

# 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>	<b>Dr.</b>	<b>Cr.</b>
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>	<b>Dr.</b>	<b>Cr.</b>
1157 Standby Fees Receivable	XX	
4500 Standby Fees		XX

**Billed Separately, Reported on an Accrual Basis**

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

**Billed Separately, Revenue Reported on a Cash Basis**

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

### Adjustment for Deferred Tap Fees

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

## Tap Expense

### Payment of Tap Expense

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

### Adjustment for Prepaid Tap Expense

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

### Reversal of Prepaid Tap Expense in the following period

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

## Other Tap Installations

### Taps Installed with Bond Money

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

**Sewer Inspection Fees and Expense**

**Receipt of Sewer Inspection Fees**

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

**Payment for Sewer Inspection Charge**

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

**Transfer of Cash to Debt Service Fund**

<i>Accounting Entries:</i>	<b>Dr.</b>	<b>Cr.</b>
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>	<b>Dr.</b>	<b>Cr.</b>
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>		<b>Dr.</b>	<b>Cr.</b>
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 data of the bonds through the sale date.

### Payment of First Interest Coupon

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

**Payment of Interest from Reserve**

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

**Accrual of Interest**

<i>Accounting Entries:</i>	<b>Dr.</b>	<b>Cr.</b>
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>	<b>Dr.</b>	<b>Cr.</b>
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>	<b>Dr.</b>	<b>Cr.</b>
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>	<b>Dr.</b>	<b>Cr.</b>
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>	<b>Dr.</b>	<b>Cr.</b>
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>	<b>Dr.</b>	<b>Cr.</b>
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>		<b>Dr.</b>	<b>Cr.</b>
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>		<b>Dr.</b>	<b>Cr.</b>
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>		<b>Dr.</b>	<b>Cr.</b>
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>		<b>Dr.</b>	<b>Cr.</b>
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

<i>Accounting Entries:</i>		Dr.	Cr.
1173	Due from Debt Service Fund	XX	
1110	Cash		XX

### Debt Service Fund Entry:

#### Interfund Loan—Repayment Anticipated—Loan Originated

<i>Accounting Entries:</i>		Dr.	Cr.
1100	Cash—Debt Service	XX	
2171	Due to General Fund		XX

### General Fund Entry:

#### Interfund Loan—Repayment Anticipated—Loan Repaid

<i>Accounting Entries:</i>		Dr.	Cr.
1110	Cash	XX	
1173	Due from Debt Service Fund		XX

### Debt Service Fund Entry:

#### Interfund Loan—Repayment Anticipated—Loan Repaid

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

**Upon Payment of the Charges**

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