Financial Management

Handbook

for Small Community Water Systems

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Chapter I: Introduction

This handbook will look at the ability of small community water systems to meet the financial capability requirements of the Safe Drinking Water Act Amendments of 1996.

What does capacity mean?

In the SDWA Amendments, **capacity** refers to a water system's *ability* to consistently provide safe drinking water for all customers. To do this, a water system must have the technical abilities, managerial skills and financial resources to meet state and federal drinking water regulations. Capacity development is an attempt by the States to help drinking water systems improve their finances, management, infrastructure, and operations so each system can provide safe drinking water consistently, reliably, and cost-effectively.

What is a community water system?

In simple language a community water system is one that has 15 or more connections, and/or serves 25 or more of the same persons throughout the year. Community water systems can be more than just municipalities; mobile home parks or homeowners associations can be community water systems. The Environmental Protection Agency (EPA) defines a very small water system as one serving 25-500 persons and a small water system as one serving 501-10,000 persons. In North Dakota, that is 310 systems, which amounts to 97% of total community water systems in the state. This handbook considers all systems serving 10,000 or less population as a small community water system.

Good financial management for a small community water system means that the water system must be run like a business. ***The water system needs to be self-supporting.*** Financial management is more than just having a bookkeeper or city auditor who collects the monthly water bills and pays expenses. It is planning for the future, estimating expenses and needed revenues for the next year and keeping good records. The governing board must take a vital role in the management of the water system.

Even if you don't have experience in running a business, most of us take care of personal finances. We have certain expenses every month such as food, utilities, and house payments or rent. We usually know how much money we will earn each month. We try to balance expenses and income so we at least break even. Once in a while we would like to make a major purchase, such as buying a car at the end of the summer. We have to figure out how much it will cost and begin to set aside money each month so that when the time comes to buy that car, we will have enough money to pay for it; or know which lending institution we will need to visit to take out a loan. If we are already spending all of the money we earn each month, then we can't really save for the new car. So we need to make some decisions:

- Should one of us get a second job to earn extra money?
- Can we cut monthly expenses?
- Should we forget about buying the new car and fix the old one when it breaks down?
- Or, borrow more money than we had planned on initially?

The community water system is much the same, except more people depend on its financial survival. The water system has monthly expenses, monthly income and long-range needs. Not only does the water system budget need to break even; there should be money each year to set aside for the system's future needs, like equipment replacement, line repairs, and emergencies.

This handbook will help you look at the various financial responsibilities you have for your community water system. The Financing for the Future checklist in Appendix A will help you get started. Good financial management will allow you to continue to provide safe dependable water to your customers long into the future.

Chapter II: Financial Responsibilities

Let's look at the financial responsibilities the governing body of a community water system has:

- Planning for the system's financial future,
- Developing and approving the system's annual expense budget,
- Making sure the system's revenue cover all its expenses,
- Making sure adequate financial records are kept and review those records monthly, or at least on a quarterly basis.

Planning for your Future

Your first responsibility is planning for your system's future. In order for your governing body to successfully plan, you have to decide what improvements, major repairs and expansion you will need to make over the next several years to keep providing safe, dependable and fairly priced water to your customers.

Ask:

- What are the current and future needs of the system?
- What parts of our system will we need to repair or replace in the next five years? (Water storage tank? Sections of lines? Pumps? Chlorinator?)
- Will we need to serve additional customers?
- Will our client base decrease?
- Do we have trained and knowledgeable personnel to operate and maintain our system?

The answers to these questions will help you plan.

The Annual Expense Budget

Carrying out your plan will cost money. Your second responsibility is to develop an annual expense budget for your system. The expense budget is a list of expenses you expect to have during the year, plus any special items in your plan. While a later chapter will go into detail on the budget the discussion here will be a brief overview of the expense budget. For now, check your water system budget to see if it includes the following expenses:

- All utility bills
- Chemicals
- Testing
- Insurance premiums
- Billing and collecting expenses
- Emergencies
- Any debt your system has

- Future repairs and/or replacements

If you had an expense budget last year, use it as a starting point. Another reference is the year end financial report on annual expenses from last year. Be sure to include all items you plan to spend money on.

Estimate the cost of each item as closely as possible. *The expense budget is a vital tool to help the governing body manage the finances of the system.* It is okay to revise the budget during the year as things change (such as the cost of utilities or chemicals).

Again a full chapter will be devoted to budgets later in the handbook.

The Revenue Budget

If you have been following the two steps discussed above, you know what you need to do (the planning phase) and how much it will cost (the expense budget). Now you need to know where the money will come from to cover all of the costs in your budget.

This is called the Revenue Budget, and it is your third responsibility of financial management. Most of the money (revenue) to cover the expense budget comes from *user fees.* User fees are the money you collect from your customers for providing water to them. Some systems also have special charges for their water systems such as meter deposits, meter rental fees, hook-up charges for new connections, disconnect fees, etc. These special charges or fees should cover the cost of providing the service, but are part of the overall revenue to the system.

The big question is: "Will the revenue you expect to collect match or exceed the amount you expect to spend?". If not, you will need to increase revenues or decrease expenses.

It is all right to cut expenses. No one really likes to raise water rates. Many systems, though, are finding that customers are willing to pay a little more to guarantee long-term supplies of safe, dependable drinking water, especially if they know they are paying their fair share of the costs.[1]

Governing bodies of small community water systems aren't doing their customers a favor by keeping rates too low to properly operate and maintain the system!

Expense and Revenue Budgets are estimates you make at the beginning of the year. The governing body then manages the system's finances throughout the year by:

[1] A companion Handbook on Setting Water Rates is available from Midwest Assistance Program, Inc. or the ND Department of Health.

- Checking each month to see if the actual expenses are higher or lower than the estimated budget;
- Checking to see if actual revenues are higher or lower than expected;
- Finding out why expenses or revenues are different from the estimates;
- Making the necessary adjustments in either expenses or revenues to ensure the continued operation of the system.

Operating Ratio

Some water systems will keep track of their "operating ratio". *Operating Ratio is the amount of revenue vs. the total amount of expenses for a system.* The Minimum operating ratio for a water system is 1 – that means there is enough revenue to cover expenses. In order for a water system to stay financially healthy, an operating ratio of greater than 1 must be maintained. An operating ratio of 1.25 indicates that revenue is 125% of expenses. This allows for adequate carry-over at the end of the year and sufficient revenue to make the recommended reserve account transfers.

A related term, "coverage ratio" is used by some lenders which means that revenue is sufficient to cover all expenses including long-term debt. Each lending institution may have their own requirements on the level of coverage ratio a borrower must maintain over the term of the debt.

Record Keeping

The fourth financial management responsibility is making sure adequate records are kept. A water system must have an efficient accounting and record-keeping system. If you don't know how much money you are spending compared to how much you have budgeted, your system could be headed for trouble. At the very least have the city auditor or bookkeeper present a written report of revenues and expenses at each monthly meeting. Compare these figures with the ones in your budget.

While this handbook will not address all types of record keeping, Appendix

Financial recordkeeping will be further discussed later in this handbook.

Chapter III: Accounting Process

Good fiscal management is centered around a solid and proven accounting process. There are many types of accounting processes within any one governmental entity. Even though some community water systems are not operated by governmental bodies, accounting processes are involved. Disbursements are made to vendors or employees in the form of payroll, billing and collection occur producing revenue, and budgets that need to be prepared. Governmental entities will have other accounting processes such as tax (i.e. general or special assessments) disbursements by the county or state, possible grant receipts and so forth.

The North Dakota Office of the State Auditor has an *Accounting Manual for North Dakota Cities*, which is an excellent resource for City Auditors and incoming city elected officials. Every city should have a copy of this manual on file for reference. It furnishes standards, sample forms, discusses recommended charts of accounts and helps maintain consistency in procedures and reports despite possible personnel changes in the local entity. It also aids in the audit of records as well as gives reference to certain requirements of the North Dakota Century Code.

Another resource for reference is the Government Finance Officers Association's 1994 edition of the *Governmental Accounting, Auditing and Financial Reporting (GAAFR)*. The GAAFR defines the basis of accounting as:

> A term used to refer to *when* revenues, expenditures, expenses, and transfers – and the related assets and liabilities – are recognized in the accounts and reported in the financial statements.[2]

This handbook will give a very simplified version of some of the highlights and terms that are necessary to maintain a good accounting process. It is not intended to duplicate or to supersede required or recommended processes or procedures from the Office of the State Auditor. However, it may be helpful to those very small cities and other non-governmental community water systems.

Accrual Basis of Accounting

The method of accounting under which revenues are recorded when they are earned (regardless of when cash is received) and expenditures are recorded when goods and services are received (regardless if disbursements are actually made at that time). This is the recommended method of accounting for enterprise or utility funds. With this method the utility would maintain an accounts receivable for those

[2] Refer to the GAAFR, Chapter 2 & 3 for more information and extensive discussion of measurement focus and the basis of accounting.

people who are not current with paying their water bill and also maintain an accounts payable for disbursements to vendors or payroll that might be due from the utility.

Cash Basis of Accounting

The method of accounting under which revenues are recorded, or recognized, when received in cash and expenditures are recorded, or recognized, when paid. While the accrual basis of accounting is the recommended method of accounting, there are still entities that use the ***cash basis of accounting.*** Any small community water system using the cash basis of accounting is encouraged to consider changing to the accrual basis for the next fiscal year.

Chart of Accounts

A chart of accounts is simply a listing of every individual account (sometimes referred to as the "line item") used in an accounting system. Individual accounts are used for both balance sheet and operating statement transactions. Each account should be coded in a systematic fashion, thus providing the framework to enable the governing board to understand and accountants to extract, summarize and report the data.

There is no single correct way to establish a chart of accounts. Your unique chart of accounts should be designed in accordance with your own budgeting, accounting, and reporting needs. The Office of the State Auditor's *Accounting Manual for North Dakota Cities* has a recommended chart of accounts for cities, which is included in Appendix B.

Account coding range from the simple to the complex. An account number should be designed to provide more than just a simple numerical reference. For instance, the account numbers used can easily incorporate the following elements:

- Fund
- Type of account (i.e., asset, liability, equity, revenue, expenditure, expense)
- Source of revenue
- Department
- Type of expenditure/expense (e.g., salaries, employee benefits, office supplies, vehicle expense, travel)

By looking at a single account number, one can determine useful information about the account/line item involved.

Account numbers are used extensively throughout the accounting process (e.g., coding invoices, purchase orders, journal entries). The account numbers should be as user friendly as possible. It is helpful to break up components of an account number with periods or hyphens. This can speed up visual recognition of the account number on documents and reports.

The main thing to remember is that you include all of the possible revenue sources and all of the expenses that would apply to your community water system. When establishing a new chart of accounts, or modifying an existing one, take care that unique codes are established for all necessary elements and that the structure can easily accommodate new elements or future modifications. It is common to periodically add funds, departments, and other elements to a chart of accounts.

Electronic data processing (EDP) considerations and local reporting needs can play vital roles in determining the structure of the chart of accounts most suitable to your community water system. Most EDP systems are database oriented; meaning that the date contained in the system can be manipulated and generated in countless formats. However, database systems rely totally on coded information. Account numbers are the codes used by the EDP system to extract, summarize and report the data in the format of financial statements and schedules. Remember, then, that the chart of accounts needs to be formatted according to the specifications of the computer system you are using to operate properly.

Again, all accounting systems should have an adequate chart of accounts. The chart of accounts should be consistent with the organizational structure of the governmental entity or the community water system run by a non-governmental body. Financial reporting can only be effective if a system is in place that allows a variety of reporting options. A chart of accounts provides the base necessary to build an effective accounting and financial reporting structure.

Internal Controls in the Accounting Process

Internal controls must be in place in any accounting environment to ensure the integrity of the accounting records and to safeguard the entity's assets. All governmental employees are considered public stewards. The same can be said for a community water system operated by a non-governmental entity. The public health is at stake. That is why these employees are held to a high level of accountability. Internal controls must be in place not only to ensure the integrity of the accounting records and to safeguard the assets of the governing body, but to maintain the public's confidence in the governing body's financial management. Public perception and appearances are much more important in the government sector in matters of internal control than in the private sector.

Every community water system should maintain and follow an up-to-date policies and procedures manual. Your policies and procedures manual is your own official fiscal policy handbook. While there is no prescribed format for such a manual, it will typically include such information as:

- An up-to-date chart of accounts
- Basic procedural narratives and/or flowcharts for activities such as cash collections (including bad debt collections), disbursements, accounts payable, payroll, billings, and investing
- Fixed asset policies
- Personnel policies and procedures, and
- An organizational chart

This policies and procedures manual can be an excellent training tool for new governing board members and new staff. In small systems with a one-person staff often it is only that one person who is thoroughly familiar with "how things are done". A policies and procedures manual can be invaluable in circumstances where a key employee may be unexpectedly absent for an extended period of time and his/her job responsibilities are turned over to someone who is unfamiliar with proper procedures. Sample financial management and related policies are given in Appendix C.

Billing Processes

Not all small community water systems utilize an automated billing system. Some systems are still on flat water rates, whereby all customers pay the same flat rate no matter how much water is used. This handbook recommends that all small water systems consider having water meters to record accurate water use and base their billing for charges on use. The bill process that follows is based on individual meters throughout the system.

1. Each meter is read and the reading is recorded to determine the usage for the billing period.

2. The billing rates are determined, the "meter reading" is entered into the billing system, and the bills are calculated.

3. Billing registers (master listings of individual accounts billed which include information on meter readings, amount billed, and totals of the billing cycle) are recorded (printed, bound, and stored).

4. The bills are printed and mailed according to the utility's billing schedule.

5. The applicable billing information is posted to the appropriate subsidiary ledgers (i.e., accounts receivable ledger) and the appropriate receivable and revenue accounts are adjusted in the general ledger.

This billing process, assumes system employees are reading the meters and not by the individual customers. This is strongly recommended and is the preferred method of billing. It is also recommended that meters are read on a monthly basis and bills sent to customers on a monthly basis. This helps cash flow for the system and aids in the overall management performance of the utility.

Whenever possible it is recommended to have two people involved in the billing process. This would allow for adequate segregation of duties and provides good internal control. The same employee should not be responsible for preparing bills and collecting the applicable payments, especially if the bills are prepared "manually" and not generated by a computerized automated process. If your community water system still uses a manual maintenance of billing registers, accounts receivable ledgers, or general ledger, it is important to review your internal controls to see that funds are handled and recorded properly.

Bad Debt

Unfortunately, it is very rare that any utility collects 100 percent of all billings. Any community water system, regardless of the size, should have a written bad debt policy included in the policies and procedures manual. A standard bad debt policy should specify:

- When a receivable is deemed to be uncollectible[3]
- The standard "follow-up" procedures for billing that have not been settled within a specified period of time following the original due date (usually 10 days), and
- When accounts should be written off or turned over to a collection agency.[4]

Even when an account has been deemed uncollectible and written off for financial reporting purposes, the system should not cease collection efforts altogether. Options include periodic mailings to such delinquent accounts and turning over the account to a collection agency. The latter option might be more attractive to small

[3] While no set time frame exists, the average time period for most small community water systems is 120 to 180 days after the due date, but rarely more than one year.
[4] The governing board has the responsibility to approve or authorize the write-off of any assets.

systems who do not have the personnel necessary to do extensive follow-up on all delinquent accounts. Since most collection agencies only charge fees based on a percentage of what they are actually able to collect, it is a cost-efficient way to at least partially offset the losses incurred due to bad debts. Of course, all of these efforts are done, only after the water has long since been shut off!

Chapter IV: Budgeting Process

Earlier in this handbook revenue and expense budgets were discussed. This chapter will discuss in more detail revenue projections, development of expenditure categories, budgeting versus accounting and budgetary reporting.
The operating budget for most governmental entities is an official policy document; as such, it represents the governing board's goals and objectives for the year. Whereas, most private sector enterprises use their operation budgets just as a management tool. Whether your community water system is operated by a municipality, special purpose government, cooperative or non-profit association, the budget is an integral part of fiscal management.

Some accounting manuals suggest that the budgetary function be independent of the finance or accounting functions of local government. This is not very realistic in small community water systems. The governing board has overall responsibility for all fiscal management functions – budgeting, accounting, and financial reporting. In the previous chapter, we discussed accrual and cash based accounting. In the budgeting process, most small governmental units budget on the cash basis. This is where transactions (e.g., revenues and expenditures) are only recognized when cash is received or disbursed. Governmental Accounting and Auditing Practices (GAAP) does not recognize the cash basis as an acceptable reporting method; it can be used for internal management purposes, but not as a basis for external reporting. This can cause some difficulty for budget personnel who are not fully familiar with GAAP reporting.

Role of the Budget Officer

Even though you are a small community water system, you may have a designated budget officer. It might be the City Auditor or the bookkeeper. The specific duties of such an officer might include the following:

- *Coordinate the budgetary process*. This typically includes preparing the revenue projections and compilation of estimated expenditures.

- *Monitoring budgetary performance throughout the year.* This includes tracking of actual revenues in relation to projected revenues and monitoring expenditures and encumbrances in relation to revenues.[5]

[5] Encumbrances or obligations are purchase orders, contracts, or salary commitments which are chargeable to a specific revenue and for which a part of that revenue is reserved. They cease to be encumbrances when paid or when an actual liability is set up.

- *Maintaining the encumbrance system.* This includes approval of purchase requisitions and the preparation of approved purchase orders.

- *Coordinating formal bidding procedures and ensuring compliance with applicable state purchasing laws and local ordinances or policies.*

Preparation of the Budget

Budgets are like opinions. Everyone has one. Some are more valuable than others. If your community water system is not using its budget every month to monitor revenue and control spending, the budget isn't very valuable. If your system prepares next year's budget by looking *only* at last year's revenue and expenses, your budget won't be very valuable either.

Just having a budget isn't enough. For a budget to be valuable, the governing board must be involved. Our equation for success is:

Governing board **prepares** the budget
+ **understands** the budget
+ **uses** the budget
= financial stability

Carefully prepared, and properly used, the annual budget is one of the small community water system governing board's most powerful tools for carrying out its financial responsibility for the system.

Everyone who works for a local unit of government knows that there is a "budget season". This is the time of year when all departments put together their budget requests for the upcoming fiscal year. Even if you are a stand-alone small community water system, with no other fiscal responsibilities, there still remains the budgeting process and budgeting season. There is a municipal calendar under North Dakota state law which outlines for municipalities the budgetary process and timetable. The City Auditor will be familiar with this calendar.

All community water systems will want to try to have a balanced budget. Simply put, this means that the revenue sources must equal or exceed the planned expenditures. It is important to point out that the revenue sources are not limited to new revenue streams. Use of funds on hand (carry-over funds from the previous fiscal year) is a type of "revenue source" that is often used to balance the budget. *Caution!* While you might be able to use carry-over funds to balance a budget in one fiscal year, it is unlikely that you will have carry-over funds for more than two years. This is why it is important to monitor rates to insure that revenues will be adequate to cover planned expenditures.

Some community water systems may want to prepare multi-year budget projections. This practice is important when you know you may have major repairs or capital expenditures in your near future or if you are anticipating a declining revenue base. When these multi-year projections are made, the budget proposals need to be re-evaluated at the end of year one, and if necessary, adjustments made to the second year's budget.

Community water systems will want to remember that there is need for both an operating budget and a separate capital budget. This capital budget can be part of a larger capital improvement plan (CIP). A CIP is often for five or more years and is an effective tool in planning for the funding and purchasing major capital items. The basic budgetary process for a CIP is the same; revenue (regardless of whether it is to be generated from grants, loans, increased fees or bond proceeds) is projected and expenditures are planned.

Budget development for the community water system has five parts:

1. Establishing required ***Debt Service Reserve*** levels.
2. Establishing ***System Financial Reserve*** levels.
3. Establishing the ***full cost of operating*** your system.
4. Estimating ***system revenue*** from the sale of water.
5. ***Adjusting revenues*** to cover estimated expenses.

Debt Service Reserves

If your system borrowed money to build the system, chances are your system obligated itself to place money in a Debt Service Reserve until an agreed upon dollar amount is reached. The Debt Service Reserve is *in addition* to your loan repayment. The debt service reserve helps insure that your system can make the payments on time even if you have a financial emergency.

If required by your loan agreement, having a Debt Service Reserve is a legal and binding obligation of your system. Dig out all your old loan papers and see if you have lived up to your agreement. If you haven't already, determine how much you need to budget for next year in order to start meeting that obligation.

System Financial Reserves

Your system started wearing out the day the water was turned on. Pumps and other equipment are going to wear out and emergencies will happen. The only way to ensure your customers with an uninterrupted supply of drinking water in the future is to set aside money each month to cover these renovation and replacement costs. If your system hasn't set up adequate reserves, your system is heading for a financial crisis.

It is recommended that you set up a single Financial Reserve Account at a bank or other financial institution. Make sure it is an interest bearing account. Write a check to this account every month.

The Financial Reserve Account – or Capital Reserve Account – is used for three purposes. Following each purpose is a suggested method for calculating how much to budget for each:

- ***Planned Equipment Repair and Replacement.*** Review the source of treatment, storage, and distribution parts of your system and make a list of major equipment. Work with your operator to estimate the time between breakdowns and the remaining life expectancy and replacement cost of each piece of major equipment.

- ***Emergency Repairs.*** Review what emergencies took place in the last 12-24 months and how much each cost to resolve. Think about the age of your system and the condition it is in. Again, involve your operator. These estimates call for your best judgement.

- ***Planned System Expansion and Improvements.*** Estimate the cost of each future expansion or upgrade the governing board has agreed to do (Capital Improvement Plan). How much will you set aside toward the project, and how much will you finance?

Use the following worksheet to help determine how much to include in next year's budget for each purpose. Added together, these figures should tell you how much to budget for Financial Reserves. ***It is recommended that you budget 7-12% of your gross revenue each year for Financial Reserves.***

FINANCIAL RESERVE WORKSHEET			
PART A: Calculating Planned Equipment Repair and Replacement *Annual Budget Amount = replacement cost divided by years of remaining life*			
Major Equipment	Years Remaining Life	Replacement Cost Estimate	Annual Amount To Budget
1.		$	$
2.		$	$
3.		$	$ _____
			Total $
PART B: Calculating Emergency Repairs			
Potential Emergency: 1. 2. 3.			Estimated Costs: $ $ $ _____ Total $
PART C: Calculating Planned System Expansion and Improvements *Annual Budget = portion of cost to be self-financed/number of years until start of project*			
Proposed Capital Projects	Years until Start of project	Portion to be self-financed	Annual Amount to be Budgeted
1.		$	$
2.		$	$
3.		$	$_____
			Total $

Revenue Projections

For most small community water systems there are two types of income.

Operating Revenue is system income from:

- The sale of water services
- Connection fees
- Late payments, penalties, and reconnection fees
- Forfeited meter deposits

Non-Operating Revenue is income from:

- *Interest on checking accounts*
- *Interest on reserve accounts*
- *Meter deposits*

When projecting revenues, we recommend that you ignore non-operating revenues and ***only*** count on Operating Revenues to cover expenses of operating your system for the next fiscal year.

A worksheet has been provided to help your system estimate operating revenues. Complete *Column B* by filling in the operating revenues for each month of your last fiscal year.

Use *Column C* to fill in operating revenues for each month you have completed in the current year. Add up the total revenues for all months completed so far, then divide the answer by the number of months added together in *Column A*. This will give you the *Average Monthly Revenue* for the current year. Use this average monthly revenue figure to complete the remaining months in the current year. Add the total revenues to get a twelve-month total.

SYSTEM OPERATING REVENUE WORKSHEET				
Column A ***Month***	*Column B* ***Last Year's Revenue***	*Column C* ***Current Year's Revenue***	*Column D* ***Change*** *(C minus B)*	*Column E* ***Next Year's Estimated Revenue***
1.	$	$	$	$
2.	$	$	$	$
3.	$	$	$	$
4.	$	$	$	$
5.	$	$	$	$
6.	$	$	$	$
7.	$	$	$	$
8.	$	$	$	$
9.	$	$	$	$
10.	$	$	$	$
11.	$	$	$	$
12.	$ _____	$ _____	$ _____	$_____
TOTAL	$	$	$	$

For each month, subtract last year's revenue from the current year's revenue (*Column C* minus *Column B*). Write the answer in *Column D.*

The budget officer or the budget committee of the governing board needs to look at the figures for each month in *Columns B* and *C* as well as the amount of revenue change each month from last year to this year. This is the figure in *Column D*. Try to figure out <u>*why*</u> the revenue for the month changed from one year to the next. Some things that affect revenue are:

- Rate increase
- New customers
- Losing customers
- Drought
- Temperature
- Uncollected bills

What do you think will happen to revenues for the same month next year? Will it continue to go up or down? By the same amount? By a different amount? Will the month's revenue be closer to this year's or last year's revenue? WHY? Discuss this carefully with the entire governing board.

The estimated revenue written in *Column E* must represent the ***best judgement*** of the entire budget committee or governing board. Try to estimate next year's revenue as accurately as possible. But when in doubt, re-estimate revenue *low* and expenses *high*. It is safer that way.

Systems that underestimate expenses or overestimate revenues just to make the budget balance consistently wind up in financial trouble! Don't do it!

Sometimes there is nothing else to do but raise the water rates in order to balance the budget and provide the revenue necessary to operate the system properly. Appendix D will give you some hints of things to consider to help balance the budget without raising rates. However, if a rate adjustment is in your future you will want to refer to the companion handbook on rate setting available from Midwest Assistance Program or the ND Department of Health.

Expenditure Estimates

On the other side of the budget equation are expenditures. In most cases, the person responsible for projecting revenues will also be responsible for estimating expenditures. It is very important to have the operational staff assist in estimating expenditures for the upcoming year. They are most familiar with the needs of the water system and are most knowledgeable about the future of the plant. It is the responsibility of the budget officer to gather the detailed information from the operational staff on each line item in the expense budget and to incorporate all of the requests into the balanced budget proposal. The full governing board is responsible for all decision-making – including approval of the final budget – but you only need one or two people to collect and organize the information.

If you are a municipality or non-profit organization that offers both water and sewer services, we strongly recommend you develop separate budgets for each service even if you operate them together. Separate budgets allow you to determine the real or true cost of each service. You can divide shared costs, such as payroll and salaries (be sure to include fringe benefits) between the two budgets.

Establish Expense Categories

The first step in creating your expense budget is to determine what *Expense Categories* you will have. This is where you refer back to your Chart of Accounts.

The Expense Categories are simply the major types of expenses your system has each year. The list below will help in determining the various expenses common to small community water systems.

- Annual debt service
- Purchased water
- Salaries and personnel costs
- Office utilities
- Operating utilities
- Operating supplies
- Office supplies
- Contract system repairs
- Transportation expenses
- Equipment leases
- Insurance (both property and liability)
- Office rental
- Accounting, auditing, legal and engineering fees
- Postage (and related billing expenses)
- Telephone
- Testing and sampling
- Dues, subscriptions
- Out of town travel – training

Always make Annual Debt Service your first budget category (your loan repayment on borrowed funds). Your creditors made it possible for your system to be built. Budgeting to pay them back on time protects your community's reputation and will improve your changes of being able to borrow again, should the need arise.

In order to keep your budget manageable, try to limit the number of expense categories to between 8 and 12. You might need to combine some categories. From the list above you might combine *office rental* and *office utilities* into a single category of *Office Costs*. Try to create categories that clearly describe what expenses are included in that category. *Operating Supplies* is more specific and descriptive than general *Supplies. Operating Supplies* could include chemicals, spare parts, cleaning supplies at the plant, etc. The point is that the categories should be divided according to functions – operations or administrative.

In preparing your expense estimates, you will want to look at last year's expenses as well as the current year's expenses. Review both years' expense categories to see that all of the operating expenses have been included. Don't just use the same figures for the new year, consider what costs might have changed over the year.

The following list is designed to get you thinking about cost changes that are likely to occur.

Costs likely to change:

- Postage for mailing bills
- Employee raises
- Increased employee hours
- New employees
- Utilities
- Pipe
- Repair parts
- Insurance (property, liability, errors & ommissions)
- Equipment leases
- Health insurance premiums
- Purchased water
- Chemicals
- Frequency of repairs as equipment gets older
- Professional services such as audit, legal or engineering
- Vehicle expenses and insurance
- Gasoline for the vehicle(s)
- Cost/frequency of water quality testing

Often it is difficult to estimate how much a particular expense will change. Be sure to have careful discussion with the operations staff, bookkeeping staff and entire governing board to get the best estimate. Estimating next year's budget will come down to your best judgement, based on current and previous year costs and any likely changes you have been able to identify.

Resist both over - and under - estimating. The more accurate the budget is, the more useful it will be! **Don't forget to include Debt Service Reserves and System Financial Reserves in the budget as was discussed earlier in this chapter.**

If you want to achieve real financial stability for your community water system, keep working on your budget until it balances. Don't just "change the numbers" to get the budget to balance. Your budget is your financial plan for the coming year. It is important to do it right. If the expenses or the revenues in your budget are not realistic, you will likely find yourself in financial difficulty during the coming year.

Monitoring the Budget

Your budget should be monitored on an on-going basis. All revenue and expenditures should be reviewed on a monthly basis. Monitoring revenue is relatively easy. You look at the amount of water sold and the revenue that was

projected to come in. The key to monitoring revenue is to watch for any variances that are outside of the norm.

Monitoring expenditure accounts or categories takes a little more time. Some of the expenses for your water system will be seasonal, so you will be watching for those expenditures on that seasonal basis, like water main breaks, insurance premiums, higher utility costs in the winter. Your debt service payments may occur only on an annual or semi-annual basis. Most computerized accounting programs can give you a budget status report which allows you to compare the budgeted amount, monthly expenses and year to date figures. Use this tool, and if you aren't already using it, make it a priority to review expenditures each month.

The benefits of monthly monitoring by the governing board are obvious. If revenue projections are not being met as planned, or if a particular line item is in danger of being overspent before the end of the fiscal year, an adjustment is needed. This might require a transfer of funds, or some expenditures will have to be put off. Again, by close monitoring of the budget, you are less likely to find your system in financial difficulty at the end of the year.

Chapter V: Electronic Data Processing Considerations

Technology has progressed at such a rapid pace in the past 10 to 15 years. Even the smallest unit of local government or other small community water system is likely to rely on sophisticated electronic data processing (EDP) systems to process receipts and disbursements (e.g. accounts payable, payroll), and aid in the preparation of general ledger and financial statements. Even though computerizing information is a form of internal control, the general EDP environment itself must also be structured in a manner to ensure as much as possible, that the data generated is accurate and free of misstatement. The information generated by the computer is only as reliable as the integrity of the data entered. Remember the adage – garbage in – garbage out!

Almost all software products designed for the governmental environment have extensive controls built into their system. There are passwords and/or multiple passwords required to access systems and these passwords can be changed as often as needed. All computer users should be assigned access levels that only allow them to work with particular files.

There are some other basic internal control policies that should be implemented in an EDP environment. Each small community water system utilizing a computer to do even part of their accounting functions should evaluate the following procedures and policies as they might relate to their own EDP functions:

- ✓ Back-up procedures,
- ✓ Operational, documentation and storage policies, and
- ✓ Disaster plans.

Back-up Procedures

All too often, human error, power surges, acts of God, and other disasters destroy or impair information maintained on computerized records. It is a serious internal control weakness if data cannot be retrieved or transactions re-created in a short period of time. Back-up procedures should be established and performed on a daily basis. When circumstances arise that eliminate or impair data, the back-up records can be loaded onto the system and information restored. If back-ups have been performed daily, one day's worth of transactions is theoretically the most information that would be lost. Back-up records should be tested periodically to determine that the information is actually being saved properly and can be retrieved.

Operational, Storage and Documentation Policies

The physical EDP system, just like any other asset, must be safeguarded. The hardware should be operated in an appropriate environment for such equipment. Computer systems require certain environmental conditions – cool temperatures, dust-free circulation, and adequate ventilation. Be sure to follow all manufacturer specifications on set-up and operations of your system. Physical access to all computer equipment should be limited to authorized personnel only. Preferably, the computer should be located in a locked and secured area away from the general flow of business traffic for your water system.

Storage of computer-related documents and back-up files is also an important internal control issue. At a minimum, back-up files should be maintained and safely stored in an off-site location, or at least in a locked file cabinet. You might consider having two sets of back-up information, one on-site for easy access and another off-site in the event that a major disaster happens and the office facilities are impaired or destroyed. When you are a "one-person" office, be sure to let at least the head of the governing board know the location of back-up files in the event that something happens to the staff. Obviously, all files that are stored should be kept current.

All hardware and software specifications, and other similar information on the actual computer system, should be stored in a secure place. If your community water system has a computer wizard who has modified or tailored the software to meet specific needs of your system, be sure to have a documentation log on hand to record these changes. Documentation logs are a good tool for any computer system. These logs should completely track the maintenance schedule and repair history for the system's hardware. The logs should also include information on internally developed software, as well as modifications made to existing software. Ideally, there should be a second copy of such a log, stored off-site and kept current. Proper maintenance of these logs ensures that in an event of personnel changes or other similar situations, adequate information is available for future users.

Disaster Plans

All community water systems no matter of size, should have disaster plans for all operations. This manual will not touch on the disaster plan process for the operational side of your system, other than to urge you to develop and annually review such a plan. On the accounting or financial management side, it is also

vitally important to have a disaster plan in the event of a disaster that can impair or destroy the functions of the EDP. This plan should include:

- ✓ Information on key personnel who should be contacted, and in which order, in the event a disaster impairs EDP system operations,
- ✓ The location of back-up files, software information, and other system documentation, and
- ✓ Details of reciprocal or alternative site processing agreements.

Some EDP disasters are simply the result of power outages or surges that cause systems to go down and data to be lost. If possible, the EDP system should be linked with an uninterrupted power source system. This type of system maintains constant power to the computer processor, regardless of outage or surges. At a minimum you will want to look into using a surge protector for your computer system.

Disaster plans should include a reciprocal or alternative site for processing data. Some processing transactions, such a payroll and/or billings, cannot wait for new or repaired equipment, so an alternative processing site should be arranged. Check with neighboring systems or communities to see what equipment and software they are using and set up a reciprocal agreement with someone with compatible hardware and software. Such an agreement should be written, approved, and signed by both entities. Both entities agree “up front” that adequate facilities and access to necessary equipment will be provided in the event of a processing emergency. The signed agreements (or copies) should be stored in a safe location, preferably off-site, and key management personnel (including the head of each governing board) made aware of the basic contents of the agreements.

EDP environments are unique to each community water system. However, the basic needs for proper internal controls, back-up procedures, documentation policies, disaster plans, and routine EDP audits are common to any environment. Even the smallest entity using a computer for financial purposes should have the resources to provide a system that ensures the integrity of the accounting and financial reporting function.

Chapter VI: Managing Cash and Investments

Cash is probably the most sensitive of assets. Proper management of cash requires solid internal controls and strict adherence to deposit and investment strategies. To begin with, those persons who have responsibility for handling cash should be properly bonded[6]. Only those employees who are bonded should be assigned any responsibilities for cash management.

Almost all small community water systems receive some cash payments for water bills. Occasionally you will find a system that has a policy of "no cash payments", accepting only checks or money orders for payment of water bills. If your water system accepts cash for payment, be sure to issue cash receipts. The following is a typical process for cash collection:

1. Cash is collected
2. A receipt is prepared for the amount of cash received. (If a cash register system is used, this receipt is automatically produced and should be given to the individual making the payment.) If you are using a manual system, a written receipt should be prepared that includes, at a minimum:

    a. the amount of payment
    b. the date of payment
    c. method of payment (i.e., cash, check, money order)
    d. purpose of the payment (e.g., payment of water bill, using the account number of customer to which the payment is to be credited)
    e. name of the individual making the payment
    f. signature or initials of the person who is receiving the payment.

3. The cash, check or money order is placed in a secure cash box or cash receipt drawer.
4. If a cash register system is used, a cash receipts journal is automatically prepared at the end of the day. If manual records are kept, the cash receipts journal should be updated at the time of each transaction. The information noted on the receipt is also noted in the cash receipts journal.

Some community water systems utilize drop-off boxes for some or all cash collections for utility billings. Be sure these drop-off boxes are locked and located in a secure location where there is little chance for tampering. Such drop-off boxes should be emptied at least once a day to make sure payments are being received and credited. If you do not have a full-time staff to check on a drop-off box daily,

[6] Bonding is simply a type of insurance policy that the community water system carries on those employees responsible for cash management to cover losses in the event of improper or illegal activities that result in cash losses to the system.

your governing board should consider locating the box in a financial institution, the police department office, or other public location that is monitored and secured. Ultimately, the governing board is responsible for lost revenue if a problem happens at any payment drop-box.

Internal Controls on Cash

It is very difficult in small community water systems where only one employee is responsible for all functions of the utility – operations, accounting as well as billing and collection. In these cases, a cash register is not only one way to control access to the cash drawer, but also to generate various reports that recreate transactions and facilitate cash drawer reconciliation.

Use of petty cash accounts should be limited for any water system. How you handle petty cash needs to be part of the entity's policies and procedures. Appendix C has sample policies for petty cash; however, the following are some general comments about petty cash.

- ✓ Petty cash should not be used to cash checks for employees.
- ✓ It should not be used to purchase supplies, repairs, or regular operation and maintenance items included in the budget.
- ✓ Customer payments made in cash should be deposited directly into the bank and not into the petty cash fund of the utility.
- ✓ Receipts should be maintained for any petty cash expenditure and reconciled to the appropriate accounts on a monthly basis.

Internal controls are not for the sole purpose of preventing theft, contrary to popular belief. Good internal controls are designed not only to safeguard your assets, but also to ensure the credibility of the information being generated and reported.

Bank Reconciliations

All bank accounts should be reconciled monthly. The purpose of a bank reconciliation is to compare the bank balance with the community water system's book balance and to resolve/explain any differences. Errors are often identified during this process, so timely reconciliations should be performed or the purpose of bank reconciliations is defeated. Before a bank reconciliation can be performed, all cash transactions for the period must have been posted to the general ledger. As an internal control, the person/employee directly responsible for cash collections or disbursements should not do bank reconciliations. The use of the computer has greatly simplified the reconciliation process. Some banks also provide reconciliation services for a slight fee. The entity only has to provide information concerning all checks written and posted, as well as any outstanding deposits,

journal entries, or the like that would cause the book balance to differ from the bank balance.

Managing Cash Flows

Cash inflows for a community water system should be fairly consistent if utility billings are done on a monthly basis. If your system bills customers less frequently than monthly, you may find problems managing cash flow. It is important to consistently monitor cash inflows and cash requirements (expenses). Funds need to be on hand to make regular scheduled payments and to make the debt service payments on a semi-annual or annual basis. Most disbursements cannot be put "on hold" until you round up the necessary cash.

If your system is fortunate to have some excess cash for part of the year, there needs to be a balance between maximizing interest earnings by investing idle cash and maintaining enough liquid assets to meet cash requirements. A good cash manager must monitor cash inflows, investment portfolios, and available liquid assets constantly, comparing the available funds with cash requirements.

Investment Policies

All governmental entities, and other community water systems, should have an established and documented investment policy. Funds that are not needed for immediate cash flow purposes should be invested in safe investments that offer the maximum yield possible. This policy could be as simple as stating that all funds would be held in interest bearing accounts; or funds over a certain amount will be invested in certificates of deposit for 90 days or 6 months. This investment policy should be approved by the governing board and should specify what types of investments can be made. Like all policies, an investment policy should be reviewed and updated periodically.

Government officials and employees have a fiduciary responsibility to properly safeguard the public's assets. The management of cash and investments is an extensive process and your board should have a system in place to ensure that all aspects of it are handled effectively and efficiently.

Chapter VII: Auditing

An audit is a systematic examination of resource utilization concluding in a written report. It is a test of management's internal accounting controls and is intended to:

- Ascertain whether financial statements fairly present the financial position and results of operations;
- Test whether transactions have been legally performed;
- Identify areas for possible improvements in accounting practices and procedures;
- Ascertain whether transactions have been recorded accurately and consistently; and,
- Ascertain the stewardship of officials responsible for governmental resources.

Some governmental units might have both an internal and external audit function. However, for most small community water systems, only the external audit is conducted. Most small community water systems don't have the staff or funds available to conduct a separate internal audit.

Securing the Services of an External Auditor

If your community water system does not use the services of an independent auditor, you should consider having an audit conducted. To secure the services for an independent audit, you can use the bid process or develop a request for proposals to various auditors. Some small municipalities and community water systems enter into multiple year contracts with independent auditors; the average length of three to five years. However, all contracts should be renegotiated each year to protect both the system and the auditors' best interest. If the auditor is not providing the quality of services or if there are reasons that make a continuing relationship questionable, the system should have the option of securing other services. Likewise, the external auditor should have the option of re-evaluating quoted service fees if circumstances beyond their control arise, such as unexpected additional work being required due to poor records at the local level.

It is the external auditor's responsibility to attest to the fair presentation of the information, but it is the system's responsibility to prepare for the audit. The bookkeeping staff of the water system should have all the necessary adjusting entries made and posted to the general ledger, the trial balance closed, and draft financial statements prepared. Most auditor's fees are directly based on the time they anticipate spending on the audit. The more preliminary work the community water system can perform should be reflected in a reduced fee charged for the audit.

An external auditor generally prepares a client "prep" list which is a list of tasks for the client to complete before the audit begins. The client "prep" list will vary from one system to another and from one auditor to another. Appendix E is a sample client "prep" list of tasks that should be completed before the audit takes place.

An external auditor should be given sufficient work space while they are on-site at the small community water system's facilities. They need adequate space, access to telephone and a secure location in which they can lock up their work when they are not on site. If the external auditor needs to take account books and records to their own location for the period of the audit, the water system should have additional copies to refer to as questions arise.

Single Audit

Almost all community water systems, at one time or another, are recipients of federal grant monies or loan funds. Before 1984, state and local governments were subject to audit requirements from each of the agencies that provided the grants. The Singe Audit Act of 1984 was designed to replace the multiple grant audits with a "single audit". Under the single audit concept, there is less duplication of audit procedures and audit costs are reduced.

The Single Audit Act and subsequent amendments specify the thresholds for required audits. Currently, public entities receiving total federal financial assistance of $25,000 or more are subject to the Act's provisions. For assistance totals between $25,000 and $100,000 the entity has the option of procuring a Single Audit or separate audits of each of the federal grants. For total assistance in excess of $100,000, a Single Audit must be performed.

Single Audits must be performed in accordance with generally accepted government auditing standards. The end result of the audit is the schedule of federal financial assistance. Any entity receiving funds from the Drinking Water or Wastewater State Revolving Funds, even though it is a loan, will be subject to the provisions of the Single Audit Act. Funding agencies will require a copy of the audit once it is completed for their records and to insure compliance.

Summary

Small community water systems are accountable to their customers, as well as local, state and federal constituents. Financial management is just one area of overall administration that must be developed and maintained by the water system governing board. Capacity development, the term first discussed at the beginning of this handbook, will be a term the small community water system will be continue to hear over the years as the state develops its program on financial capacity assessment. What the water system governing board does now to establish good

accounting and budgeting procedures, record-keeping, and fiscal policies will help assure its ability to provide safe, reliable and quality water to customers into the future.

This handbook is just one tool the small community water system can use in improving its management skills. The Government Finance Officers Association is another resource for financial management information. The GFOA has a series of publications relating to accounting, financial reporting, and fiscal management that may be of interest to municipalities.

EPA characterizes capacity development as an "extraordinary new focus on prevention and sustainability."[7] For the local community water system, sustainability means fiscal responsibility. A community water system must have the overall financial structure to assure the long-term life of their water system.

[7] *Information for States on Preparing Capacity Development Strategies Under section 1420* (c)*(2) of the Safe Drinking Water Act.* Office of Ground Water and Drinking Water, U.S. Environmental Protection Agency. July, 1998.

APPENDIX A

Financing for the Future: Checklist

The key to long term capacity, or sustainability, is your system's financial capability. The following list of questions will help your governing board check how you are managing your financial responsibilities. If you can answer "yes" to these questions, you are managing your financial responsibilities pretty well. "No" answers should be fixed as soon as possible. Failing to take prompt action could jeopardize your system's long term financial capability.

Budgeting

1. Does your governing body prepare and adopt a separate annual budget for your water system before the beginning of each fiscal year? ___ yes ___ no

2. In developing the budget for next year, do you take past years' costs of operation into account? ___ yes ___ no

3. Do you take known or likely changes in operations during the coming year into account when you prepare the annual budget? ___ yes ___ no

4. Are both the governing board and employees involved in the process of developing the budget? ___ yes ___ no

5. Does your annual budget separate revenues and expenses by each type of activity the utility conducts (like producing/distributing water from collecting and treating wastewater, and trash collection and disposal)? ___ yes ___ no

6. Does the annual budget include all interest and principal repayments due on debts owed by the system? ___ yes ___ no

7. Does the annual budget include and identify, in detail, all operating and maintenance expenses like salaries, fringe benefits, chemicals, repairs, supplies, utility, telephone and insurance by line-item? ___ yes ___ no

8. Does the annual budget include debt service reserves if required? ___ yes ___ no

9. Does your annual budget include financial reserves to cover the costs of replacing worn out equipment? ___ yes ___ no

10. Does your annual budget include financial reserves to cover the costs of unforeseen emergencies or system breakdowns? ___ yes ___ no

11. Do you have a capital improvement plan and budget that defines future capital needs at least 3-5 years into the future? ___ yes ___ no

Financial Reporting

1. Does the governing body receive written expense and revenue reports *each month* from the system's bookkeeper or city auditor? ___ yes ___ no

2. Do your monthly financial reports compare total revenues against the total expenses for the month? ___ yes ___ no

3. Are all transfers of funds between general operating accounts and other accounts of the system shown on the monthly financial reports? ___ yes ___ no

4. Is the net financial gain (or loss) for the month shown on the monthly financial report. ___ yes ___ no

5. Do your monthly financial reports show the current fund balances of all the system operating, non-operating, and reserve accounts (like general operating, revenue, customer deposits, equipment replacement, emergency and debt service reserves)? ___ yes ___ no

6. Is the total number and total amount of past due customer accounts shown on the monthly financial report? ___ yes ___ no

7. Does the governing body receive financial reports that show the actual year-to-date revenues and expenditures, *compared to* projected revenues and expenses shown in the approved budget. ___ yes ___ no

8. Do the annual revenues from the sale of water to customers provide enough money to meet *all* of the water system's annual operating expenses? ___ yes ___ no

Financial Procedures

1. Does your governing body review and revise the water rate structure at least every two years? ___ yes ___ no

2. Do you have a written policy that specifies under what circumstances funds may be transferred or expended from reserve accounts? ___ yes ___ no
3. Do you have a written policy and procedure that restricts the expenditure of system funds to guarantee that funds will not be spent for unauthorized purposes? ___ yes ___ no

4. Do you require governing body prior approval for major purchases of supplies, equipment or services? ___ yes ___ no

5. Does your system have internal financial controls that provide for a separation of duties among the receipt, deposit, and accounting of funds, and the preparation and signing of checks? ___ yes ___ no

6. Does your system have a Purchase Order or Pre-authorization system for expenditure of funds? ___ yes ___ no

Financial Accountability

1. Does your system maintain adequate fidelity bond coverage for all people who have access to system funds? ___ yes ___ no

2. Do you maintain adequate insurance coverage for general liability, extended fire and property damage and Workmen's Compensation? ___ yes ___ no

3. Are system financial reports to lending agencies prepared and submitted in a timely manner? ___ yes ___ no

4. Do you have an annual audit performed by an independent auditor? ___ yes ___ no

5. Do your system submit the required audit report to the State Auditor's Office? ___ yes ___ no

6. Does your governing body review the audit report and implement recommendations made by the auditor or State Auditor's office? ___ yes ___ no

APPENDIX B

Records: Archive Procedures: Example

The major areas of archive materials are as follows:

Area		Responsible Party
1. Accounting		**Auditor/Bookkeeper**
Audit Records	permanent	
Chart of Accounts	permanent	
Tax Returns	permanent	
Profit & Loss	permanent	
Financial Statements	permanent	
General Ledger	permanent	
Expense Reports	6 years	
Travel Expense	3 years	
Payroll	8 years	
Checks	7 years	
Checks for Equipment	permanent	
Check Register	permanent	
2. Corporate Records		**Auditor/Manager**
Incorporation Records	permanent	
Bylaws/Resolutions	permanent	
Board Minutes	permanent	
Board Committee minutes	permanent	
Annual Reports	permanent	
Contracts	indefinite	
3. Insurance		**Auditor/Bookkeeper**
Policies	4 years	
Claims	permanent	
4. Personnel		**Auditor/Manager**
Applications	1 year	
Personnel Files (terminations)	7 years	
Job Descriptions	2 years or superseded	
Time and Attendance Records	3 years	
Leave Forms	3 years	
Accident Reports/Claims	indefinite	

Methods for destruction of files will include the shredder and/or recycled materials bins.

A Permanent Record Book should be maintained for when, where, who and what is destroyed. Note: All destruction of any item and moving of anything is an administrative type decision. This will include files, supplies and/or equipment.

APPENDIX C

Account Coding Format

Account Description:

BALANCE SHEET ACCOUNTS

Assets

Fund Classification _____000
Asset Accounts _____1000

Liabilities and Other Credits

Fund Classification _____000
Liability or Other Credit Accounts _____2000

BUDGETARY ACCOUNTS

Revenue

Fund Classification _____000
Revenue Source _____3000

Expenditure/Expense
Fund Classification _____000
Expenditure/Expense Function _____4000
Expenditure/Expense Object _____0000

FUND AND ACCOUNT GROUP
Coding and Classification[8]

NUMBER		FUND
100		GENERAL FUND
200		SPECIAL REVENUE FUNDS
	201	Highway Distribution Fund
	202	Social Security Fund
	203	City's Share of Special Assessment Fund
	204	Special Assessment Deficiency Fund
	205	Advertising Fund
	206	Emergency Fund
	207	Planning Fund
	208	Cemetery Fund
	209	Auditorium Fund
	210	Employee Pensions
	211	Insurance Reserve
	212	Job Development Authority
300		DEBT SERVICE FUNDS
	301	_____ Sinking Fund
	302	_____ Sinking Fund
	310	_____ Improvement District # ___ Sinking Fund
	311	_____ Improvement District # ___ Sinking Fund
400		CAPITAL PROJECT FUNDS
	401	_____ Construction Fund
	402	_____ Construction Fund
	410	_____ Improvement District # ___ Construction
	411	_____ Improvement District # ___ Construction
500		ENTERPRISE FUNDS
	501	Water Utility Fund
	502	Sewer Fund
	503	Garbage Fund
	504	Electric Utility Fund
	510	_____ Construction Fund
		(use a separate fund for each major capital asset)
600		INTERNAL SERVICE FUNDS
700		TRUST AND AGENCY FUNDS
	701	Cemetery Fund

[8] Table is taken from "Accounting Manual for North Dakota Cities", Office of the State Auditor, State Capital, 600 East Boulevard Avenue, Bismarck, ND 58505

	702	Band Fund
	703	Park District Fund
	704	Library Fund
	705	Airport Fund
800		GENERAL FIXED ASSETS
900		GENERAL LONG-TERM DEBT
ASSETS		
1100		CASH
	1110	Cash on Hand
	1120	Petty Cash
	1130	Cash in Bank
	1140	Cash in Custody of County Treasurer
	1150	Interest Bearing Cash Accounts
	1160	Certificates of Deposit (Maturity of 3 months or less)
1200		INVESTMENTS
	1210	Certificates of Deposits (Maturity greater than 3 months)
	1220	Money Market Certificates
	1230	Other Investments
1300		RECEIVABLES
	1311	Accounts Receivable
	1312	Allowance for Uncollectible Accounts (Credit)
	1321	Notes Receivable
	1331	Accrued Interest Receivable
	1341	Taxes Receivable
	1342	Estimated Uncollectible Taxes (Credit)
	1351	Special Assessments Receivable – Current
	1361	Interest Receivable on Investments
1400		DUE FROM OTHER FUNDS
	1410	Due from Other Governmental Units
	1411	Due from U.S. Government
	1412	Due from State
	1420	Due from Other Fund
	1430	Advances from Other Funds
1500		INVENTORIES AND PREPAID EXPENSE
	1510	Inventories
	1520	Prepaid Expenses
1600		FIXED ASSETS
	1611	Land

	1621	Buildings
	1622	Allowance for Depreciation – Buildings
	1631	Improvements other than Buildings
	1632	Allowance for Depreciation – Improvements not Buildings
1600		Fixed Assets continued
	1641	Office Furniture and Equipment
	1642	Allowance for Depreciation – Office Furniture & Equipment
	1651	Machinery and Equipment
	1652	Allowance for Depreciation – Machinery & Equipment
	1661	Vehicles
	1662	Allowance for Depreciation – Vehicles
1700		WORK IN PROGRESS
	1711	Construction Work in Progress
1800		BUDGETARY ACCOUNTS AND OTHER DEBITS
	1811	Estimated Revenue (Debit)
	1812	Revenues (Credit)
	1821	Amount Available in Debt Service Funds
	1822	Amount to be Provided for Retirement of Long-Term Debt
		LIABILITIES AND OTHER CREDITS
2100		GENERAL PAYABLES
	2111	Vouchers Payable
	2121	Accounts Payable
2200		PAYROLL ACCRUAL AND PAYABLES
	2211	Accrued Payroll
	2221	Withholding Taxes Payable – Federal & State
	2230	Other Payables
	2231	FICA & OASIS Payable
	2232	Retirement
	2233	Group Insurance
2300		CONTRACTS, NOTES & JUDGEMENTS PAYABLE
	2311	Contracts Payable
	2312	Contracts Payable – Retained Percentage
	2321	Notes Payable
	2331	Certificates of Indebtedness Payable
	2341	Judgements Payable
	2351	Capital Leases Payable
2400		DUE TO OTHER FUNDS
	2411	Due to Other Governmental Units
	2421	Due to Other Funds

	2431	Due to Internal Service Fund
	2451	Advances from Other Funds
2500		BONDS PAYABLE AND INTEREST
	2511	Matured Bonds Payable
	2521	Matured Interest Payable
	2531	Bonds Payable
	2541	Unamortized Premiums on Bonds Sold
	2542	Unamortized Discount on Bonds Sold (Debit)
	2541	Interest Payable – Accrued
2600		BUDGETARY ACCOUNTS
	2611	Appropriations (Credit)
	2621	Expenditures (Debit)
	2631	Encumbrances
2700		RESERVES AND OTHER CREDITS
	2711	Reserve for Current Years Encumbrances
	2721	Reserve for Prior Years Encumbrances
	2731	Reserve for Customer's Deposits
	2741	Revenue Collected in Advance
	2751	Reserve for Debt Service
2800		CONTRIBUTED CAPITAL
	2811	Contributed Capital – Governmental Units
	2821	Contributed Capital – Other Funds
	2831	Contributed Capital – Customers
2900		FUND BALANCE
	2961	Fund Balance
	2971	Investment in Fixed Assets
	2981	Retained Earnings

REVENUE SOURCE
Coding and Classification

NUMBER		REVENUE SOURCE
3100		TAXES
	3110	General Property Taxes
	3120	Property Taxes on Other than Assessed Valuation
	3130	General Sales and Use Taxes
	3140	Selective Sales and Use Taxes
	3150	Income Taxes
	3160	Gross Receipts Business Taxes
	3170	Estate and Gift Taxes
	3180	Other Taxes
	3190	Penalties and Interest on Delinquent Taxes
3200		LICENSES AND PERMITS
	3210	Business Licenses and Permits
	3211	Beer and Liquor Licenses
	3212	Peddler's Licenses
	3213	Franchise Fees
	3220	Non-Business Licenses and Permits
	3221	Dog Licenses
	3222	Bicycle Licenses
	3223	Building Permits
	3224	Games of Chance Permits
3300		INTERGOVERNMENTAL REVENUE
	3310	Federal Grants
	3311	Community Development Block Grants
	3312	E.P.A. Grants
	3320	Federal Shared Revenue
	3330	Federal Payments in Lieu of Taxes
	3340	State Grants
	3350	State Shared Revenue
	3351	State Revenue Sharing
	3352	Cigarette Tax
	3353	Highway Tax Distribution
	3354	Oil and Gas Production
	3355	Coal Severance
	3360	State Payments in Lieu of Taxes
	3361	Personal Property Replacement
	3362	Homestead Credit
	3370	Grants from Local Units (Specify Units)
	3380	Shared Revenue from Local Units (Specify Units)
	3381	County – 20% Road and Bridge
	3390	Payments from Local Units in Lieu of Taxes

3400		CHARGES FOR SERVICES
	3410	General Government
	3420	Public Safety
	3430	Highways and Streets
	3440	Sanitation
	3441	Sewer Charges
	3442	Garbage Collection Charges
	3450	Health and Welfare
	3460	Culture and Recreation
	3461	Golf Fees
	3462	Swimming Pool Fees
	3470	Water Enterprise
	3471	Water Charges
	3480	Electric Enterprises
	3481	Electricity Charges
	3490	Miscellaneous Services
3500		FINES AND FORFEITS
	3510	Fines
	3520	Forfeits
3600		MISCELLANEOUS REVENUE
	3610	Interest Earnings
	3620	Rents and Royalties
	3621	Auditorium Rent
	3622	Machine Rent
	3630	Special Assessments
	3640	Sale of Fixed Assets, Including Compensation for Loss
	3650	Contributions from Public Enterprises
	3660	Contributions and Donations from Private Sources
	3670	Sale of Securities
	3671	Sale of Bonds
	3672	Premium on Bonds
	3680	Sale of Lots
	3690	Other
3900		NON-REVENUE SOURCES
	3999	Transfers In

EXPENDITURE FUNCTION
Coding and Classification

NUMBER		EXPENDITURE TYPE
4100		GENERAL GOVERNMENT
	4110	Governing Board
	4120	Municipal Judge
	4130	Executive and Central Staff Agencies
	4131	Mayor
	4132	Board and Commissions
	4233	Central Purchasing
	4140	Administrative Agencies
	4141	Auditor
	4142	Treasurer
	4143	Attorney
	4144	Assessor
	4150	Non-Departmental
	4160	General Government Buildings and Grounds
	4161	Buildings
	4162	Grounds
	4170	Elections
	4171	Primary Elections
	4172	General Elections
	4173	Special Elections
	4180	Planning and Zoning
	4190	Education and Community Promotion
	4191	Advertising and Promotion
4200		PUBLIC SAFETY
	4210	Police Department
	4211	Administration
	4212	Crime Control and Investigation
	4213	Traffic Control
	4214	Training
	4220	Fire Department
	4230	Corrections
	4240	Protective Inspections
	4241	Building Inspections
	4250	Emergency Services – Civil Defense
	4260	Ambulance Services
	4270	Other
	4271	Animal Protection
4300		PUBLIC WORKS
	4310	Highways and Streets

	4311	Administration
	4312	Road and Street Construction
	4313	Road and Street Maintenance
	4314	Other Road and Street Operations
	4320	Garbage Operation
	4330	Sewer Operation
	4340	Water System
	4350	Electrical System
4400		HEALTH AND WELFARE
	4410	Health
	4420	Welfare
4500		CULTURE AND RECREATION
	4510	Parks and Park Areas
	4520	Recreation
	4530	Library
	4540	Swimming Pool
4600		DEBIT SERVICE
4700		INTERGOVERMENTAL EXPENDITURES
	4710	Contributions to Other Funds
4900		MISCELLANEOUS
	4999	Transfers to Other Funds

EXPENDITURE OBJECT
CODING AND CLASSIFICATION

NUMBER		**EXPENDITURE OBJECT**
100		SALARIES AND WAGES
	110	Permanent Employees
	111	Administrative
	112	Secretarial and Clerical
	113	Other Employees
	114	Temporary Employees

200		FRINGE BENEFITS
	210	Group Insurance
	220	FICA
	230	Retirement
	240	Workmen's Compensation
	250	Unemployment Compensation
	260	Severance Pay
300		SERVICES
	310	PROFESSIONAL FEES
	311	Audit Fees
	312	Legal Fees
	313	Engineering
	314	Architectural
	320	INSURANCE
	321	Fire and Tornado
	322	Fleet
	323	Liability
	330	RENTALS
	331	Vehicle Rental
	332	Equipment Rental
	333	Building Rental
	340	TRAVEL EXPENSES
	350	UTILITIES
	351	Electricity
	352	Gas/Propane/Heating
	353	Water
	354	Sewer
	355	Garbage
	356	Telephone
	360	PUBLISHING AND PRINTING
	370	DUES AND MEMBERSHIPS
	380	REPAIRS AND MAINTENANCE SERVICES
	381	Snow Removal
	390	OTHER SERVICES
	391	Street Lighting
	392	Ambulance Service Contract
400		SUPPLIES AND MAINTENANCE
	410	Office Supplies
	420	Operation and Maintenance Supplies
	421	Janitorial Supplies
	422	Clothing and Uniforms
	423	Chemical Supplies
	424	Gas, Oil, Diesel Fuel, Grease, etc.

	425	Motor Vehicle Parts
	426	Machinery and Equipment Parts
	427	Repair Parts for Enterprise Operations
	490	Miscellaneous
500		DEPRECIATION EXPENSE
	510	Buildings
	520	Improvements other than Buildings
	530	Office Furniture and Equipment
	540	Machinery and Equipment
	550	Vehicles
600		CAPITAL OUTLAY
	610	Land
	620	Buildings
	630	Improvements other than Buildings
	640	Office Furniture and Equipment
	650	Machinery and Equipment
	660	Vehicles
	670	Construction in Progress
700		DEBT SERVICE
	710	Principal
	720	Interest
	730	Service Charges
800		OTHER CHARGES
	810	Contributions
	820	Federal Projects
	830	Transfers Out

APPENDIX D

Sample
Financial Management Policies and Procedures
for Small Community Water Systems

Accounting and Cash Management Policies

1. Disbursement of Funds: All funds shall be disbursed by order of the governing board or its designee. The use and expenditure of system funds shall be restricted to approved purposes as defined by the system's annual budget.

2. Priority of Disbursement: Priority of disbursements and payments from current revenues received by the system shall be in accordance with the following order or priority, unless otherwise ordered by the governing board, or by law:

    a. Payment of Debt Service Expenses and required Debt Service Reserves
    b. Payment of Operation and Maintenance Expenses of the system
    c. Payment to Board authorized Financial Reserve Accounts (Emergency Reserves, Capital Improvements, or Equipment Replacement Reserves)

3. Authorization to Incur Financial Obligations: Only the governing board, or persons so designated by the governing board, shall have authorization to incur financial obligations on behalf of the system.

4. Chart of System Accounts: Financial record-keeping of the system shall be accomplished utilizing a standard double entry, Chart of Accounts for the classification of all assets, liabilities, expenses, revenues and other accounting transactions on a consistent basis.

5. Source Documentation: Payment for goods and services and expenses of system operation shall be made from original invoices submitted for payment. Once paid, all invoices must be marked "paid" and initialed, to avoid duplicate payment. Properly completed, approved and numbered purchase requisitions (or purchase orders) shall be used for non-routine expenses, prior to actual disbursement of funds.

6. Separation of Duties/Responsibilities: The governing board shall assure that there is proper division of responsibility and function among persons engaged in the process of receiving and depositing, accounting for, and expending funds, in order to minimize the potential for loss, the unauthorized use of, or unauthorized disposition of system assets.

7. Financial Procedures Manual: The governing board shall insure that a financial procedure manual is developed for the system. The manual will describe

routine accounting procedures and practices of the system. At a minimum the manual shall provide for:

a. Routine procedures for the daily collection, recording and depositing of receipts.
b. The proper use of Check Registers, Cash Receipts Journals, Payroll Ledgers, Monthly Disbursement and Collections Summaries, and the General Ledger.
c. Proper operation of Petty Cash Account
d. Proper maintenance of Individual Customer Account ledgers
e. Monthly Bank Statement Reconciliation procedures
f. Proper cross-referencing of all accounting transactions between journals, ledgers, and source documents.

The procedures manual shall contain financial and accounting forms and documents used by the system, and instructions for how and when each form or document is used.

8. Bank Accounts: The system shall maintain appropriate, interest-bearing bank accounts for the operation of the system. Customer deposits shall be maintained in a separate interest-bearing account.

9. Payments by Check Only: All payments by the system shall be made by check. Payment of all customer deposits shall be by check. System transfers of funds from operating or revenue accounts and vice versa, shall also be made by check. Two persons designated by the governing board shall sign all system checks.

10. Cash Receipts: All receipts shall be recorded in a cash receipts journal, then deposited daily "intact". A person other than the individual who records the receipts received shall make deposits. Cash receipts shall not be used to pay expenses of the system, nor to cash personal checks of employees or others.

11. Petty Cash Fund: The governing board may allow for the creation of a petty cash fund, not to exceed $_____ for the purpose of making change for customer cash payments, and small cash purchases of less than $ _____ . The petty cash fund shall be subject to procedures for its operation contained in the financial procedures manual. The petty cash fund shall not be used to cash checks of employees or others.

12. Property Assets: Tangible personal property and/or equipment purchased by the system, having a per unit acquisition cost greater than $ _____ and useful life of _____ (months, years) or more, will be logged into a "fixed assets" inventory. Tangible property purchased by the system that does not meet this definition will be considered "supplies". Procedures for cataloging and

safeguarding fixed asset and appropriate system personnel shall implement supply inventories.

13. Reporting: In addition to monthly financial reports, the governing board shall receive monthly billing information – total billing, number of customers, total gallons sold, total gallons purchased, etc.

Records Retention: All financial records, including original source documentation, purchase requisitions, cancelled checks, and bank statements shall be retained by the system for a time period, in accordance with legal requirements and recommended accounting procedures.

Purchasing Policies and Purchase Requisition System

1. Purchasing Policy: It is the policy of this governing board that the purchase of goods and services shall be on a competitive, and "least cost" basis. Depending on the nature of the goods/services to be acquired, however, the governing board reserves the right to consider other factors aside from cost in the final procurement decision. Such factors may include: method and terms of payment, service availability, warranties and guarantees, delivery and set up charges, operational expense, and reliability.

2. Purchase Requisitions: A properly completed and approved Purchase Requisition (Purchase Order) shall be required prior to payment for all expenses and purchases, except routine expenses and purchases. "Routine" expenses and purchases are defined as regularly scheduled or incurred expenses (such as, payroll expenses, utilities, telephone) and purchases of supplies or parts not exceeding $10.00 for any one item.

3. Relation to Budget: All purchased goods and services are restricted to approved purposes as defined in the annual budget. Purchases of a single item or service, or the single procurement of a group of related items or services, the total of which will exceed $_____, shall be identified specifically in the annual budget.

4. Purchasing Procedures: the following table indicates the proper procedure for procurement and purchasing for most goods/services to be used by the system:

Value of Item(s) to be Procured:	Method of Procurement/Purchase:
$0 to $25.00	Open market purchase
$26.00 to $250.00	At least 3 oral quotations received prior to purchase
$251.00 to $2000.00	At least 3 written quotations received prior to purchase

over $2,000.00	Sealed competitive bids from qualified vendors

5. Board Approval: Any single purchase of goods/services by the system, which exceeds $250.00, must be individually approved by the governing board. Purchase requests for such purchases must contain written quotations in accordance with the above procedures.

6. Trade Accounts: The establishment of trade accounts (charge accounts) shall only be by governing board approval. Purchases made on charge accounts shall be recorded in a charge account journal for each vendor. Periodic charge account statements (invoices) shall be reconciled with the charge account journal and associated Purchase Requisitions within 3 working days after receipt of the invoice, and prior to payment.

7. Conflict(s) of Interest: Businesses or firms in which governing board members have a financial interest will not normally be considered as qualified vendors for supplying goods or services to the system. If under extraordinary circumstances, the system must secure goods/services from such firms or businesses, they shall not receive preferential treatment in the procurement process. The reasons for each such procurement from such firm, shall be individually documented on any Purchase Requisition, and must be in accordance with applicable state statutes.

8. Emergency Purchases: When necessary to effect emergency repairs and/or equipment replacement to restore or maintain services, the requirements for bids or price quotations, oral or written, may not be required. Emergency purchases shall be documented on a Purchase Requisition with a written explanation of the emergency nature of the repairs within 2 working days of the repair.

9. Out of Pocket Expenses: “Out of Pocket” purchases of goods or services, in general are unallowable. Should extraordinary circumstances make an out of pocket expense necessary, employees shall submit the original invoice and completed purchase requisition for reimbursement. Requests for reimbursement shall be considered on a case-by-case basis by the governing board or its designee. Documented travel expenses of employees will be reimbursed in accordance with mileage and/or travel allowances that may be developed by the governing board.

Compensation and Payroll Polices

1. Compensation Policy: It is the policy of the governing board that compensation shall be paid that is non-discriminatory and competitive with rates paid for similar jobs by similar utilities in the area. All compensation decisions however, must take into account the economic status of the system. The governing board may, from time to time, conduct surveys of other water utilities to ascertain if adjustments in wage or salary levels should be made.

2. Pay Procedures: The system will compensate employees by check or direct deposit on a regular basis and in such a manner so that the amount, method and timing of payments complies with all applicable laws and regulations. Should a payday fall on a weekend (Saturday or Sunday) employees will receive their pay on the last working day prior to the regular payday. The system will not provide advance payment of wages and salaries to employees.

3. Pay Periods: The pay period for the system is (*choose monthly, semi-monthly, bi-weekly [every two weeks], weekly*) ending on the ____ day and the _____ day of each week/month (choose week or month).

4. Workweek/Workday: The normal workweek of the system is Sunday through Saturday, beginning and ending at midnight on Saturday. The normal workweek consists of forty hours. The normal workday is eight consecutive hours of work, with an unpaid meal period, and break periods.

5. Time and Activity Reports: In order to be paid, employees must submit individual time reports showing the daily hours worked for each workweek. Time reports must provide sufficient detail to allow proper payment of each employee – including starting and quitting times, lunch break time, unworked time for which pay is entitled (paid vacation, or paid absences), and overtime hours, if any. All time records shall be checked and approved prior to payment. Falsifying any time record is prohibited and will be grounds for disciplinary action, including termination.

6. Overtime Hours: Overtime hours are all hours worked by an employee over 40 hours in any workweek. “Non-exempt” employees shall receive compensation at the rate of 1.5 times their regular pay for each hour of overtime worked. All employees must receive prior approval for working overtime hours, unless otherwise provided by the governing board. (Non-exempt employees are those employees covered by the wage/hour provisions of the Fair Labor Standards Act). “Exempt” employees shall not receive overtime. (Exempt employees are those positions which are classified as executive, administrative or professional, having supervisory responsibilities or exercising discretionary judgement, and meeting salary level tests.)

7. Annual Wage/Salary Review: The governing board or supervisory personnel, will conduct annual wage/salary reviews with each employee of the system. Decisions concerning possible wage or salary rate changes shall be based upon job performance, length of service, and budgetary considerations. All pay charges for employees shall be approved in writing by the governing board prior to submission to accounting personnel.

Other sections of the policies and procedures manual could also include:

- General Governance
- Planning and Budgeting
- Personnel

APPENDIX E

Things To Do To Help Balance The Budget Without Raising Rates

Get serious about leak detection
Subtract the number of gallons you billed customers for last month from the number of gallons you produced or purchased last month. Most of the difference is lost revenue to your system. *If you produce your own water, your water loss should be less than 15% of all water treated. If you are buying treated water, water loss should be under 10%.*

Collect overdue accounts
If your collection and shutoff policies aren't being strictly enforced, your system is losing revenue, and the majority of your customers are subsidizing slow payers! Is the penalty for not paying high enough to make people want to pay on time? Consider dividing the overdue accounts among governing board members for collection. This let's customers know you are serious about collecting!

Make sure your cash registers are working
Water meters are your system's cash registers. Like the American Express commercial says, "Don't leave *any* home without one!" If your system does not have meters, install them. If your system's only partially metered, finish the job.

Old meters often slow down and fail to register all of the water being used. Set up a program to test residential meters for accuracy every 8-10 years. Do not go beyond 15 years without testing all meters. Larger commercial meters should be tested more frequently. Increase your revenue by replacing inaccurate meters.

Update your fees, deposits and service charges
Review your Fees and Deposit Policy. Are your policies out of date? How do they compare with nearby systems? Does your hook-up fee cover the *full* cost of hooking up a new customer? Does your fee structure cover the extra cost for night or weekend work? Consider a fee structure that pays the full cost of providing the service *plus a surplus.* Make sure your policies are in writing and insist that all customers are treated the same.

Improve customer billing
Read all meters in the system by using system personnel and get your bills out in a timely manner. Examine the efficiency of your current billing system versus using a computerized system. Be sure *everyone* who is receiving water is also receiving a bill.

Get tough on cheaters

There is no such thing as Free Water from a public water system. *If someone is not paying for water, the rest of your customers are paying more than they should!* Establish stiff penalties for people who tamper with meters, make illegal taps, by-pass meters, take water from hydrants, or use other means to cheat the system.

Put your money to work
When money is collected, is it getting to the bank right away? Are your bank accounts drawing the highest interest possible? If at all possible shop around for banking services. Use more than one bank. Place Reserves in high interest Certificates of Deposits or Money Market accounts. *Non-profit water associations can and should be earning interest on their accounts.*

Buy in quantity
Consider purchasing chemicals and supplies in bulk to save money when you have proper storage for these items. Ask for bids on high cost items. Use the telephone to compare prices. Consider getting together with other nearby systems to buy larger quantities or purchase equipment that can be shared.

Add new customers
Are you serving everyone you can reasonably serve? Are there people living along or near your lines who could be hooked up at little or no cost to the system? Start a campaign for new customers.

APPENDIX F

Sample
Client "Prep" List to Prepare for an Audit

When staffing allows, the following tasks should be completed by the entities financial manager prior to commencing fieldwork by an external auditor:

1. All necessary year-end adjusting and closing journal entries should be prepared and posted. Copies of all such entries should be given to the external auditor.

2. A balanced trial balance and detailed general ledger should be prepared. Working copies of these should be given to the auditors.

3. All subsidiary ledgers (e.g., accounts receivable, accounts payable) should be reconciled to the general ledger balances. Detailed copies of the subsidiary ledges should be made available to the auditors for their use during the audit.

4. Any supporting scheduled and other information requested by the auditors should be prepared (schedules supporting general ledger accounts should be reconciled to the general ledger). Examples include, but are not limited to:
   - ❖ A schedule of all disbursements, subsequent to year-end (the appropriate cut-off date should be determined by the auditor);
   - ❖ A schedule of all outstanding investments as of the end of the fiscal year, this scheduled should include identification of the type of investment, carrying amount (i.e., cost or amortized cost), market value, acquisition date, maturity date, interest rate, and applicable security/collateral arrangements;
   - ❖ A listing of all financial institutions and brokers/dealers with whom the entity has conducted business at any time throughout the fiscal year;
   - ❖ Records of all fixed asset acquisitions/dispositions/transfers during the year (this should include a final year-end listing of all general fixed asset account group and individual proprietary fund assets that agrees with the general ledger and, if applicable, calculated amounts of depreciation expense and accumulated depreciation);
   - ❖ If subsidiary ledgers are not used, complete listings of the year-end components of accounts receivable and accounts payable;
   - ❖ A detailed list of all outstanding long-term debts, including the fund or funds responsible for repayment, original issue amount and current outstanding balance (current and long-term amounts), type of debt instrument (e.g., general obligation bonds [for cities], revenue bonds,

leases), debt service requirements, interest rate, issuance and maturity dates, and detailed maturity schedule (including principal and interest);
- ❖ Information on al outstanding capital and operating lease arrangements, including dates agreements commenced, lease repayment schedules (including a breakdown of principal and interest), interest rates, maturity dates, and information and location of leased property;
- ❖ A supporting schedule of any prepaid asset calculations;
- ❖ A complete inventory listing that agrees to the general ledger accounts;
- ❖ Completed bank reconciliations for all bank accounts;
- ❖ A listing of all related party transactions and subsequent events; and
- ❖ Names and addresses of all legal counselors used during the fiscal year.

5. Often auditors will design their test of transactions during preliminary field work (this if work the auditor is able to complete prior to the fiscal year-end) and determine the selections of supporting documents that they will need to review. These typically include selected payroll records (time cards or time sheets, canceled checks, personnel files), paid invoices, canceled vendor checks, and individual customer billings. If the auditor provides the client with this list prior to the commencement of final field work, all of the required supporting documents should be pulled and ready for the auditor's use.

6. Internal control questionnaires, narratives, or flowcharts should be prepared. Often the auditor, will provide the questionnaires for updating or will instruct the client on how to prepare the narratives or flowcharts.

7. To the extent possible, report drafts should be formatted and completed. If the auditors prefer the financial statements and applicable notes to be started after the completion of final field work, pro forma drafts (i.e., bland report copies where the numbers can be easily entered) could be prepared so that the information can easily be entered when it becomes available.[9]

[9] This list was taken from "*Accounting Issues and Practices – a Guide for Smaller Goverments"* by Gregory S. Allison, Government Finance Officers Association, 1996.