all sources, disbursements to be approved, ending cash balances for all accounts, and a record of all investments so that the district's cash position, by fund, can be seen regularly.

The report also should reflect the current cash balances and balance to the check registers and/or the bank statements. Customer deposit liabilities for the period then ended, and information for the next principal and interest

payment on bonded indebtedness are examples of information often included in the bookkeeper's report.

Budget. We require all districts to prepare an annual budget for its operating funds utilizing quarterly or monthly budget comparisons. Usually, your bookkeeper will submit a proposed fiscal year budget to your Board. The Board may make changes to the budget before giving its approval; however, the following year's annual budget must be approved before the close of the current fiscal year (Rule 293.97b). This budget may be amended by your Board throughout the fiscal year.

Budget Comparisons. Operating fund comparisons should be presented to your Board quarterly or monthly and should indicate actual revenues and expenses compared to those budgeted.

Bond Proceeds Comparison. When bond proceeds are expended, a comparison should be presented to your Board to indicate the project items as approved by the Agency, the amounts expended for each item, and difference columns (over or under) of amounts expended to amounts authorized for each item.

Developer Reimbursements. Your bookkeeper may keep records of any developer reimbursements related to a bond issue. Districts must hire an independent auditor to determine the amount to be reimbursed to the developer from the sale of bonds approved by the Agency. Your bookkeeper will maintain all copies of invoices and related materials on these reimbursements.

A comparison report for your Board should show the amount of funds approved by the Agency compared to the actual amount of funds disbursed.

Capital improvements within the district are performed by your developer at his expense. Your district is not liable to reimburse the developer for these expenses until it sells bonds. Even then, your district's developer reimbursement amount is subject to Agency approval.

At times a bond sale may not bring in enough money to reimburse your district's developer the entire amount due. In this case, your developer must be reimbursed from a later bond issue.

Audit Preparations. The bookkeeper should compile all information and post the district's books. At the end of your district's fiscal year, the bookkeeper should timely reconcile all ledger accounts and prepare the books for the annual audit (see **Appendix I** for a bookkeeper's audit preparation checklist).

Other responsibilities may include:

- Setting up the necessary bank accounts, savings accounts, and investment accounts
- Maintaining all journals and ledgers pertaining to district funds according to GAAP and this *Guide*
- Issuing and filing the district's quarterly payroll tax returns and 1099s, 1096s, W2s, and W3s after each calendar year

Tax Assessor/Collector's Responsibilities and Reports

Your district's tax collector will calculate and collect the taxes levied by your district. He will also disburse all tax related expenditures and submit reports to your Board for their approval. The tax collector's report is also important to your district's bookkeeper, as the bookkeeper must post the tax related information to your district's books from these reports. Your bookkeeper may also pay bills and reconcile the district's bank statements for the tax accounts. The tax assessor/collector's report should contain:

- total taxes levied
 - Year
 - Rate (debt service and maintenance)
 - Levy amount
- amount currently outstanding
- current collections
- percent collected
- current period revenue
- current period disbursements (with documentation),
- beginning and ending cash balances
- accounts payable at year end
- any adjustments

Your Board should be able to determine the amount of tax revenues outstanding and collected for the district's operating year. By fiscal year end your tax collector should prepare a delinquent tax roll on all tax years with unpaid taxes.

Operator's Responsibilities and Reports

Your operator's responsibilities are similar to a city's water department. Your district's operator may also be responsible for billing and collecting for water, wastewater, and other services. Examples of his responsibilities include:

- meter reading
- routine transfers, turn-ons/turn-offs
- monthly billing and mailing
- bill collecting and accounting
- handling customer inquiries

- maintaining all records for audit purposes according to Agency regulations
- enforcing your district's delinquency policy

Your operator may collect all fees as billed and deposit the funds directly into your district's General Fund checking account or into a separate collection account. If the operator deposits into a collection account, your bookkeeper will periodically transfer to the district's checking account the amount needed to cover the district's operating expenses. An example of the operator's report is in **Appendix E**.

Attorney's Responsibilities and Reports

Your district's attorney acts as your Board's general legal counsel. Since districts are strictly regulated, your attorney's assistance is required for obtaining permits, drawing up contracts, annexation procedures, and many other duties. He is your principal negotiator and can handle any lawsuits. He must keep current on all laws and regulations applicable to districts. We recommend that every district have an attorney familiar with water district laws available to consult with regularly as timely, accurate advice will avoid unnecessary complications.

Engineer's Responsibilities and Reports

While your district is experiencing an active building program, your engineer should be present at the regular board meetings. As your district nears build-out, your engineer's participation will decrease.

After build-out has occurred, your engineer may perform studies to determine whether facility expansion is needed. With the district's attorney and financial advisor, your engineer can assist your Board in deciding whether an additional bond sale would be in your district's best interests.

Financial Advisor's Responsibilities and Reports

- ***Recommendation of Tax Rates.*** Your district's financial advisor may meet with your Board to recommend a tax rate for the operating year. Drastic changes in your district's tax rate should be avoided. Your financial advisor will recommend annual adjustments to minimize dramatic changes in your district's tax rate. Your financial advisor may present pro forma figures demonstrating the implementation of his recommendations.
- ***Establishment of Service Rates.*** Your financial advisor with the district's other consultants may provide advice on the district's service rates and tap fees.
- ***Explaining Current Financial Information.*** Your financial advisor can answer requests from investors and rating agencies for current financial information about your district.

- **Other Services.** Your financial advisor can assist in the review of audit report drafts and in your Board's preparation of information reports to be used with your district's bond elections. Upon request, your district's financial advisor can be represented at a board meeting where the district's financial matters are to be discussed.

Auditor's Responsibilities and Reports

Each year your district must have its records audited by an independent auditor. Additional work may also be required of an auditor on developer reimbursements. Refer to this *Guide's* Auditing Guidance Chapter for more information about your auditor's role.

Investment Officer's Responsibilities and Reports

Your district will need the services of an Investment Officer. Each district must designate an investment officer to invest the district's assets according to your district's investment policy and the law. Your investment officer must attend mandatory training on his responsibilities, including education in investment controls, security risks, strategy risks, market risks, and compliance with the Public Funds Investment Act (Government Code Chapter 2256, Subchapter A).

When your district's monies are invested, the law requires the securities to be pledged by the depository to ensure your district's investments are insured against that depository's failure. These activities require your investment officer to maintain regular contact with the investment community to obtain the best available rates. Refer to **Cash Management** below for additional information.

Investment Reports. Your district's investment officer must, at a minimum, issue quarterly written reports as required by the Public Funds Investment Act. Refer to the Public Funds Investment Act for the report's required elements (Government Code Chapter 2256, Subchapter A; see **Texas Statutes** in **Appendix O**).

Cash Management

Legal References

TWC Section 49.156 (Depository), TWC Section 49.157 (Investments), TWC Section 49.1571 (Investment Officer), Government Code Chapter 2256, Subchapter A (Public Funds Investment Act), and Government Code Chapter 2257 (Public Funds Collateral Act) provide the background for the cash management practices discussed in this *Guide's* Accounting Guidance Chapter (Texas Statutes, **Appendix O**).

Depository Accounts

A district should have the depository accounts listed below:

- ***General Operating Account.*** To receive day-to-day operating receipts and to disburse normal operating expenditures. Receipts can include revenues from water, wastewater, maintenance taxes, standby fees, taps, wastewater inspections, interest, and developer advances. Disbursements include expenditures for the district's normal operations.
- ***Capital Projects Account.*** To receive bond issue proceeds and the district's investment earnings thereon. Expenditures can be made only according to bond resolutions or by Agency approval.
- ***Tax Account.*** To receive ad valorem tax collections, penalties, and interest. Disbursements are made for all tax collection costs. When appropriate, and after all collection costs, the funds can be transferred to the Debt Service Account or General Operating Account, as appropriate.
- ***Debt Service Account.*** To receive capitalized interest from bond sale, transfers of ad valorem taxes, and accrued interest on bonds at the date of sale for the purpose of paying the semiannual bond principal, interest, and paying agent fees.

Investment Accounts

A primary concern of your Board is the preservation and safety of the district's principal. District funds shall be invested to yield the best rate of return while protecting the principal. Your Board should consider the financial institution's strength and its ability to provide collateral, including compliance with laws and regulations (including arbitrage provisions), the procedures of the district's bond resolutions, and Board orders requiring yield restrictions. Your district's funds should be invested according to your Board's written investment policy.

Your Board should provide its investment officer the authorization necessary to allow him to transfer funds to and from the district's accounts.

- ***Escrow Agreements.*** Any funds that must be escrowed by Agency order must be invested consistent with the district's needs. The agreement should stipulate that the original escrow amount can only be released to the district by this Agency. The escrowed amount should be noted on the district's annual financial report.
- ***Arbitrage.*** Federal restrictions on bond proceeds may restrict the yield of investments in the Capital Projects Fund and the Debt Service Fund. Consult with your district's attorney and financial advisor for a discussion on the arbitrage rebate requirements.

Security of Cash and Investments

All of your district's cash and investments must be secured by deposit insurance from the Federal Deposit Insurance Corporation (FDIC) or by the Federal Savings and Loan Insurance Corporation (FSLIC) or by the eligible financial securities defined in the Texas Public Funds Collateral Act (Government Chapter 2257; **Appendix O**). If the cash and investments are secured by eligible financial securities, those securities should be identified in your district's investment policies.

Cash and investments held in the Debt Service Fund should be handled separately as to security. FDIC Regulation 330.15—Public Unit Accounts provides for full insurance coverage of an amount up to *\$100,000 per bondholder*.

We encourage your district to have safekeeping receipts from its Texas financial institution on the collateral pledged for each account. The safekeeping receipt should show the full description of the security (including CUSIP number), the name of the financial institution making the pledge, the location where the security is being held, and the district's name that is being secured.

Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)

Under FIRREA Section 1823(e), a financial security agreement (including a pledge of collateral for a deposit) is not valid against the FDIC unless it is:

- in writing
- an official record of the depository institution as it was executed
- executed at the same time the district's asset is acquired by the depository institution
- approved by the depositing institution's board of directors or loan committee, **and** that approval is reflected in the depositing institution's board or loan committee minutes

If any of these provisions are not met, the FDIC avoids a perfected financial security interest and your district is only entitled to share with the depository's other creditors in a pro rata distribution of the depository's assets upon the depository's failure. Make sure your depository meets the requirements above to prevent jeopardizing your district's collateral.

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AUDITING GUIDANCE

Audit Report Requirements

The TWC requires your district to prepare an annual financial statement according to GAAP and to have this statement audited. *A district is exempt* from this audit requirement *if* it meets the criteria for filing one of the following reports:

- ***Financial Dormancy Affidavit*** (form TCEQ-0447). A district is financially dormant if it meets the provisions of TWC Section 49.197. If your district meets these provisions, it may choose to file either a *Financial Dormancy Affidavit* or an *Annual Financial Report*. The *Financial Dormancy Affidavit* must be filed at the end of the calendar year or the district's fiscal year. We must receive this document on or before January 31st following the year of financial inactivity.
- ***Annual Financial Report*** (form TCEQ-0722). A district may file an *Annual Financial Report* if it meets the provisions of TWC Section 49.198. If your district meets these provisions it may choose to file this document instead of an audited financial statement. We must receive this document within 45 calendar days after the close of your district's fiscal year.

The statutes do not give this Agency the authority to extend your district's filing date or to substitute other financial documents for those specified in the law. The Financial Dormancy Affidavit and Annual Financial Report forms are available from the Agency's web site (www.tceq.state.tx.us).

Responsibilities

The Board

Contract an Auditor

Your Board must contract with a CPA or a public accountant holding a permit from the Texas State Board of Public Accountancy to audit the district's accounts and records and render an audit opinion on the financial statements. For more information about choosing and hiring an auditor, see **Consultant Selection** on page 1-15 and **Engagement Letter** on page 1-16 of this *Guide's* Chapter on General Financial Guidance.

District Accounting

Your Board is obligated to properly maintain the district's accounting system. It must assure that the district's fiscal records are kept according to GAAP and that they are ready for the auditor to conduct his audit.

Financial Statements

Your Board is responsible for governing and managing your district. Included in that responsibility is the assurance that, except for the Auditor's Report, all other components of your district's audit report are accurately prepared. This responsibility extends to the TSI if your district is not a TSI Exempt District (**Appendix P**). The fact that your Board may delegate the actual preparation of the documents to others does not relieve them of this responsibility.

Your Board is also responsible for timely filing the district's audit report with this Agency. Refer to the *Guide's* **Where to File Your Audit Report** section in the General Financial Guidance Chapter on page 1-11 for more information.

Your district's audit report must include in the following order:

- Annual Filing Affidavit (**Appendix N1**)
- Auditor's Report (your auditor's opinion letter; **Appendix N2**)
- Management's Discussion and Analysis (**Appendix N3**)
- Basic Financial Statements (**Appendix N4**)
- Notes to the Financial Statements (**Appendix N5**)
- Required Supplemental Information (**Appendix N6**)
- Texas Supplementary Information (if required; **Appendix N7**)
- Auditor's Management Letter (if required; **Appendix N8**)

As most districts must complete our Texas Supplementary Information (TSI, formerly called supplemental schedules), your Board must ensure that all applicable TSI have been included in the district's audit report. If a TSI schedule does not apply, an explanatory statement must be prepared and reported in the TSI index or the audit report's Table of Contents. All applicable TSI (or an explanatory statement) must be included in your district's audit report before we can accept it under TWC Section 49.195.

Your district's Board or the auditor may decide that additional information should be included that is not required by this Agency but that information meets the needs of your district. If your district must present its combining and individual funds as a *comprehensive annual financial report* (CAFR) it must also ensure that all applicable TSI have been included in the district's audit report. We are not requiring your Board to prepare either a CAFR or a yellow book audit report; that decision must be made by your Board with the advice of your district's independent auditor, based upon your district's situation.

Auditor Independence

Your auditor is responsible for assuring his independence from your district when he accepts the audit engagement; however, your Board should assure

that its actions will not compromise this relationship. If this independence is questioned or if your Board senses it has been compromised, even to a small degree, your Board should consider soliciting proposals from other auditors and rotating its auditing firm.

The Independent Auditor

Your auditor is also responsible for the manner in which the audit is performed and for his opinion. The standards and principles which govern the audit's preparation do change from time to time. It is your auditor's responsibility to remain current with the developments and new pronouncements within the accounting and auditing profession (particularly within the area of governmental accounting and auditing). We expect your auditor to be thoroughly familiar with current pronouncements on governmental accounting principles and financial reporting.

Your auditor must also be familiar with the four items under Interpretation 101-3 of Rule 101 within the Code of Professional Conduct issued by the AICPA that addresses the CPA's independence when a CPA performs other accounting services for his audit client. And, if your district prepares a yellow book audit (refer to **The Single Audit Act, OMB Circular A-133, and Federal Grants** on page 1-11), then the General Accounting Office's national independence rules apply.

The Audit

The TWC requires your district's audit to be performed according to GAAS. Your auditor will issue an opinion on whether your district's Basic Financial Statements and related statements are presented according to GAAP.

As this Agency and its publications do not set governmental auditing standards or accounting principles if there are any inconsistencies with the AICPA's standards and principles, then the AICPA's standards and principles control.

Disclosure Requirements

Information that is essential to fair presentation—but not on the face of the Basic Financial Statements—should be disclosed in the Notes to the Basic Financial Statements. Your auditor will make sure that the disclosures required by GAAP are a part of your reports. Additionally, this *Guide* provides that you include the TSI as additional information for the users of these statements. If your district engages an auditor to audit the TSI, then his audit report must be modified to include his opinion on the TSI. If your district does not engage the auditor to audit the TSI, the auditor *may* modify his report in accordance with Statement on Auditing Standards No. 8 (as modified). Also, your district's bond indentures may require your district to report additional information that is specific to its bonded debt. If that is the

case, then you must disclose this additional information to satisfy your district's bond reporting requirements.

Compliance Issues

Due to the unique laws that apply to districts, your auditor should be thoroughly familiar with the laws that govern your district as well as the laws that apply to most districts and local governments. See **Appendix K** to review the most common areas of non-compliance and **Appendix O** for the Texas Statutes.

Texas Commission on Environmental Quality

Report Review

TWC Section 49.195 states that the audit report submitted by a district may be reviewed by the Agency's executive director and he shall notify the Board and the district's auditor if he determines any violations of GAAS, GAAP, statutes, board rules or if he has any recommendations. It also states that the Board and the auditor shall remedy objections and correct violations of which they have been notified before the audit report may be accepted by the Agency as in compliance with the TWC.

Audit reports submitted to the Agency for filing may be reviewed for:

- completeness
- accounting relationships within the Basic Financial Statements
- accounting relationships between the Basic Financial Statements and the TSI
- appropriate and adequate disclosures
- noncompliance issues
- your district's overall financial status

Your district's audit report may also be reviewed to determine if the audit was performed according to GAAS and whether your auditor followed reporting standards. Our review also determines whether your auditor's opinion is consistent with the presented basic financial statements. We will not accept an unqualified opinion if the required statements are missing or if the Auditor's Report letter does not conform to the reporting standards. Refer to the **TCEQ's Role** on page 1-24 for more information.

Appendix A: Sample Capital Asset Classification

Other Capital Assets:

<i>Administrative Facilities and Equipment:</i>	Land	Equipment
	Buildings	Communication
	Office	Computers
	Storage	Construction
	Warehouse	Office
	Furniture	Software
	Other (including Water Rights)	Vehicles
<i>Common and Recreational Areas:</i>	Land	Structures
	Buildings	Tennis Courts
	Equipment	Swimming Pools
	Street Lighting	Other
Infrastructure Assets:		
<i>Water Production/ Distribution System:</i>	Land and Easements	Wells
	Buildings	Booster Pumps
	Electrical Package	Storage Tanks
	Controls	Ground
	Generators	Elevated
	Chemical System	Distribution Lines
	Other	
<i>Wastewater Collection System:</i>	Land and Easements	Collection Lines
	Buildings	Gravity
	Structures	Pressurized
	Electrical Package	Lift Stations
	Controls	Other
	Generators	
<i>Wastewater Treatment Plant:</i>	Land and Easements	Equipment
	Buildings	Bar Screens
	Structures	Blowers
	Electrical Package	Chemical System
	Controls	Clarifiers
	Generators	Lift Stations
	Other	Pumps
<i>Stormwater Pumping Facilities:</i>	Land and Easements	Electrical Package
	Buildings	Controls
	Pumps	Generators
	Other	
<i>Stormwater Collection System:</i>	Land and Easements	Collection Lines
	Land Improvements	Equipment

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Appendix B: Sample Chart of Accounts

Long-Term Debt

Assets

1500 To Be Provided for Bonded Debt

Liabilities

2510 Bonds Payable, Series _____
2511 Bonds Payable, Series _____
2512 Bonds Payable, Series _____
2513 Bonds Payable, Series _____
2514 Bonds Payable, Series _____
2515 Bonds Payable, Series _____

Capital Assets

You may need additional accounts or subaccounts if you follow the Sample Capital Asset Classification in **Appendix A**.

Assets

1310 Land, Easements and Rights-of-Way
1311 Buildings
1312 Water System
1313 Sewage System
1314 Drainage System
1315 Machinery and Equipment
1316 Automobiles and Trucks
1317 Furniture and Fixtures
1318 Engineering Fees
1351 Construction in Progress, _____ Bond Issue
1352 Construction in Progress, _____ Bond Issue
1353 Construction in Progress, _____ Bond Issue
1354 Construction in Progress, _____ Bond Issue
1401 Organizational Costs—Legal Fees
1403 Organizational Costs—Bond Interest
1407 Organizational Costs—Fiscal Agent Fees
1409 Organizational Costs—Bond Interest Expenses
1411 Organizational Costs—Interest on Temporary Investments
1413 Organizational Costs—Election Costs
1415 Organizational Costs—Other Costs
1417 Organizational Costs—Interest on Purchase of Facilities

Fund Balance

3001 Investment in Capital Assets—From Net System Revenues
3009 Investment in Capital Assets—From Investment Revenues
3010 Investment in Capital Assets—From Sale of Bonds
3011 Investment in Capital Assets—Contributed by Developer
3013 Investment in Capital Assets—Contributed by Other Districts
3014 Investment in Capital Assets—Contributed by Governmental Agency

Capital Projects Fund

Assets

- 1110 Cash—Capital Projects (establish multiple accounts if different bank accounts used, 1122, 1123, ...)
- 1122 Cash in Escrow
- 1140 Time Deposits for Construction Projects (includes certificates of deposit, savings certificates and saving accounts—details provided by schedule)
- 1141 Certificates of Deposit for Construction Projects
- 1158 Accrued Investment Interest Receivable
- 1160 Prepaid Tap Expense
- 1171 Due from General Fund
- 1176 Due from Other Districts
- 1177 Due from Developer—Currently Due
- 1178 Due from Developer—Deferred (Retainage)

Liabilities

- 2110 Trade Accounts Payable
- 2119 Accrued Interest Payable
- 2120 Short-Term Notes Payable
- 2125 Due to Other Districts
- 2126 Due to Developer
- 2130 Construction Contracts Payable
- 2140 Construction Contracts Payable—Retained Percentage
- 2150 Bond Anticipation Notes Payable
- 2171 Due to General Fund

Fund Balance

- 3000 Unreserved Fund Balance (Construction fund interest not required to be transferred)
- 3001 Reserved—From Net System Revenues
- 3003 Interest Earnings Not Transferred
- 3010 Reserved—From Sale of Bonds for Authorized Construction, Prior Issues (Prior Issues added to title)
- 3011 Reserved—From Sale of Bonds for Authorized Construction, _____ Issue
- 3012 Reserved—From Sale of Bonds for Authorized Construction, _____ Issue
- 3013 Reserved—From Sale of Bonds for Authorized Construction, _____ Issue
- 3014 Reserved—From Sale of Bonds for Authorized Construction, _____ Issue
- 3015 Reserved—From Sale of Bonds for Authorized Construction, _____ Issue

Fund Transfers

- 3911 Transferred to General Fund
- 3913 Transferred to Debt Service Fund
- 3951 Transferred from General Fund
- 3953 Transferred from Debt Service Fund

Other Additions to Reserves

- 3955 Proceeds from Sale of Bonds
- 3956 Developer Contributions
- 3957 Governmental Agency Contributions
- 3958 Other Districts' Contributions
- 3959 Bond Anticipation Note Proceeds
- 3960 Sale of Capital Assets
- 3961 Regional Water Treatment Plant Rebate

Revenues

- 5380 Miscellaneous Income
- 5391 Interest on Temporary Investments

Expenses

- 7300 Capital Outlay, _____ Bond Issue
- 7301 Capital Outlay, _____ Bond Issue
- 7302 Capital Outlay, _____ Bond Issue
- 7303 Capital Outlay, _____ Bond Issue
- 7304 Capital Outlay, _____ Bond Issue
- 7305 Capital Outlay, _____ Bond Issue
- 7362 Interest Expense on Notes
- 7395 Other Expense

General Fund

Assets

- 1110 Cash (establish multiple accounts if different bank accounts used, 1110, 1111, ...)
- 1122 Cash in Banks for Meter Deposits
- 1130 Time Deposits (includes certificates of deposit, savings certificate and savings accounts—details provided by schedule)
- 1131 Certificates of Deposits
- 1145 Service Accounts Receivable
- 1146 Allowance for Uncollectible Service Accounts
- 1147 Service Account Interest Receivable (included in 1145)
- 1148 Service Account Penalties Receivable (included in 1145)
- 1149 Returned Checks
- 1150 Taxes Receivable
- 1155 Builder Damages Receivable
- 1156 Accounts Receivable—Other
- 1157 Standby Fees Receivable

- 1158 Accrued Investment Interest Receivable
- 1159 Tap Fees Receivable
- 1160 Prepaid Tap Expense
- 1161 Prepaid Insurance
- 1172 Due from Tax Fund
- 1173 Due from Debt Service Fund
- 1174 Due from Capital Projects Fund
- 1176 Due from Other Districts
- 1190 Material and Supplies
- 1191 Meters

Liabilities

- 2110 Trade Accounts Payable
- 2111 Salaries and Wages Payable
- 2112 Old Age Survivors Insurance (OASI) Taxes Payable
- 2113 Withholding Taxes Payable
- 2114 Employee Retirement Premiums Payable
- 2115 Group Insurance Premiums Payable
- 2119 Accrued Interest Payable
- 2120 Short-Term Notes Payable
- 2125 Due to Other Districts
- 2130 Professional Fees Payable (combined with 2110)
- 2161 Customer Meter Deposits Payable
- 2173 Due to Debt Service Fund
- 2174 Due to Capital Projects Fund
- 2251 Sewer Deposits Payable
- 2552 Advance from Tax Fund
- 2554 Advance from Capital Projects Fund
- 2701 Tap Connections Fees—Advance Payments (Deferred water and sewer tap fees)
- 2702 Sewer Tap Connection Fees—Advance Payments
- 2740 Deferred Revenues—Uncollected Taxes
- 2750 Deferred Revenues—Uncollected Standby Fees

Fund Balance

- 3000 Unreserved Fund Balance
- 3002 Allocated from Net Tax Revenues
- 3005 Reserved for Operating Expenses
- 3007 Investment in Inventories
- 3913 Transferred to Debt Service Fund
- 3914 Transferred to Capital Projects Fund
- 3952 Transferred from Tax Fund
- 3953 Transferred from Debt Service Fund
- 3954 Transferred from Capital Projects Fund
- 3960 Sale of Capital Assets

Revenues: Water

- 4100 Customer Service Fees—Water
- 4101 Bulk Water Sales
- 4102 Water Service Inspection Fees
- 4103 Service Fees—Other Governmental Units
- 4110 Water Tap Connection Fees
- 4120 Reconnection Fees

Revenues: Sewer

- 4200 Customer Service Fees—Sewer
- 4202 Service Inspection Fees
- 4203 Service Fees—Other Governmental Units
- 4210 Sewer Tap Connection Fees

Revenues: Other

- 4320 Property Taxes
- 4330 Penalties and Interest on Service Accounts
- 4331 Penalties and Interest on Tax Accounts
- 4400 Collection Agency Income
- 4500 Standby Fees
- 4501 Sewer Availability Charges
- 4600 Tap Connection Fees
- 5380 Miscellaneous Income
- 5390 Deposits Forfeited
- 5391 Interest on Temporary Investments
- 5392 Gain on Sale of Investments
- 5395 Sale of Capital Assets
- 5396 Rental and Lease Income

Water Service Expenses

- 6100 Bulk Water Purchase
- 6111 Salaries and Wages
- 6112 Employee Retirement Premiums
- 6113 Group Insurance Premiums
- 6114 Employers OASI Tax Expense
- 6115 Workmen's Compensation Premiums
- 6116 Labor Applied to Tap Connection Expense
- 6134 Contract Labor
- 6135 Maintenance and Repairs
- 6136 Meter Installation
- 6137 Meter Reading
- 6138 Legal Notices and Other Publications
- 6141 Fuel and Lubricants
- 6142 Chemicals
- 6143 Small Tools
- 6144 Repair and Maintenance—Materials
- 6145 Meter Expenses

- 6146 Materials Applied to Tap Connection Expense
- 6149 Other Consumable Supplies and Materials
- 6150 Postage
- 6153 Insurance
- 6155 Uncollectible Accounts
- 6157 Rents and Leases—Equipment
- 6158 Rents and Leases—Space
- 6160 Damage Claims (Credit Account)
- 6161 Garbage Collection Expense
- 6170 Tap Connection—Materials and Labor
- 6171 Tap Connection—Contract
- 6180 Reconnection Expense

Sewer Service Expenses

- 6201 Purchased Sewer Services
- 6211 Salaries and Wages
- 6212 Employee Retirement Premiums
- 6213 Group Insurance Premiums
- 6214 Employers FICA Tax Expense
- 6215 Workmen’s Compensation Premiums
- 6223 Management of STP facilities
- 6234 Contract Labor
- 6235 Maintenance and Repairs
- 6241 Fuel and Lubricants
- 6242 Chemicals
- 6244 Repair and Maintenance—Materials
- 6246 Materials Applied to Tap Connection Expense
- 6249 Other Consumable Supplies and Materials
- 6250 Postage
- 6253 Insurance
- 6255 Uncollectible Accounts
- 6257 Rents and Leases—Equipment
- 6259 Other Expense
- 6260 Damage Claims (Credit Account)
- 6270 Tap Connection—Materials and Labor
- 6271 Tap Connection—Contract
- 6275 Sewer Inspection Expense
- 6285 Costs Reimbursed by Other Districts

Other Operating Expenses

- 6310 Director Fees
- 6311 Salaries and Wages
- 6312 Employee Retirement Premiums
- 6313 Group Insurance Premiums
- 6314 Employers OASI Tax Expense
- 6315 Workmens’ Compensation Premiums
- 6320 Legal Fees
- 6321 Auditing Fees

- 6322 Engineering Fees
- 6323 Management and Consulting
- 6324 Laboratory Expenses
- 6325 Election Expense
- 6326 Permit Fees
- 6332 Service Account Collection
- 6333 Bookkeeping
- 6334 Contract Labor
- 6335 Maintenance and Repairs
- 6338 Legal Notices and Other Publications
- 6340 Printing and Office Supplies
- 6344 Repair and Maintenance—Materials
- 6349 Other Consumable Supplies and Materials
- 6350 Postage
- 6351 Telephone
- 6352 Utilities
- 6353 Insurance and Surety Bond Premiums
- 6354 Travel and Per Diem
- 6357 Rents and Leases—Equipment
- 6358 Rents and Leases—Space
- 6359 Other Expenses
- 6380 Transfer Fees—Connection Charges
- 6399 Garbage Expense
- 6600 Tap Connection Expense
- 7306 Capital Outlay
- 7362 Interest on Notes
- 7395 Miscellaneous Expense

Tax Fund

Refer to **Purpose of the Tax Fund—Debt Service Taxes** on page C-11 and **Debt Service Fund— Explanation** on page C-13 for information on this fund.

Assets

- 1110 Cash—Tax Collections
- 1140 Time Deposits—Tax Collections (includes certificates of deposit, saving certificates and saving accounts; details provided by schedule)
- 1141 Certificates of Deposit—Tax Collections
- 1150 Tax Accounts Receivable
- 1151 Tax Liens Receivable
- 1152 Tax Account Interest Receivable
- 1153 Tax Account Penalties Receivable
- 1158 Accrued Investment Interest Receivable
- 1160 Allowance for Uncollectible Taxes
- 1171 Due from General Fund
- 1173 Due from Debt Service Fund

Liabilities

- 2110 Trade Accounts Payable
- 2131 Purchased and Contract Service Fees Payable

- 2171 Due to General Fund
- 2173 Due to Debt Service Fund
- 2175 Due to Taxpayers—Overpayment
- 2176 Due to Assessor Collector—Tax Certificate
- 21## Due to Taxpayers—Appraisal District Adjustments
- 2701 Taxes Collected—Advanced Payments (Uncertified rolls)
- 2740 Deferred Revenues—Uncollected Debt Service Taxes

Fund Balances

- 3001 Allocated-Fund Net System Revenues
- 3003 Interest Earnings Not Transferred

Fund Transfers

- 3911 Transferred to General Fund
- 3913 Transferred to Debt Service Fund

Revenues

- 4320 Property Taxes
- 4321 Appraisal District Adjustment
- 4322 Bank Franchise Tax
- 4331 Penalties and Interest on Tax Accounts
- 4332 15% Penalty
- 5380 Miscellaneous Income
- 5391 Interest on Temporary Investments

Expenses

- 6320 Legal Fees
- 6330 Appraisal District
- 6331 Tax Assessor-Collector
- 6338 Legal Notice and Other Publications
- 6340 Printing and Office Supplies
- 6350 Postage
- 6353 Insurance and Surety Bond Premiums
- 63## Other Tax Expenses
- 7391 Foreclosure Costs

Debt Service Fund

Assets

- 1110 Cash—Debt Service
- 1121 Cash with Fiscal Agent (Paying Agent)
- 1140 Time Deposits for Debt Service (includes certificates of deposits, savings certificates and saving accounts—details provided by schedule)
- 1141 Certificates of Deposit for Debt Service
- 1158 Accrued Investment Interest Receivable
- 1171 Due from General Fund
- 1172 Due from Tax Fund
- 1175 Due from Other Governmental Agencies
- 1501 To be Provided for Bonded Debt

Liabilities

- 2119 Accrued Interest Payable
- 2121 Tax Anticipation Notes Payable
- 2131 Purchased and Contract Service Fees Payable
- 2135 Accrues Interest on Bonds at Date of Sale
- 2171 Due to General Fund
- 2750 Unpresented Coupons

Fund Balance

- 3000 Reserved Fund Balance (for retirement of bond interest during construction)
- 3003 Interest Earnings Not Transferred
- 3009 Reserved for Bond Interest During Construction Period, _____ Issue
- 3010 Reserved for Bond Interest During Construction Period, _____ Issue
- 3011 Reserved for Bond Interest During Construction Period, _____ Issue
- 3012 Reserved for Bond Interest During Construction Period, _____ Issue
- 3013 Reserved for Bond Interest During Construction Period, _____ Issue
- 3014 Reserved for Bond Interest During Construction Period, _____ Issue
- 3030 Special Reserve

Fund Transfers

- 3911 Transferred to General Fund
- 3914 Transferred to Capital Project Fund
- 3951 Transferred from General Fund
- 3952 Transferred from Tax Fund
- 3954 Transferred from Capital Projects Fund

Revenues

- 5391 Interest on Temporary Investments

Expenses

- 7360 Bond Interest Expense
- 7362 Interest on Notes
- 7363 Fiscal Agent Fees (Paying Agent Fees)
- 7364 Bond Issue Expense
- 7369 Other Debt Service Expense
- 7395 Bond Principal

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Appendix C: Examples of Common Accounting and Bookkeeping Procedures

In this Appendix the use of the term “monthly” means on a regular cycle, based on the needs of your district. Some of the sample accounting entries have related notes following the entries.

General Fund—Explanation

Purpose of Fund. The General Fund is used for all operations of your district’s water and wastewater system including related revenues from service installations. The General Fund should include all general, administrative, and operating expenses of your district. District activities that do not belong in other funds should be included in the General Fund.

Classification of Expenses. The sample Chart of Accounts in **Appendix B** classifies expenses between water, wastewater, and other operating expenses. These classifications are needed to determine the separate cost of water and wastewater services for rate making and obtaining governmental grants. Your district may need to prorate some expenses between water, wastewater, and other expense classifications. Your bookkeeper may need its vendors and contractors to bill the water and wastewater expenses separately.

General Fund—Water and Wastewater Billings

General Fund—Returned Checks

Explanation. Districts generally bill monthly for the water and wastewater services based on actual usage or a flat rate.

Accounting Theory. Water and wastewater billings should be recorded monthly. The billing should include service through the end of the month or a date prior to the end of the month being recorded. If a service date after the end of the month is used, revenues are overstated and expenses are not properly matched with revenues. Districts may prorate revenues and expenses for part of a month.

Your district’s billing agent may have a small number of returned checks on hand at the end of the month that will be part of the cash balance at month end. Older checks may have been charged back to accounts receivable. Returned check transactions should be included in the operating report from the billing agent and recorded in the General Ledger. The balance outstanding at the end of the month should be reconciled to the list of returned checks furnished by the billing agent.

Records or Information Required. Operating report from the district’s billing agent.

Accounting Entries. The difference between beginning and ending Service Accounts Receivable should be recorded for the Service Accounts Receivable account. If the balance has increased, the entry should be a debit. If it has decreased, the entry should be a credit. Likewise, the net activity of Returned Checks should be recorded in this entry. If the total amount of returned checks receivable increased during the month, the entry should be a debit. If it has decreased, the entry should be a credit. Revenue accounts should be credited for the amounts billed for the month.

Billing Recorded

<i>Accounting Entries:</i>	Dr.	Cr.
1110 Cash	XX	
1145 Service Accounts Receivable	XX or	XX
1149 Returned Checks	XX or	XX
4100 Customer Service Fees—Water		XX
4200 Customer Service Fees—Sewer		XX
4330 Penalties and Interest on Service Accounts		XX

General Fund—Standby Fees

Explanation. As authorized under TWC Section 49.231, your district may assess Standby Fees on lot owners who have water and wastewater service available, but have not utilized service. Standby Fees raise revenues for facilities which have been provided but are not being used.

Accounting Theory. Standby Fees should be recorded on the accrual basis in the General or Debt Service Fund, depending on which fund the Standby Fee is dedicated. In some cases, it may be necessary to record these fees on a cash basis. The method of recording depends on the Commission Order and your district’s fiscal year.

Records or Information Required. Operating report from your district’s billing agent.

Initial Billing, Billed Separately, Reported on an Accrual Basis

<i>Accounting Entries:</i>	Dr.	Cr.
1157 Standby Fees Receivable	XX	
4500 Standby Fees		XX

Billed Separately, Reported on an Accrual Basis

<i>Accounting Entries:</i>	Dr.	Cr.
1110 Cash	XX	
1157 Standby Fees Receivable	XX or	XX
4500 Standby Fees		XX

The difference between Standby Fees Receivable at the beginning and end of the month should be debited if the end of month amount is greater, or

credited if the beginning of the month amount is greater. Standby Fees should be credited for the amount billed.

Billed as Part of Water and Sewer Billing, Reported on an Accrual Basis

<i>Accounting Entries:</i>	Dr.	Cr.
1110 Cash	XX	
1145 Service Accounts Receivable	XX or	XX
4500 Standby Fees		XX

Service Accounts Receivable should be treated as Standby Fees Receivable in the above entry, however only the receivable amounts on Standby Fees should be considered.

Initial Billing, Billed Separately, Revenue Reported on a Cash Basis

<i>Accounting Entries:</i>	Dr.	Cr.
1157 Standby Fees Receivable	XX	
2750 Deferred Revenue—Uncollected Standby Fees		XX

Billed Separately, Revenue Reported on a Cash Basis

<i>Accounting Entries:</i>	Dr.	Cr.
1110 Cash	XX	
1157 Standby Fees Receivable	XX or	XX
2750 Deferred Revenue—Uncollected Standby Fees	XX or	XX
4500 Standby Fees		XX

Standby Fees Receivable should be treated as above. If Standby Fees Receivable is debited, the Deferred Revenue account should be credited for the same amount. If the Standby Fees Receivable account is credited, the Deferred Revenue account should be debited for the same amount. Cash should be debited and Standby Fees credited for the amounts actually received during the month.

General Fund—Allowance for Doubtful Accounts

Accounting Theory. To avoid overstating revenues at the date such amounts are recorded, an allowance for doubtful accounts should be provided for those amounts that may ultimately be uncollectible. If the amount that is considered to be doubtful is substantial (after considering the following factors) the allowance should be recorded.

1. *Customer deposits.* Security deposits may substantially offset any loss on the uncollectible accounts.
2. *The collection policy of the district.* District policy may be to discontinue service after two months of unpaid charges (except for unpaid taxes).
3. *Collection experience of the district.* This may be influenced by the economic status of the district and by the district’s collection policy.

4. *Delinquency Status.* The age and amount of accounts outstanding for long periods such as 90 days or more.
5. *Large accounts.* Financial status of customers with large delinquent balances.

In many cases your district will decide that no allowance is necessary. It is reasonable to omit the recording of an allowance if the effect on the balance sheet and revenues is not significant.

Records or Information Required. Operating report from your district's billing agent.

Allowance Recorded

<i>Accounting Entries:</i>	Dr.	Cr.
6155 Uncollectible Accounts	XX	
6255 Uncollectible Accounts	XX	
1146 Allowance for Uncollectible Service Accounts		XX

The Allowance Account should be reviewed periodically to see that its level is appropriate given the current account balances and other circumstances that may affect the collection of accounts.

Write-off of Uncollectible Accounts

<i>Accounting Entries:</i>	Dr.	Cr.
1146 Allowance for Uncollectible Service Accounts	XX	
1145 Service Accounts Receivable		XX

The amount of the entry above should correspond to the total of the specific Service Accounts Receivable balances to be written off.

General Fund—Operating Reserve

Explanation. Some bond orders require a district to establish an operating reserve to cover two months of operating expenses and may require the excess amount over the reserve be transferred to a Special Reserve Fund (part of the Debt Service Fund) until a specified amount has been accumulated in the Special Reserve Fund.

Accounting Theory. To comply with the bond order requirement for an operating reserve, the district must estimate the required amount (two months operating expenses) and record this amount in an operating reserve until cash in excess of liabilities exceeds this amount. The district may be required to transfer the excess cash to the Debt Service Fund when cash has accumulated in excess of the reserve amount. This should be done by an action of your district's Board.

Records or Information Required:

1. Bond order
2. Your Board's determination of the district's operating reserve needs

Initial Establishment of Operating Reserve

<i>Accounting Entries:</i>		Dr.	Cr.
3000	Unreserved Fund Balance	XX	
3005	Reserved for Operating Expenses		XX

The amount of the entry above should be equal to the amount determined by your Board.

Adjustment of Operating Reserve

<i>Accounting Entries:</i>		Dr.	Cr.
3000	Unreserved Fund Balance	XX or	XX
3005	Reserved for Operating Expenses	XX or	XX

A credit to the Reserve Account #3005 should be made to increase the reserve and a debit made to decrease it. An equal offset should be made to the Unreserved Fund Balance account.

Transferred to Debt Service Fund

<i>Accounting Entries:</i>		Dr.	Cr.
3913	Transferred to Debt Service Fund	XX	
1110	Cash		XX

The entry above should be made for the amount actually transferred which is in excess of the required reserve amount. There will also be a related entry to the Special Reserve—Debt Service Fund.

General Fund—Taps Installations and Sewer Inspection Fees

Explanation.

Taps. A tap is the line that connects the district's main water and wastewater lines to the property to be served. The line may be designed to serve one (a single tap) or two (a double tap) customers. A normal tap (short tap) would connect near the front of the lot, other taps may connect at the rear of the lot (long taps). A single tap is more expensive per tap. Most districts utilize the double tap.

Meter and Box. A meter and box must be installed prior to providing water service. This generally is not done until the tap connection fee is paid and service is requested. When double taps are installed and only one customer requires service, only one meter is installed.

Installation of Taps. Generally, taps are installed as requested by builders, but some districts install taps for an entire street at one time. Occasionally, taps are installed during the construction phase with bond monies.

Taps Installed by Others. Occasionally, developers or builders may install taps which are reimbursable by the district or are donated to the district. The district may establish a tap fee rate order which excludes the tap or meter and requires the customer to pay the operator directly for such items.

Rate Order. Tap fees are established by a rate order which is passed by your Board. All charges should be made to customers based on this rate order.

Residential Tap. Tap fees for residential customers include the tap installation and the meter and box. This fee may include the wastewater inspection although many districts collect a separate fee for this.

Commercial Tap. Commercial customers are generally charged a percentage of the cost for the tap installations (the type of installations vary substantially), plus a variable amount for the meter based on size or cost. Commercial customers may also be charged an additional amount based on the square footage of land owned by the customer.

Accounting Theory.

General. To match revenue and expense, tap fee revenue and the related expense should be reported within the same accounting period. Although this matching of revenue and expense should be made monthly, this may not be practical. Journal entries may be made annually to defer revenue or expense.

Tap Fees and Expense. Tap fees should be reported as revenue when collected. A receivable for tap fees should be recorded if the district installed taps prior to collection. Tap expense should be accrued for installations made through the end of your district's fiscal year.

Sewer Inspection Fees and Expense. Sewer inspection fees should be recorded on a cash basis. Wastewater inspection expense should be accrued as billed. Matching of these fees and expense may not be necessary unless this practice substantially affects net revenues.

Taps Installed with Bond Money. The cost of taps installed with bond money in the construction fund should be transferred to the General Fund and recorded as an asset of the General Fund as Prepaid Tap Expense. This asset should then be charged to expense as the related tap fees are reported.

Taps Installed by Others. Reimbursable tap installations by the developers should be recorded as a liability of the General Fund. If this amount is recorded as prepaid tap expense, it should be charged to expense as the applicable tap fees are recorded.

Tap installations donated to the district may be reported in the capital assets as donated assets. Taps installed by customers or tap charges paid directly to operators by customers may be recorded in the capital assets. These transactions need to be recorded according to the *accounting policies* adopted

by the district's Board (in consultation with the district's bookkeeper and auditor) and as documented in the district's Manual (**District Manual** on page 1-18).

Prepaid or Deferred Taps. If the number of tap fees collected exceeds the number of installation costs accrued (expense), the excess number of fees collected should be deferred based on the amounts collected from customers. If the reverse situation occurs, the excess expense incurred should be deferred in the amount of cost of the tap installations to the district.

Unless the amount of prepaid or deferred taps is substantial, such amounts can be reversed in the month after year end and recorded again only at the designated interval. If they are substantial, the prepaid amounts should be written off to expense at the time the corresponding tap fees are reported. Likewise, deferred tap fees may be recognized as revenue at the time corresponding tap expenses are incurred.

Replacement of Taps and Meters. Replacements of meters or a reinstallation of a tap should be charged to repairs and maintenance. Any reimbursement received by the district should be reported as a credit to this expense account.

Records or Information Required.

1. Schedule of tap fees and expense designed to reconcile the number of installations received (tap fees) and installations accrued (tap expense).

	<u>Number of Installations</u>	
	<u>Fees</u>	<u>Expense</u>
Beginning of Year		
Deferred Fees	X	
Prepaid Expense		X
During the Year		
Fees Received	X	
Expense Accrued		X
Replacements		X
End of Year		
Deferred Fees	(X)	
Prepaid Expense		(X)
Number of Installations Reported in		
Revenues and Expenses	X	X
	=	=

X indicates entry **(X)** indicates end-of-period entry

The difference between the total number of tap fees and total number of tap expenses should be the number of tap replacements made during the period. After reconciling the tap installations based on the number of connections, the proper amount of prepaid or deferred taps can be determined. Number of taps should be furnished by the district's operator.

2. Operating Report from your district's billing agent.

Tap Fee Revenue

Receipt of Tap Fees

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash	XX	
4600	Tap Connection Fees		XX

Adjustment for Deferred Tap Fees

<i>Accounting Entries:</i>		Dr.	Cr.
4600	Tap Connection Fees	XX	
2701	Tap Connection Fees—Advanced Payments		XX

Reversal of Deferred Tap Fees in the following period

<i>Accounting Entries:</i>		Dr.	Cr.
2701	Tap Connection Fees—Advanced Payments	XX	
4600	Tap Connection Fees		XX

Tap Expense

Payment of Tap Expense

<i>Accounting Entries:</i>		Dr.	Cr.
6600	Tap Connection Expense	XX	
1110	Cash		XX

Adjustment for Prepaid Tap Expense

<i>Accounting Entries:</i>		Dr.	Cr.
1160	Prepaid Tap Expense	XX	
6600	Tap Connection Expense		XX

Reversal of Prepaid Tap Expense in the following period

<i>Accounting Entries:</i>		Dr.	Cr.
6600	Tap Connection Expense	XX	
1160	Prepaid Tap Expense		XX

Other Tap Installations

Taps Installed with Bond Money

<i>Accounting Entries:</i>		Dr.	Cr.
1160	Prepaid Tap Expense	XX	
3954	Transferred from Capital Projects Fund		XX

There will also be a related entry to the Tap Installations—Capital Projects Fund.

Reimbursable Tap Installation by Another Party

<i>Accounting Entries:</i>		Dr.	Cr.
1160	Prepaid Tap Expense	XX	
-OR-			
6600	Tap Connection Expense	XX	
2110	Trade Accounts Payable		XX

Sewer Inspection Fees and Expense

Receipt of Sewer Inspection Fees

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash	XX	
4202	Service Inspection Fees		XX

Payment for Sewer Inspection Charge

<i>Accounting Entries:</i>		Dr.	Cr.
6275	Sewer Inspection Expense	XX	
1110	Cash		XX

General Fund—Maintenance Tax

Explanation. A maintenance tax may be assessed by your district to supplement its General Fund revenues. It is levied as a part of the ad valorem tax based on assessed values and may be collected in the General or Tax Funds as shown by the entries presented below.

Accounting Theory. The maintenance tax should be accrued in the General Fund as collected from the taxpayer by the Tax Fund unless ad valorem taxes are reported as levied.

Maintenance Taxes Collected by the Tax Fund

Collection of the Maintenance Tax

<i>Accounting Entries:</i>		Dr.	Cr.
1172	Due from Tax Fund	XX	
4320	Property Taxes		XX
4331	Penalties and Interest on Tax Assessment		XX

The entry above should be in the amount of maintenance taxes actually collected by the Tax Fund. There will also be a related entry to the Tax Fund—Explanation.

Transfer from the Tax Fund

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash	XX	
1172	Due from Tax Fund		XX

The previous entry should be for the amount actually transferred to the General Fund. There will also be a related entry to the Tax Fund—
Explanation.

Maintenance Taxes Collected by the General Fund

Levy of the Maintenance Tax

<i>Accounting Entries:</i>		Dr.	Cr.
1150	Taxes Receivable	XX	
2740	Deferred Revenue—Uncollected Taxes		XX

The entry above should be for the total amount of the maintenance tax levy.

Collection of the Maintenance Tax

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash	XX	
2740	Deferred Revenue—Uncollected Taxes	XX	
1150	Taxes Receivable		XX
4320	Property Taxes		XX

The entry above should be for only those amounts actually received.

General Fund—Prepaid Insurance

Explanation. Your district typically pays its insurance premiums for a one-year period.

Accounting Theory. To report insurance expense according to the matching principle and avoid fluctuations in net revenues caused by the timing of payments, your district should amortize its insurance premiums over the life of the policy. Due to the small amount involved, it will probably not be necessary to amortize fidelity bond premiums and small insurance endorsements.

Payment of Insurance Premium

<i>Accounting Entries:</i>		Dr.	Cr.
1161	Prepaid Insurance	XX	
1110	Cash		XX

The entry above should be for the entire amount paid.

Monthly Amortization of Prepaid Insurance

<i>Accounting Entries:</i>		Dr.	Cr.
6153	Insurance	XX	
6253	Insurance	XX	
6353	Insurance and Surety Bond Premiums	XX	
1161	Prepaid Insurance		XX

The previous entry should reflect one month of premium cost or one-twelfth of the yearly premium.

Tax Fund—Debt Service Taxes

Purpose of Fund. The Tax Fund has been established to account for the tax assessing and collecting functions of your district. Legally, this fund is a part of the Debt Service Fund and is not specified as a separate fund in your district’s bond orders.

Use of Funds. Monies in the Tax Fund can be used only to pay the expenses of collecting taxes. The balance of the fund must be transferred to the Debt Service Fund, except for maintenance tax collections.

Accounting Theory. To report ad valorem tax revenues, these taxes should be available to pay the expenditures of the district.

Records or Information Required. Tax assessor/collector report.

Debt Service Tax Levied

<i>Accounting Entries:</i>	Dr.	Cr.
1150 Tax Accounts Receivable	XX	
2740 Deferred Revenue—Uncollected Taxes		XX

The entry above should be made for the total amount of debt service taxes levied.

Assessment of Penalties and Interest

<i>Accounting Entries:</i>	Dr.	Cr.
1152 Tax Account Interest Receivable	XX	
1153 Tax Account Penalties Receivable	XX	
2740 Deferred Revenue—Uncollected Taxes		XX

Collection of Taxes

<i>Accounting Entries:</i>	Dr.	Cr.
1110 Cash—Tax Collections	XX	
2740 Deferred Revenue—Uncollected Taxes	XX	
6331 Tax Assessor—Collection Fees		XX
1150 Tax Accounts Receivable		XX
1152 Tax Account Interest Receivable		XX
1153 Tax Account Penalties Receivable		XX
4320 Property Taxes		XX
4331 Penalties and Interest on Tax Accounts		XX
2740 Deferred Revenue—Uncollected Taxes		XX

The previous entry for Cash should include all amounts received by your district. The Deferred Revenue and the receivable accounts should be debited

and credited for the amounts actually paid by the taxpayers. This may be greater than the amounts received by the district due to tax collector fees.

Adjustment of Roll

<i>Accounting Entries:</i>	Dr.	Cr.
2750 Deferred Revenue—Uncollected Taxes	XX or	XX
1150 Tax Accounts Receivable	XX or	XX

An increase in the tax levy would cause a debt to Taxes Receivable and a decrease would cause a credit. An equal offset should be made to the Deferred Revenue account.

Overpayment of Taxes

<i>Accounting Entries:</i>	Dr.	Cr.
1110 Cash—Tax Collections	XX	
2175 Due to Taxpayers—Overpayment		XX

Transfer of Cash to Debt Service Fund

<i>Accounting Entries:</i>	Dr.	Cr.
3913 Transferred to Debt Service Fund	XX	
1110 Cash—Tax Collections		XX

Tax Fund—Maintenance Tax

Explanation. A maintenance tax may be assessed by your district to supplement the revenues of the district’s General Fund. It is levied as part of the ad valorem tax based on values and will be collected in the district’s Tax Fund. Districts which collect their maintenance tax in the General Fund should see page C-9 for the appropriate entries.

Accounting Theory. A maintenance tax is revenue to your district’s General Fund and should not be reported as revenue by the Tax Fund. It should be recorded as payable to the General Fund when collected. Although the costs of assessing and collecting maintenance taxes and penalties and interest on delinquent maintenance taxes should be reported separately from debt service taxes, such amounts are partially offsetting and usually insignificant and are generally not considered in reporting maintenance taxes owed to the General Fund.

Tax Roll Levied

<i>Accounting Entries:</i>	Dr.	Cr.
1150 Tax Accounts Receivable	XX	
2740 Deferred Revenue—Uncollected Taxes		XX

There will also be a related entry to the Maintenance Tax—General Fund.

Assessment of Penalty and Interest

<i>Accounting Entries:</i>		Dr.	Cr.
1152	Tax Account Interest Receivable	XX	
1153	Tax Account Penalties Receivable	XX	
2740	Deferred Revenue—Uncollected Taxes		XX

Collection of Maintenance Tax

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash—Tax Collections	XX	
2740	Deferred Revenue—Uncollected Taxes	XX	
1150	Tax Accounts Receivable		XX
2171	Due to General Fund		XX

All amounts in this entry should be for the amount of maintenance taxes collected. There will also be a related entry to the Maintenance Tax—General Fund.

Transfer to General Fund

<i>Accounting Entries:</i>		Dr.	Cr.
2171	Due to General Fund	XX	
1110	Cash—Tax Collection		XX

There will also be a related entry to the General Fund—Maintenance Tax.

Debt Service Fund—Explanation

Purpose of Fund. The Debt Service Fund was established by your district’s bond orders to accumulate resources for the retirement of your district’s bonded debt. It’s resources are received from transfers from the Tax Fund or General Fund and interest earnings. Your district’s bond orders and/or the Agency may require that interest earnings from other funds be transferred to the Debt Service Fund.

Accounting Theory. According to the modified accrual basis of accounting, principal and interest expenditures should be reported when paid (cash basis). Interest revenues should be reported when earned, and property taxes should be reported when received. In the examples below, we assume that debt service taxes are being collected by the Tax Fund and then transferred to the Debt Service Fund.

Upon consolidation of the Tax Fund into the Debt Service Fund for financial reporting purposes, the revenues recorded in the Tax Fund will be properly reflected in the district’s Debt Service Fund. If no Tax Fund is being used, the debt service tax entries shown in the Tax Fund section should be made in the Debt Service Fund directly, then no transfer of funds would be necessary.

Records of Information Required. Paid bonds and interest coupons, or a cremation certificate according to state law.

Transfer from the Tax Fund

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash—Debt Service	XX	
3952	Transferred from Tax Fund		XX

There will also be a related entry to the Transferred to Debt Service Fund—Tax Fund.

Payment of Debt Due Upon Maturity

<i>Accounting Entries:</i>		Dr.	Cr.
7360	Bond Interest Expense	XX	
7863	Fiscal Agent Fees	XX	
7395	Bond Principal	XX	
1110	Cash—Debt Service		XX

Debt Service Fund—Timing of Bond Payments

Explanation. If your district's bonded debt is due on the date following year end, it may be necessary for your district to pay its principal and interest requirements a few days in advance of the due date. Thus, the payment will occur within one fiscal year when the due date of these payments is within the following year.

Accounting Theory. Once your district transfers its money to its paying agent, it should reduce the cash balance and recognize the payment as an expenditure of the Debt Service Fund. Your district no longer has control over these cash balances and legally these funds are no longer assets of your district. Accordingly, principal and interest paid in one year which is due the following year should be reported as an expenditure in the year paid. Debt service payments are being reported on a cash basis and it's not proper to report the funds as assets on your district's balance sheet after the transfer of the funds to your district's fiscal agent has taken place.

Debt Service Fund—Accrued Interest Received on Bonds at Date of Sale

Explanation. The interest from the date of the bonds up to the date of the sale is collected from the bond purchaser. This amount is remitted to your district since your district will pay the bondholder interest accrued from the date of the bonds.

Accounting Theory. Interest accrued prior to the sale of the bonds is not revenue to your district since it had no cash invested for this period of time. Also, your district should not have interest expense for a period prior to the date of the sale of the bonds. Thus, accrued interest received at the date of the sale of the bonds should be recorded as a liability and offset against interest expense resulting in a net interest expense for your district from the date of the sale of the bonds through the interest coupon maturity date.

Sale of Bonds

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash—Debt Service	XX	
2135	Accrued Interest on Bonds at Date of Sale		XX

The amount of the entry above should be the amount of interest accrued from the date of the bonds through the sale date.

Payment of First Interest Coupon

<i>Accounting Entries:</i>		Dr.	Cr.
2135	Accrued Interest on Bonds at Date of Sale	XX	
7360	Bond Interest Expense	XX	
1110	Cash—Debt Service		XX

The bond interest expense recognized is only for the interest accrued from the sale date through the coupon maturity date.

Debt Service Fund—Bond Interest Reserve

Explanation. Many bond orders provide that funds be set aside sufficient to pay your district's bond interest during a specified period (usually two years). These funds are from the remainder of the bond issue proceeds and are earmarked to pay interest during the required time.

Accounting Theory. The amount specified by your district's bond orders to pay the bond interest during the district's construction period should be deposited in the Debt Service Fund and separately recorded as a bond interest reserve. If your district's bond orders require the bond interest to be paid from this reserve from the date of the bonds, then the full amount of the first interest payment should be charged against this reserve. If the bond orders provide for the bond interest to be paid from the date of the sale of the bonds, then the amount charged to the bond interest reserve should be reduced by the accrued interest received on bonds at the date of the sale. Even though cash may not be physically segregated, it must be available for use exclusively as required under your district's bond orders.

Records or Information Required. Bond order and the related amortization schedule (which relates the amount deposited in the Debt Service Fund to the interest due during the specified period).

Sale of Bonds

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash—Debt Service	XX	
3009	Reserved for Bond Interest During Construction Period, _____ Issue		XX

Payment of Interest from Reserve

<i>Accounting Entries:</i>		Dr.	Cr.
7360	Bond Interest Expense	XX	
3009	Reserved for Bond Interest During Construction Period, _____ Issue	XX	
1110	Cash—Debt Service		XX
3000	Reserved Fund Balance		XX

All amounts in the entry above should be for the interest payment amount.

Debt Service Fund—Special Reserve

Explanation. Bond orders frequently require your district to accumulate cash in a special reserve to be used only if your district is unable to otherwise meet its debt service requirements. Cash for this reserve is generally deposited in the Debt Service Fund without physical segregation of cash. The special reserve usually has one or more of the following characteristics:

1. The amount ultimately required in the reserve is subject to a maximum limit (the following year’s debt service requirement or the average annual debt service requirement).
2. A fixed percentage of the principal and interest requirement is added to the reserve monthly using revenues from the General Fund if available, or tax revenues if the revenues are not adequate.
3. Amounts are to be accumulated in the reserve to the extent that cash in the General Fund exceeds what is needed to pay two months operating expenses.

Accounting Theory. A general ledger account should be established to account for the amount of the Debt Service Fund which has been accumulated to meet the requirements of the special reserve. Amounts transferred to the Debt Service Fund which have been identified as being part of this reserve and other amounts in the Debt Service Fund not necessary to meet current maturities should be transferred to this reserve until your district accumulates adequate resources over time.

Records or Information Required. Your Board’s resolution approving transfers to the Debt Service Fund’s special reserve.

Transfer from General Fund for Special Reserve

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash—Debt Service	XX	
3000	Reserved Fund Balance	XX	
3030	Special Reserve		XX
3951	Transferred from General Fund		XX

All amounts in the previous entry should reflect the amount transferred from the General Fund.

Transfer of Amounts in Debt Service Fund to Special Reserve

<i>Accounting Entries:</i>		Dr.	Cr.
3000	Reserved Fund Balance	XX	
3009	Special Reserve		XX

Capital Projects Fund—Explanation

Purpose of Fund. The Capital Projects Fund’s purpose is to account for the financial resources designated to construct or acquire capital facilities and improvements. Such resources are derived principally from proceeds of the sale of bonds.

Accounting Theory. Implementation of the modified accrual basis of accounting for the Capital Projects Fund does not present any changes in the transactions recorded or the timing of those transactions from those that would be recorded using the full accrual method.

Uses of Proceeds. The cash received from the bond sale must be spent according to the TWC, the applicable bond order, and the applicable engineering estimate as approved by this Agency.

Sale of Bonds

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash—Capital Projects Fund	XX	
3955	Proceeds from Sale of Bonds		XX

Related Entries: Long-Term Debt—Explanation
 Capital Projects Fund—Escrowed Cash
 Debt Service Fund—Accrued Interest
 Received on Bonds at Date of Sale
 Debt Service Fund—Bond Interest Reserve

Payment for Construction Costs

<i>Accounting Entries:</i>		Dr.	Cr.
7300	Capital Outlay, _____ Bond Issue	XX	
1110	Cash—Capital Projects Funds		XX

The total expenditure amount should be recorded as a capital outlay regardless of whether the whole amount will be capitalized in the Capital Asset Register. In this entry, we assume that the district’s construction costs are not reimbursed by a third party. See **Capital Projects Fund—Developer Contributions** on page C-20.

Payment of District Organizational Costs

<i>Accounting Entries:</i>		Dr.	Cr.
7300	Capital Outlay, _____ Bond Issue	XX	
1110	Cash—Capital Projects Funds		XX

As above, the total amount of organizational costs should be recorded as a capital outlay regardless of your district's policy of capitalizing its organizational costs.

There will also be a related entry to the Capital Asset Register.

Capital Projects Fund—Escrowed Cash

Explanation: In connection with the sale of bonds we may require your district to escrow (place in the custody of a third party) a portion of the bond sale proceeds. Also, cash may be escrowed in connection with a joint construction project between two districts. The accounting records of a district should distinguish between funds that are available for expenditure and those held in escrow. Escrowed funds are typically released upon the satisfactory completion of a project or the occurrence of a specified event.

Placement of Funds in Escrow

<i>Accounting Entries:</i>		Dr.	Cr.
1122	Cash in Escrow	XX	
1110	Cash—Capital Projects		XX

If your district's funds are placed in escrow at the same time your district's bond proceeds are received, this entry can be performed with the entry for the receipt of the bond proceeds.

Release of Escrow Funds

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash—Capital Projects	XX	
-OR-			
2130	Construction Contracts Payable	XX	
1122	Cash in Escrow		XX

The appropriate debit will be made depending on whether funds are paid out of the escrow fund or returned to your district's cash account for payment.

Capital Projects Fund—Contract Payable

Explanation: In connection with the construction of facilities, your district is billed monthly for 100% of construction work done, but is required to timely pay for 90% of the work done with the remaining 10% due after completion of the facilities. This 10% portion is your district's retainage.

Accounting Theory: The full cost of construction should be recorded as the work progresses, whether the amount is due now or at a subsequent date. As a practical matter, if the contractor bills through a date subsequent to your district's fiscal year end, it is not necessary to prorate these amounts through year end unless the amounts are unusually large or the period of time is a month or longer.

Construction Invoices Accrued Prior to Payment

Construction Draw Accrued

<i>Accounting Entries:</i>		Dr.	Cr.
7300	Capital Outlay, _____ Bond Issue	XX	
2130	Construction Contracts Payable		XX
2140	Construction Contracts Payable, Retained Percentage		XX

Construction Draw Paid

<i>Accounting Entries:</i>		Dr.	Cr.
2130	Construction Contracts Payable	XX	
1110	Cash—Capital Projects Fund		XX

Construction Invoice Not Accrued Prior to Payment

Construction Draw Paid

<i>Accounting Entries:</i>		Dr.	Cr.
7300	Capital Outlay, _____ Bond Issue	XX	
1110	Cash—Capital Projects Fund		XX
2140	Construction Contracts Payable, Retained Percentage		XX

Both Scenarios

Payment of Construction Retainage

<i>Accounting Entries:</i>		Dr.	Cr.
2140	Construction Contracts Payable, Retained Percentage	XX	
1110	Cash—Capital Projects Fund		XX

Capital Projects Payable—Bond Anticipation Notes Payable

Explanation. Bond anticipation notes payable may be issued for any purpose for which bonds were previously voted or issued to refund previously issued bond anticipation notes. Your district may agree with the purchaser of the note that your district will use the proceeds of any sale of bonds to retire these notes. The rates and terms are prescribed by state law.

Accounting Theory. Bond anticipation notes should only be recorded as a liability of the Capital Projects Fund if your district has not taken all legal steps necessary to refinance the bond anticipation notes or if your district does not have the ability or intent to refinance the note on a long-term basis. If legal steps have been taken and the ability and intent of your district is present, the bond anticipation notes should be recorded as liabilities.

Records or Information Required. Copy of bond anticipation note and receipt of funds.

Proceeds of Notes

<i>Accounting Entries:</i>	Dr.	Cr.
1110 Cash—Capital Projects Fund	XX	
2150 Bond Anticipation Notes Payable	XX	XX

Accrual of Interest

<i>Accounting Entries:</i>	Dr.	Cr.
7362 Interest Expense on Notes	XX	
2119 Accrual Interest Payable		XX

Interest should be recorded on the accrual basis of accounting.

Payoff of Note

<i>Accounting Entries:</i>	Dr.	Cr.
2119 Accrued Interest Payable	XX	
2150 Bond Anticipation Notes Payable	XX	
1110 Cash—Capital Projects Fund		XX

Capital Projects Fund—Developer Contributions

Explanation. Most developers must contribute an amount generally equal to 30% of the cost of your district’s drainage, water lines, wastewater lines, and related engineering costs as a condition for the Agency’s approval of bonds. In some cases, the developer may advance funds on behalf of your district and accept reimbursement net of the portion of the cost to be paid by the developer. In other cases your district will pay all costs and bill the developer for his part. The developer and your district may also pay their respective parts directly to the contractor and/or engineer (Rule 293.47).

Accounting Theory. Only expenditures made by your district should be recorded as capital outlay in your district’s records. Construction and other costs paid directly by another party are not expenditures of your district, although they may be recorded as capital assets. Reimbursements to your district by the developer should be recorded as developer contributions and should not be recorded as a credit to the asset cost.

Receivable from Developer. Developer contributions should be accrued as the related construction costs are incurred by your district, including the retainage portion. The exclusion of a developer receivable understates your district’s remaining resources. Since your district does not bill the developer until payment is due by your district, we recommend the amounts due currently and those deferred be charged to separate accounts.

Records or Information Required.

1. Invoices approved by your district’s engineer specify the part to be paid by the developer and your district.
2. Engineering estimate specifies the costs to be shared by the developer.

Construction Costs Paid Directly by the Developer to the Contractor

Reimbursement Paid to Developer by District

<i>Accounting Entries:</i>	Dr.	Cr.
7300 Capital Outlay, _____ Bond Issue	XX	
1110 Cash—Capital Projects Fund		XX

Only expenditures of your district should be classified as capital outlay. No Capital Projects Fund entry is necessary when nonreimbursable construction is performed by the developer. See **Capital Assets—Explanation** section on page C-27 for the appropriate entries.

Construction Costs Paid Directly by District

Accrual of Developer Contribution

<i>Accounting Entries:</i>	Dr.	Cr.
1177 Due from Developer—Currently Due	XX	
1178 Due from Developer—Deferred (Retainage)	XX	
3956 Developer Contributions		XX

The entry above should be performed with the recognition of capital outlay costs. See **Capital Projects Fund—Explanation** on page C-17 and **Capital Projects Fund—Contract Payable** on page C-18.

Receipt of Cash from Developer

<i>Accounting Entries:</i>	Dr.	Cr.
1110 Cash	XX	
1177 Due from Developer—Currently Due		XX

Capital Projects Fund—Interest Earnings

Explanation. The disposition of interest received by the Capital Projects Fund is governed by state law and your district’s bond orders. Transfer of interest on Agency approved bonds to another fund may require application to and approval by the Agency under Rule 293.83–293.85.

Interest Accrued

<i>Accounting Entries:</i>	Dr.	Cr.
1158 Accrued Investment Interest Receivable	XX	
2740 Interest on Temporary Investments		XX

Interest Received

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash—Capital Projects Fund	XX	
1158	Accrued Investment Interest Receivable		XX

Transfer to Debt Service Fund Upon Agency Approval

<i>Accounting Entries:</i>		Dr.	Cr.
3913	Transferred to Debt Service Fund	XX	
1110	Cash—Capital Projects Fund		XX

Capital Projects and General Funds—Sale of Capital Assets

Accounting Theory. The proceeds from the sale of capital assets should be deposited into your district's Capital Projects Fund and used to complete construction projects. If it is not necessary to use these proceeds to complete your district's construction projects, the proceeds may be deposited into the General Fund and used for operating expenses.

Capital Projects Fund

Proceeds from Sale of Capital Assets

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash—Capital Projects Fund	XX	
3960	Sale of Capital Assets		XX

There will also be a related entry to the Sale or Replacement of Capital Assets—Capital Assets.

General Fund

Proceeds from Sale of Capital Assets

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash	XX	
3960	Sale of Capital Assets		XX

There will also be a related entry to the Sale or Replacement of Capital Assets—Capital Assets.

Capital Projects Fund—Costs to be Reimbursed from Future Bond Sales

Accounting Theory. Costs to be reimbursed to attorneys, engineers, developers, and contractors from future bond sales, should be recorded unless the contract or agreement between the parties specifies that reimbursement is due only upon the sale of bonds.

Liabilities which are due only upon the occurrence of a particular event are called *contingent liabilities*. Although these liabilities are not recorded,

documentation must be kept on these items for audit purposes and for proper recording upon the occurrence of the contingent event.

All Funds—Closing Entries

To facilitate the performance of the audit, your district's auditor will prefer that revenue, expense, and fund balance transactions not be closed to the balance sheet accounts prior to the audit. Before posting any transactions in the following fiscal year, these accounts must be closed to the appropriate fund balance accounts. After closing and any adjusting entries have been posted, the balance sheet accounts should be reconciled to the audit report.

In a manual system, closing entries can be provided by your district's auditor. The workpaper package provided when each audit is completed should include all appropriate journal entries to close and adjust applicable balances, so that your district's records will agree with its audited financial statements.

If a computerized system is used, it may not be possible to make adjustments to the records of the fiscal year under audit until the audit is completed. Then your bookkeeper must make corrections to the records in the following fiscal year's records.

All Funds—Interfund Loans and Transfers

Accounting Theory. Cash moved between funds and expenses paid by one fund for another fund should be reported as interfund loans (reimbursable) if:

1. There is intent to repay the amount, and such intent is documented by minutes or subsequent repayment.
- AND-
2. The debtor fund has, or is likely to have, adequate resources to repay the amount within a reasonable time period.

Cash moved to or expenses paid for another fund which do not meet these criteria should be reported as an interfund transfer.

If the transaction qualifies as a loan, it should be shown as a receivable and payable on the balance sheet if it is outstanding at year end, and would not affect the fund balance of either fund.

If the transaction is reported as an interfund transfer, the fund balances of the funds are affected and no amounts are reported in the balance sheet. If subsequent repayment is made, it is reported as a contra-transfer.

When one fund pays an expense which should be paid by another fund, the transaction should be reported as an interfund transfer or loan so that the expense can be reported in the proper fund.

If the Debt Service or Tax Fund loans money to another fund, then the bond order provisions (requiring that tax collections be used only for debt service

and expenses of collection) have been violated. Whether the loan is repaid within the fiscal year is not relevant.

If the Debt Service or Tax Fund receives money from another fund and then it repays that loan, the bond order provisions have not been violated.

Records or Information Required:

1. Bond Order
2. Documentation of your Board’s position on loan repayment

General Fund Entry:

Payment Made for Another Fund—Repayment Not Anticipated

<i>Accounting Entries:</i>	Dr.	Cr.
3913 Transferred to Debt Service Fund	XX	
1110 Cash		XX

Debt Service Fund Entry:

Payment Made for Another Fund—Repayment Not Anticipated

<i>Accounting Entries:</i>	Dr.	Cr.
3913 Bond Interest Expense	XX	
7395 Bond Principal	XX	
3951 Transferred from General Fund		XX

The following entries would be made if the General Fund were to pay the bond payment for the Debt Service Fund with no repayment to be made by the Debt Service Fund.

Capital Projects Fund Entry:

Transfer of Funds—Repayment Not Anticipated

<i>Accounting Entries:</i>	Dr.	Cr.
3913 Transferred to Debt Service Fund	XX	
1110 Cash—Capital Projects		XX

Debt Service Fund Entry:

Transfer of Funds—Repayment Not Anticipated

<i>Accounting Entries:</i>	Dr.	Cr.
1110 Cash—Debt Service	XX	
3954 Transferred from Capital Projects Fund		XX

These entries would be made when Capital Projects Fund surplus funds are transferred to the Debt Service Fund after obtaining Agency approval.

General Fund Entry:

Interfund Loan—Repayment Anticipated—Loan Originated		
Accounting Entries:	Dr.	Cr.
1173 Due from Debt Service Fund	XX	
1110 Cash		XX

Debt Service Fund Entry:

Interfund Loan—Repayment Anticipated—Loan Originated		
Accounting Entries:	Dr.	Cr.
1100 Cash—Debt Service	XX	
2171 Due to General Fund		XX

General Fund Entry:

Interfund Loan—Repayment Anticipated—Loan Repaid		
Accounting Entries:	Dr.	Cr.
1110 Cash	XX	
1173 Due from Debt Service Fund		XX

Debt Service Fund Entry:

Interfund Loan—Repayment Anticipated—Loan Repaid		
Accounting Entries:	Dr.	Cr.
2171 Due to General Fund	XX	
1100 Cash—Debt Service		XX

All Funds—Accounts Payable

Explanation. In this section, we assume that your district does not normally use accounts payable but it records its purchases on a cash basis and makes its adjustments to accrue accounts at year end to bring the records into conformity with the modified accrual basis. Thus, accounts payable would represent the accrued liability for goods or services received during the year for which payment has not been made as of the end of an accounting period. This would include amounts not billed to your district on a timely basis.

Accounting Theory. To be on a modified accrual basis, your district must record all expenses incurred by your district through the district's fiscal year end. Your district's bookkeeper should search your district's records subsequent to year end to determine that all significant expense expenditures have been recorded and to make specific inquiries on work done or services rendered to your district through the end of the fiscal year (legal fees, operating fees) which have not been billed timely to your district.

The most practical way for a district to record its accounts payable will be by utilizing the *make and reverse principle*. Under this principle, the district's accounts payable would be recorded by debiting the district's expenditure account and crediting the accounts payable at the district's fiscal year end for

the current period. In the following fiscal year, this entry is reversed (the accounts payable is debited and the expenditure account is credited).

Upon payment, the same expenditure account should be debited for the disbursement amount. The debit to the expenditure account from cash disbursements is offset by the credit made when reversing accounts payable, leaving only the original debit to expense made from the first entry in the proper fiscal year's records.

Accrual of Accounts Payable at the End of the Fiscal Year

<i>Accounting Entries:</i>	Dr.	Cr.
6320 Legal Fees	XX	
2110 Trade Accounts Payable		XX

In the above General Fund example, legal fees incurred by your district in the fiscal year have not been paid at fiscal year end. It is not relevant whether the legal fees were billed by the fiscal year end date. The date that the charges were incurred determines whether the changes relate to the current fiscal year or a subsequent fiscal year.

Reversal of the Accrual Entry at the Beginning of the Subsequent Year

<i>Accounting Entries:</i>	Dr.	Cr.
2110 Trade Accounts Payable	XX	
6320 Legal Fees		XX

Upon Payment of the Charges

<i>Accounting Entries:</i>	Dr.	Cr.
6320 Legal Fees	XX	
1110 Cash		XX

The net effect of the entries above is to record an expenditure in the earlier fiscal year to reflect when the charges were actually incurred. This method can be used for the other funds by using the appropriate accounts.

Long-Term Debt—Explanation

Purpose of Fund. This fund is established to report the principal amount of your district's general obligation debt due in future years.

Bonds Sold

<i>Accounting Entries:</i>	Dr.	Cr.
1500 To Be Provided for Bonded Debt	XX	
2510 Bonds Payable, Series _____		XX

The entry should reflect the total principal amount of bonds issued. Discounts and/or premiums should not be considered in this entry.

Related Entries: Capital Projects Fund—Explanation
 Capital Projects Fund—Escrowed Cash
 Debt Service Fund—Accrued Interest
 Received on Bonds at Date of Sale
 Debt Service Fund—Bond interest Reserve

Bonds Paid

<i>Accounting Entries:</i>		Dr.	Cr.
2510	Bonds Payable, Series _____	XX	
2511	Bonds Payable, Series _____	XX	
1500	To Be Provided for Bonded Debt		XX

Amounts in the entry above should reflect only the principal amounts paid.

There will also be a related entry to the Debt Service Fund—Explanation.

Capital Assets—Explanation

Purpose. Capital Assets account for your district’s facilities (whether located inside or outside of your district’s boundaries), including tangible costs (water, wastewater, and drainage systems) and intangible costs (the district’s organizational costs).

Accounting Theory. All costs related to your district’s organization, the sale of bonds or the construction of district-owned facilities should be capitalized. Legal fees should be capitalized only if they meet these criteria. The construction period is usually one year from the date of the sale of bonds, but it may be substantially shorter or longer. The costs of your district’s facilities should be capitalized as they are incurred. Even the cost of incomplete facilities (construction in progress) should be capitalized when incurred. An appropriate designation should be made in the fund equity section of Capital Assets to facilitate the tracking of resources for the purchase of capital assets (bond proceeds/system revenues).

Physical plant (tangible costs) includes land; buildings; equipment; water, wastewater, and drainage facilities; and related engineering costs. These accounts represent direct construction costs of the district’s facilities.

If the district’s facilities are jointly owned by two or more districts, you would record only the part owned by the your district as an asset on your district’s books. If your district’s plant capacity is merely being leased to another district, the full cost of the facilities would be recorded as an asset of the your district.

Your district may be required to capitalize the cost of acquiring capacity in another district’s facilities for a specified term. The cost to be capitalized would exclude any amounts paid for operating expenses. The specific terms of your district’s lease will determine whether capitalization is necessary.

District organizational costs (intangible costs) are the costs of organizing a district, selling its bonds, and financing construction of your district's assets. Organizational costs include bond interest, legal fees, election costs, and interest paid to developer.

Interest expense and earnings (related to the applicable bond sale proceeds) are capitalized until substantial completion of facilities to reflect the net financing cost of your district's facilities in its capital assets.

Your district's organizational costs should be recorded as a capital outlay in the Capital Projects Fund at the same time it is recorded as an asset of your district in Capital Assets.

Records or Information Required.

1. Construction in progress list or ledger
2. Capital asset list or ledger

Organizational Costs Incurred by District

<i>Accounting Entries:</i>	Dr.	Cr.
1401 Organizational Costs—Legal Fees	XX	
1413 Organizational Costs—Election Costs	XX	
1415 Organizational Costs—Other	XX	
3010* Investment in Capital Assets—From Sale of Bonds		XX
3011* Investment in Capital Assets—Contributed by		XX

* An account for the credit portion of this entry to indicate the fund source used acquire the capital asset in the debit portion of this entry. See the Sample Chart of Accounts located in **Appendix B** for a list of the organizational cost and investment in Capital Assets.

Bond Interest and Investment Interest Capitalization

<i>Accounting Entries:</i>	Dr.	Cr.
1403 Organizational Costs—Bond Interest	XX	
1411 Organizational Costs—Interest on Temporary Investments	XX	
3010 Investment in Capital Assets—From Sale of Bonds		XX
4320 Property Taxes		XX

Account #1403 should be debited for interest on bonds (and other related debt) up to the time that the facilities financed by the bonds are substantially complete. Interest revenues related to bond proceeds during the same period should be reflected in Account #1411 on this entry.

Construction in Progress Account Not Used

Facility of System Completed—Not Previously Construction in Progress

<i>Accounting Entries:</i>		Dr.	Cr.
1312	Water System	XX	
1313	Sewer System	XX	
1314	Drainage System	XX	
3010	Investment in Capital Assets—From Sale of Bonds		XX

All of the accounts listed above will vary according the type of facilities and the source of funds used to acquire the assets.

Construction in Progress Account Used

Construction in Progress Incurred by District

<i>Accounting Entries:</i>		Dr.	Cr.
1351	Construction in Progress, _____ Bond Issue	XX	
3010	Investment in Capital Assets—From Sale of Bonds		XX

The credit portion of this entry will vary depending upon the source of funds used to finance the construction.

Facility of System Completed—Previously Construction in Progress

<i>Accounting Entries:</i>		Dr.	Cr.
1312	Water System	XX	
1313	Sewer System	XX	
1314	Drainage System	XX	
1351	Construction in Progress, _____ Bond Issue		XX
3010	Investment in Capital Assets—From Sale of Bonds		XX

The accounts debited in this entry will vary according to the type of facilities constructed. All Construction in Progress amounts related to the facilities completed and reflected in the debit portion of this entry should be closed out with a credit to Construction in Progress. The account used for the investment in Capital Assets will vary depending upon the source of funds used to finance the facilities. The credit to investment in Capital Assets should reflect only those amounts which were not previously recorded in the Construction in Progress account.

Sale of Capital Assets

<i>Accounting Entries:</i>		Dr.	Cr.
3010	Investment in Capital Assets—From Sale of Bonds	XX	
1312	Water System		XX

Amounts in this entry should reflect the original cost of the asset sold as recorded in your district's Capital Assets. The account used for investment in Capital Assets will depend upon the source of funds used to finance the original purchase of the asset being sold.

Capital Assets—Tap Installations

Accounting Theory. Tap installations (**General Fund—Tap Installations and Sewer Inspection Fees** on page C-5) are part of your district’s distribution system and may be capitalized in Capital Assets if the cost of the tap exceeds your district’s materiality measure. Since your customer pays a fee for this installation which is reported as a revenue in the General Fund, such assets are shown as being provided by net system revenues.

The cost of tap installations is generally not allocated on the invoice between the water and sewer tap. This cost can be allocated based upon your operator’s estimate.

Tap Installations Capitalized Paid by General Fund

<i>Accounting Entries:</i>		Dr.	Cr.
1312	Water System	XX	
1313	Sewage System	XX	
3001	Investment in Capital Assets—From Net System		XX

Tap Installations Capitalized Paid Direct to Operator by Customer

<i>Accounting Entries:</i>		Dr.	Cr.
1312	Water System	XX	
1313	Sewage System	XX	
3001	Investment in Capital Assets—From Net System		XX

Tap Installations Capitalized Paid with Bond Monies

<i>Accounting Entries:</i>		Dr.	Cr.
1312	Water System	XX	
1313	Sewage System	XX	
3010	Investment in Capital Assets—From Sale of Bonds		XX

There will also be a related entry to the Tap Installations—Capital Projects Fund.

Tap Installations Capitalized Donated by Developer

<i>Accounting Entries:</i>		Dr.	Cr.
1312	Water System	XX	
1313	Sewage System	XX	
3011	Investment in Capital Assets—Contributed by		XX

Appendix D: District Records

Due to the segmented nature of a district's activities, no one individual maintains all the required records and information. As a guide, the following list of records for your Board's review has been divided according to the individuals responsible for originating or maintaining these records. Each district should establish clear lines of responsibility for these records according to its own particular situation. We recommend that these responsibilities be added to your district's Manual to document your district's unique procedural, administrative, and accounting practices (Refer to the **District Manual** section in the General Financial Guidance Chapter on page 1-18).

The Bookkeeper

Primary Accounting Records

- 1. General Ledger.** Should be segregated into funds and coded according to your district's Chart of Accounts (**Appendix B**).
- 2. Cash Receipts Journal.** All resources should be classified in this journal according to your district's Chart of Accounts.
- 3. Cash Disbursements Journal.** All expenditures should be classified in this journal according to your district's Chart of Accounts.
- 4. General Journal or Journal Vouchers.** All journal entries should be adequately explained and approved by a designated person and referenced in the General Ledger. Appropriate supporting documentation should be provided and filed in the same sequence as the entries are recorded. If journal vouchers are used, they should be numbered and filed numerically.
- 5. Cash Receipts Documentation.** Your district's bookkeeper should maintain all documentation on cash receipts.
- 6. Cash Disbursements Documentation.** Your district should maintain copies of its checks or check register stubs in numerical order. Expenditure information (invoice numbers and a brief explanation of the transaction) should be entered on the check copy or check register stub. Vendor payments should be made from original invoices. Original invoices should be verified for accuracy and signed. All paid invoices should be canceled by showing date paid and check number, and should be filed in an orderly fashion. Invoices and other documentation supporting all expenditures should be maintained in either numerical or alphabetical order and coded using your district's Chart of Accounts. Your district should maintain paid bonds and bond coupons and cremation certificates on bonds and coupons.

7. Accounts Receivable Subledger. A detailed subsidiary record should be maintained if multiple customers are included in one General Ledger account and the subsidiary records should be in agreement with the General Ledger. These records do not need to duplicate the subsidiary records maintained by others (billing agent or tax assessor-collector).

8. Current Investment Journal. A schedule showing all transactions by fund should be provided. Copies of certificates of deposit and savings account statements should be maintained.

9. Accounts Payable Subledger. A subledger is needed if multiple vendors are included in one General Ledger account and the subledger should be agree with the General Ledger.

10. Security Ledger. A ledger showing all securities pledged and released by financial institutions. Copies of safekeeping receipts and related documents should be maintained.

11. Capital Asset Register - A detailed list of each infrastructure and other capital asset purchased/constructed by the district including: a description, identification number, the 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 (**Appendix A**).

12. Reconciled Monthly Bank Statements. All accounts should be reconciled monthly and reconciliations should be retained. Reconciled bank statements should be dated, signed, and include outstanding checks and deposits in transit. Separate bank statement folders should be maintained for each account.

13. Check Register. Should be reconciled monthly to your district's bank statement.

14. Deposit Documentation. The district's bookkeeper should maintain the deposit slips and all applicable documentation on the district's deposits.

Other Special Journals and Records

1. Payroll Journal. If your district has several employees this journal may include each employee's name, social security number, classification, exemptions and/or deductions, and net pay.

2. Purchase Journal. If your district has a large number of monthly purchases, this journal may be necessary as an internal control for all purchases. Purchase orders may be issued on all purchases over a certain amount and should be prenumbered and have specific approvals.

3. Investment Records. This record would contain any backup paperwork (safekeeping receipts for certificates of deposits).

4. Operator Reports. Your district can use these reports for posting to your district's General Ledger.

5. Tax Collector Reports. Your district can use these reports for posting to the General Ledger.

6. Bookkeeping Reports. These reports would be submitted to your district's Board each month.

7. Audits. Copies should be kept to cross-reference the current fiscal year with prior years.

8. Bond Sale Records. Records on your district's bond sales, official statements, amortization schedules, and documentation for all bond sale disbursements.

9. Legal Contracts. This record would contain all contracts with other governmental units. Escrow agreements and releases should be reviewed for proper accounting.

10. Minutes. The district's board meeting minutes should be reviewed to make certain that any special directions are followed.

11. Inspection of Facilities Report. This record should contain the facility inspections performed by your district's engineer.

12. Bond Amortization Schedules. The district's fiscal agent will supply this schedule for each bond issue.

13. Source Documents. This record would contain any backup paper work not accounted for in another journal or record set.

Operator/Billing Agent

Tap Journal

Records should be maintained so the tap fees collected can be identified with the taps installed. The journal should include:

- Date cash received for the tap
- Name of person or company ordering the tap
- Service address and legal description on the tap's location
- Date the tap was installed
- Serial number of the meter installed
- Account number assigned to the service address
- Date the tap installation's cost was billed to the district
- The receipt number and amount received for the tap installation
- Date the related sewer inspection was performed, if applicable

Monthly Billing Records

Monthly billing records should include:

- Monthly current billing and cash receipts
 - Identified as water, sewer, penalty, surcharge, application fee, garbage, customer deposits, etc.
 - Standby Billings (identified by current billing and any penalty and interest)
 - Builder Damages [Keep a separate record of any damages, including the date of damage, the person responsible (if known), the cost of the repairs, and the date of billing if your district is experiencing an active building program]
- Monthly Billing Adjustment Register
 - Authorized approval (general manager)
 - Detail on the returned checks
- Accounts Receivable Ledger identified by customer
- Monthly billed water usage in gallons
- Cash receipts listing of customer payments
- Number of customers in district
- Operator Reports (submitted to your Board by the district's bookkeeper)

Rate Order

The date your Board adopted the rate order and the effective date should be noted.

Map of District

A map with all lots marked by account number to facilitate meter reading. The map could be an electronic scaled diagram that would show all above-ground and below-ground system components (property lines, streams, pipelines, tanks). The distribution and collection lines would be shown by size and location. A facilities map could be the base for your district's inventory of its system infrastructure assets by adding information on each asset's cost and installation date (see **Facilities Map** on page 2-16 of this *Guide's* Chapter on Accounting Guidance).

Meter Books

Books with meter reading sheets for your district's customers should be maintained.

Security Deposit Record

Record all deposits by customer and detail the legal description or service address, date of receipt, and the amount of each deposit. The overall deposit total should be maintained. Your bookkeeper should ensure that the total agrees with the General Ledger.

Tax Collector

Tax Rolls

Your district should maintain the original tax roll for each year the district levied a tax.

Delinquent Rolls

Your district should also maintain a roll showing all outstanding taxes by year, as of the fiscal year end.

Tax Receipts

Paid receipts should be grouped by deposit date.

Deposit Slips

Copy of the deposit slip should be attached to appropriate group of receipts.

Monthly Tax Reports

Are furnished to the bookkeeper with the necessary information to properly record the district's assessments and collections. The information on the report should separately indicate the following for an operations and maintenance tax and a debt service tax:

- All cash receipts, assessments, and collections
- Taxes receivable reported by years and all changes shown
- Collections should agree with cash receipts

Attorney

May maintain the following records depending on your district's needs:

Minutes

As approved by your Board

Bond Orders

Rate Orders

Board Member Information

Include terms and addresses

Fidelity Bond Coverage

Directors, bookkeepers and tax assessors

Construction Contracts

Order Establishing New Depositories

Grant Applications

(unless provided by the engineer to the bookkeeper)

Developer Contributions

Include Agency order and agreement with developer.

Engineer's Inspection of Facilities

Notes

Paid notes and copies of unpaid notes.

Escrow Agreements

Include Agency agreement, other contractual agreements, escrow agreement with bank, and the release of escrowed funds.

Insurance Policies

Physical damage and general liability.

Certificates of Insurance

Deeds for Land Acquired

Any Other Contracts

Not cited above

Engineer

May maintain your district's infrastructure maps and records.

Investment Officer

Investment Reports. Written reports are required by the Public Funds Investment Act to be provided by your district's investment officer (Government Code Chapter 2256, Subchapter A).

Appendix E: District Reports

Tax Assessor/Collector's Report

The purpose of the tax assessor/collector's report is to furnish your district's bookkeeper with the information required to properly book the district's tax assessments and collections. The information contained in the report should reflect all of the transactions through the last day of the district's accounting period, including:

- ***Cash Receipts and Disbursements.*** All cash transactions should be reported and reconciled with the beginning and ending cash balances.
- ***Taxes Receivable.*** This section shows the delinquent taxes receivable at the beginning of the tax year, plus the current year tax roll, plus or minus any adjustments to taxes during the fiscal year, less all tax collections during your district's fiscal year. Taxes receivable should be reported by year and all changes should be shown. Collections should agree with the collections in the cash receipts and disbursements section of the report.
- ***Overpayments.*** The balance due to taxpayers at the beginning of the period should agree with the audit report. The balance due to the taxpayers should reconcile with the difference between overpayments collected and overpayments refunded. The collection and refund of overpayments should agree with the amounts in the cash receipts and disbursements section of the report.
- ***Adjustments.*** All tax adjustments made after the board of equalization's approval of the tax roll should be reported for the current tax year and all prior years. It is necessary to include the adjustments page only when a change is made.
- ***Bank Reconciliation.*** The bank statement's balance should be reconciled to the tax assessor-collector's report cash balance each month.
- ***Accounts Payable.*** A list of all accounts payable for goods or services received during the year for which payment has not been made at fiscal year end should be furnished to the district's bookkeeper, including unbilled charges such as tax assessor fees and legal fees.

Tax Assessor Collector—Minimum Record Requirements

Board Folder

- ***Reports to the Board.*** This folder should include all reports to your Board during the fiscal year
- ***Tax Assessor's Contract***

- *Appraisal District's Approval of Original Roll*
- *Penalty and Interest Rates*
- *Tax Assessor's Bond*

Tax Rolls and Receipts

- *Original Roll.* The original tax roll for each year your district levied taxes
- *Delinquent Roll.* A roll showing all outstanding taxes by year as of the fiscal year end date
- *Tax Receipts.* Paid receipts grouped by the date of deposit
- *Deposit Slips.* Copy of the deposit slip should be attached to appropriate group of receipts

Bank Statement Folder

- *Bank Statements.* Bank statements for all accounts maintained during the year
- *Bank Reconciliation.* Monthly reconciliations for each bank account

Tax Assessor/Collector's Report

Revenues and expenses coded using the district's Chart of Accounts

Operator/Billing Agent's Report

The purpose of the operating report is to furnish the district's bookkeeper with the information required to properly record the district's water and sewer revenue transactions. The following list was not designed for an operator that pays the district's operating expenses and maintains the district's General Ledger. This list can be modified to accommodate your district's needs.

The responsibilities for your district's water and sewer billings may be divided into two separate functions: operating and billing. The work may be done by one or two companies. The explanations that follow are based on the assumption that two companies are involved and the district's records are computerized.

Typically, your district's operator manages the physical operations of the district's water and sewer system, installs the taps, reads the meters, and maintains records on the taps installed. The operator or billing agent may collect and deposit the tap fees.

The billing agent will send a monthly bill to your district's customers based on information furnished by the operator. He will also collect payments from customers; follow up collection of delinquent accounts; collect and refund

deposits; report billing and statistical information to the Board; and maintain all applicable accounting records. He may also maintain an interim cash account or he can directly deposit to an account maintained by the district's bookkeeper. The Operator's Report may contain:

- ***Accounts Receivable Analysis.*** The information needed for the preparation of the accounts receivable analysis section comes directly from the billings recap. Significant or unusual billing adjustments should be explained to your Board.
- ***Collection Analysis.*** The billing agent needs to report to the district's bookkeeper all deposits that have been made by the billing agent. All items that are not included in the billing run would be shown as a separate line item. To reconcile the total amount deposited by the billing agent (for the calendar month which includes all deposits made during the month, whether or not they cleared the bank), the following items must be considered:
 1. Add returned checks that have been redeposited and identified separately.
 2. Accounts receivable collections that were received after the date of the billing run, but prior to the end of the month, need to be added.
 3. Accounts receivable collections that were received after the date of the prior billing run, but before the end of the preceding month, need to be subtracted.
 4. In following months, consideration No. 2 above would become consideration No. 3.
- ***Tap and Customer Information.*** Taps installed and taps collected should be furnished through the month end. Meters installed should include only those meters that were installed before the meter reading date. All double taps should be counted as two installations.

At the end of the fiscal year, the meters installed should be updated through the end of the month. The difference between the taps collected and installed and the meters installed should agree with the lists furnished to the bookkeeper by the district's operator. The number of customers billed for service should be reconciled each month with the number of meters installed. The number of customers billed should account for each address only once (exclude double billings for transfers). Add customers for which a meter has been installed, but not billed during the month (vacant houses and meters installed during the month that were not billed for service until the following month).

- **Customer Deposits.** The customer deposit section is a recap of customer deposit transactions for the month. The adjustments line on the report should include billing corrections which directly reduce the receivables from customers. Whenever a deposit is offset against a final bill, a check should be issued to the customer for any remaining excess and a check should be written to the district for the amount of the final bill and treated as a collection by your district. When the receivable is equal to or greater than the deposit, a check should be written only to the district and the district should pursue its former customer to collect any outstanding amounts.
- **Bank Reconciliation and Proof of Cash.** When the billing agent maintains an interim bank account, a bank reconciliation and proof of cash are necessary for your bookkeeper to properly record all transactions of the interim account.

The purpose of the proof of cash section is to reconcile the total deposits reflected on the bank statement to the collections report. It is also used to reconcile the disbursements per the interim account's bank statement to the transfers to the operating account maintained by the bookkeeper. Without this information, your bookkeeper cannot properly record cash and revenues. Deposits in transit and outstanding checks should be taken from the current and prior month's reconciliation.

- **Returned Checks.** The billing agent should furnish a list to the bookkeeper of all returned checks on and at the end of the month. This list will enable your bookkeeper to reconcile the amount of returned checks booked in the General Ledger.
- **Allowance for Doubtful Accounts.** At the end of your district's fiscal year, the billing agent should furnish a list to your bookkeeper on the accounts for which collection is considered doubtful. This list will help your bookkeeper to determine whether and for what amount an allowance should be established.

Operator—Minimum Record Requirements

Tap Log

Review the section on **Tap and Customer Information** on the preceding page for more details. The tap log should contain:

- The date the cash was received for the tap
- The name of the person or company ordering the tap
- The service address and legal description of where the tap is to be installed
- The date the tap was installed
- The serial number of the meter installed on the tap

- The billing account number assigned to that address
- The date the cost of the tap installation was billed to the district
- The receipt number and amount received for the tap installation
- The date the sewer inspection was performed

Meter Books

The meter books should contain information on all of your district's customers. After the operator has completed the meter readings, the books should be returned to the billing agent.

Damage Claims

- Invoices and supporting documentation on damages to the district's system by contractors.
- If your Board has designated the operator to collect its billings, a subledger on damage claim billings and collections should be maintained.

Other

- District Map—All lots marked by account number will help your operator read the meters.
- Tap Installation Work Order—Work order showing where a tap is to be installed, who ordered the tap, when the tap fee was received, the receipt number, and the amount received.

Information to be Furnished to the Billing Agent

- Tap and meter information each month, including:
 - Number of taps installed
 - Number of tap fees collected
 - Number of meters installed prior to the meter reading date
- Meter books
- Damage claim invoices and collection information

Information to be Furnished to Bookkeeper

- At year end:
 - List by address of the taps installed, not collected (double taps).
 - List by address of the taps collected pending installation by your district.
 - List by address of the taps installed where no meter has yet been installed.
- Damage claim invoices and collection information if these amounts are to be billed and collected by the bookkeeper.

Billing Agent—Minimum Record Requirements

Board Folder

- ***Rate Orders.*** All rate orders that were in effect during the year
- ***Report to the Board.*** All reports to the Board during the fiscal year

Meter Books

- ***Active Customers.*** All meter reading sheets for active account customers.
- ***Standby Customers.*** All customers being billed Standby Fees, listed by lot.

Billing Ledger or Workbook

Water and Sewer Billings including:

- ***Recap of Billings.*** Categorical breakdown of billings and collections for the month, including the beginning and ending receivable and an aged analysis of the ending receivable.
- ***Listing of Accounts Receivable.*** All receivables by customer account numbers, including service address, customer name, billing address, and total amount receivable.
- ***Adjustment Information.*** Recap of all adjustments to the accounts receivable, including an explanation for each adjustment.
- ***Meter Reading Information.*** List of unusually high or low usage readings, reverse readings, and other adjustments in meter readings which are used to determine the proper usage billing to a customer. Any change made to the meter readings should be fully explained.
- ***Security Deposits.*** List of the security deposits on hand by each customer, including the total customer deposits retained by your district.
- ***Statistical Information.*** Recap of the number of customers within the district, both billed and nonbilled (active and inactive connections) and the number of gallons billed. Reconciliation of the customers billed to the meters installed.

Bank Statement Folder

To be maintained when the billing agent maintains your district's bank accounts:

- ***Bank Statements.*** Bank statements for all accounts maintained during the fiscal year.
- ***Bank Reconciliations.*** Monthly reconciliations for each bank account.

Billing Envelope

- *Deposit Slips.* All deposit slips for each month.
- *Stubs.* All payment stubs for water and sewer billing relating to the deposit slips. A tape of the stubs should be attached to each billing group to reconcile to the deposit slips.

Damage Claims

- *Invoices.* Include supporting documentation.
- When damage claims are not included in billings and the billing agent is responsible for maintaining the information:
 - Subledger records on damage claim billings and collections.
 - Damage claim billing and collection totals should be furnished to the bookkeeper each month.

Information to be Furnished to Bookkeeper

- *Monthly Report.* Report with applicable attachments
- OR -
- *Annual Report.* The General Fund (if applicable) revenues and expenditures are recorded and reported by the billing agent.
- *Damage Claim Information.* If it has been excluded from any of the reports listed above.

Standby Fees

Contains the following records if they are not included in the normal billing cycle (Refer to **Billing Ledger or Workbook** on the preceding page):

- *Recap of Billings*
- *Listing of Accounts Receivable*
- *Adjustment Information*

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Appendix F: Suggested Records Retention Schedule

Type of Record	Recommended Retention (Years)
ACCOUNTING RECORDS	
Accounts Payable (Vouchers) Invoices and Credits (assuming that there are no pending audits)	5
Assets Purchased File (after asset disposal)	5
Audit Files (district documents related to audit)	5
Audited Financial Statements (Audit Report, Annual Financial Report, and Financial Dormancy Affidavit)	Permanent
Audit Work Papers (TSBPA Rule 501.76)	4
Bank Statements and Reconciliations	5
Bond, Bondholder's Records, Transcripts, and Bond Resolutions	Permanent
Bond and Coupon Certificates of Destruction	Permanent
Bonds and Notes - Canceled and Paid Interest Coupons	5
Bonds - Record of Interest Coupons	5
Bookkeeper's Reports	5
Budgets and Comparison Reports	5
Budget File	5
Canceled Checks	5
Cash Disbursements File	5
Cash Disbursements Journal	Permanent
Cash Disbursements Source Document	5
Cash Receipts File	5
Cash Receipts Journal	Permanent
Cash Receipts Source Documents	5
Claim Files When Settled	10
Construction Disbursements File	Permanent
Construction Projects Ledger	Permanent

Type of Record	Recommended Retention (Years)
Deposit Books and Slips	5
Employee Travel Expense Reports	5
Capital Assets Ledger	Permanent
General Journal	Permanent
General Ledger	Permanent
General Source Documents	5
Journal Voucher File	5
Service Accounts Receivable Ledger	Permanent
Service Receipts File	5
Tax Accounts Receivable Ledger	Permanent
Tax Receipts File	5
Tax Assessor/Collector Reports	5
ADVERTISING RECORDS	
Contracts with Engravers, Lithographers, and Printers	5
Inquiries Record	1
Mailing Lists	Current
ENGINEERING RECORDS	
Research Data and Feasibility Studies	20
Specifications, Installation Instructions, etc. (Pertaining to permanent structures)	Permanent
Engineering Reports (includes related correspondence)	Permanent
GENERAL RECORDS	
Annexation Files	Permanent
Authorizations for Expenditures	5
Bonds, Surety	5
Correspondence	5
Charters	Permanent
Contracts and Agreements and Utility Commitments	20

Type of Record	Recommended Retention (Years)
Deeds and Easements and Consents to Encroachment	Permanent
Directors' Files including Bonds, Oaths of Office, Resignation Letters, and the District Registration Forms	Permanent
Election Files (Directors, Bond, Maintenance Tax, etc.)	Permanent
Fidelity Bonds of Employees	Permanent
Franchises	Permanent
Government Contracts and Subcontracts	5
Information Form File	Permanent
Insurance File	5
Leases	5
Minutes of Board of Directors' Meetings and Resolutions	Permanent
Notice of Meetings File (contains Certificates of Posting for courthouse and district)	Permanent
Official Minutes Files	Permanent
Operator's Reports	Permanent
Orders and Resolutions Files (except Rate Orders)	Permanent
Rate Order File includes Rules and Regulations and related affidavits of publication	Permanent
Voting Rights Act File	Permanent
Waste Discharge Permits	Permanent
Water Well Permits	Permanent
INVENTORY AND COST RECORDS (other than property)	
Cost Production and Job Summary Records	5
Cost Reports and Statements	5
Cost Sheets	5
Labor Distribution Records	5
Price Records	5
Quotations	5
Specifications	5

Type of Record	Recommended Retention (Years)
LEGAL RECORDS	
Case Files, Affidavits, Testimony, Depositions, Briefs	20
Legal Correspondence File	20
General Agreements	20
Patents, Patent Assessments, Patent Applications, Dockets	20
PAYROLL AND RELATED RECORDS	
Assignments, Attachments and Garnishments after settlement or termination	5
Employees' Deduction Authorizations--includes Rate Changes, Discharges, "Add to Payroll" Notices	5
Individual Employee Earnings Record	5
Labor Distribution Cost Records	5
Payroll Registers (gross and net)	5
Payments and Reports to Government - includes Federal, State and Municipal authorities covering payments and reports relating to Income Tax Withholdings, Contributions to FICA, Workmen's Compensation, reports on employees' earnings, etc.	5
Retirement and Pension Plan Records (including deduction authorizations)	Permanent
Time Cards - time sheets	5
PERSONNEL RECORDS	
Accident Reports	5
Applications for Employment (whether hired or not)	5
Disability and Sick Benefits Records	5
Employee Contracts	5
Group Insurance Records	5
Individual Employee Personnel File	5
Invention Assignment Forms	Permanent
Retirement Benefit Reports	5

Type of Record	Recommended Retention (Years)
PURCHASING RECORDS	
Acknowledgment of Orders	5
Contracts with Vendors	5
Correspondence with Vendors, etc.	5
Price List Files	5
Purchase Cost Records	5
Purchase Orders - filled and unfilled	5
Purchase and Priority Requisitions	5
Quotations (those acted upon)	5
Source of Supply and Catalogue Files	5
TRAFFIC, SHIPPING, AND RECEIVING RECORDS	
Bills of Lading	2
Claims	5
Delivery Reports	3
Receipts for Registered Mail and Express Packages	1
Receiving Reports	3

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Appendix G: Sample Request for Audit Proposal (RFP)

XYZ UTILITY DISTRICT
Any City, Texas

Date

CPA and Company
Certified Public Accountants
Any City, Texas

Gentlemen:

The Board of Directors of XYZ Utility District invites your firm to submit its proposal to serve as our district's auditor. Under the Professional Services Procurement Act (Government Code, Chapter 2254, Subchapter A) we will be selecting an auditor on the basis of demonstrated competence and qualifications in water district auditing at a reasonable and fair fee.

We are prohibited from requesting, and you are prohibited from submitting, a competitive bid for this engagement; however we are requesting that you include in your proposal a fee estimate as follows:

1. A statement to the effect that, the amount quoted is an estimate and your firm will not be bound to provide the services for the estimated amount.
2. The estimated number of people (by classification) to be involved in performing the audit work and the range of education and experience in each classification.
3. The estimated time to be required for the engagement by personnel classification.
4. An estimated time schedule for the performance of the work.
5. The estimated audit fee based on the above work.

The fiscal year of XYZ Utility District ends June 30th of each year. You may contact (name and phone number) to obtain information about the District's current status.

*Your Board should **insert a closing statement** giving instructions for the number of copies of the proposals it needs, a response deadline, and the Board's meeting dates.*

Very truly yours,

XYZ Utility District
_____, President

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Appendix H: Special Journal – Current Investments

Current Investments Journal

Once your district begins to receive money it has an obligation to spend or invest that money wisely. There are many sources for a district's money supply. Some of the major sources include: water and wastewater revenues; developer advances; proceeds from the sale of bonds or BANS; and tax revenues.

A district may sell bonds to finance the construction of water, wastewater, and drainage facilities. Any money remaining after we approved expenses from the bond sale must be invested; however money invested cannot earn interest at an interest rate that exceeds the net effective interest rate on your district's bonds.

The principal and interest on the bonds is usually payable from an annual ad valorem tax levied against taxable property in the district. Sometimes, net revenues from the district's water and wastewater operations may be used. District revenues should be invested to earn your district as much money as possible, subject to the net effective interest rate on the bonds.

Your district is authorized to invest in direct or indirect obligations of the United States, the State of Texas, or any county, city, school district, or other political subdivision of the state. You can also place the district's funds in certificates of deposit (CD) of state or national banks or savings and loan associations within the state, provided that they are secured in the manner required for the security of the funds (Government Code Chapter 2256, Subchapter A; Refer to the *Guide's Cash Management* section on page 2-29 for more information).

Your district should require its depository to secure all district funds held. The depository should provide security for any amount in excess of the insured amount (FDIC Regulation 330.15); however the district's designated investment officer must request the pledging of these securities. For additional information, see Government Code Chapter 2257 (Public Funds Collateral Act).

Investments are usually in the form of money markets, CDs, treasury bills (T-Bill), or pooled investments. Money market accounts will usually generate a monthly statement that can be reconciled. No monthly statement will be issued for a CD or T-Bill. Information needed for a current investment journal includes:

- CD or T-Bill number
- Name of depository
- Purchase date and maturity
- Amount invested
- Interest rate
- Origin of funds
- Interest earned at maturity
- Amounts renewed or transferred to other accounts

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Appendix I: Bookkeeper's Audit Preparation Checklist

Your Bookkeeper's Preparations Before and After the Audit

The bookkeeper should compile all information and post the district's books. At the end of your district's fiscal year, the bookkeeper should timely reconcile all ledger accounts and prepare the books for the annual audit (see **Appendices D** and **E** for a list of your bookkeeper's records and reports).

Audit Preparation Checklist

Operating Fund

1. Confirm that prior year entries (accounts payable, accrued interest receivable, prepaid expense, and prepaid tap accrual) were properly reversed.
2. Record current year accounts payable, accrued interest, and prepaid expenses.
3. Record deposits applied and clear returned checks.
4. Record prepaid taps at year end from information provided by the district operator.
5. Verify liability for customer and builder deposits with the district's operator and record necessary adjustments.
6. Verify cash balances for checking accounts, money market accounts, certificates of deposit, and other investments.
7. Reconcile accounts receivable to the operator's report.
8. Verify interfund transfers and due to/from other funds.
9. Verify amounts due to/from other entities.
10. Record depreciation in the Capital Asset Register.

After all transactions for the fiscal year have been posted, your bookkeeper must provide or make available to the district's auditor the following:

- Trial Balance
- General Ledger
- Cash Disbursements Journal
- Cash Receipts Journal
- General Journal
- Special Journals
- Schedule of Accounts Payable
- Reconciliation of Service Accounts Receivable and Standby Fees Receivable
- Reconciled bank statements
- Original invoices with check number and recorded payment date
- Investment schedule with copies of applicable documents
- Source documents for all General Journal entries
- Budget adopted showing fiscal year end comparisons

- Current year check stubs/vouchers (or appropriate listings)
- Current year cash receipts
- Any correspondence received or generated on the district's behalf during the fiscal year

Debt Service Fund

1. Confirm that prior year accrued interest amounts have been properly reversed.
2. Record current year accrued interest.
3. Verify cash balances for checking accounts, money market accounts, certificates of deposit and other investments.
4. Reverse prior year accounts payable.
5. Record current year's accounts payable.
6. Record prepaid interest/principal on long-term debt.
7. Verify taxes receivable for current and prior years, and deferred revenue.
8. Verify interfund transfers and loans to/from other funds.
9. Verify amounts due to/from other entities.

After all transactions for the fiscal year have been posted, your bookkeeper must provide or make available to the district's auditor the following:

- Trial Balance
- General Ledger
- Cash Disbursements Journal
- Cash Receipts Journal
- General Journal
- Special Journals
- Schedule of Accounts Payable
- Reconciled bank statements
- Original invoices with check number and recorded payment date
- Investment schedule with copies of applicable documents
- Source documents for all journal entries
- Current year check stubs/vouchers (or appropriate listings)
- Current year cash receipts
- All Tax Assessor/Collector reports

Capital Projects Fund

1. Confirm that prior year entries (accounts payable, construction contracts payable, and accrued interest receivable accrual) have been properly removed or reversed.
2. Record current fiscal year accounts payable, construction contracts payable, and accrued interest receivable.
3. Verify cash balances for checking accounts, money market accounts, certificates of deposit and other investments.
4. Verify interfund transfers and due to/from other funds.

5. Verify amounts due to/from other entities.
6. Close the year end valuation of the Work-in-Progress.

After all transactions for the fiscal year have been posted, your bookkeeper must provide or make available to the district's auditor the following:

- Trial Balance
- General Ledger
- Cash Disbursements Journal
- Cash Receipts Journal
- General Journal
- Special Journals
- Reconciled bank statements
- Source documents for all General Journal entries
- Current year check stubs/vouchers (or appropriate listings)
- Schedule of Accounts Payable and Construction Contracts Payable
- Schedule showing current fiscal year retainage payable
- Original invoices with check number and recorded payment date
- Investment schedule with copies of applicable documents

Capital Assets

Verify any interfund transfers from other funds. After all transactions for the fiscal year have been posted, your bookkeeper must provide or make available to the district's auditor the following:

- Trial Balance
- General Ledger
- General Journal
- Source documents for all General Journal entries
- Capital Asset Register

Long-Term Liabilities

Verify long-term balances with the amortization schedule. After all transactions for the fiscal year have been posted, your bookkeeper must provide or make available to the district's auditor the following:

- Trial Balance
- General Ledger
- General Journal
- Source documents for all General Journal entries
- Debt Service amortization schedules for all bond issues

Additional Documents to Be Provided to the District's Auditor

- Copies of security ledgers with copies of securities pledged to the district at fiscal year end
- Copies of any billings by the district
- Board Meeting Minutes *
- Copies of any agreements entered into by the district or Agency memos on the district (release of surplus funds or interest earnings and escrow releases) *

* These items may be obtained from the district's attorney

After the Audit - Adjusting and Closing Entries

Once the district's audit has been completed and approved by your Board, the district's auditor may provide your bookkeeper with year-end adjusting and closing entries, including closing entries for adjusting director fees to an accrual basis. There are two methods with which to post the auditor's entries based upon whether the bookkeeper:

- left all revenue, expense, and transfer accounts open; therefore, no entries should have been recorded for the current year (OPEN ACCOUNTS); or
- closed all revenue, expense, and transfer accounts to the fund balance prior to the audit (CLOSED ACCOUNTS).

Open Accounts

The adjusting entries should be posted to the appropriate revenue, expense, asset, and liability accounts. Then, all revenue, expense, and transfer accounts should be closed to the appropriate fund balance accounts.

After the closing entries have been posted, the balance sheet accounts should be reconciled to the audit report and the current year data can now be posted to the district's books.

Closed Accounts

The auditor's adjusting entries must be modified because all revenue, expense, and transfer accounts for the year just ended were closed. All entries posted to an account other than a balance sheet account (a revenue, expense, or transfer account) must be coded to the fund balance account. Posting this way will adjust appropriate balances to the audit report and will not affect the current year's information that has already been posted to the district's books.

Appendix J: Sample Code of Ethics and Policies for Travel Expenditures, Investments, Professional Services, and Fiscal Management

Definitions

District. The term “district” shall mean and refer to any district or authority created under either Article 3, Section 52, Subsection (b), Subdivisions (1) and (2), or Article 16, Section 59, of the Texas Constitution.

Board. The term “Board” shall mean and refer to the district’s governing body.

Director. The term “director” shall mean a person elected or appointed to serve on the district’s Board of directors.

District Officials. The term “district officials” shall mean district directors, officers, employees, and persons and business entities engaged in handling investments for the district as representatives of the district.

Employee. The term “employee” shall mean any person employed by the district, but it does not include independent contractors or professionals hired by the district as outside consultants.

Substantial Interest. The term “substantial interest” shall mean that as defined by Local Government Code Chapter 171 which regulate conflicts of interest of the district’s directors.

TWC. The acronym "TWC" shall mean the Texas Water Code.

Article I: Code of Ethics

1.01. Purpose. This code of ethics has been adopted by the _____ District to: (a) comply with TWC Section 49.199, as amended; (b) encourage high ethical standards in official conduct by district officials; and (c) establish guidelines for such ethical standards of conduct.

1.02. Policy. It is the District’s policy that the district officials shall conduct themselves in a manner consistent with sound business and ethical practices; that the public interest shall always be considered in conducting district business; that the appearance of impropriety shall be avoided to ensure and maintain public confidence in the district; and that the Board shall control and manage the District’s affairs fairly, impartially, and without discrimination, and according to the District’s purpose.

1.03. Qualification of Directors.

- A. A person shall not serve as a director if he is not qualified to do so under the provisions of the District's general laws or its enabling legislation.
- B. Under TWC Section 49.105, when there is a board vacancy, you must fill the vacancy within 60 days. Therefore, if the Board determines that a director is not qualified to serve on the Board, then your Board must replace that director with a qualified person within 60 days.
- C. Any director not qualified to serve on the Board, who willfully occupies an office, and exercises the duties and powers of that office, may be subject to penalties under the TWC, including possible conviction of a misdemeanor and imposition of a fine.

1.04. Conflicts of Interest.

- A. Local Government Code Chapter 171 addresses situations in which a conflict of interest could occur.

If a director has a substantial interest in a business entity and your Board must vote on or decide a matter that will have a special economic effect on that business entity *that is distinguishable from the effect on the public*, then the director must file an affidavit stating the nature and extent of his interest and he must abstain from further participation.

If a director has a substantial interest in real property and it is reasonably foreseeable that your Board's action on a matter will have a special economic effect on the value of the property *that is distinguishable from the effect on the public*, then the director must file an affidavit stating the nature and extent of his interest and he must abstain from further participation.

Additionally, a director may not act as a surety on any official bond or for a business entity that has work, business, or a contract with your district.

- B. The District also finds that a director must not disclose, without written legal authorization, confidential information to advance the financial or other private interests of himself or others on any contract or transaction which is or may be the subject of an official action of the District.
- C. The District may not contract for the purchase of services or personal property directly with a district official or with a business entity in which a district official has a substantial interest, except as permitted by law.
- D. The Board shall take a separate vote on any budget item specifically dedicated to a contract with a business entity in which a director has a substantial interest. The director having the substantial interest may not participate in that separate vote, but may vote on a final budget if the

director has complied with Local Government Code Chapter 171 and the matter in which the director is concerned has been resolved.

1.05. Nepotism. The Board shall not confirm the appointment to any position, nor award a contract, to a person related to a member of the Board within the second degree by affinity (marriage) or within the third degree by consanguinity (blood) when the salary or other compensation of such appointee is paid, directly or indirectly, from district funds, except as provided by Government Code Chapter 573.

1.06. Acceptance of Gifts.

- A. A district official shall not solicit, accept, or agree to accept any benefit of value from a person or business entity the district official knows is interested in or likely to become interested in any contract, purchase, payment, claim, or other transaction involving the exercise of their discretion as a public servant, or any matter before the Board, or likely to come before the Board for any decision, opinion, recommendation, or vote.
- B. The prohibition against gifts or favors in section 1.06(a) shall not apply to:
 - 1. an occasional non-monetary gift, valued at less than \$25.00, or
 - 2. an award publicly presented in recognition of public service.

1.07. Use of District Property. No board member, officer, or employee shall permit any personal or unauthorized use of district-owned or district-controlled equipment, materials, supplies, or property.

Article II: Travel Expenditures Policy

2.01. Purpose. According to the limitations in TWC Section 49.060, the Board hereby establishes policies for reimbursing district directors, officers, and employees for actual travel expenses incurred while performing their official duties.

- A. Authorized expenses include cost of meals; lodging; commercial travel; in some cases, personal automobile mileage; and other necessary and reasonable costs incurred while on official business away from designated headquarters.
- B. Reimbursement for all travel expenses shall be subject to approval by the Board. The reimbursement request shall include a statement of the business purpose of the travel, date, time, and place, and shall be accompanied by supporting receipts and invoices.

2.02. Meals and Lodging. Reimbursement to directors for actual expenses for meals and lodging shall not exceed the maximum amount allowed for state legislators.

2.03. Transportation. Directors or employees who use personal vehicles while on district business travel may be reimbursed for actual miles driven at the current rate allowed by the Internal Revenue Service. Mileage will be computed by the most direct route, and the use of personal vehicles for district travel *must* be approved by Board action **in advance of the travel event**. Subject to the Board’s direction and discretion, directors or employees traveling by commercial transportation may receive reimbursement of the actual transportation cost when performing official business, with due consideration of serving the public’s best interest.

Article III. Investments

3.01. Purpose. This policy has been adopted to establish the principles and criteria by which the district’s funds should be invested and secured to: (a) preserve the principal, (b) earn interest, and (c) comply with various legal provisions on the investment and security of the district’s funds (“Investment Laws”).

3.02. Policy of Investment.

- A. The preservation of the district’s principal shall be the primary concern of the district officials who are responsible for the investment of district funds. To the extent that the principal is protected, district funds shall be invested to yield the highest possible rate of return, taking into consideration the strength of the financial institution, and complying with any laws or regulations (including arbitrage provisions) and procedures set forth in any bond resolutions or orders, adopted from time to time by the Board, requiring yield restrictions. Funds of the district shall be invested by the district’s officials according to this policy. Any resolution or order adopted by the Board on investment policies or procedures shall be in writing and shall be made available to the public.
- B. District funds shall be invested and reinvested by the district’s investment officer only in national or state banking associations or savings and loan associations located within the State of Texas (“Texas financial institutions”), or, *plus accrued interest*, invested in federal treasury bills. The principal, *plus accrued interest*, invested in financial institutions according to this policy shall not exceed the FDIC insurance limits or exceed the collateral pledged as security for the district’s investments.
- C. It shall be the responsibility of the district’s investment officer to invest and reinvest the district funds according to this policy to meet the district’s needs and requirements. It shall be the policy of the district that funds shall not remain in any given investment for longer than two years. The Board, by separate resolution, may provide that the investment officer may withdraw or transfer funds from and to the district’s accounts on such terms as the Board considers advisable. Providing however, that nothing herein above provided shall authorize any transfer, expenditure, or appropriation of district funds, other than for the district’s own

account, unless by check or draft signed by a majority of the Board or as authorized by separate Board order or resolution.

D. Funds in the district accounts shall be invested by the district's investment officer as follows:

1. *Construction or Capital Projects Account*: Funds in this account shall be invested in accordance with any applicable orders of the Texas Commission on Environmental Quality to meet the construction needs of the district as determined by the district's engineer.
2. *Debt Service Account*: Funds in this account shall be invested to meet the debt service requirements of the district and to comply with the district's bond resolutions or orders.
3. *Operating or General Account*: Funds in this account shall be invested to meet the operating requirements of the district as determined by the annual operating budget of the district, or by Board resolution.

E. Should total district funds exceed \$_____ we hereby establish an investment committee, composed of the district's investment officer, the district's financial advisor, and at least one director. The investment committee shall meet quarterly to monitor and review the investments and collateral of the district. The investment officer shall be the chairman of the committee. The committee shall report concerning the district's investments transaction for the preceding year describing the investment position of the district at the end of each fiscal year. The report shall be signed by the members of the committee. The committee also shall report to the Board on its review the month following each quarterly meeting.

3.03. Security of District Funds.

A. It shall be the policy of the district that all funds shall be insured by the FDIC or by collateral pledged to the extent of the fair market value of the amount not insured. The district officials recognize that FDIC insurance is only available *up to a maximum of \$100,000 (including accrued interest) per account* and that the amount of funds at any one Texas financial institution (including branch banks located within the same county) will be totaled to determine the maximum amount of insurance coverage needed.

B. To the extent district funds are not insured by the FDIC, there shall be pledged as collateral, to the extent of the market value thereof, any of the following securities:

1. government securities or obligations issued by the State of Texas, its agencies or political subdivisions, and approved by the Attorney

- General of Texas payable from taxes or revenues, approved by the investment committee; or,
2. direct obligations of the United States of America backed by the full faith and credit of the government; or,
 3. any other obligations or securities authorized to be collateral securing funds of districts under the laws of the State of Texas, approved by the investment committee (collectively, the “collateral”).
- C. The investment committee shall review the fair market value of the collateral pledged to secure the district’s funds on a quarterly basis to ensure that the district’s funds are fully secured. The investment committee shall report to the Board on its review the month following each quarterly meeting.
- D. There shall be no sharing or splitting of collateral with other parties or entities. The investment officer shall ensure that the custodian of the collateral shall be an independent third party Texas financial institution and that the collateral shall be pledged only to the district. The investment officer shall obtain safe-keeping receipts from the Texas financial institution.

Article IV. Professional Services Policy

4.01. Purpose. This policy has been adopted to provide for the selection, monitoring, review, and evaluation of the district’s professional services contracts. Consultants retained by the district to provide professional services include, but are not limited to, legal, engineering, financial advisor, management, bookkeeping, auditing, and tax collecting. Selection of such consultants shall be based upon their qualifications and experience.

4.02. Periodic Review. The performance of the consultants providing professional services to the district shall be regularly monitored and reviewed by the Board, and the Board may appoint a professional services committee to provide such monitoring and review to the Board.

Article V. Management Policy

5.01. Purpose. The Board desires to adopt a policy to ensure better use of management information, including the use of budgets in planning and controlling costs, the establishment of a functioning audit committee, and the use of uniform reporting requirements.

5.02. Accounting Records. District accounting records shall be prepared on a timely basis and maintained in an orderly manner, to comply with generally accepted accounting principles and the requirements of the Texas Commission on Environmental Quality. Such records shall be available for

public inspection during regular business hours (8 am - 5pm) at the district's office, located at: _____.

5.03. Audit Requirements.

- A. Unless otherwise exempted by the rules of the Texas Commission on Environmental Quality as described in 5.03(C), the district's fiscal accounts and records shall be audited annually according to state law governing the audits of districts, at the expense of the district, by a certified public accountant familiar with the Texas Commission on Environmental Quality's rules, regulations, standards, and guidelines applicable to district audits.
- B. The audit shall be completed and filed within the time limits established by the TWC. A copy of the audit shall be filed with the Texas Commission on Environmental Quality together with an annual filing affidavit in the form prescribed by TWC. In the event the Board refuses to approve the annual audited report, the district shall file a statement with the audit to explain the Board's reasons for disapproving the audit.
- C. If the district does not have sufficient revenues so that it meets the requirements of the TWC for a financially dormant or an inactive district, it may prepare and submit the financial dormancy affidavit or financial report described in the TWC instead of filing an audit report.
- D. If the district violates the TWC it may be subject to civil penalty.

5.04. Audit Committee. The Board shall establish an audit committee comprised of one or two directors and such persons as the Board may deem appropriate. The persons selected should not be directly responsible for work subject to the audit. The audit committee shall conduct, at a minimum, an annual review of the district's financial status. The committee shall monitor variances from the district's budget and shall review the district's audit report and shall make recommendations to the Board.

5.05. Budget. The district shall annually adopt a budget according to Title 30 of the Texas Administrative Code, Section 293.97 for use in planning and controlling district costs. Such budget shall take into consideration all district revenues, including, but not limited to, utility fees, taxes and surcharges, if any, and all projected district obligations and expenditures. The budget may be amended at any time but such amendment shall be approved in advance by the Board. The manager of the district may have the authority to reallocate up to 10% of any line item between budget lines, as approved by the Board.

Article VI. Miscellaneous

6.01. Gender. Any references herein to the masculine gender shall also refer to the feminine gender in all appropriate cases.

6.02. Open Meeting. The Board officially finds, determines, and declares this Code of Ethics and Policies were reviewed, carefully considered, and

adopted during a regular board meeting on _____, 20____, and that a sufficient written notice of the date, hour, place, and subject of this meeting was posted at a place convenient to the public in the administrative office of the district and on a bulletin board located at a place convenient to the public in the _____ County courthouse for the time required by law preceding this meeting, as required by the Open Meetings Act (Government Code Section 551.054), and that this meeting had been open to the public as required by law at all times during which this Code of Ethics and Policies were discussed, considered, and acted upon. The Board further ratifies, approves and confirms such written notice and the contents and posting thereof.

Adopted the _____ day of _____, 20____.

Signed the _____ day of _____, 20____.

President
Board of Directors

Vice President
Board of Directors

Secretary/Treasurer
Board of Directors

Notary Public's Signature

(Seal)

Appendix K: Compliance Issues

In performing a “*Generally Accepted Auditing Standards*” (GAAS) audit of a district, the auditor must comply with the *Statements of Auditing Standards* (SAS) 68 requirements. To comply with SAS 68 your auditor should take into consideration the following:

- The district’s management is responsible for ensuring that the district complies with the laws and regulations that have a direct and material effect on the determination of amounts in the financial statements and, the auditor should design the audit to provide reasonable assurance that the financial statements are free of **material** misstatements resulting from violations of laws and regulations that have this effect.
- The financial effects of an act of noncompliance may be difficult to quantify. The potential fines for violations of the TWC for each day of noncompliance for each noncompliant act can quickly become significant to any audit client. Therefore, it is prudent not to dismiss any violation as **immaterial**.
- Another consideration is the civil or criminal litigation that could occur as a result of a particular violation. The financial burden to a district of the costs of litigation is also difficult to quantify.
- Although your Board is responsible for legal compliance, most boards hold the auditor accountable for undisclosed violations, therefore your auditor should ask the Board to identify all applicable laws and regulations to ensure full disclosure in the financial statements of any acts of noncompliance.

The following list contains the most common compliance issues, segregated by type:

1. Violation of a Commission Order

Release of escrowed construction funds: Escrowed construction funds may be released for expenditure only upon written Agency authorization.

Developer Reimbursement Audit performed: A developer reimbursement audit should be performed on the bond proceeds expenditures and submitted to the Agency within the time frame prescribed by the Commission in its bond approval order (**Appendix M**).

Letter of credit requirements: Required letter of credit should be obtained and renewed as required by the Agency’s bond authorization.

2. Regulatory Assessment

Regulatory assessment paid: Your district should be current on its water and wastewater regulatory payments. This assessment is calculated on all retail water and/or wastewater sales. For more information, review Agency publication RG-199, *Regulatory Assessments Collected by Retail Public Utilities (Appendix O)*.

3. Environmental Issues

State and/or Federal laws, rules and regulations regarding wastewater, water supply, solid waste, air quality discharges and hazardous substances: Your district must be in compliance with all State and Federal rules and regulations. It must also be current in its filings to the regulatory authorities.

4. Financial Issues

Compliance with the district's authorization to levy taxes: Your district's tax levies must comply with the powers granted to the district by the Texas Water Code and/or its enabling legislation. The tax levies must be authorized by the district's voters, unless this power has been granted by the district's enabling legislation.

Use of tax proceeds: Debt service tax receipts must be used for the payment of principal and interest on the district's bonded indebtedness and its tax collection costs. Maintenance taxes are used to fund your district's ongoing operations.

Use of bond proceeds: Bond proceeds from Agency approved bond issues may only be used for Agency authorized construction and other costs.

Transfers of funds: Transfers are allowed to the extent authorized by your district's bond resolutions, the TWC, Agency Rules, and the Property Tax Code. Authority for the transfer is to be disclosed in your district's Notes to Financial Statements.

Deposits and investments: Your district's deposits and investments must be collateralized according to the Public Funds Collateral Act (Government Code Chapter 2257) and invested according to the Public Funds Investment Act (Government Code Chapter 2256, Subchapter A).

Violation of bond resolutions: As directed by your district's bond resolutions, the district's balances are to be maintained and segregated; its assets are to be insured (**Security of Cash and Investments** on page 2-31), and any excess funds should be used accordingly.

Arbitrage rebate requirements: Federal restrictions on your district's bond proceeds may restrict the district's yield on its investments in the Capital Projects Fund and the Debt Service Fund.

Unauthorized assessment of impact fees: An impact fee is used to fund or recover the district's capital costs of constructing water, wastewater and drainage facilities and is assessed against new development. All impact fees go through a hearing process prior to adoption. Districts have the option of gaining Agency approval instead of the hearing process. Tap fees that do not exceed three times the actual installation and administration costs associated with setting up a new account are not impact fees.

Use of surplus funds: Except for those items in Rule 293.83, a district considering using its surplus bond funds, interest earned on invested bond proceeds, grants, contributions by others for costs sharing of facilities constructed with bond funds and litigation settlements related to projects financed by bond proceeds must receive approval from the Agency's executive director before committing these funds.

5. Management Problems

Conduct of district business: Your district's meetings are to be conducted according to the Open Meetings Act. Your districts must also comply with the Public Information Act. See **Open Meetings** on page 1-21.

Disqualification of directors: According to TWC Section 49.052, a director may be disqualified from board service if he: (1) is related to or employed by a developer, a director, your district's manager, its attorney, or another person providing professional services to the district or a developer; (2) is a developer of property in your district; (3) serves as an attorney, consultant, engineer, manager, architect, or in a professional capacity for the district or a developer; (4) is a party to certain contracts with the district or a developer; or, (5) fails to maintain the qualifications required by law to serve as your district's director.

Bonds for members of boards: Before performing his duties of office, a director must execute a \$10,000 bond payable to the district and conditioned on the faithful performance of that director's duties (TWC Section 49.055).

Compensation of board members: A director may receive a *fee of office* up to \$150 for each day he spent performing his official duties. Your Board is required to set its own cap (up to \$7,200) by resolution on the total annual *fees of office* your district's directors can receive during the district's fiscal year (TWC Section 49.060). Review the **Director Fees** section on page 1-18.

Adopted budget: Each year your district must adopt its budget for the upcoming fiscal year according to Rule 293.97(b). Review the **Annual Budget** section on page 1-6.

Conflicts of interest: A director is prohibited from directly or indirectly participating in a vote or decision, or acting as a surety on any matter involving a business entity in which the director has a substantial interest. Additionally, if it is reasonably foreseeable that an action involving the business entity would result in an economic benefit or any other benefit to the entity, the director should abstain from voting. Refer to Local Government Code Chapter 171 (**Appendix O**) and **Appendix J**, Article I, Section 1.04 (page J-2).

Disqualification of tax assessor and collector: Under TWC Section 49.059 no person may serve as tax assessor and collector for a district with retail water or wastewater sales if that person:

- is related within the third degree of blood or marriage, or is currently or within the last two years was, an employee of a developer, a director, a manager, an engineer, or an attorney for the district
- has financial ties to a developer, a director, an engineer, or an attorney for the district
- is a developer, a director, an engineer, or an attorney for the district

Appendix L: State Auditor's Financial Reporting Guidelines for Industrial Development and Pollution Control Bonds

According to GASB criteria, industrial development corporations are component units and are included in a river authority's or water district's (hereafter referred to as "districts") financial reporting entity.

To conform with GAAP, districts should publish a "comprehensive annual financial report covering all funds and account groups of the reporting entity." (GASB Codification, Section 1100.112) The reporting entity begins with the district itself (the "oversight unit"), but also includes all component units meeting criteria stated in Section 2100 of the Codification. The purpose of these criteria is to assist in determining whether, in substance rather than form, the district has sufficient oversight, accountability, financial relationship, and/or common scope of public service regarding potential component units to justify including them in the district's financial statements.

The State Auditor's Office (SAO) has examined all known industrial development corporations (IDC) associated with Texas districts in light of these criteria and has found the IDCs very similar in the way they were structured, and their relationships to the districts very close. Typically, the IDC's Board was appointed by the district's Board and could be removed by them for cause or at will. The IDC's office address was the same as the district's. Upon full payment of expenses, bonded debt, and other obligations of the IDC, any net earnings of the IDC were transferred to the district. In several of the larger districts, the issuer fees from IDC-issued industrial development and pollution control bonds were one of the major sources of revenue for the districts' General Fund. Otherwise, these fees were a significant portion of a district's operating revenues.

In every case looked at, the SAO concluded:

- the district does have effective oversight over the IDC
- all factors considered, the district should include the IDC as part of the district's reporting entity.

In the financial statements, inclusion of the IDC should be accomplished by combining, or blending, the IDC's financial information with that of the district's similar fund types. Also, the Notes to the Financial Statements should include disclosures on the definition of the reporting entity, including a description of the structure of the IDC, its relationship to the district, and the nature of its financial activities.

Industrial development and pollution control bonds issued by the district as a conduit for other entities are not reported in the district's financial statements if the bonds are obligations of the other entities and not the district.

The industrial development and pollution control bonds issued by districts fall into the category of conduit bonds. That is, they are bonds issued by a state or local governmental unit, acting essentially as an agent or intermediary, for the purpose of obtaining tax-exempt financing, or financing on more favorable terms, for third parties.

The terms governing individual industrial development and pollution control bond issues vary, and the district's financial reporting treatment of the bonds should reflect the substance of each transaction.

In some cases, the terms may indicate that the bonds are to be treated as debt of the district. If so, the district must display in its financial statements all balances and transactions related to the bonds, including the bonded debt; an offsetting contract receivable reflecting the revenue contracts with other entities on whose behalf the bonds were issued; the interest expense; and an offsetting contract revenue.

However in most cases, the bonds are regarded as a debt and the responsibility of the third party on whose behalf they were issued. Typically:

- The bonds are supported solely by pledged contractual payments originating from the third party to fund the bonds' interest and principal.
- Such payments are made by the third party directly to the trustee bank, so that the district or the IDC which issued the bonds has no cash receipts, no cash disbursements, and no control of the debt service transactions.
- No district or IDC revenues are pledged.
- In marketing the bonds, investors look to the creditworthiness of the third party and do not consider the creditworthiness of the district or the IDC.

Where such terms and circumstances exist, reporting the bonds and related accounts in the district's financial statements could misrepresent the substance of the transactions, significantly inflating the assets, liabilities, revenues, and debt service expenses, and distorting the financial statements.

Bonds not considered to be debt of the district should not be included in the district's financial statements. The bonded debt, the offsetting contract receivable, the interest expense, and the offsetting contract revenue should not be reported on the face of the statements. Any contract payments received as issuer fees or as offset to operation and maintenance expenses would be reported as revenues.

Whether the bonds are reported on the face of the financial statements, substantive disclosures regarding industrial development and pollution control bonds are to be included in the Notes to the Financial Statements.

Disclosures on the bonds in the district's financial statements include a descriptive statement on the bond issues, a summary of changes in the bonds payable, a summary of the debt service requirements to maturity, information on advance refunding, and information on defeased bonds outstanding. When there are many bond issues, these required disclosures can be made in a summarized form in the Notes to the Financial Statements and supplemented by detailed schedules. Industrial development and pollution control bonds reported as debt of the district would be included in such disclosures.

A separate note should provide appropriate disclosures of the IDC activities. Additional disclosures should be made on the industrial development and pollution control bonds considered as debt of another entity and therefore not included in the district's financial statements. When there are many bond issues, these disclosures can be made in summarized form in the Notes to the Financial Statements and supplemented by detailed schedules. The minimum disclosure standards for each bond series is:

- The name of the receiving entity
- The issue date
- The interest rate(s)
- The maturity date(s)
- The amount issued
- The current balance

Pollution control bonds issued by the district before the establishment of an IDC is reported in the same manner as bonds issued by its IDC.

In some cases, districts issued pollution control bonds in their own name at one time, then later established an IDC. Subsequent pollution control bonds were then issued through the IDC. The bonds issued in the districts' name have remained on the districts' financial statements, but those bonds issued through the IDC were not placed on the districts' financial statements.

These guidelines place *all* industrial development and pollution control bonds on the same footing. The presumption is that the IDC is a part of the district's reporting entity. The question then becomes, are the bonds obligations of the district or the IDC, or are they an obligation of the third-party entity on whose behalf they were issued? The decision of how to report and disclose the bonds should be made solely on that basis.

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Appendix M: Developer Reimbursement Audits

Introduction

This appendix provides guidance on Rule 293.70, *Audit of Payments to Developer*, which requires your district to engage a CPA to perform certain procedures and issue a report **before** a developer may be reimbursed for expenditures incurred on your district's behalf.

The reimbursement audit report must be prepared and a copy must be filed with this Agency for any reimbursement paid from:

- bond proceeds
- bond anticipation note proceeds
- interest on bond or bond anticipation note proceeds
- funds derived from future bond proceeds
- maintenance tax revenue

The reimbursement audit report's contents are:

- Independent Accountant's Report on Applying Agreed Upon Procedures
- Schedules of amounts reimbursable to each developer
- Comparison of amounts included in the Agency interoffice memorandum or other Agency approval correspondence with amounts reimbursable and amounts to be expended in the future

Each element of the reimbursement report is explained below. Although these are the minimum requirements, your Board may request its auditor to perform additional procedures to ensure that the reimbursement complies with its governing contract.

Accountant's Report to the Board of Directors

A sample report is included in this appendix and can be used except where an authoritative pronouncement of the AICPA or GASB indicate another format is appropriate.

All of the procedures listed in this appendix must be performed. If any of these procedures are not performed, the report must include a detailed explanatory statement.

Reimbursement to Developers Schedule

While the reimbursement report can include reimbursements due to more than one developer, there can be only one report for each scheduled reimbursement date. If a developer has more than one reimbursement date, then separate reimbursement reports must be prepared.

If the payment to the developer is only for retainage previously identified in a prior developer reimbursement, there is no need for another report.

The report must reference the developer agreement by which the costs are being reimbursed and any extensions or supplements to that agreement.

The schedule must provide sufficient detail in a format that agrees with the *Purchase of Facilities* or *Transfer of Assets* sections of the Agency's staff memorandum recommending approval of the district's bond issue.

The calculation of the developer's reimbursable amount includes:

- the gross amount of the contract (original bid price + any change orders are to be presented as a lump sum)
- applicable adjustments for:
 - disallowed costs
 - other district's share
 - other developer's share
 - amounts held in escrow
 - retainage not paid
 - portions not to be included in this bond issue
 - amounts previously reimbursed to the developer
 - any other significant adjustments
 - the developer's share of the costs
- net reimbursable costs by the district to the developer from the district's bond issue

List the interest to be paid to the developer in a separate column of the schedule. The amount of developer's interest due is stated in relation to each contract and details the total interest paid at the net effective rate of the bond issue and/or the total interest paid at the developer's borrowing rate. The developer's average borrowing rate should be specified when possible.

The developer's interest is calculated as: the number of days from the bank's cancellation multiplied by the total cost eligible of the developer's check to pay for reimbursement costs to the report date, which is then divided by 365 days. The result is multiplied by the reimbursement rate, which is then multiplied by the interest rate. The final amount is the developer's interest.

The amounts to be reimbursed for nonconstruction costs are to be broken down into major categories of expenditures (creation costs; bond application report; and printing of the official statement).

Comparison of Actual Cost to the Agency's Approved Cost Summary

The Comparison of Costs Schedule should compare the amounts actually expended to the amounts anticipated to be expended according to the Agency's interoffice memorandums as adopted by the Commission's order approving your district's bond issue. The notes must explain major differences between the staff's memorandum (or other Agency approval correspondence) and the official statement of the district's bond sale.

Amounts held in escrow by Commission order must be included in the *projected costs* column of the Comparison of Costs Schedule. The notes must list the amounts held in escrow and the intended use of those funds.

Significant variances between the staff's memorandum or other Agency approval correspondence and the actual and projected costs must be explained in the reimbursement report's notes.

A significant variance is a variance over or under ten percent (10%) of the projected cost or any variance for projects completed before the date of the staff's memorandum. The variance explanation must disclose Agency approval for a change in plans, surplus funds, or escrow releases which affect your district's use of its bond proceeds.

Independent Accountant’s Report on Applying Agreed Upon Procedures

Board of Directors

(District's Name)

(Date)

(District’s Complete Mailing Address)

At your request, we have performed the procedures described below with respect to the accompanying Comparison of Costs Schedule to the Interoffice Memorandum as adopted by the Commission order approving the bond issue (and the Recapitulation of Amounts to be Reimbursed to Developers). Our report was made for the purpose of providing you with information on the use of the District's bond proceeds. Our report is not to be used for any other purpose. The procedures we performed included:

1. Information for the use of proceeds was obtained from the Texas Commission on Environmental Quality’s order dated (insert date), approving the \$ (insert amount) Bond Issue, which included the interoffice staff memorandum as amended.
2. Information for the costs to be reimbursed to the developers was obtained from the review of reimbursable costs as of (insert date). Information for the actual costs paid directly by the district was obtained from a review of the district's records as of (insert date).
3. The projected additional costs to be funded from this bond issue were obtained from invoices and discussions with various parties who are to be reimbursed from this bond issue.

Because the above procedures do not constitute an examination made according to generally accepted auditing standards we do not express an opinion on the accompanying schedules. In connection with the procedures referred to above, no matters came to our attention that caused us to believe that amounts included in the schedule should be adjusted. If we had performed additional procedures, or if we had made an examination of the financial statements according to generally accepted auditing standards other matters might have come to our attention that would have been reported to you. This report relates only to the attached Developer Reimbursement Report and the Comparison of Costs Schedule and does not extend to any financial statements of District's Name taken as a whole.

(Signature of Auditor or Firm)

Schedule A

(District's Name)

Calculation of Amounts to Be Paid to Developer A from Series 20__ Bond Issue Proceeds
According to the agreement with District Name, Dated _____, 20__
and Extension No. 1, Dated _____, 20__ As of _____, 20XX

Description	Developer A		
	% Complete (Date Complete)	Reimbursable Cost	Interest*
X. Y. Z. Contractors, Inc.			
(Contract 1—Water, Sewer, and Drainage)	100%		
Strawberry Fields, Section 1	(4/10/XX)	\$ 730,342	
Less Disallowed Costs		(4,378)	
Less Developer A Share		(4,520)	
Less Amount Held in Escrow		<u>(710,895)</u>	\$ 10,549
Interest Accrued at 9.321%			\$ 973
James Bros. Construction Co.			
(Contract 2—Water, Sewer, and Drainage)	70%		
Strawberry Fields, Section II, Phase 1		343,521	
Less Retainage		(4,351)	
Less Amount Paid by Developer B		(60,431)	
Less Developer A Share		<u>(83,621)</u>	195,118
Strawberry Fields, Section II, Phase 2		108,908	
Less Portion not Included this Issue		(68,540)	
Less Developer A Share		(3,743)	
Less Amount Held in Escrow		<u>(24,150)</u>	12,475
Interest Accrued at 8.074%			16,735
Blackquley Excavation Co.			
(Contract 1—Diversion Channel)	100%		
Strawberry Fields, Sections I & II, Phase I & II	(12/14/XX)	129,867	
Less Disallowed Costs		(2,287)	
Less Developer A Share		<u>(38,275)</u>	89,305
Interest Accrued at 11.56%			10,326
ABC Contractors (Contract 1)			
Wastewater Plant Expansion	50%	102,569	
Less Retainage		(10,256)	
Less Other District's Share		<u>(46,157)</u>	46,156
Interest Accrued at 9.533%			4,400
MUD 2 50% Share of Water Plant Expansion			
Contract with ABC Contractors, Inc.	80%	143,896	
Less Retainage		<u>(14,389)</u>	129,507
Interest Accrued at 7.969%			10,321
Curver, Sheltie, and Borden, Inc.			
Engineering Fees related to:			
1. Sections I and Section II, Phase 1 and 2	100%	150,344	
Less Portion not included this issue	(9/20/XX)	(5,430)	
Less Disallowed Costs		(23,897)	
Less Developer Share		<u>(36,305)</u>	84,712
2. Wastewater Plant	80%	10,654	
Less Other District's Share		<u>(5,227)</u>	5,427
Interest Accrued at 8.379%			7,545
Elder, Eggs, and Stream, Attys.			
Legal Fees for Creation		321,345	
Out-of-Pocket Expenses for Bond Issue		<u>217</u>	321,562
News Creation Notices		<u>678</u>	
Subtotal—Reimbursable Costs and Interest Due to Developer A		895,489	50,300
Less: Adjustment for erroneous prior payment to developer (See Note 3)		<u>(40,000)</u>	
Total Reimbursable Costs Due to Developer A		<u>\$ 855,489</u>	<u>855,489</u>
Total to Be Paid from Series 20__ Bond Issue Proceeds		<u><u>\$ 855,489</u></u>	<u><u>\$ 905,789</u></u>

* Note: Interest is based on an expected reimbursement date of _____, 20XX.

Schedule B
(District's Name)

Comparison of Actual Costs with Cost Summary As Approved by the Texas Commission on Environmental Quality

Cost Item	Costs Reimbursed to Developers (1)	Costs Paid Directly by District (2)	Total Paid Costs (1) + (2) (3)	Projected Costs (4)	Total Paid and Projected (3) + (4) (5)	Interoffice Memorandum Total (6)	Variance Over or (Under) (5) - (6) (7)	% Variance Over or (Under) (7) ÷ (6) × 100 (8)
Construction Costs								
Water, Sewer, and Drainage Facilities								
Strawberry Fields								
Section I	\$10,549		\$10,549	\$710,895	\$721,444	\$720,000	\$1,444	0.2
Section II, Phase I	195,118		195,118	4,351	199,469	204,000	(4,531)	(2.2)
Section II, Phase II	12,475		12,475	24,150	36,625	35,180	1,445	4.1
Excavation—Diversion Channel	89,305		89,305		89,305	89,000	305	0.3
Water Plant Expansion	129,507		129,507	32,000	161,507	155,000	6,507	4.2
Wastewater Plant Expansion	46,156		46,156	165,151	211,307	200,000	11,307	5.7
Engineering for Water, Sewer, and Drainage Facilities	84,712		84,712		84,712	80,000	4,712	5.9
Engineering for Plant Expansion								(1.3)
Total Construction Costs	<u>542,749</u>		<u>542,749</u>	<u>936,547</u>	<u>1,509,796</u>	<u>1,488,680</u>	<u>21,116</u>	
Nonconstruction Costs								
Legal Fees	217	12,121	12,338		12,338	10,000	2,338	23.4
Fiscal Agent Fees		41,563	41,563		41,563	50,000	(8,437)	(16.9)
Creation Costs	322,023		322,023		322,023	325,000	(2,977)	(0.9)
Capitalized Interest		400,000	400,000		400,000	382,000	18,000	4.7
Bond Discount		40,000	40,000		40,000	50,000	(10,000)	(20.0)
Administration Costs		16,437	16,437		16,437	20,000	(3,563)	(17.8)
Developer Interest	50,300		50,300		50,300		(12,020)	(19.3)
Total Nonconstruction Costs	<u>372,540</u>	<u>510,121</u>	<u>882,661</u>		<u>882,661</u>	<u>62,320</u>	<u>(16,659)</u>	
Total Bond Issue	<u>\$945,789</u>	<u>\$510,121</u>	<u>\$1,455,910</u>	<u>\$936,547</u>	<u>\$2,392,457</u>	<u>\$2,388,000</u>	<u>\$4,457</u>	

Appendix N: Audit Report Format

We require your district's audit report to be submitted in the following order:

- N1. Annual Filing Affidavit**
- N2. Independent Auditor's Report**
- N3. Management's Discussion and Analysis**
- N4. Basic Financial Statements (Columnar Format)**
 - a. Statement of Net Assets and Governmental Funds Balance Sheet*
 - b. Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance*
 - Option 1—Shows how the District paid for the program's cost*
 - Option 2—Shows what the District did with the revenues raised*
- N5. Notes to the Basic Financial Statements**
 - Notes Required by the Agency*
 - Notes Required by GAAP*
 - Notes—Other*
- N6. Required Supplementary Information**
 - Budgetary Comparison Schedule (operating fund)*
 - Option 1—Combined view of a district with a non-appropriated budget*
 - Option 2—Expanded view of a district with a non-appropriated budget*
- N7. Texas Supplementary Information (TSI), if required**
 - TSI-1. Services and Rates*
 - TSI-2. General Fund Expenditures*
 - TSI-3. Temporary Investments*
 - TSI-4. Taxes Levied and Receivable*
 - TSI-5. Long-Term Debt Service Requirements by Years*
 - TSI-6. Changes in Long-Term Bonded Debt*
 - TSI-7. Comparative Schedule of Revenues and Expenditures—General Fund, Debt Service Fund, and Enterprise Fund (where applicable)—Five Years*
 - TSI-8. Board Members, Key Personnel, and Consultants*
- N8. Auditor's Management Letter** (if prepared by the auditor)

Appendix N1: Annual Filing Affidavit

(The Affidavit may be typed without using our form so long as the required elements are provided.)

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS }
COUNTY OF _____ }

I, _____ of the
(Name of Duly Authorized District Representative)

(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the _____ day of _____, _____, its annual audit report for the fiscal period ended _____ and that copies of the annual audit report have been filed in the District's office, located at _____

(Address of the District's Office)

This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: _____, _____ By: _____
(Signature of District Representative)

(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this _____ day of _____, _____.

(SEAL) _____
(Signature of Notary)

My Commission Expires On: _____,
Notary Public in the State of Texas.

Form TCEQ-0723 (Revised 10/2003)

Appendix N2: Independent Auditor's Report

Independent Auditor's Report

Responsibility

Your independent auditor has sole responsibility for the content of the auditor's report as a result of the audit work he has performed on your districts records.

Applicable Auditing Standards

District audits must be consistent with auditing standards established by the AICPA, which are the general, fieldwork, and reporting standards and the Statements on Auditing Standards (SAS). The AICPA publication *Audits of State and Local Governments* provides reference on the applicable guidance.

GAGAS (yellow book) is generally not applicable to district audits. If your auditor becomes aware that these standards are applicable he should inform your Board that an audit under GAAS may not be sufficient to meet requirements under the law, regulation, agreement, contract, or policy that requires the application of GAGAS. Your Board will decide whether to expand the district's audit report to include these standards. If your Board decides not to have these standards applied, your auditor will consider the impact of this decision upon his work and the district's financial statement presentation, and he will modify his report accordingly.

Reporting Standard

The reporting standard is the AICPA's *Codification of Statements on Auditing Standards*. The form and content of your auditor's report will be consistent with GASB's *Codification of Governmental Accounting and Financial Reporting Standards (Appendix O)*.

Auditor's Report on Texas Supplementary Information

Your Board may engage the auditor to report on its TSI. If engaged, his opinion will include a comment about the TSI's relationship to the district's basic financial statements. If not engaged, your auditor may include a comment about the TSI in his opinion. A separate Auditor's Report on Texas Supplementary Information will not be included in the Audit Report.

Appendix N3: Management's Discussion and Analysis

GASB 34 requires your Board to prepare a narrative to clarify and support the substance of your district's financial information. We propose that your district apply this guidance to tell its unique financial story. Since GASB's guidance is restrictive, we have explained these requirements below to provide you with a standard presentation sequence.

Overview of the Financial Statements

A brief discussion of your district's Basic Financial Statements and the relationship between the various statements.

Financial Highlights

A condensed summary of material (significant) financial information from the financial statements' presentation. Your Board will determine the materiality of the district's information.

Financial Analysis of the Water District as a Whole

An analysis that changes the district's Basic Financial Statements to a high-level total format with an explanation of significant year-to-year changes. What is significant may vary depending on circumstances. Agency guideline for significant change is a variance of 10% or more.

Financial Analysis of Government Funds

If included in the district's Basic Financial Statements, your Board must provide an analysis which explains material changes in fund balances and any restrictions, commitments, or significant limitations on the availability of those balances. If the fund balances are negative, your Board must explain its plans to eliminate the negative balances.

If not included in the district's Basic Financial Statements, your Board must provide a narrative which gives an overview of the nature of the fund balances presented in the Basic Financial Statements in a columnar format.

Analysis of Changes in Capital Assets and Long-Term Debt (or Capital Asset Administration)

A description of significant capital asset and long term debt activity during the year, including a disclosure of capital expenditure commitments, changes in credit ratings, and debt limitations affecting the district's financing of planned facilities or services.

Capital Asset Assessment

If your district chooses to use the modified approach to assess the condition of its capital assets for balance sheet presentation, it must give a description of the method used, a brief description of the historical condition, and a description of the current condition of the capital assets.

The Budget, Economic Environment, and Rates

Present the economic factors impacting your district's budget and the material changes from the prior year and an analysis of budget variances. Explain the fees and rates needed to meet your district's budget. Describe the known facts as of the date of the auditor's report. State the decisions or conditions that are expected to have a significant effect on the district's financial position or its results of operations.

Appendix N4: Basic Financial Statements (Columnar Format)

a. Statement of Net Assets and Governmental Funds Balance Sheet— June 30, 2004

	General Fund	Debt Service Fund*	Capital Projects Fund*	Total	Adjust- ments (Note A)#	Statement of Net Assets
ASSETS						
Cash and investments	\$6,505,557	\$459,601	\$751,591	\$7,716,749	\$	\$7,716,749
Taxes receivable	1,427,885	52,651		1,480,536		1,480,536
Other receivables	567,607		6,874	574,481		574,481
Internal receivables			12,293	12,293	(12,293)	
Prepayments	7,763			7,763		7,763
Inventories	197,308			197,308		197,308
Capital assets (net of accumulated depreciation)						
Land					301,507	301,507
Infrastructure					2,997,830	2,997,830
Other capital assets					2,219,869	2,219,869
Total assets	<u>\$8,706,120</u>	<u>\$512,252</u>	<u>\$770,758</u>	<u>\$9,989,130</u>	<u>5,506,913</u>	<u>15,496,043</u>
LIABILITIES						
Accounts payable	73,828		33,171	106,999		106,999
Salaries/benefits payable	273,367			273,367		273,367
Accrued interest payable		1,294		1,294	217	1,511
Internal payables	12,293			12,293	(12,293)	
Deferred revenues	1,534,321	42,791		1,577,112	(701,563)	875,549
Long-term liabilities:						
Due within one year					235,453	235,453
Due after one year					3,195,905	3,195,905
Total liabilities	<u>1,893,809</u>	<u>44,085</u>	<u>33,171</u>	<u>1,971,065</u>	<u>2,717,719</u>	<u>4,688,784</u>
FUND BALANCES/NET ASSETS						
Fund balances:						
Reserved for inventories	197,308			197,308	(197,308)	
Reserved, reported in:						
Debt service funds		468,167		468,167	(468,167)	
Capital projects funds			737,587	737,587	(737,587)	
Unreserved (Note B) ♦	<u>6,615,003</u>			<u>6,615,003</u>	<u>(6,615,003)</u>	
Total fund balances	<u>6,812,311</u>	<u>468,167</u>	<u>737,587</u>	<u>8,018,065</u>	<u>(8,018,065)</u>	
Total liabilities and fund balances	<u>\$8,706,120</u>	<u>\$512,252</u>	<u>\$770,758</u>	<u>\$9,989,130</u>		
Net assets:						
Invested in capital assets, net of related debt					2,087,848	2,087,848
Restricted for debt service					468,167	468,167
Restricted for capital projects					737,587	737,587
Unrestricted					<u>7,513,657</u>	<u>7,513,657</u>
Total net assets					<u>\$10,807,259</u>	<u>\$10,807,259</u>

* GASB 34 requires separate columns for major funds (including the General Fund). Nonmajor funds should be combined in a single column. Districts may report important funds as major funds even if the funds do not meet the major criteria.

Note A would provide the details for the main components of the adjustments.

♦ Note B would explain the District's rainy day fund and the reason for setting the amount aside.

Appendix N4: Basic Financial Statements (Continued)

b. Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances For the Year Ended-June 30, 2004

Option 1: Shows how the District paid for the program's cost

	General Fund	Debt Service Fund*	Capital Projects Fund*	Total	Adjustments (Note C)#	Statement of Activities
Expenditures/expenses:						
Service operations:						
Water service	\$2,694,208	\$	\$	\$2,694,208	\$159,546	\$2,853,754
Sewer service	1,955,473			1,955,473	84,850	2,040,323
Purchased water service	1,753,465			1,753,465		1,753,465
Salaries, benefits, & payroll taxes	3,305,563			3,305,563		3,305,563
Contracted services	332,210			332,210		332,210
Professional fees	388,732			388,732		388,732
Director fees	8,800			8,800		8,800
Other	9,498			9,498		9,498
Capital outlay	319,920		219,175	539,095	(539,095)	
Debt service:						
Principal		220,000		220,000	(220,000)	
Interest		204,028		204,028	217	204,245
Depreciation					306,623	306,623
Total expenditures/expenses	<u>10,767,869</u>	<u>424,028</u>	<u>219,175</u>	<u>11,411,072</u>	<u>(207,859)</u>	<u>11,203,213</u>
Revenues:						
Program revenues:						
Charges for water service	4,534,635			4,534,635		4,534,635
Charges for sewer service	3,609,298			3,609,298		3,609,298
Tap connection & inspection fees	236,963			236,963		236,963
Total program revenues	<u>8,380,896</u>			<u>8,380,896</u>		<u>8,380,896</u>
Net program revenue/expense						<u>(2,822,317)</u>
General revenues:						
Property taxes	2,848,386	391,442		3,239,828	270,601	3,510,429
Investment earnings	321,100	373	71,209	392,682		392,682
Penalties and interest	82,997			82,997		82,997
Other	294,646			294,646		294,646
Transfers—internal activities	<u>(500,000)</u>	<u>500,000</u>				
Total general revenues/transfers	<u>3,047,129</u>	<u>891,815</u>	<u>71,209</u>	<u>4,010,153</u>	<u>270,601</u>	<u>4,280,754</u>
Total revenues and transfers	<u>11,428,025</u>	<u>891,815</u>	<u>71,209</u>	<u>12,391,049</u>	<u>270,601</u>	<u>12,661,650</u>
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	660,156	467,787	(147,966)	979,977	(979,977)	
Change in net assets					1,458,437	1,458,437
Fund balance/net assets:						
Beginning of the year	<u>6,152,155</u>	<u>380</u>	<u>885,553</u>	<u>7,038,088</u>	<u>2,310,734</u>	<u>9,348,822</u>
End of the year	<u>\$6,812,311</u>	<u>\$468,167</u>	<u>\$737,587</u>	<u>\$8,018,065</u>	<u>\$2,789,194</u>	<u>\$10,807,259</u>

* GASB 34 requires separate columns for major funds (including the General Fund). Nonmajor funds should be combined in a single column. Districts may report important funds as major funds even if the funds do not meet the major criteria.

Note C would provide the details for the main components of the adjustments.

Appendix N4: Basic Financial Statements (Continued)

b. Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances For the Year Ended-June 30, 2004

Option 2: Shows what the District did with the revenues raised

	General Fund	Debt Service Fund*	Capital Projects Fund*	Total	Adjustments (Note C)#	Statement of Activities
Revenues:						
Charges for water service	\$4,534,635	\$	\$	\$4,534,635	\$	\$4,534,635
Charges for sewer service	3,609,298			3,609,298		3,609,298
Property taxes	2,848,386	391,442		3,239,828	270,601	3,510,429
Tap connection and inspection fees	236,963			236,963		236,963
Investment earnings	321,100	373	71,209	392,682		392,682
Penalties and interest	82,997			82,997		82,997
Other	<u>294,646</u>			<u>294,646</u>		<u>294,646</u>
Total revenues	<u>11,928,025</u>	<u>391,815</u>	<u>71,209</u>	<u>12,391,049</u>	<u>270,601</u>	<u>12,661,650</u>
Expenditures/expenses:						
Service operations:						
Water service	\$2,694,208	\$	\$	\$2,694,208	\$159,546	\$2,853,754
Sewer service	1,955,473			1,955,473	84,850	2,040,323
Purchased water service	1,753,465			1,753,465		1,753,465
Salaries, benefits, & payroll taxes	3,305,563			3,305,563		3,305,563
Contracted services	332,210			332,210		332,210
Professional fees	388,732			388,732		388,732
Director fees	8,800			8,800		8,800
Other	9,498			9,498		9,498
Capital outlay	319,920		219,175	539,095	(539,095)	
Debt service:						
Principal		220,000		220,000	(220,000)	
Interest		204,028		204,028	217	204,245
Depreciation					<u>306,623</u>	<u>306,623</u>
Total expenditures/expenses	<u>10,767,869</u>	<u>424,028</u>	<u>219,175</u>	<u>11,411,072</u>	<u>(207,859)</u>	<u>11,203,213</u>
Excess (deficiency) of revenues over expenditures	1,160,156	(32,213)	(147,966)	979,977	478,460	
Other financing sources/uses:						
Transfers—internal activities	<u>(500,000)</u>	<u>500,000</u>				
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	660,156	467,787	(147,966)	979,977	(979,977)	
Change in net assets					1,458,437	1,458,437
Fund balance/net assets:						
Beginning of the year	<u>6,152,155</u>	<u>380</u>	<u>885,553</u>	<u>7,038,088</u>	<u>2,310,734</u>	<u>9,348,822</u>
End of the year	<u>\$6,812,311</u>	<u>\$468,167</u>	<u>\$737,587</u>	<u>\$8,018,065</u>	<u>\$2,789,194</u>	<u>\$10,807,259</u>

* GASB 34 requires separate columns for major funds (including the General Fund). Nonmajor funds should be combined in a single column. Districts may report important funds as major funds even if the funds do not meet the major criteria.

Note C would provide the details for the main components of the adjustments.

Appendix N5: Notes to the Basic Financial Statements

Notes to the Basic Financial Statements

Notes to the financial statements are essential to fair presentation of your district's financial position and the results of its operations. The Agency recommends that your district's management include notes sufficient to provide the readers of the financial statements a clear picture of the district's financial status and an insight into the events it has experienced during the fiscal year. For discussion purposes this appendix is divided into notes we require and those required by GAAP. For financial statement presentation, the notes are one unit. Do not present them as Agency requirements and GAAP requirements.

To standardize the reporting format among districts we recommend that the notes be presented in the following order after the district's basic financial statements.

Notes Required by the Agency (including overlap with GAAP requirements)

- The Financial Reporting Entity
- Summary of Accounting Policies and Basis of Accounting
- Long Term Debt
- Property Taxes
- Commitments and Contingent Liabilities Arising from District Development
- Employees Retirement System

Agency and GAAP Requirements. Notes to the financial statements essential to fair presentation at the basic financial statement level include the Summary of Significant Accounting Policies and summary disclosure of:

- contingent liabilities
- encumbrances outstanding
- effects of subsequent events
- pension plan obligations
- accumulated unpaid employee benefits
- material violations of finance-related legal and contractual provisions
- debt service requirements to maturity
- lease commitments
- construction and other significant commitments
- changes in capital assets and long-term debt
- excess of expenditures over appropriations in individual funds
- deficit balances of individual funds
- interfund receivables and payables

Any other disclosures necessary in the circumstances would also be included (NCGA Statement 1).

Agency Requirements. The following notes are a requirement of this Agency to ensure a minimum disclosure of facts to the reader. If the topic of a note has been fully disclosed in the financial statements or a TSI then that note may reference the location of the information.

Notes A and B below are mandatory for all districts. Notes C, D, E, and F may be omitted if they are not applicable to your district.

A. Creation of District: Included in the Financial Reporting Entity, disclose: (1) who created your district; (2) when your district was created (mm/dd/yyyy); and (3) the specific laws under which your district operates. If your district has been created or amended by a legislative act, name the act(s) and its effective date.

B. Contingent Liabilities: Disclose the nature and amount of each contract your district has with third parties who will provide or have provided assets or services which will be paid from the proceeds of debt bonds issued at a future date regardless of whether that date is known.

C. Pension Coverage: If your district has employees and it offers pension benefits to its employees, your auditor's report must contain disclosures according to GASB Section P20. If the district's employees are covered only by Social Security, the note can state that the employees do not participate in a public retirement system but are covered by Social Security. A district is required to provide Social Security coverage for its employees not participating in a public retirement system (Omnibus Reconciliation Act of 1990).

D. Pledge of Revenues: Disclose what revenues are pledged for each bond resolution.

E. Compliance with Debt Service Requirements: Disclose the condition of the debt service and capital projects funds and whether they are managed according to your district's bond resolutions. Disclose the amounts escrowed and reserved and the use of those funds. If your district is not in compliance with its bond resolution, explain the noncompliance.

F. Bond Redemption: Disclose the provisions of the district's bond redemption, including the: callability; call price when bonds may be called; and other relevant provisions of each bond issue. If there are no bond redemption provisions, state this fact in the district's pledge of revenues note.

Notes Required by GAAP (or Your Auditor's Preference)

With professional advice, your district's management must include all notes necessary for full disclosure and understanding by the reader as well as the

notes needed to comply with GAAP reporting requirements. Refer to GASB publication *Codification of Governmental Accounting and Financial Reporting Standards* for more information. The required GAAP notes are:

- Summary of significant accounting policies, including:
 - A description of the government-wide financial statements,
 - A brief description of the component units of the financial reporting entity and their relationships to the primary government,
 - The measurement focus and basis of accounting used,
 - The policy for eliminating internal activity in the government-wide statement of activities,
 - The policy for capitalizing assets and for estimating the useful lives of those assets, and
 - The definition of cash and cash equivalents.
- Significant contingent liabilities and subsequent events
- Pension information
- Violations of legal and contract provisions
- Debt service requirements
- Commitments, joint ventures, and leases
- Fund deficits
- Interfund receivables and payables
- Risk management
- Property taxes
- Budget basis of accounting
- Related party transactions
- Methods of estimation of capital asset costs
- Fund balance designations
- Segment information (if your district meets the criteria established by GASB 34)

Notes—Other (when applicable)

Include any other notes that will add clarity to the financial statements. For example, the following topics might be appropriate:

- Subsequent Events
- Related Party Transactions
- Interlocal Agreements

These notes may appear in any sequence, so long as they appear *after* all of the required notes.

Appendix N6: Required Supplementary Information

Required Supplementary Information—Budgetary Comparison Schedule— General Fund—For the Year Ended June 30, 2004

Option 1: Combined view of a district with a non-appropriated budget *

	<u>Actual</u>	<u>Original Budget #</u>	Variance Positive (Negative)
Revenues:			
Charges for water service	\$4,534,635	\$4,500,000	\$34,635
Charges for sewer service	3,609,298	3,500,000	109,298
Property taxes	2,848,386	2,795,500	52,886
Tap connection and inspection fees	236,963	225,000	11,963
Investment earnings	321,100	300,000	21,100
Penalties and interest	82,997	100,000	(17,003)
Other	<u>294,646</u>	<u>300,000</u>	<u>(5,354)</u>
Total revenues	<u>11,928,025</u>	<u>11,720,500</u>	<u>207,525</u>
Expenditures/expenses:			
Service operations:			
Water service	\$2,694,208	\$2,700,000	\$5,792
Sewer service	1,955,473	2,000,000	44,527
Purchased water service	1,753,465	1,700,000	(53,465)
Salaries, benefits, and payroll taxes	3,305,563	3,300,000	(5,563)
Contracted services	332,210	300,000	(32,210)
Professional fees	388,732	375,000	(13,732)
Director fees	8,800	8,000	(800)
Other	9,498	10,000	502
Capital outlay	<u>319,920</u>	<u>325,000</u>	<u>5,080</u>
Total expenditures/expenses	<u>10,767,869</u>	<u>10,718,000</u>	<u>(49,869)</u>
Excess (deficiency) of revenues over expenditures	1,160,156	1,002,500	157,656
Other financing sources/uses:			
Transfers—internal activities	<u>(500,000)</u>	<u>(500,000)</u>	_____
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	660,156	502,500	157,656
Fund balance:			
Beginning of the year	<u>6,152,155</u>	<u>6,152,155</u>	_____
End of the year	<u>\$6,812,311</u>	<u>\$6,654,655</u>	<u>\$157,656</u>

* While water district budgets are not “legally adopted” within the meaning of GASB 34, they are adopted according to Texas law. To conform with this law and to establish a consistent reporting format all water districts (including those using proprietary funds) must present their budget comparison on this schedule.

Original Budget as adopted prior to the beginning of the fiscal year. If your district’s original budget has been amended during the fiscal year, GASB 34 requires your auditor to present a separate column for the district’s final amended budget.

Appendix N6: Required Supplementary Information (Continued)

Required Supplementary Information—Budgetary Comparison Schedule— General Fund—For the Year Ended June 30, 2004

Option 2: Expanded view of a district with a non-appropriated budget *

	Actual				Original Budget #	Variance Positive (Negative)
	Water	Sewer	Other	Total		
Revenues:						
Charges for water service	\$4,534,635	\$	\$	\$4,534,635	\$4,500,000	\$34,635
Charges for sewer service		3,609,298		3,609,298	3,500,000	109,298
Property taxes			2,848,386	2,848,386	2,795,500	52,886
Tap connections & Inspection fees	180,632	56,331		236,963	225,000	11,963
Investment earnings			321,100	321,100	300,000	21,100
Penalties and interest			82,997	82,997	100,000	(17,003)
Other			294,646	294,646	300,000	(5,354)
Total revenues	<u>4,715,267</u>	<u>3,665,629</u>	<u>3,547,129</u>	<u>11,928,025</u>	<u>11,720,500</u>	<u>207,525</u>
Expenditures/expenses:						
Service operations:						
Water service	\$2,694,208	\$	\$	\$2,694,208	\$2,700,000	\$5,792
Sewer service		1,955,473		1,955,473	2,000,000	44,527
Purchased water service	1,753,465			1,753,465	1,700,000	(53,465)
Salaries, benefits, payroll taxes	1,502,232	1,154,106	649,225	3,305,563	3,300,000	(5,563)
Contracted services			332,210	332,210	300,000	(32,210)
Professional fees			388,732	388,732	375,000	(13,732)
Director fees			8,800	8,800	8,000	(800)
Other			9,498	9,498	10,000	502
Capital outlay			<u>319,920</u>	<u>319,920</u>	<u>325,000</u>	<u>5,080</u>
Total expenditures/expenses	<u>5,949,905</u>	<u>3,109,579</u>	<u>1,708,385</u>	<u>10,767,869</u>	<u>10,718,000</u>	<u>(49,869)</u>
Excess (deficiency) of revenues over expenditures	(1,234,638)	556,050	1,838,744	1,160,156	1,002,500	157,656
Other financing sources/uses: Transfers—internal activities			(500,000)	(500,000)	(500,000)	
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(1,234,638)	556,050	1,338,744	660,156	502,500	157,656
Fund balance:						
Beginning of the year	(1,769,997)	(993,354)	8,915,506	6,152,155	6,152,155	
End of the year	(\$3,004,635)	(\$437,304)	\$10,254,250	\$6,812,311	\$6,654,655	\$157,656

* While water district budgets are not “legally adopted” within the meaning of GASB 34, they are adopted according to Texas law. To conform with this law and to establish a consistent reporting format all water districts (including those using proprietary funds) must present their budget comparison on this schedule.

Original Budget as adopted prior to the beginning of the fiscal year. If your district’s original budget has been amended during the fiscal year, GASB 34 requires your auditor to present a separate column for the district’s final amended budget.

Appendix N7: Texas Supplementary Information

Texas Supplementary Information Requirements

All districts other than TSI exempt districts (defined in **Appendix P** on page P-34) must prepare and present the **Texas Supplementary Information (TSI) TSI-1 through TSI-8** after the notes to the basic financial statements. For organizational purposes, your district may prepare an index to the TSI similar to the TSI chart below. Examples of these schedules are provided on the following pages.

Texas Supplementary Information
TSI-1. Services and Rates
TSI-2. General Fund Expenditures
TSI-3. Temporary Investments
TSI-4. Taxes Levied and Receivable
TSI-5. Long-Term Debt Service Requirements by Years
TSI-6. Changes in Long-Term Bonded Debt
TSI-7. Comparative Schedule of Revenues and Expenditures— General Fund, Debt Service Fund, and Enterprise Fund (where applicable)—Five Years
TSI-8. Board Members, Key Personnel, and Consultants

If a TSI is not applicable, your district may use the TSI index to express the omission of this information from the audit report. One reason for an omission would be if your district has never assessed or collected taxes, then your district may omit **TSI-4**, the Taxes Levied and Receivable schedule, and disclose this omission in your district's audit report TSI index or its Table of Contents.

If your auditor prepares an Auditor's Management Letter (**Appendix N8**), your district must submit the letter with the audit report.

Enterprise Funds—As stated in our rules, districts using proprietary (enterprise) funds in their audited financial statements shall provide sufficient supplemental information to demonstrate the district's compliance with all legal restrictions on the use of the district's monies. This supplemental information is referred to as TSI in the *Guide*.

The use of proprietary funds does not exempt your district from preparing the TSI. **TSI-2** must be used and renamed to reflect your district's operating expenses in its Enterprise Fund if the district's operations are accounted for in that fund.

Alternative formats of **TSI-7** include:

- Districts that use an Enterprise Fund must use **TSI-7c** on page N-28.

- Your district may choose to amend **TSI-7** to display additional information [Other Financial Sources (Uses) and the Beginning and Ending Fund Balances] if that information would be beneficial to your Board and the district's consultants. A sample format has not been provided.

(District's Name)
TSI-1. Services and Rates
(Fiscal Year Ending Date)

1. Services Provided by the District during the Fiscal Year:

- | | | |
|--|---|-------------------------------------|
| <input type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Security |
| <input type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
| <input type="checkbox"/> Participates in joint venture, regional system, and/or wastewater service (other than emergency interconnect) | | |
| <input type="checkbox"/> Other (specify): _____ | | |

2. Retail Service Providers

(You may omit this information if your district does not provide retail services)

a. Retail Rates for a 5/8" meter (or equivalent):

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum Use</u>	<u>Usage Levels</u>
WATER:	\$ _____ . _____	_____	_____	\$ _____ . _____	_____ to _____
WASTEWATER:	\$ _____ . _____	_____	_____	\$ _____ . _____	_____ to _____
SURCHARGE:	\$ _____ . _____	_____	_____	\$ _____ . _____	_____ to _____

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water: \$ _____ . _____ Wastewater: \$ _____ . _____

b. Water and Wastewater Retail Connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	_____	_____	x 1.0	_____
≤ ³ / ₄ "	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1½"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water	_____	_____	_____	_____
Total Wastewater	_____	_____	x 1.0	_____

TSI-1. Services and Rates (Continued)

3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):
(You may omit this information if your district does not provide water)

Gallons pumped into system: _____,000 Water Accountability Ratio:
(Gallons billed / Gallons pumped)
Gallons billed to customers: _____,000 _____

4. Standby Fees (authorized only under TWC Section 49.231):
(You may omit this information if your district does not levy standby fees)

Does the District have Debt Service standby fees? Yes No

If yes, Date of the most recent Commission Order: _____

Does the District have Operation and Maintenance standby fees? Yes No

If yes, Date of the most recent Commission Order: _____

5. Location of District (required for first audit year or when information changes,
otherwise this information may be omitted):

County(ies) in which the District is located: _____

Is the District located entirely within one county? Yes No

Is the District located within a city? Entirely Partly Not at all

City(ies) in which the District is located: _____

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely Partly Not at all

ETJs in which the District is located: _____

Are Board members appointed by an office outside the district? Yes No

If Yes, by whom? _____

(District's Name)
TSI-2. General Fund Expenditures
 (Fiscal Year Ending Date)

(Alter this schedule if your district uses an Enterprise Fund to account for your district's operations)

Personnel Expenditures (including benefits)*	\$	
Professional Fees:		
Auditing		
Legal		
Engineering		
Financial Advisor		
Purchased Services For Resale:		
Bulk Water and Wastewater Service Purchases		
Contracted Services:		
Bookkeeping		
General Manager		
Appraisal District		
Tax Collector		
Other Contracted Services		
Utilities		
Repairs and Maintenance		
Administrative Expenditures:		
Directors Fees		
Office Supplies		
Insurance		
Other Administrative Expenditures		
Capital Outlay:		
Capitalized Assets		
Expenditures not Capitalized		
Tap Connection Expenditures		
Solid Waste Disposal		
Fire Fighting		
Parks and Recreation		
Other Expenditures		
TOTAL EXPENDITURES	\$	

* Number of persons employed by the District: _____ Full-Time _____ Part-Time
 (You may omit the note above if your district had no personnel expenditures. Independent contractors or consultants are not employees.)

(District's Name)
TSI-3. Temporary Investments
(Fiscal Year Ending Date)

(You may omit this information if your district has no temporary investments or certificates of deposit.)

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<u>General Fund</u>					
Certificate of Deposit	30173	4.000%	11-05-0X	\$ 24,000	\$ 257
Total				24,000	257
<u>Debt Service Fund</u>					
Certificate of Deposit	2138100185	5.000%	12-31-0X	2,100,000	-
Certificate of Deposit	2138100249	5.250%	2-15-0X	80,000	809
Time Deposit	Acct.# 1-252	2.750%	4-01-0X	14,000	-
Total				2,194,000	809
<u>Capital Projects Fund</u>					
Certificate of Deposit	2138421459	5.000%	12-14-0X	3,000,000	18,411
Certificate of Deposit	6441121852	4.125%	3-15-0X	1,000,000	457
Certificate of Deposit	30842	4.000%	6-01-0X	204,800	464
Total				4,204,800	19,332
Total—All Funds				\$6,422,800	\$ 20,398

(District's Name)
TSI-4. Taxes Levied and Receivable
(Fiscal Year Ending Date)

(You may omit this information if your district did not levy or receive any tax monies)

	Maintenance Taxes*	Debt Service Taxes*	Other District Taxes*	
Taxes Receivable, Beginning of Year	\$ - 0 -	\$2,578	\$ - 0 -	
20X3 Original Tax Levy	30,886	401,512	- 0 -	
(less abatements)	- 0 -	- 0 -	- 0 -	
Total to be accounted for	30,886	404,090	- 0 -	
Tax collections:				
Current year	(30,482)	(396,265)	- 0 -	
Prior years	- 0 -	(286)	- 0 -	
Total Collections	(30,482)	(396,551)	- 0 -	
Taxes Receivable, End of Year	\$404	\$7,539	\$ - 0 -	
Taxes Receivable, By Years				
20X2	\$ - 0 -	\$2,292	\$ - 0 -	
20X3	404	5,247	- 0 -	
Taxes Receivable, End of Year	\$404	\$7,539	\$ - 0 -	
	20X3	20X2	20X1	20X0
Property Valuations:				
Land	\$12,396,630	\$10,068,870	\$7,531,280	\$7,017,980
Improvements	18,352,990	9,209,850	1,696,410	- 0 -
Personal Property	135,920	95,280	18,280	- 0 -
Total Property Valuations	\$30,885,540	\$19,374,000	\$9,245,970	\$7,017,980
Tax Rates per \$100 Valuation:				
Debt service tax rates *	\$1.30	\$1.30	\$1.30	\$1.30
Maintenance tax rates † *	0.10	- 0 -	- 0 -	- 0 -
Other district tax rates *	- 0 -	- 0 -	- 0 -	- 0 -
Total Tax Rates per \$100 Valuation	\$1.40	\$1.30	\$1.30	\$1.30
Original Tax Levy:	\$432,398	\$251,862	\$120,198	\$91,234
Percent of Taxes Collected to Taxes Levied ‡	99%	99%	100%	100%

† Maximum Tax Rate Approved by Voters: \$0.25 on 4-16-1999

* If the district does not assess this type of tax, the column and the line item disclosing this tax information can be omitted.

‡ Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

(District's Name)
TSI-5. Long-Term Debt Service Requirements
(Series 20X0)—by Years
(Fiscal Year Ending Date)

(You may omit this information if your district has no outstanding bonded indebtedness)

DUE DURING FISCAL YEARS ENDING	Series 20X0		
	Principal Due mm/dd	Interest Due mm/dd, mm/dd	Total
2004	\$30,000	\$294,746	\$324,746
2005	50,000	292,496	342,496
2006	60,000	288,496	348,496
2007	60,000	283,746	343,746
2008	65,000	278,996	343,996
2009	65,000	273,808	338,808
2010	80,000	268,620	348,620
2011	80,000	262,246	342,246
2012	100,000	255,870	355,870
2013	100,000	247,870	347,870
2014	100,000	239,870	339,870
2015	110,000	231,870	341,870
2016	120,000	223,395	343,395
2017	130,000	214,020	344,020
2018	150,000	203,920	353,920
2019	150,000	192,205	342,205
2020	170,000	180,490	350,490
2021	185,000	167,186	352,186
2022	190,000	152,685	342,685
2023	210,000	137,750	347,750
2024	230,000	121,220	351,220
2025	240,000	103,095	343,095
2026	260,000	84,245	344,245
2027	285,000	63,800	348,800
2028	305,000	41,326	346,326
2029	<u>200,000</u>	<u>17,400</u>	<u>217,400</u>
	<u>\$3,725,000</u>	<u>\$5,121,371</u>	<u>\$8,846,371</u>

(District's Name)
TSI-5. Long-Term Debt Service Requirements
(Series 20X1)—by Years (Continued)
(Fiscal Year Ending Date)

(You may omit this information if your district has no outstanding bonded indebtedness)

DUE DURING FISCAL YEARS ENDING	Series 20X1		
	Principal Due mm/dd	Interest Due mm/dd, mm/dd	Total
2004	\$0	\$156,700	\$156,700
2005	0	156,700	156,700
2006	30,000	156,700	186,700
2007	40,000	153,400	193,400
2008	40,000	149,000	189,000
2009	40,000	144,600	184,600
2010	50,000	140,200	190,200
2011	50,000	134,576	184,576
2012	60,000	128,826	188,826
2013	60,000	121,776	181,776
2014	70,000	114,576	184,576
2015	70,000	106,000	176,000
2016	80,000	97,000	177,000
2017	90,000	85,000	175,000
2018	100,000	74,000	174,000
2019	110,000	61,000	171,000
2020	110,000	46,800	156,800
2021	120,000	32,500	152,500
2022	130,000	16,900	146,900
	<u>\$1,250,000</u>	<u>\$2,076,254</u>	<u>\$3,326,254</u>

(District's Name)
TSI-5. Long-Term Debt Service Requirements
(Series 20X2)—by Years (Continued)
(Fiscal Year Ending Date)

(You may omit this information if your district has no outstanding bonded indebtedness)

DUE DURING FISCAL YEARS ENDING	Series 20X2		
	Principal Due mm/dd	Interest Due mm/dd, mm/dd	Total
2004	\$0	\$902,844	\$902,844
2005	0	722,275	722,275
2006	0	722,275	722,275
2007	0	722,275	722,275
2008	100,000	715,525	815,525
2009	125,000	700,338	825,338
2010	125,000	683,463	808,463
2011	150,000	664,900	814,900
2012	175,000	642,963	817,963
2013	200,000	617,650	817,650
2014	250,000	588,525	838,525
2015	275,000	557,225	832,225
2016	325,000	522,863	847,863
2017	375,000	482,425	857,425
2018	450,000	434,350	884,350
2019	500,000	378,525	878,525
2020	600,000	313,325	913,325
2021	675,000	237,125	912,125
2022	800,000	148,625	948,625
2023	875,000	50,313	925,313
	<u>\$6,000,000</u>	<u>\$10,807,809</u>	<u>\$16,807,809</u>

(District's Name)
TSI-5. Long-Term Debt Service Requirements
(All Bonded Debt Series)—by Years
(Fiscal Year Ending Date)

(You may omit this information if your district has no outstanding bonded indebtedness)

DUE DURING FISCAL YEARS ENDING	<u>Annual Requirements for All Series</u>		
	Principal Due mm/dd	Interest Due mm/dd, mm/dd	Total
2004	\$30,000	\$1,354,290	\$1,384,290
2005	50,000	1,171,471	1,221,471
2006	90,000	1,167,471	1,257,471
2007	100,000	1,159,421	1,259,421
2008	205,000	1,143,521	1,348,521
2009	230,000	1,118,746	1,348,746
2010	255,000	1,092,283	1,347,283
2011	280,000	1,061,722	1,341,722
2012	335,000	1,027,659	1,362,659
2013	360,000	987,296	1,347,296
2014	420,000	942,971	1,362,971
2015	455,000	895,095	1,350,095
2016	525,000	843,258	1,368,258
2017	595,000	781,445	1,376,445
2018	700,000	712,270	1,412,270
2019	760,000	631,730	1,391,730
2020	880,000	540,615	1,420,615
2021	980,000	436,811	1,416,811
2022	1,120,000	318,210	1,438,210
2023	1,085,000	188,063	1,273,063
2024	230,000	121,220	351,220
2025	240,000	103,095	343,095
2026	260,000	84,245	344,245
2027	285,000	63,800	348,800
2028	305,000	41,326	346,326
2029	<u>200,000</u>	<u>17,400</u>	<u>217,400</u>
	<u>\$10,975,000</u>	<u>\$18,005,434</u>	<u>\$28,980,434</u>

(District's Name)
TSI-6. Change in Long-Term Bonded Debt
(Fiscal Year Ending Date)

(You may omit this information if your district has no outstanding bonded indebtedness)

	<u>Bond Issues</u>			Total
	Series 20X0	Series 20X1	Series 20X2	
Interest Rate <small>(Quote either interest rate range or effective interest rate)</small>	4.25 - 5.75%	4.5 - 6.5%	3.5 - 4.75%	
Dates Interest Payable	1/1; 7/1	1/1; 7/1	3/1; 9/1	
Maturity Dates	9-1-2029	7-1-2022	9-1-2023	
Beginning Bonds Outstanding	\$3,725,000	\$1,250,000	\$ -	\$4,975,000
Bonds Sold During the Fiscal Year	-	-	6,000,000	6,000,000
Bonds Retired During the Fiscal Year	-	-	-	-
Ending Bonds Outstanding	<u>\$3,725,000</u>	<u>\$1,250,000</u>	<u>\$6,000,000</u>	<u>\$10,975,000</u>
Interest Paid During the Fiscal Year	\$294,746	\$156,700	\$ -	\$451,446

Paying Agent's Name and City

Series 20X0	<u>JP Morgan Chase Bank</u>	<u>Dallas, TX</u>
Series 20X1	<u>The Bank of New York</u>	<u>Jacksonville, FL</u>
Series 20X2	<u>First Union National Bank</u>	<u>Houston, TX</u>

Bond Authority:	<u>Tax Bonds*</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized By Voters	<u>\$24,000,000</u>	<u>\$16,300,000</u>	<u>\$16,280,000</u>
Amount Issued	<u>\$11,000,000</u>	<u>\$16,300,000</u>	<u>\$16,280,000</u>
Remaining To Be Issued	<u>\$13,000,000</u>	<u>\$ 0</u>	<u>\$ 0</u>

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and temporary investments balances as of (Fiscal Year Ending Date): \$ 2,239,447

Average annual debt service payment (Principal and Interest) for remaining term of all debt: \$ 1,114,632

(District's Name)
TSI-7a. Comparative Schedule of Revenues and Expenditures—General Fund—Five Years Ended
 (Fiscal Year Ending Date)

GENERAL FUND:						PERCENT OF FUND TOTAL REVENUES				
	20X4	20X3	20X2	20X1	20X0	20X4	20X3	20X2	20X1	20X0
REVENUES:										
Property taxes	\$30,886	\$-	\$-	\$-	\$-	9.4%	-%	-%	-%	-%
Water service	105,778	70,742	41,823	11,446	-	32.4	41.9	33.9	14.1	-
Wastewater service	59,150	41,294	21,972	3,429	-	18.1	24.5	17.8	4.2	-
Application fees	2,710	1,420	-	-	-	1.3	0.8	-	-	-
Penalty and interest	AMOUNTS	3,023	1,727	290	-	0.8	1.8	1.4	0.4	-
Tap connection fees	119,990	51,750	57,935	65,728	-	36.7	30.7	46.9	81.1	-
Interest on time deposits										
TOTAL REVENUES	<u>326,440</u>	<u>168,766</u>	<u>123,457</u>	<u>82,075</u>	<u>-</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES:										
Lease of facilities	20,514	-	-	-	-	6.3	-	-	-	-
Purchased water and wastewater services	6,306	-	-	21,600	-	1.9	-	-	26.6	-
Professional fees	44,286	26,779	17,144	9,438	1,374	13.6	15.9	13.9	11.6	-
Contracted services	1,200	21,931	16,692	8,878	3,245	0.4	13.0	13.5	11.0	-
Payroll	48,919	-	-	-	-	15.0	-	-	-	-
Utilities	67,941	26,110	18,222	4,418	656	20.8	15.5	14.8	5.4	-
Materials and supplies	3,445	1,791	1,189	525	280	1.0	1.0	1.0	1.0	-
Repairs and maintenance	64,838	34,074	25,366	2,514	-	19.9	20.2	20.5	3.1	-
Other expenditures	19,412	15,873	16,966	7,595	22,812	5.9	9.4	13.7	9.4	-
Capital outlay										
TOTAL EXPENDITURES	<u>64,691</u>	<u>45,313</u>	<u>35,119</u>	<u>34,488</u>	<u>28,367</u>	<u>19.8</u>	<u>26.8</u>	<u>28.5</u>	<u>42.5</u>	<u>-</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (15,112)</u>	<u>\$ (3,105)</u>	<u>\$ (7,241)</u>	<u>\$ (8,381)</u>	<u>\$ (28,367)</u>	<u>(4.6)%</u>	<u>(1.8)%</u>	<u>(5.9)%</u>	<u>(10.6)%</u>	<u>- %</u>

(District's Name)

TSI-7b. Comparative Schedule of Revenues and Expenditures—Debt Service Fund—Five Years Ended

(Fiscal Year Ending Date)

DEBT SERVICE FUND:						PERCENT OF FUND TOTAL REVENUES				
	20X4	20X3	20X2	20X1	20X0	20X4	20X3	20X2	20X1	20X0
REVENUES:										
Property taxes	\$96,551	\$249,570	\$119,912	\$91,234	\$-	36.0%	79.1%	70.5%	86.7%	-%
Penalty and interest	1,783	749	1,542	-	-	0.7	0.2	0.9	-	-
Interest on time deposits	169,995	65,296	48,613	13,996	3,058	63.3	20.7	28.6	13.3	100.0
TOTAL REVENUES	<u>268,329</u>	<u>315,615</u>	<u>170,067</u>	<u>105,230</u>	<u>3,058</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES:										
Tax collection services	13,685	8,027	3,102	3,734	-	2.2	2.4	1.8	3.5	-
Other expenditures	3,887	3,101	669	617	13	0.6	0.9	0.4	0.6	0.4
Debt service, interest and fees	451,860	295,043	224,346	153,650	_____	72.4	87.9	131.9	146.0	_____
TOTAL EXPENDITURES	<u>469,432</u>	<u>306,171</u>	<u>228,117</u>	<u>158,001</u>	<u>_____</u>	<u>75.2</u>	<u>91.2</u>	<u>134.1</u>	<u>150.1</u>	<u>0.4</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>\$(201,103)</u>	<u>\$9,444</u>	<u>\$(58,050)</u>	<u>\$(52,771)</u>	<u>13,045</u>	<u>24.8%</u>	<u>8.8%</u>	<u>(34.1)%</u>	<u>(50.1)%</u>	<u>99.6%</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>93</u>	<u>64</u>	<u>27</u>	<u>-0-</u>	<u>-0-</u>					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>95</u>	<u>69</u>	<u>30</u>	<u>-0-</u>	<u>-0-</u>					

(District's Name)
TSI-7c. Comparative Schedule of Revenues and Expenses—Enterprise Fund—Five Years Ended
 Fiscal Year Ending Date)

	Amounts					Percent of Fund Total Revenues				
	20X4	20X3	20X2	20X1	20X0	20X4	20X3	20X2	20X1	20X0
Operating Revenues:										
Water service	\$304,112	\$221,061	\$113,277	\$62,862	\$ —	42.2%	52.8%	46.3%	36.5%	—%
Sewer service	259,150	141,294	71,972	43,429	—	35.9	33.8	29.4	25.2	—
Application fees	2,710	1,420	—	—	—	0.4	0.3	—	—	—
Penalty and interest	4,386	3,023	1,727	290	—	0.6	0.8	0.6	0.2	—
Tap connection fees	144,476	48,300	54,350	62,023	—	20.0	11.5	22.2	36.0	—
Interest on time deposits										
Total Operating Revenues	<u>624,934</u>	<u>415,048</u>	<u>268,511</u>	<u>172,509</u>	<u>—</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>—</u>
Operating Expenses:										
Lease of facilities	20,514	—	—	—	—	2.8	—	—	—	—
Purchased water and wastewater services	6,306	—	—	21,600	—	0.9	—	—	12.5	—
Professional fees	44,286	26,779	17,144	9,438	1,374	6.1	6.4	7.0	5.5	—
Contracted services	1,200	21,931	16,692	8,878	3,245	0.2	5.2	6.8	5.2	—
Payroll	48,919	—	—	—	—	6.8	—	—	—	—
Utilities	67,941	26,110	18,222	4,418	656	9.4	6.2	7.4	2.6	—
Materials and supplies	3,445	1,791	1,189	525	280	0.5	0.4	0.5	0.3	—
Repairs and maintenance	64,838	34,074	25,366	2,514	—	9.0	8.1	10.4	1.5	—
Depreciation	284,103	45,313	35,119	34,488	22,812	39.4	10.8	14.3	20.0	—
Total Operating Expenses	<u>541,552</u>	<u>155,998</u>	<u>113,732</u>	<u>81,861</u>	<u>28,367</u>	<u>75.1</u>	<u>37.1</u>	<u>46.4</u>	<u>47.6</u>	<u>—</u>
Operating Income (Loss)	<u>179,682</u>	<u>262,550</u>	<u>131,179</u>	<u>90,448</u>	<u>(28,367)</u>	<u>24.9</u>	<u>62.9</u>	<u>53.6</u>	<u>52.4</u>	<u>—</u>
Non-Operating Revenues (Expenses)										
Interest revenue	226,172	85,319	48,613	13,996	—	31.4	20.4	19.8	8.1	—
Bond discount amortization	(17,572)	(11,128)	(3,771)	(3,734)	—	(2.7)	(2.7)	(1.5)	(2.2)	—
Interest expense and fiscal fees	(451,860)	(295,043)	(224,346)	(154,267)	—	(70.5)	(70.5)	(91.6)	(89.5)	—
Total Non-Operating Revenues (Expenses)	<u>(243,260)</u>	<u>(220,852)</u>	<u>(179,504)</u>	<u>(144,005)</u>	<u>—</u>	<u>(33.7)</u>	<u>(52.8)</u>	<u>(73.3)</u>	<u>(83.6)</u>	<u>—</u>
Net Income (Loss)	<u>\$(63,578)</u>	<u>\$(41,698)</u>	<u>\$(48,325)</u>	<u>\$(53,557)</u>	<u>\$(28,367)</u>	<u>(8.8)%</u>	<u>(10.1)%</u>	<u>(19.7)%</u>	<u>(31.2)%</u>	<u>—%</u>

(District's Name)
TSI-8. Board Members, Key Personnel, and Consultants
(Fiscal Year Ending Date)

Complete District Mailing Address: PO Box 74G79, Austin, TX 78731

District Business Telephone Number: (512) 555 - 1234

Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): April 11, 2003

Limit on Fees of Office that a Director may receive during a fiscal year: \$3,600
(Set by Board Resolution—TWC Section 49.060)

<u>Names:</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid * (FYE date)</u>	<u>Expense Reimburse- ments (FYE date)</u>	<u>Title at Year End</u>
Board Members:				
Wayne Noel	(Elected) 2/00 - 2/04	\$ 3,600	\$ 2,095	President
Irma Flores	(Elected) 2/02 - 2/06	\$ 3,300	\$ 2,720	Vice-Pres.
Jason Holcomb	(Appointed) 5/18/03 - 2/06	\$ 2,700	\$ 576	Treasurer/ Secretary
Holly Stewart	(Elected) 2/00 - 2/04	\$ 3,600	\$ -0-	Director
David Arnold	(Elected) 2/00 - 2/04	\$ 3,450	\$ 1,374	Investment Officer/Director
Key Administrative Personnel:				
Pat Garrett	10/15/1997	\$35,538		General Manager
Consultants:				
Baldwin & Poole, Attorneys	12/16/1985	\$10,000		Attorneys
RoundUp Utility Contractors	4/19/2001	\$104,647		Operator
Cavazos Inc.	6/1/1995	\$ 3,000		Tax Collector
Abrego & Limaye, CPAs	10/1/1994	\$ 6,300		Auditor

* *Fees of Office* are the amounts actually paid to a director during the district's fiscal year.

Appendix N8: Auditor's Management Letter

Auditor's Management Letter

The auditor's management letter is a formal communication from the auditor to the Board of directors. During the conduct of an audit, the auditor may encounter compliance, operational, or administrative events which may not be evident in the financial statements but needs to be revealed and communicated.

Audit guidance is silent about compliance or operational matters. If these matters are not identified in the audit engagement for work by the auditor, he does not have a responsibility for communication in a management letter. While not a responsibility, the auditor may communicate these matters to the Board if they come to his attention during the audit.

Audit guidance identifies administrative matters which should be communicated if, in the auditor's opinion, the management of the water district is materially impacted. These matters are:

- The auditor's responsibility under GAAS
- Significant Accounting Policies
- Management judgements and accounting estimates
- Audit adjustments
- Auditor's judgement about the quality of the water district's accounting principles
- Other information in documents containing audited financial statements
- Disagreements with management
- Consultation with other accountants
- Major issues discussed with management prior to the auditor accepting the audit engagement
- Difficulties encountered in performing the audit

The Auditor's Role: The auditor should prepare a management letter if, in the conduct of his audit, he encounters: administrative matters cited above; compliance or operational matters which in his opinion need to be communicated in writing to the Board; or other matters required to be communicated by audit guidance, such as commenting on the district's internal control system.

Board of Directors' Role: Your Board may sense that certain matters warrant the auditor's attention. In that event, the Board may specify in its audit engagement letter the matters that the auditor will review for comment in a management letter. Refer to the **Engagement Letter** section on page 1-16.

The Agency's Role: The Agency does not require the composition of a management letter. The decision for the presentation of this document rests primarily with your auditor and secondarily with your district's Board.

Appendix O: Helpful References

Administrative Code

www.sos.state.tx.us/tac/

American Institute of Certified Public Accountants (AICPA)

www.aicpa.org

The AICPA's Ethics Hotline is (888) 777-7077.

Publications, including the AICPA Audit and Accounting Guide—*Audits of State and Local Governments (GASB 34 Edition)* and *Understanding and Implementing GASB's New Financial Reporting Model*, may be ordered at: www.cpa2biz.com

Association of Government Accountants (AGA)

www.agacgfm.org

Attorney General's Office

www.oag.state.tx.us

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Office of the Attorney General

PO Box 12547

Austin, Texas 78711-2548

Phone: (512) 463-2100

Board of Directors Handbook (RG-238)

Please contact TCEQ Publications Distribution at (512) 239-0028 to order.

Elections Division—Secretary of State

www.sos.state.tx.us/elections/index.shtml

Elections Division

Secretary of State

PO Box 12060

Austin, Texas 78711-2060

Phone: (800) 252-VOTE (8683)

E-mail: elections@sos.state.tx.us

Generally Accepted Government Auditing Standards (GAGAS)

www.gao.gov

Use the GAO's Web site to view and download GAGAS information and publications including *Government Auditing Standards* (yellow book).

U.S. General Accounting Office

441 G Street NW

Washington, D.C. 20548

Phone: (202) 512-9535

E-mail: yellowbook@gao.gov

Governmental Accounting Standards Board (GASB)

www.rutgers.edu/accounting/raw/gasb/

Publications may be ordered from the GASB Web site, including:

- *Codification of Governmental Accounting and Financial Reporting Standards*
- *Original Pronouncements—Governmental Accounting and Financial Reporting Standards*
- *GASB Statement No. 34 Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*
- *Implementation Guide—Guide to Implementation of GASB Statement 34 on Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments—Questions and Answers*
- *Implementation Guide—Guide to Implementation of GASB Statement 34 and Related Pronouncements—Questions and Answers*
- *What You Should Know about Your Local Government’s Finances—A Guide to Financial Statements*
- *An Analyst’s Guide to Government Financial Statements*

Government Finance Officers Association (GFOA)

www.gfoa.org

Publications, including *Governmental Accounting, Auditing, and Financial Reporting—Using the GASB 34 Model* (blue book), may be ordered at: www.estoregfoa.org/Source/Orders/

Municipal Advisory Council of Texas (MAC)

www.mactexas.com

MAC’s purpose is to promote effective and efficient investment banking, underwriting, trading and sales of municipal debt by collecting, maintaining and distributing information relating to issuing entities within Texas.

Municipal Advisory Council of Texas

PO Box 2177

Austin, Texas 78768-2177

Phone: (512) 476-6947

Fax: (512) 476-6403

National Association of State Auditors, Comptrollers and Treasurers (NASACT)

www.nasact.org/

Open Meetings

www.sos.state.tx.us/open/

Hot line: (512) 478-6736 or (877) 673-6839

Single Audit Act Amendments of 1996

Located in Chapter 75 of Title 31, United States Code
www.ignet.gov/single/saamend.html#300k

Statement on Auditing Standards—AICPA

American Institute of Certified Public Accountants, Inc.
1211 Avenue of the Americas
New York, NY 10036-8775

Texas Commission on Environmental Quality (TCEQ or Agency)

www.tceq.state.tx.us/ Phone: (512) 239-1000

To order one free printed copy of any TCEQ publication, call Publications Distribution at (512) 239-0028. Orders for multiple printed copies require prepayment; call for details. Most TCEQ publications are on our Web site.

If you have any questions about your district's financial filing requirements:

- write to us at:
Districts Review Team, MC-152
TCEQ
PO Box 13087
Austin, Texas 78711-3087
- call us at: (512) 239-4691
- send us a fax at: (512) 239-6190
- send us an E-mail at: utildist@tceq.state.tx.us

TCEQ Rules on Water Districts (Chapter 293)

Available from the Agency Information Consultants, PO Box 2181, Austin, Texas 78768-2181. Call (512) 478-8991 to order.

Title 30 Texas Administrative Code Chapter 293 can be viewed from the Secretary of State's web site at www.sos.state.tx.us.

You can also view an unofficial version of the rules from our Web site.

Texas Comptroller of Public Accounts (Comptroller)

www.window.state.tx.us/comptrol/

Contact the Comptroller's Unclaimed Property Holder Reporting Section at (512) 463-6060 or 1-800-321-2274.

Texas Constitution

www.capitol.state.tx.us/txconst/toc.html

Texas Education Agency (TEA)

TEA's *Financial Accountability System Resource Guide*, including a GASB 34 Module, is available online at:

www.tea.state.tx.us/school.finance/audit/

Texas Register—Secretary of State

www.sos.state.tx.us/texreg/

Texas State Board of Public Accountancy (TSBPA)

www.tsbpa.state.tx.us

The TSBPA has the responsibility and authority to regulate the practice of public accountancy in Texas.

Texas State Board of Public Accountancy
333 Guadalupe Tower III, Suite 900
Austin, Texas 78701-3900

E-mail: licensing@tsbpa.state.tx.us

Texas State Library and Archives Commission (TSLAC)

www.tsl.state.tx.us

The TSLAC's role at State and Local Records Management is to provide support services to local governments in their efforts to comply with state records management laws. Their services include records management training, document imaging services, and records storage services.

State and Local Records Management
TSLAC
PO Box 12927
Austin, Texas 78711

Phone: (512) 454-2705
E-mail: slrminfo@tsl.state.tx.us

Texas Statutes

www.capitol.state.tx.us/statutes/statutes.html

View copies of the Election Code, Government Code, Health and Safety Code, Local Government Code, Penal Code, Property Code, Tax Code, Water Code, and other statutes. (To purchase a copy of these statutes, see the vendor listed under *Vernon's Texas Codes Annotated* on page O-5.)

Chapters of Interest to Districts include (see also table on page O-6):

Election Code

- Chapter 2—Vote Required for Election to Office
- Chapter 11—Qualifications and Requirements for Voting
- Chapter 32—Election Judges and Clerks
- Chapter 41—Election Dates and Hours for Voting
- Chapter 146—Write-in Candidate
- Chapter 272—Bilingual Requirements

Government Code

- Chapter 551—Open Meetings Act
- Chapter 552—Public Information Act (previously called the Open Records Act)
- Chapter 573—Degrees of Relationship; Nepotism Prohibitions
- Chapter 2254, Subchapter A—Professional Services Procurement Act
- Chapter 2256, Subchapter A—Public Funds Investment Act
- Chapter 2257—Public Funds Collateral Act

Health and Safety Code

Chapter 341—Minimum Standards of Sanitation and Health Protection Measures

Local Government Code

Chapter 43—Municipal Annexation

Chapter 171—Regulation of Conflicts of Interest of Officers of Municipalities, Counties, and Certain Other Local Governments

Chapters 201 through 205—Records Retention Provisions of the Local Government Records Act

Chapter 375—Municipal Management Districts (MMDs) in General

Chapter 376—Specific Municipal Management Districts

Chapter 395—Financing Capital Improvements Required by New Development in Municipalities, Counties, and Certain Other Local Governments (Impact Fees)

Penal Code

Chapter 36—Bribery and Corrupt Influence

Chapter 39—Abuse of Office

Property Code

Chapters 72-75—Unclaimed Property

Tax Code

Chapter 11—Taxable Property and Exemptions

Chapter 31—Collections

Water Code

Chapters 35 and 36—Groundwater Conservation Districts (GCDs)

Chapters 49 and 50—Provisions Generally Applicable to Districts

Chapter 51—Water Control and Improvement Districts (WCIDs)

Chapter 53—Fresh Water Supply Districts (FWSDs)

Chapter 54—Municipal Utility Districts (MUDs)

Chapter 55—Water Improvement Districts (WIDs)

Chapter 56—Drainage Districts (DDs)

Chapter 57—Levee Improvement Districts (LIDs)

Chapter 58—Irrigation Districts

Chapter 59—Regional Districts

Chapters 60, 61, 62, and 63—Navigation Districts

Chapter 65—Special Utility Districts (SUDs)

Chapter 66—Stormwater Control Districts

Chapter 67—Nonprofit Water Supply or Sewer Service Corporations

Vernon's Texas Codes Annotated

www.west.thomson.com

West Publishing Company

PO Box 64833

St Paul, MN 55164-0833

Phone: (800) 328-9352

Not available from the Texas Commission on Environmental Quality. Many public libraries and college law libraries have these law books available.

Laws of Interest to Districts

General Description	Texas Water Code Chapter 49 Applicable to Most Districts	Exempt from TWC Chapter 49	
		Texas Water Code Chapter 36 GCDs	Texas Local Government Code Chapter 375 MMDs
Your District is governed by its Board	49.051	36.051	375.061
The Board is responsible for managing your district's affairs	49.057	36.057	375.095
Quorum	49.053	36.053	375.071
Duty to Audit	49.191	36.153	375.096
Budget Requirements	49.057 49.200	36.154	375.207
Signing Checks/Expenditures	49.151	36.151	
Director Fees	49.060	36.060	375.070
Required Policies	49.199	36.061	
Bond Coverage	49.055	36.055	375.067
Fiscal Year	49.158	36.152	375.096
Open Meetings	49.063 49.064	36.063 36.064	
Open Records	49.065	36.065	
Conflicts of Interest	49.058	36.058	
Suits	49.066	36.066	375.092 (c)
Contracts	49.067 49.068	36.067	375.091(b) 375.092 (i) 375.281
Employee Benefits	49.069	36.068	375.096
Levy of Taxes/Assessments	49.107 49.108	36.201– 36.204	375.091 (c) 375.111–375.124
Depository	49.156	36.155	375.096
Investments/Investment Officer	49.157 49.1571	36.156 36.1561	375.096
Grants	49.229	36.158	375.092 (e) & (i)

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/. 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

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/

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.