

USDA Rural Utilities Service Borrower's Guide

A How-to Guide for Water and Wastewater Loans
from USDA Rural Development



RURAL COMMUNITY ASSISTANCE PARTNERSHIP
an equal opportunity provider and employer

This guide was written by Community Resource Group, the Southern RCAP, on behalf of Rural Community Assistance Partnership, Inc.

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Introduction: What is this guide?

What is this guide for?

This guide is for leaders and officials of a community that is an RUS water or waste-disposal borrower. You are required to follow specific management practices and reporting guidelines with the funds you have borrowed for your small community's utility. This booklet is a practical toolkit and guide to RUS financing and staying on track with both deadlines for management reports and, most critically, learning which forms to use and how to use them.

Whom is this guide for?

This guide is for leaders in small, rural communities and staff of utilities. Different sections of this guide will apply to different groups, but overall, this guide is for learning about and understanding the responsibilities of being an RUS borrower. Leaders, such as members of a board or council that oversees a utility, and staff of a utility each have their own areas of responsibility and concern when dealing with a water or waste-disposal project. This guide helps all groups involved to be responsible stewards of public funds that have been entrusted to their use and care and to be good caretakers of the infrastructure that will be improved or built. Informed leaders and staff make better decisions, and this guide provides information and instruction that is needed for being a responsible borrower of RUS funds.

This guide includes:

- a description of basic requirements for RUS financing
- guidelines to assist community leaders in successfully meeting their responsibilities as a RUS borrower
- instructions for preparing and submitting required RUS management reports
- ways to promote long-term sustainability in the provision of water and waste-disposal services in rural communities

How should you use this guide?

Why is it important to read it?

The type of information and advice in this guide varies by section.

Help in producing reports:

Most of the space in this manual is dedicated to the administrative task that your utility as a borrower must carry out in submitting the required regular management reports to RUS, your lender. This is an important requirement, and it must be done properly. This guide is designed to help you through this practical process step by step.

Help for your utility's overall financial health:

In addition to the practical assistance this guide provides for producing management reports, it provides two other sections that have important information to help you manage a financially healthy utility:

Section 1 (RUS Borrowing Basics):

This section summarizes the conditions your loan is under. Your loan could have a term as long as 40 years. In that case, it is likely that your loan will outlast the terms of all current elected officials and the tenure of all current staff in your utility. If your community's current set of leaders and staff is obtaining a loan, it is important that they read, understand and follow all of the conditions, rules and promises of the loan. It is equally important

that all of those who follow in the years and decades to come do the same because the terms of the loan will still be in effect. This guide should be passed on to your successors as a reminder of the conditions under which the loan was obtained so they continue to fulfill the responsibilities and requirements that you agreed to on behalf of your utility for the entire life of the loan.

Pay special attention to the individual rules of your loan. If you want to take an action that would relate to your loan, be sure to refer to the loan documents and/or speak to your USDA RD loan-servicing official first.

Section 4 (Maintaining Sustainable Water and Waste-disposal Services):

This section provides some reasons RUS needs your management reports and what it does with them. Then this section expands on that and provides some ways that you can look at and think about the financial health and sustainability of your utility, both in the short- and long-term.

Glossary

Borrower: the legal entity that is the recipient of an RUS loan

Central Contractor Registration/CCR: a federal government database that gathers, stores, validates, and shares information to support federal grants and contracts

DUNS (Data Universal Numbering System): a nine-digit number assigned to organizations and business entities as a means to identify and track them. A DUNS number is required by the federal government for all entities applying for and receiving federal grants.

Facility: the water-supply or waste-disposal system and system improvements financed with RUS loan and/or grant funds

Grantee: the legal entity that is the recipient of a RUS grant

Letter of conditions: a written document that describes the conditions which the borrower and/or grantee must meet for funds to be advanced and the loan and/or grant to be closed

Rural Development (RD) or USDA Rural Development (USDA RD): the mission area of the Under Secretary for Rural Development within USDA. RD state and local offices administer the water and waste-disposal loan and grant programs on behalf of the Rural Utilities Service.

RUS: the Rural Utilities Service, an agency of the United States Department of Agriculture

Servicing office: the USDA RD office that maintains the official file of the borrower or grantee and that is responsible for the routine servicing of the loan and/or grant account

USDA: United States Department of Agriculture

SECTION 1

RUS borrowing basics

What financial assistance is available from RUS?

Loans and grants made directly by RUS for water and wastewater projects are for rural communities with the most financial need. Financing for water-supply and waste-disposal improvements for these communities is provided by the Rural Utilities Service (RUS), an agency of the U.S. Department of Agriculture, under the authority of the federal Consolidated Farm and Rural Development Act as amended (Public Law 92-419).

Financing may be provided in the form of direct loans, guaranteed and insured loans, and/or grants. The objectives of RUS financing are to provide basic human amenities, to alleviate health hazards, and to promote the orderly growth of the rural areas of the country by meeting the need for new and improved water and waste disposal facilities. RUS financial assistance should also result in reasonable costs for residents, businesses, and other users in rural areas.

Who is eligible to borrow from RUS?

Eligible RUS borrowers include “public bodies,” such as municipalities, counties, other political subdivisions of a state, such as districts and authorities, as well as “non-public” bodies such as associations, cooperatives, corporations operated on a nonprofit basis, Indian tribes on federal and state reservations, and other federally recognized Indian tribes.

Borrowers must be:

1. unable to finance the proposed project from their own resources or through commercial credit at reasonable rates and terms and
2. have the legal authority necessary for constructing, operating, and maintaining the proposed facility or service, and for obtaining, giving security for, and repaying the RUS loan

The maximum term on all RUS loans is 40 years. However, no repayment period will exceed any statutory limitation or the organization’s borrowing authority or the useful life of the improvement or facility to be financed.¹

RUS-financed facilities must primarily serve *rural* residents and *rural* businesses. “Rural” means that the service area cannot include any area in any city or town having a population in excess of 10,000 inhabitants, according to the latest federal decennial census.

RUS is the primary federal financing agency for water and waste-disposal facilities serving rural communities in the United States. There are currently more than 8,000 RUS water and waste-disposal borrowers in the nation, representing almost 18,000 active loans.²

¹ *Catalog of Federal Domestic Assistance, US General Services Administration*

² *Water and Environmental Programs, Annual Activity Report Fiscal Year 2009, USDA Rural Development, Washington, D.C.*

How will I know what is required of me as a borrower?

What requirements does this guide cover?

The requirements of RUS borrowers discussed in this guide are limited to those that are *national* in scope, meaning *only those requirements that are common to all RUS borrowers (regardless of the state or territorial location of the borrower) across the United States.*

Specific legal and procedural requirements vary from state to state because of the differences in state laws and authorities governing the relationships between a lender and a borrower. In addition, USDA RD state offices have issued “supplemental” state regulations and instructions that may be necessary to effectively implement the RUS water and waste loan and grant program at the state level. State to state differences are very important. **All RUS borrowers should seek guidance from their area USDA rural servicing office to effectively meet their responsibilities.**

Finally, the borrower requirements discussed in this guide are applicable to the **RUS Direct Loan and Grant for Water and Waste program**. This guide is *not* applicable to the RUS Guaranteed Water and Waste Loan program.

Where are borrowers' requirements spelled out?

The main requirements for all RUS borrowers can be found in the following documents and sources of information:

A. Letter of Conditions

The RUS Letter of Conditions is “a written document that describes the conditions which the borrower and/or grantee must meet for funds to be advanced and the loan and/or grant to be closed.”³ This is one of the most important reference documents for RUS borrowers.

A Letter of Conditions will be issued by the USDA RD processing office to each prospective borrower prior to obligating funds for any water or waste-disposal project. Each Letter of Conditions is customized to the individual borrower and the proposed project. The letter provides very detailed and specific information related to the requirements and the conditions that must be met by the prospective borrower in order for the loan/grant to be closed and the proposed project to proceed.

Many of the requirements in the Letter of Conditions will apply only to the pre-construction and construction phase of the project being financed. Other requirements in the Letter of Conditions will continue long after construction has been completed and are requirements that must be met over the entire term of the loan. Typically long-term requirements include audit preparation and submission, financial reporting, funding and use of financial reserves, insurance and bonding, compliance with federal statutes, and similar items.

B. Water and Waste Loan/Grant Program regulations

Many requirements applicable to RUS borrowers can be found in the regulations that govern RUS loan and grant programs. Rules and regulations of all federal departments and agencies are published in the *Code of Federal Regulations* (CFR).

The regulations governing the RUS Water and Waste Loan and Grant program are published in Title 7, Part 1780 of the *Code of Federal Regulations* (abbreviated to 7 CFR 1780). The rules governing the servicing of RUS Water and Waste Loans and Grants are published under Title 7, Part 1782 (abbreviated as 7 CFR 1782).

Both sets of regulations (7 CFR 1780 and 7 CFR 1782) can be found on the Rural Utilities Service website at www.usda.gov/rus/water/regs.htm. Copies of these regulations may also be obtained from any USDA RD state or area office.

C. RUS debt instrument forms and grant agreement forms

RUS borrowers are required to adopt a loan resolution, grant agreement (if accepting RUS grant funds), and a promissory note (if applicable) prior to closing. Each of the documents below contains borrower requirements and/or restrictions related to the borrower's financial operations:

- *RUS Bulletin 1780-27-Loan Resolution* (to be adopted by public bodies)
- *RUS Bulletin 1780-28-Loan Resolution Security Agreement* (adopted by non-public bodies)
- *RUS Bulletin 1780-12-Grant Agreement*
- Form RD 440-22-Promissory Note

For borrowers that are public bodies (such as a municipality, district or county), bonds will be issued in accordance with state law. The bond ordinance, resolution or trust indenture agreements providing for the issuance of bonds are also considered loan agreements with RUS.

³ *Code of Federal Regulations, Title 7, Part 1782 (7 CFR 1782)*

Copies of the RUS loan and grant agreements above are available on the RUS website at www.rurdev.usda.gov/RDU_Bulletins_Water_and_Environmental.html. The Rural Development Promissory Note (Form RD 440-22) is available at the RUS website at www.usda.gov/rus/water/wwforms.htm.

Servicing by RD includes, but is not limited to, the review of budgets, management reports, audits and financial statements; performing operational inspections; providing, arranging, or recommending technical assistance; evaluating environmental impacts of proposed actions by the borrower; and performing civil rights compliance and graduation reviews ...”

(Citation: 7 CFR Part 1782.2; reformatted and paraphrased for emphasis, clarity)

Who implements the loan and grant program and services loans?

The RUS loan and grant program is administered at the state and local level by the staff of USDA RD located in state and RD area and local offices. The USDA RD staff serve not only as the point of contact for processing applications for water and waste-disposal loan and grant assistance but also as the responsible official(s) for loan and grant servicing on behalf of RUS. A USDA RD loan specialist will be assigned servicing responsibility for each active RUS borrower. It is *vitally important* that RUS borrowers that have questions about their responsibilities or requirements for their loans be directed to their USDA RD loan-servicing official.

What are the loan/grant-servicing objectives?

Title 7 Part 1782 of the *Code of Federal Regulations* is the section of regulations governing servicing of RUS water and waste-disposal loans and grants. The objectives of loan/grant servicing are described in 1782.2 and are paraphrased below:

“... loan and grant servicing is provided by Rural Development (USDA RD) in order to:

- Assist recipients in complying with the established objectives and requirements for loans and grants
- Assist recipients in repaying loans on schedule
- Assist recipients to act in accordance with any necessary agreements
- Protect Rural Development’s financial interest

What restrictions are on RUS loans?

All RUS borrowers will sign either a Loan Resolution or a Loan Resolution Security Agreement at the time of closing their loans. A public body, such as a municipality, county, district or other political subdivision of a state, will execute a Loan Resolution (*RUS Bulletin 1780-27*). An organization that is a nonprofit borrower, such as a cooperative or association, will execute a Loan Resolution Security Agreement (*RUS Bulletin 1780-28*).

While the Loan Resolution and the Loan Resolution Security Agreement are different legal documents, both contain very similar requirements, restrictions, or “covenants” for RUS borrowers. A loan covenant is a condition of a commercial loan or bond issue that requires the borrower to do certain things *or* prohibits the borrower from undertaking certain activities as a condition for receiving the loan. *A covenant is literally a promise to do or not do something.* By signing the Loan Resolution or Loan Resolution Security Agreement, the following items are some of the things that RUS borrowers promise to do or not to do as a condition of receiving a loan. These covenants are valid for the **life of the loan** (that is, for as long as there is any unpaid balance on the loan).

RUS borrower loan resolution covenants

Borrowers *may not* dispose of, sell, transfer, lease, or “otherwise encumber” the facility or any portion thereof, or any interest therein (including lands and interest in lands) without prior consent from the government.

A borrower *may not* borrow money from any source, enter into any contract or agreement, or incur any other liabilities in connection with the facility (other than normal maintenance) without prior written consent of the government.

Borrowers *may not* provide free service or free use of a financed facility.

Each borrower agrees that it will impose and collect such rates and charges as to provide for the receipt of adequate revenues necessary to meet, at all times, the requirements of debt service, operation and maintenance, and establishment and maintenance of adequate reserves.

Borrowers are required to establish and fund a debt-service reserve for the purpose of making loan payments on time should revenues be insufficient to meet regular debt-service obligations.

“Excess” revenues (received from operation of the financed facility) that may accumulate

over and above that needed to meet debt service, operation and maintenance and funding of reserves, may only be retained by the borrower or used to make prepayments on the loan. Excess revenues *may not* be used to pay any expenses not directly incurred for the facility financed by RUS or distributed or transferred to any other organization or legal entity.

All RUS borrowers are required to provide RUS with an annual audit report or annual financial statement.

All required audit reports and financial statements should be provided to the appropriate USDA Rural Development servicing office without request.

Each borrower agrees to establish accounts as RUS may require and will establish and maintain financial records and books relating to the operation of the facility and its financial affairs as required. It will provide access to those financial records to the government at reasonable times and will forward such additional information and reports as the government may from time to time require.

Borrowers agree to provide the government at all reasonable times access to all books and records relating to the facility and access to the property of the system so that the government may ascertain that the borrower is complying with the provisions of the Loan Resolution or Loan Resolution Security Agreement and of other instruments associated with, incident to, the making or insuring of the loan.

In operating the financed facility, the borrower agrees to comply with state laws and regulations and to continually operate and maintain the facility in good operating condition.

Nonprofit borrowers agree *not* to modify or amend the Articles of Incorporation or the Bylaws of the organization, or cause or permit any voluntary dissolution of the organization, merger or consolidation with any other organization without prior written consent of the government.

(Citations for RUS Loan Requirements & Covenants: RUS Bulletin 1780-27, Loan Resolution and RUS Bulletin 1780-28, Loan Resolution Security Agreement)

What are the requirements for audits, financial reporting and records?

AUDITS

An annual audit report *is* required *if*:

1. a borrower expends more than \$500,000 in federal financial assistance during its fiscal year, or
2. a borrower has an outstanding loan balance of \$1,000,000 or more.

(USDA RD may also require an audit if a borrower is delinquent or experiencing financial or managerial issues).

Borrowers that expend \$500,000 or more in federal financial assistance during the year must have an audit performed in accordance with the Office of Management and Budget's Circular A-133. (*RUS Bulletin 1780-31* provides guidance to auditors in completing OMB A-133 audits).

Borrowers that expend less than \$500,000 in federal financial assistance but have an outstanding loan balance of \$1,000,000 must submit an audit report prepared in accordance with general accepted government accounting standards (GAGAS audit). (*RUS Bulletin 1780-30* provides auditors with guidance on completing audit reports in compliance with GAGAS and RUS requirements). Deadlines and information for the submission of the audit report include:

- Required audit reports should be submitted as soon as possible after they are completed but no later than 150 days following the period covered by the audit.
- Some RUS borrowers may have annual audits prepared that are required by state or local law. To the extent feasible, audit work required by RUS should be completed in conjunction with those audits.
- Use of accrual basis of accounting: Annual audit reports and/or financial statements must be prepared on the accrual accounting basis and in accordance with "generally accepted accounting principles" (GAAP).
- Financial records retention: Financial records, including source documents and supporting materials, must be retained for a minimum of three (3) years after the issuance of audit reports.

FINANCIAL STATEMENTS

RUS borrowers that are exempt from submitting annual audit reports must submit an annual financial statement *within 60 days following the end of each fiscal year*.

Annual financial statements consist of the organization's balance sheet and statement of income and expense, certified by an appropriate official of the borrower organization. Forms RD 442-2, Statement of Budget, Income and Equity, and 442-3, may be used for this purpose.

Section 3B (page 42) provides instructions on preparing these statements.

(*Citation for Financial Reporting, Records, Audits: RD Instruction 1780.47(a) through (e)*)

RUS MANAGEMENT REPORTS (FORMS RD 442-2 AND 442-3)

Annual management reports (Section 3A, page 31, provides instructions on preparing these): All borrowers should submit an annual management report 30 days prior to the beginning of each new fiscal year. The annual management report may be submitted on Form RD 442-2. Include data on column 3 only of Schedule 1; all of Schedule 2, plus a current rate schedule and current list of organizational directors. (The annual management report is actually the annual budget; Schedules 1 and 2 are needed to document the annual budget.)

Quarterly management reports (Section 3C, page 57, provides instructions on preparing these): Quarterly management reports are required for the first full year of operation for all *new* borrowers and for borrowers experiencing financial or management difficulties. Quarterly management reports may be waived after the one-year period provided borrowers are current.

(*Citation for Borrower Accounting Methods, Management Reports, Audits: RD Instruction 1780.47(f)*)

Loan payments: New borrowers will make regularly scheduled loan payments using a pre-authorized debit-payment system for fund transfers on regular due dates for installment payments. (Form RD 3550-28 Authorization Agreement for Preauthorized Payments may be used for this purpose).

(*Citation: Servicing of Water Programs Loans and Grants, RD Instruction 1782.8*)



What are the additional requirements?

DUNS number and Central Contractor Registration

RUS borrowers are required to have a DUNS number. Getting one is covered in Section 2 (page 13). Registering with Central Contractor Registration (CCR) is required for *grants* given since October 1, 2010. From October 1, 2011, CCR registration is required of all recipients of RUS *loans and grants*. CCR registration is also covered in Section 2.

Reserve fund

Borrowers that do *not* use general-obligation or special-assessment bonds to secure debt will be required to establish and maintain reserves, including:

- **Debt-service reserve:** Necessary to assure that all loan installment payments will be paid on time. Debt-service reserves will accrue at the rate of one-tenth of the annual average loan installment.
- **Reserves for short-lived assets:** For replacement of equipment having a useful life significantly less than the loan repayment period, emergency-maintenance or facility extensions. Reserves for short-lived assets will be accumulated and maintained in accordance with requirements specified in the letter of conditions and debt instruments.

(While public-body borrowers pledging “general-obligation” bonds or special-assessment bonds providing for full recovery of annual debt service will normally be exempt from additional reserve-fund requirements, RUS strongly encourages the funding of reserves for short-lived assets.)

(Citation for Reserve Requirements, RD Instruction 1780.39 (e))

Restrictions on Use of Reserves

Borrowers *must* have prior approval of RUS before withdrawing and using reserve funds for such things as meeting loan installment payments, replacing equipment, or meeting emergency and other needs.

(Citation for Use of Reserves: RUS Bulletin 1780-28 Loan Resolution Security Agreement, RUS Bulletin 1780-27 Loan Resolution)

Insurance

Borrowers are required to acquire and maintain insurance coverage necessary to protect the government’s financial interest in the facility financed with loan funds. The following types of insurance are required:

- **Fidelity bonds (employee-dishonesty bond):** Coverage is required for all people having access to funds, including people working under a management/operations contract. The amount of coverage normally will be approximate to the annual debt service of the RUS loan.
- **Property insurance:** Fire and extended coverage will be maintained on all structures (reservoirs, pipelines and subsurface lift stations may be exempt). RUS will be listed as mortgagee when the government has a lien on the property.
- **General liability insurance:** including vehicular coverage
- **Workers compensation coverage:** Must be maintained by each borrower in accordance with state laws
- **Flood insurance:** Will be acquired and maintained for all facilities located within special flood- and mudslide-prone areas.

(Citation for Insurance Requirements, RD Instruction 1780.39 (g))

Refinancing (loan graduation)

Borrowers agree to apply for refinancing of existing indebtedness upon request of the government, should it appear that financing is available at reasonable rates and terms from other responsible cooperative or private credit sources.

(Citation for Refinancing: RD Instruction 1780.1 (c); RD Instruction 1782.11)

Third-party contracts

Borrowers proposing to enter into third-party contracts for operation/management of the facility must obtain prior approval from RUS. Proposed contracts may not contain any provision or option for the transfer of ownership. Borrowers have continued responsibility for the financed facility (operations, maintenance and management) and providing for its continued availability and use at reasonable rates and charges.

(Citation for Third Party Contracts: RD Instruction 1780.7(c))

Use of facility

Potential users: All RUS-financed facilities are for public use. Facilities will be installed so as to serve any potential user desiring service who can legally and feasibly be served.

Service inequities: Should RUS determine that inequities exist within an applicant's/ borrower's service area for the same type of service (water or waste disposal), inequities must be remedied prior to loan/grant closing or as part of the proposed project to be financed. Inequities are defined as unjustified variations in availability, adequacy or quality of service.

(Citation for Use of Facility: RD Instruction 1780.11)

Compliance with applicable federal, state and local statutory authority

RUS-financed facilities must be designed, installed, and operated in accordance with federal, state and local laws and regulations, including:

- The federal Safe Drinking Water Act, Clean Water Act, and Resource Conservation and Recovery Act⁴
- The Civil Rights Act of 1964 (see footnote reference for "compliance review" explanation and information)⁵
- The Rehabilitation Act of 1973 (Section 504)⁶
- Age Discrimination Act of 1975
- Americans with Disabilities Act of 1990⁷

(Citation for Statutory Compliance: RUS Instruction 1780.1 (g) through (k))

⁴These are the primary federal laws regulating the provision of public drinking water services, wastewater treatment and disposal, and solid and hazardous waste disposal. RUS Instruction 1780 also requires that prospective RUS borrowers must demonstrate that they possess the financial, technical, and managerial capability to consistently comply with pertinent federal and state laws and requirements. This statement is a direct reference to the provisions contained in the 1996 Safe Drinking Water Act amendments.

⁵Compliance with Civil Rights Act of 1964: Recipients should maintain, for review by Rural Development and other appropriate agencies, racial and ethnic data showing the extent to which members of minority groups are beneficiaries of Rural Development-assisted programs. The data should identify recipients as White, African-American, American Indian, Spanish Surname, Oriental and Other. The nondiscrimination poster, "And Justice For All," will be displayed at the facilities and/or office of any borrower or grantee if the facilities have been financed by an Rural Development loan or grant and are subject to Title VI of the Civil Rights Act of 1964. (Compliance review site visits customarily completed once every three years-see Form RD 400-8; Note: Users of the facility, board members and staff of the borrower should generally be reflective of the racial and ethnic make-up of the community being served by the facility).

⁶Prohibits the denial from participation in, or being denied the benefits of, any RUS program or activity based upon an individual's physical handicap.

⁷Prohibits discrimination on the basis of a person's disability; among other things, the act requires that public facilities or facilities serving the public be accessible to individuals with a disability.

Vulnerability assessments, emergency-response plans (VA/ERP)

RUS requires all financed water and wastewater systems to have a vulnerability assessment (VA) and an emergency response plan (ERP) in place. New water or wastewater systems must provide a certification that an ERP is completed prior to the start of operations. All other borrowers must provide a certification that a VA and ERP are completed prior to bid authorization. Borrowers are also be required to provide a certification that the VA and ERP are complete and are current every three years after the start of operations.⁸

Borrower service-area protections

Federal law (Title 7 U.S. Code 1926(b)) protects RUS borrowers with outstanding loans from losing customers to “outside entities” seeking to extend services to users within an existing borrower’s service area. Without this protection, other entities could “steal” part of the customer base of an existing borrower and jeopardize that borrower’s ability to repay RUS debt. Each borrower is responsible for initiating action against these types of prohibited activities.

(Citation for Service Area Protections: RUS Instruction 1782.14 (a) and (b))

Real property or equipment acquired with RUS grant funds

Many RUS borrowers receive grant funds as well as a federal loan in order to complete the financing of a project. Grant funds are applied to a project’s financing in order to keep or reduce proposed user costs to reasonable levels. If a grant is involved in the project being financed, the borrower will execute a Water and Waste Grant Agreement (*RUS Bulletin 1780-12*) at the time of closing. This agreement contains specific provisions regarding the ultimate disposition of real property and equipment that is being purchased in whole or in part with RUS grant funds. *If real property (which may include land, land improvements, structures and appurtenances) or equipment (purchased or acquired with RUS grant funds) is no longer needed by the RUS borrower (grantee) for its originally authorized purpose(s), the borrower/grantee must request approval from the USDA RD loan-servicing official prior to disposing of, selling, or using the property or equipment for “other” purposes.*

(Citation for Real Property or Equipment: RUS Bulletin 1780-12)

⁸Congress enacted the Public Health Security and Bioterrorism Preparedness Response Act of 2002, Public Law 107-188 (Bioterrorism Act). The Bioterrorism Act amended the Safe Drinking Water (SDWA) to require all medium- and large-sized community water systems (serving populations greater than 3,300) to assess vulnerability to terrorist attack and develop emergency plans for response to such an attack. Medium and large community water systems are being monitored by the U.S. EPA for completion of VAs and ERPs. RUS policy requires that all borrowers have VAs and ERPs in place.

Section 2: DUNS number and CCR registration for borrowers

Data Universal Numbering System (DUNS)

RUS borrowers are required to have a DUNS number. If you have already applied for federal grants, your organization already has a DUNS number. Make sure you find the correct number before continuing (check your grant application).

This section walks you through getting one if you do not already have one.

What is a DUNS number, and why do I need one?

A DUNS number is a unique, nine-digit sequence assigned to organizations and business entities as a means to identify and track them. The DUNS number is assigned and regulated by Dun & Bradstreet, a provider of credit information on businesses and corporations, and is 100 percent free of charge.

A DUNS number is required by the federal government for all entities applying for and receiving federal grants. The DUNS number is used to determine who is receiving federal funds, their business relationships, for tracking purposes, and validation of addresses and points of contact information.

I already have a DUNS number. What do I do?

If your organization already has a DUNS number, be sure to verify that the number you are working with matches the DUNS number on your grant/loan application. If you are still not sure, check with your state USDA RD representative. It is possible for one organization to have multiple DUNS numbers for separate entities (for example, for its police, fire and water departments)—each with different points of contact.

If you have the DUNS number that corresponds to your grant/loan award, it would be wise to ensure that all of the information on the DUNS is up-to-date and accurate. To do this, you will need to have the correct password to check the status of your DUNS number. After you log on, ensure that the legal name, physical address, phone numbers, etc., are exactly the same as they are with the IRS. Failure to ensure the accuracy and matches could lead to complications later.

I need a DUNS number. What information will I need?

- Company's legal name
- Physical address
- Mailing address
- Organization information
 - Executive name
 - Title
 - Primary Standard Industrial Classification (SIC) code*
- Telephone number
- Description of operations
- Socioeconomic data (that is, minority-, veteran-, or women-owned businesses)
- Number of employees
- Annual sales or revenue
- Information on a parent organization (optional)

* Refer to www.osha.gov/oshstats/sicser.html

I have all of the above information. How do I register for a DUNS number?

There are two ways to register for a DUNS number. The first option is **registering by phone**. Simply call the toll-free number—1-866-705-5711 (8 a.m. to 9 p.m. Eastern time)—and, after a short series of menu options, you will be helped by a live operator trained to register organizations throughout the world for DUNS numbers. This will take between 5 and 10 minutes. Be sure to have the above information on hand before calling.

The second option is **registering using the Dun & Bradstreet website**. Visit <http://fedgov.dnb.com/webform> and fill out the necessary information. When visiting the website, the first step is ensuring that you do not already have a DUNS number assigned to your entity. You will be required to search for your company information before starting the registration process. Enter the data required (as shown below) to search for existing registrations.

D&B
Decide with Confidence

D&B DUNS Numbers™
for US Government
Contractors & Grantees

[Company Lookup >](#) [Search >](#)

Search

Fill out the following information to search for your company.

D&B D-U-N-S Request Home Page

About the D&B D-U-N-S Number

Frequently Asked Questions (FAQ)

D&B, CCR, Grants Contacts

D&B's Privacy and Data Policy

Please select the country where your company is physically located.
If you do not see your country listed, please contact govt@dnb.com

UNITED STATES OF AMERICA

Enter the following information for companies located in UNITED STATES OF AMERICA and click the submit button to execute your search.

Business Name


Street

City

State

Zip Code -

Phone - -

 Click here for a new image

Enter the verification code shown:

This is to prevent automated registrations

Submit

FIGURE 2A Dun & Bradstreet website screen shot
[<http://fedgov.dnb.com/webform/pages/CCRSearch.jsp>]

If the data you entered are found to have an existing match, you will be directed toward that matching DUNS number.

Completing DUNS registration

If the data do not match, you can begin the registration process to request a DUNS number. Following are the screens on which you will enter data.

CCR Webform : New Duns Number Request.

D&B DUNS Numbers™
for US Government Contractors & Grantees

D-U-N-S Number Request > Search > Enter Your Company Information >

Request for New D-U-N-S Number

Any affiliated companies at the same address, will not be affected. If there are affiliated companies at the same address, please specify in the Notes section.

Complete the information below to obtain a new D-U-N-S Number for your company's physical location.

Note: All fields are required unless otherwise indicated.

Company Name

Legal Name

Legal Structure

Tradestyle Name 1 (optional)

Tradestyle Name 2

Tradestyle Name 3

Phone Number of Business - -

FIGURE 2B Company Name Section

In the **Company Name section**, ensure that you are entering the proper legal name of the organization.

For “Legal Structure”, select one of the following:

- Corporation
- Government
- Limited Liability Corporation
- Nonprofit
- Partnership
- Proprietorship

If your organization uses any other name or names in addition to the legal name, enter those names in the “Tradestyle Name” data fields. Then proceed to enter the organization’s phone number.



If requesting a DUNS number for a city/town, be certain that the proper name is used—for example, the City of Chicago, rather than the Town of Chicago.



Most likely your choice will be “Government” if you are working with a municipality or public-service district. A water/wastewater association would be a Nonprofit.

Physical Address	
? Street	<input type="text"/>
? City	<input type="text"/>
? State	<input type="text"/>
? ZIP	<input type="text"/> - <input type="text"/>
Country	UNITED STATES OF AMERICA
Mailing Address (optional) <input checked="" type="checkbox"/> Same as Physical Address	
? Street/ P.O. Box	<input type="text"/>
City	<input type="text"/>
State	<input type="text"/>
ZIP	<input type="text"/> - <input type="text"/>
Country	Select one

FIGURE 2C Physical Address & Mailing Address Section

In the Physical Address section, enter the **physical address** of the organization in the corresponding data fields. If the mailing address is different than the physical address, enter it into the corresponding data fields.

Organization Information	
? Executive Name	<input type="text"/>
Title	Select one
? Primary SIC code	<input type="text"/>
? Description of Operations	<input type="text"/>
? Socioeconomic Data	Select one

FIGURE 2D Organization Information Section

In the **Organization Information section**, enter the first and last name of the top executive. This could be the mayor, public service district (PSD) president, or other principle officer, partner, owner, etc. Select the top executive's title from the drop-down box.

The Primary SIC (Standard Industrial Classification) code refers to a four-digit code that best describes the organization. For example, 9111 refers to Executive Offices, which can be described as:

- Advisory Commission, Executive
- City and Town Managers' Offices
- County Supervisors
- Governors' Offices
- Mayors' Offices
- President's Office



Municipalities or public-service districts may have such SIC codes as:

9111 Mayor's or President's Offices

9199 General Government

9631 Public Service Commissions, Public Utility Commissions

9221 Police Department

9224 Fire Department

Organization Information Section (continued)

Refer to the Occupational Safety and Health Administration’s website (www.osha.gov/oshstats/sicser.html) to search for the SIC code that best matches your organization. Next, enter a short description of business activities in the “Descriptions of Operations” field. In the “Socioeconomic Data” field, select one of the following from the drop-down menu:

- Minority Owned
- Veteran Owned
- Women Owned
- No Special Ownership Status

Enter the number, or best estimate, of employees in the “Number of Employees” field. Complete the Organization Information section by entering the annual sales or revenue in the corresponding data field.

CCR Webform : New Duns Number Request.

☐ Number of Employees(includes owners, partners, and/or officers)

☐ Annual Sales or Revenue

☐ Parent Organization (optional)

Name

Street

City

State

ZIP -

Country

☐ Notes (optional)


If you have technical difficulties, please contact govt@dnb.com

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FIGURE 2E Parent Organization Section

If your organization operates under a Parent Organization, enter the contact information requested in the **Parent Organization section**. If there is any additional information you would like to add, enter it into the “Notes” data field. Note that “Parent Organization” and “Notes” are optional sections and are not required to be issued a DUNS number.

Upon completion of all mandatory data fields, click “Submit Your Request”.

TIP

Once you submit your request, the web registration process generally takes one to two business days. Be sure you plan ahead to account for this delay.



TIP



Print your DUNS report to help fill out CCR registration (next section) — certain fields must be exactly the same (physical address, legal name, etc.).

DUNS helpdesk

If you need further assistance, the helpdesk can be reached by calling 1-866-705-5711 (8 a.m. to 9 p.m. Eastern time).

Central Contractor Registration (CCR)

What is Central Contractor Registration, and why do I need to register?

Central Contractor Registration (CCR) is a federal government database that gathers, stores, validates, and shares information to support federal grants and contracts. CCR validates all registrants and sends the information to the relevant federal agencies' finance offices (USDA, for example) to help them create paperless payments through electronic funds transfer (EFT). Registrants are required to complete a one-time registration to provide basic information relevant to financial transactions. All of the information collected and shared is secure and encrypted.

Registering with Central Contractor Registration (CCR) is required for grants given since October 1, 2010. From October 1, 2011, CCR registration is required of all recipients of RUS loans and grants.

The federal government requires all recipients and sub-recipients of federal monies to register with CCR. This registration helps to ease the transfer of money while also eliminating excessive use of paper.

TIP



A DUNS number is required to register with CCR. You must have a DUNS number to either:

- *register with CCR; or*
- *check CCR to see if your organization is already registered.*

My organization is already registered with CCR. What do I do?

If your organization is already registered with CCR, you should log on to <https://www.bpn.gov/ccr/auth/profile/ManageRegistrations.aspx> and verify your registration. You should verify that all information is current and accurate. Pay special attention to the Points of Contact (POC), and ensure that each contact is still correct. Registrations expire every 12 months, and that site tells you when your registration is valid through.

TIP



Ideally, the "Government Business POC" and the "Electronic Business POC" should be the same person to avoid complications.

Remember to check that each piece of information matches the information given in the DUNS number registration and that all information matches what is reported to the IRS. Failure to ensure these matches could lead to delays and problems later.

For most efficient operations, POCs should be reasonably secure in an employee position. Elected officials probably should not be used as Primary POCs as those positions could change rapidly and frequently. Elected officials would be more suitable as a secondary POC.

I need to register with CCR. What information do I need?

The information necessary to register is:

- DUNS number
- Tax Identification Number (TIN) or Employer Identification Number (EIN)
- Statistical information about your organization
- Electronic funds transfer (EFT) information for payment of invoices



If your organization does not already have a DUNS number or a TIN or EIN, allow an additional two weeks for obtaining this information from the IRS.

If you are using a newly registered DUNS number, it takes one business day after issue of the DUNS number to become recognizable in CCR.

I have all of the above information. How do I register with CCR?

To register with CCR, go to www.bpn.gov/ccr/default.aspx.

Click on the “Start New Registration” button.

The following is the screen you will see. (see next page)



Registering with CCR generally takes about 1 hour.

FIGURE 2F New Registration Screen Shot

A. New Registration Page

Enter the correct DUNS number in the **DUNS field**.

In the **“Legal Business Name field”**, ensure that the name you enter matches both the DUNS registration and the information on file with the IRS. The “Doing Business As (DBA)” field is for those organizations that have additional names that are used. In the DUNS registration, these were referred to as “Tradestyle Names.” The physical address must match the information listed with the IRS and the DUNS number registration.

When you click **“Continue Registration”** you are taken to a page titled **“Verify Your Results with D&B.”** Check that the data you entered match the data presented from Dun & Bradstreet (D&B). If the data do not match and you need to change D&B data, click **“Cancel”** and contact D&B to make necessary changes. If the data do match, click **“Accept/Continue Registration.”** You will be prompted on the next page to create a user account by clicking **“Create a User Account.”**

TIP



Entering the DUNS number may cause certain data fields to pre-populate (fill in with information automatically). If this occurs, ensure that the pre-populated data are correct.

TIP



The United States Postal Service provides an easy ZIP + 4 search function at <http://zip4.usps.com/zip4/welcome.jsp>.

FIGURE 2G Create User Account Screenshot

B. Create User Account

On the **“Create User Account”** screen, enter an e-mail address you have access to and a user ID of your choosing.

When selecting a password, remember that it must contain at least one each of an upper and lower case letter, number, and special character. It must also be at least eight characters and is case-sensitive. Enter your first and last name and telephone number.

In the **“Security Questions”** box, you must select and answer all five security questions. Select the question from the drop-down menu, then type the answer in the data field on the right.

Click **“Continue”** and you will see a screen that reports your account has been successfully created. Click “Continue” to reach an instruction page on how to complete registration. Click “Continue Registration.”



Remember to keep track of all passwords and security questions and answers. It will be useful to keep a written (hard-copy) record of all passwords and security questions in a special folder that is accessible in case you leave your position and another person takes over reporting duties.

C. General Information Page

You will now be on a **“General Information”** page that requires you to enter more data, including:

- Tax Identification Number (TIN); or
- Employer Identification Number (EIN)
- Mailing address
- Business start date
- Fiscal year end date
- Total (3-year average) receipts
- Total number (12-month average) of employees
- Authorization (or non-authorization) to post information on CCR’s public search

Note that most fields have been pre-populated with data you have already entered. These data fields are “view only” and cannot be modified. When all applicable data have been entered, click **“Validate/Save Data.”**

TIP



Note under the Mailing Address Section, there is a “Create Contact Template” button. Because you might be using the contact information for other contact information data fields in this registration, it may be beneficial to create a template that can be pasted later on.

D. Corporate Information

The next screen you will see is the **“Corporate Information”** screen. The only mandatory field on this screen is the **“Organization Type.”**

Select whether your organization is a U.S. Federal, State, Local, Tribal, or Foreign Government Entity/Agency; or a Business or Organization. Click **“Validate/Save Data”** to continue. The next page requires you to answer a series of questions depending on the choice made on the **“Corporate Information”** screen.

TIP



The applicable SIC codes can be found on your DUNS registration.

E. Goods and Services

The **“Goods and Services”** page asks you for a series of codes that identify activities your organization does as well as the services it provides.

- North American Industry Classification System (NAICS)
 - www.census.gov/naics/2007/index.html
- Standard Industrial Classification (SIC) Codes

When all appropriate codes are entered, click **“Validate/Save Data”** to continue.

*Municipalities and public-service districts **may** have codes such as:*

221310 Water Supply

221320 Sewage

921110 Public Administration Executive Offices

922120 Public Administration Police Protection

22160 Public Administration Fire Protection

562111 Solid Waster Collection

F. Financial Information

The **“Financial Information”** page requires information regarding financial institutions, such as:

- EFT
 - American Bankers Association (ABA) routing number
 - 9-digit sequence
 - Identifies which bank the account is from
 - Account number
 - Account type
- Automated Clearing House (ACH)
 - U.S. phone number
 - U.S. fax number
 - E-mail address
- Remittance information
 - In case EFT is temporarily unavailable
- Accounts receivable POC
- Credit card information
 - Does organization accept credit cards as method of payment?

FIGURE 2H *Point of Contact Screenshot*

G. Points of Contact

The **“Points of Contact”** page is crucial in this process. It is imperative that the correct Points of Contact are used for federal reporting purposes. While filling out each individual POC, remember to try to use the same POCs in the primary fields and another, consistent POC throughout the alternative fields. Also, it is important to use individuals in stable positions.

The Primary and Electronic POCs should be the same person, if at all possible. *FederalReporting.gov* uses these POCs automatically. While having two different individuals in these positions will not make reporting impossible, it could make it much more of a difficulty later.

The last portion of the Points of Contact page deals with Marketing Partner Identification Numbers (MPIN). The MPIN is shared with other authorized applications (grants.gov, for example) and acts as your password in these other applications. You create your own MPIN, and it must be nine characters long, contain at least one letter and number, and cannot contain spaces or special characters.

Click **“Validate/Save Data”** to continue.



While the mayor of a town may feel it is necessary to act as a primary POC, it would be wiser to use an office manager, for example, due to the fact that a mayor can lose an election, while the office manager remains in his/her job. Stability is important in this aspect because POCs can be difficult to change in all necessary databases and the reporting may last several years.

Remember to save and record all passwords.

H. Proceeding Page & Executive Compensation

The **“Proceeding”** page asks a series of questions concerning specific Federal Acquisitions Regulations (FAR) provisions. Each answer determines if the next question is relevant. If you answer “yes” to the first question, the next question becomes active, etc. If you answer “yes” to the last question, a new Proceeding Point of Contact field is displayed. If you answer “no” to the initial question, all of the others are inactive and irrelevant.

The **“Executive Compensation Page”** is set up much the same way. If you answer “yes” to the first question, the next becomes active, eventually activating a new data field. If you answer “no” to the initial question, the rest remain inactive and irrelevant.

I. IRS Content

The **“IRS Consent”** page is largely pre-populated with data already supplied throughout the registration process. The only fields that you need to fill in are:

- Tax year
- Name of individual executing consent
- Title of individual executing consent
- Signature
 - Enter the MPIN you created on the POC page

By signing the IRS Consent page, you are authorizing the IRS to validate the legal name, physical address, TIN or EIN numbers, etc., against what they have on their file. Click **“Validate/Save Data”** to continue.

The next screen that appears will be the **“Registration Complete”** page. This page confirms that your registration is complete and is now processing. It generally takes one to two business days to complete the processing and registration.

CCR registration expires within 12 months of registration—sometimes as little as eight months. Borrowers must maintain their CCR registrations until they submit the final financial report required under their loans and all loan/grant funds have been disbursed or de-obligated, whichever is later. This means that you should review and update the information at least annually after the initial registration and more frequently if required by changes in your information or another award term. Renew your CCR registration by calling 1-866-606-8220.

CCR Help Desk

The CCR Help Desk is open from 8 a.m. to 8 p.m. (Eastern time) and is available by calling a toll free number: 1-866-606-8220. Online help in the form of FAQs and help guides can be obtained by visiting www.bpn.gov/ccr/help.aspx



While the registration is in process, it is possible to both view and edit the registration. While viewing the registration creates no problems, simply clicking “edit” adds an additional one to two business days of processing time, whether or not you changed any data.

SECTION 3

Financial Reporting and Management Reports

What is in this section?

In each of the subsections below, you will find instructions for filling out the report, followed by the blank form and a sample completed form for the report.

Section 3A: Annual management reports

Section 3B: Annual financial statements

Section 3C: Quarterly management reports

Each of the report sections has everything you need to complete each individual report. A CD with electronic versions of the blank report forms and sample report forms accompanies this guide. The forms are also available on the RCAP website at www.rcap.org/pubs/usdaborrguide.

Filing reports using a cash-expense budget

Many utilities and organizations prepare budgets that recognize only cash expenses (that is, budgets that do not contain non-cash values like depreciation expenses). With a cash-expense budget, the total annual debt-service payment (the total interest *and* principal payment) on all outstanding loans will replace the depreciation expense line item in the projected budget.

When this type of a cash-expense budget is used, a depreciation expense will *not* be added to the net income on the projected cash flow statement that accompanies the line-item budget. Likewise, since the principal portion of a loan payment(s) is also included as part of debt-service payments in the list of cash expenses of the budget, principal payments will *not* be deducted from net income on the cash flow statement.

Blank and example forms for annual budgets and projected cash flow statements are included as an option in each of the report pages for those wishing to file their reports using the cash-budget format.

About the “Pretty Good Water System”

The example forms that appear in this section are from the imaginary “Pretty Good Water System,” a nonprofit, incorporated water association serving a small, rural community. The water system, which purchases water from a nearby municipality, has 250 customers, almost all of whom are residential customers. The Pretty Good Water System was constructed 20

years ago with a loan and grant from the Rural Development Administration (predecessor of the USDA Rural Utilities Service). The system's debt-service payment to USDA totals \$23,100 per year, and the depreciation on the utility totals \$17,640 per year using the straight-line method of depreciation.

The Pretty Good Water System employs a certified water operator on a part-time basis who is responsible for maintaining the system, reading the meters, connecting new customers, disconnecting others, and taking and submitting water samples. The system also employs a part-time office manager who is responsible for preparing and mailing water bills, collecting payments, keeping all the financial records up-to-date, and preparing the RUS reports.

The Pretty Good Water System is not getting rich, but it is getting by, putting a little aside in its reserve accounts and planning for what the system will need to do in order to meet the needs of customers and the community.

SECTION 3A

Preparing the annual management report (the annual budget)

What are the requirements for filing management reports?

All RUS borrowers are required to submit annual management reports (which is your annual budget) at least 30 days prior to the beginning of each new fiscal year. The annual management reports *may* be submitted on Form RD 442-2. They also must have attached a current rate schedule and a current list of organizational directors.

Form RD 442-2 is a standard 3-page form that can be found on the CD that accompanies this guide or on the RCAP website at www.rcap.org/pubs/usdaborrguide. It can also be downloaded as a PDF with fields that can be filled in from the USDA RD website at www.rurdev.usda.gov/regs/forms/0442-02.pdf

The form consists of the following three pages:

1. Statement of Budget, Income and Equity (Schedule 1, page 1)
2. Supplemental Data (Schedule 1, page 2)
3. Projected Cash Flow (Schedule 2)

The form can be filled in by hand, or the electronic version can be completed on a computer. *(Note: You will not need page 2 of Schedule 1—Supplemental Data—to complete the annual management report.)*

Annual management report— checklist of contents:

- ☐ a line-item budget for the new fiscal year
- ☐ a projected cash-flow statement for the new fiscal year
- ☐ a current schedule of water/sewer rates
- ☐ a current list of members of the governing body
- ☐ any additional information that may be requested by your USDA RD servicing office

Instructions for completing the annual management report using Form RD 442-2

Refer to the blank copy and the completed sample copy of Form RD 442-2 Schedule 1 (on pages 34-36) before proceeding.

For the line-item budget portion of the annual management report, you will need to complete only column 3—**ANNUAL BUDGET**—on the Statement of Budget, Income and Equity form, page 1, Schedule 1, as well as all of the Projected Cash Flow form, Schedule 2.

■ **Step 1:** Put your system's name and address on the report. It may be obvious, but it is frequently forgotten. The space for this is at the very top of the page on Schedule 1, page 1.

■ **Step 2:** Look at the example form for the Statement of Budget, Income and Equity, Schedule 1, page 1. In column 1, there are four blank lines available to indicate sources of **OPERATING INCOME** and seven blank lines available to describe **OPERATING EXPENSES**. Your system's budget and bookkeeping systems probably have more than four income and seven expense categories. If this is the case, you will need to group your categories into larger (and related) areas. Suggestions are below:

In column 1:

OPERATING INCOME categories include:

- water sales
- sewer sales
- connection fees
- late charges/penalties
- miscellaneous

OPERATING EXPENSES categories include:

- personnel (includes salaries, benefits, taxes)
- purchased water (if applicable)
- utilities (electric, gas, telephone)
- repairs (includes contract repairs, equipment rental, parts, etc.)
- operating supplies
- administrative (billing, postage, office costs, and professional services, such as legal, audit and engineering)
- miscellaneous (whatever does not fit elsewhere)

NONOPERATING INCOME categories are:

- interest on checking and savings accounts
- interest on long-term deposits
- interest on meter deposit accounts

■ **Step 3:** Whatever major categories of **OPERATING INCOME**, **OPERATING EXPENSES** and **NONOPERATING INCOME** you decide to use, make a record of what is included in the major categories and be consistent. If you are going to compare figures from year to year, you will need to be looking at the same information. When you have decided on your categories, write them in column 1 (**OPERATING INCOME**, **OPERATING EXPENSES** and **NON-OPERATING INCOME**).

(Note: In preparing the annual budget, it is important to list and separate all sources of revenue and expense by type—water, sewer, etc.)

■ **Step 4:** Fill in your approved budget figures in column 3 (**ANNUAL BUDGET**), again grouping your income and expense figures into the categories written in column 1. Refer to the sample form to see how to enter the budget figures in column 3 for each of your **OPERATING INCOME, OPERATING EXPENSES** and **NONOPERATING INCOME** categories.

■ **Step 5:** In order to complete the expense portion of the line-item budget, you have to have some historical information about your system:

- a. Line 15 (**Interest**): On line 15, enter the total interest that the utility will pay on the RUS loan(s) (and any other outstanding loans) during the year. This should be the interest expense *only* (not any of the principal payment).

Note: If you do not know this amount, your RD servicing office, your system's accountant, or your system's auditor should be able to provide this to you.

- b. Line 16 (**Depreciation**): Depreciation is a non-cash expense. The annual depreciation amount represents the utility's annual loss of value due to wear and tear over the useful life of the system. Consult with your accountant or auditor, or review previous expense budgets or audit reports, to determine the annual amount of depreciation expense.

■ **Step 6:** It is time to bring out a calculator to perform the following calculations in the order presented below:

1. **Add** together lines 1 through 5.
2. **Subtract** line 6 (**Less: Allowances and Deductions**) to get the **Total Operating Income** (line 7).
3. **Add** lines 8 through 16 to get the **Total Operating Expense** (line 17).
4. **Subtract** the **Total Operating Expense** (line 17) from the **Total Operating Income** (Line 7).
5. **Enter** the total on **NET OPERATING INCOME (LOSS)** (line 18).
6. **Add** lines 19 and 20, and put that number on **Total Nonoperating Income** (line 21).
7. **Add** the **Total Nonoperating Income** (line 21) to the **Net Operating Income** (line 18) to get the **NET INCOME (LOSS)** (line 22). **Remember line 22.** You will need this figure for your projected cash-flow report.

With column 1 filled in from lines 1 to 22, your annual line-item budget is complete.

Annual Management Report
FORM FOR THE LINE-ITEM BUDGET

Form RD 442-2
(Rev. 9-97)

Position 3

FORM APPROVED
OMB NO. 0575-0015

UNITED STATES DEPARTMENT OF AGRICULTURE
STATEMENT OF BUDGET, INCOME AND EQUITY

Schedule 1

Name

Address

(1) OPERATING INCOME	PRIOR YEAR Actual (2)	ANNUAL BUDGET	For the _____ Months Ended _____		Actual YTD (Over) Under Budget Col. 3 - 5 = 6 (6)
		BEG _____	CURRENT YEAR		
		END _____	Actual Data		
			Current Quarter (4)	Year To Date (5)	
	(3)		(4)	(5)	(6)
1. _____					0
2. _____					0
3. _____					0
4. _____					0
5. Miscellaneous					0
6. Less: Allowances and Deductions					0
7. Total Operating Income (Add lines 1 through 6)	0	0	0	0	0
OPERATING EXPENSES					
8. _____					0
9. _____					0
10. _____					0
11. _____					0
12. _____					0
13. _____					0
14. _____					0
15. Interest					0
16. Depreciation					0
17. Total Operating Expense (Add Lines 8 through 16)	0	0	0	0	0
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)	0	0	0	0	0
NONOPERATING INCOME					
19. _____					0
20. _____					0
21. Total Nonoperating Income (Add 19 and 20)	0	0	0	0	0
22. NET INCOME (LOSS) (Add lines 18 and 21)	0	0	0	0	0
23. Equity Beginning of Period					0
24. _____					0
25. _____					0
26. Equity End of Period (Add lines 22 through 25)	0	0	0	0	0

Budget and Annual Report Approved by Governing Body

Quarterly Reports Certified Correct

Secretary

Date

Appropriate Official

Date

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB

REPORTING



Annual Management Report FORM FOR THE LINE-ITEM BUDGET

Form RD 442-2

(Rev. 9-97)

Position 3

UNITED STATES DEPARTMENT OF AGRICULTURE STATEMENT OF BUDGET, INCOME AND EQUITY

FORM APPROVED
OMB NO. 0575-0015

Schedule 1

Name
Pretty Good Water System

Address PO Box 100
Small Town, USA, 10001

(1) OPERATING INCOME	PRIOR YEAR Actual (2)	ANNUAL BUDGET		For the _____ Months Ended _____ CURRENT YEAR		Actual YTD (Over) Under Budget Col. 3 - 5 = 6 (6)
		BEG 01-01-2011	END 12-31-2011	Actual Data		
		(3)	(4)	(5)		
1. Water Sales		80,000				
2. Late Charges		1,500				
3. Connection Fees		2,000				
4. _____						
5. Miscellaneous						
6. Less: Allowances and Deductions						
7. Total Operating Income (Add lines 1 through 6)	0	83,500	0	0		
OPERATING EXPENSES						
8. Personnel		21,000				
9. Purchased Water		18,500				
10. Utilities		2,000				
11. Repairs/Maint		4,000				
12. Supplies		1,500				
13. Admin/Insurance		3,000				
14. Miscellaneous		2,000				
15. Interest		11,700				
16. Depreciation		17,640				
17. Total Operating Expense (Add Lines 8 through 16)	0	81,340	0	0		
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)	0	2,160	0	0		
NONOPERATING INCOME						
19. Interest Earned		1,025				
20. _____						
21. Total Nonoperating Income (Add 19 and 20)	0	1,025	0	0		
22. NET INCOME (LOSS) (Add lines 18 and 21)	0	3,185	0	0		
23. Equity Beginning of Period						
24. _____						
25. _____						
26. Equity End of Period (Add lines 22 through 25)	0	3,185	0	0		

Budget and Annual Report Approved by Governing Body

Quarterly Reports Certified Correct

Secretary

Date

Appropriate Official

Date

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0015. The time required to complete this information collection is estimated to average 2-1/2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

REPORTING



Annual Management Report FORM FOR THE LINE-ITEM BUDGET

SAMPLE COMPLETED FORM: ANNUAL BUDGET						
(Use for Reference Only)						
SAMPLE BUDGET FORM: EXCEL SPREADSHEET						
STATEMENT OF BUDGET, INCOME AND EQUITY					Schedule 1	
Name: Pretty Good Water System			Address: PO Box 100 Small Town, USA 10001			
		PRIOR YEAR	ANNUAL BUDGET	For the _____ Months ended _____		
		Actual	BEG <u>1/1/2011</u> END <u>12/31/2011</u>	CURRENT YEAR		
[1]				Actual Data		Actual YTD
				Current Quarter	Year to date	(Over) Under Budget Col 3 - Col 5 = 6
OPERATING INCOME		[2]	[3]	[4]	[5]	[6]
1	Water Sales		\$80,000			
2	Late Charges/Penalties		\$1,500			
3	Connection Fees		\$2,000			
4						
5	Miscellaneous					
6	Less Allowances and Deductions					
7	Total Operating Income (Add lines 1 through 6)		\$83,500			
OPERATING EXPENSES						
8	Personnel		\$21,000			
9	Purchased Water		\$18,500			
10	Utilities		\$2,000			
11	Repairs/ Maintenance		\$4,000			
12	Supplies		\$1,500			
13	Admin/ Insurance		\$3,000			
14	Miscellaneous		\$2,000			
15	RD Loan Pymt (Prin & Int)		\$23,100			
16						
17	Total Operating Expense (Add Lines 8 through 16)		\$75,100			
18	NET OPERATING INCOME (LOSS) (Line 7 less 17)		\$8,400			
NON-OPERATING INCOME						
19	Interest earned		\$1,025			
20						
21	Total nonoperating Income (Add lines 19 and 20)		\$1,025			
22	NET INCOME (LOSS) (Add lines 18 and 21)		\$9,425			
23	Equity Beginning of Period					
24						
25						
26	Equity End of Period (Add lines 22 through 23)					
Budget and Annual Report Approved by Governing Body				Quarterly Reports Certified Correct		
Secretary				Date		
				Appropriate Official		
				Date		



Instructions for completing the projected cash-flow form using Form RD 442-2, Schedule 2

The Projected Cash Flow form will show how much money you will have in the bank at the end of the next budget year.

Refer to the blank copy and the completed sample copy of Form RD 442-2, Schedule 2 (on pages 39-41) before proceeding.

Begin by writing in the year covered by the report in the top, right corner. This should be the same year that is listed on the annual budget report on Schedule 1.

Section A

Complete this section by transferring the information from **NET INCOME (LOSS)** from the Statement of Budget, Income and Equity, Schedule 1, column 3, line 22, to the first line on the Projected Cash Flow Report form.

Section B

1. Write the **Depreciation** portion of the figure from the Statement of Budget, Income and Equity, Schedule 1, column 3, line 16 on line 1 of section B.
2. If you have any *other* expenses in your operating budget that do not require cash (that is, expenses that do *not* require writing a check to someone else) enter them on line B2.

Section C

This section is used to describe increases in cash balances. It is completed when you are constructing a major addition or improvement to your system and receive loan/grant funds from USDA RD or other large cash amounts from outside sources, for example. If you are operating on a cash accounting basis, you most likely will

not have any figures to enter on lines C.3. and C.4. If you are operating on an accrual accounting basis, you will likely need to fill in these two lines.

Section D

Add together all the figures from sections A, B and C, and enter this on line D. This represents cash that will be added to your year-end balances.

Section E

This section is used to describe decreases in cash balances.

1. On line E3, enter the principal portion of your RUS loan(s).
2. On line E4, enter the principal payment on any other outstanding loans.
3. If there are other expenses for construction or improvements (capital expenses) that were *not* included in your operating expense budget, those amounts should be entered in section E as well.
4. Add the numbers on lines E1 through E5.
5. Enter the total on line E6.

Section F

Because you will be completing this form before the end of the year, you will need to estimate cash balances that will be in all of your accounts at the end of the current fiscal year.

1. Your **Beginning Cash Balances** will be the total cash of all your bank, savings and time-deposit accounts at the end of the year.
2. Enter this dollar amount on line F.

Section G: Ending Cash Balances

This will be the total of your bank, savings and deposit balances at the end of your coming budget year. To arrive at the total for section G:

1. Take the total of Section D.
2. Subtract the figure on line E6.
3. Add the total from Line F.

Item G: Cash Balances in Accounts

Item G at the bottom of the Projected Cash Flow statement allows you to fill in the projected cash balances for various accounts that the utility may maintain. If/when this section is completed, the total of all the projected cash balances in each account must agree with the total shown on line G, **Ending Cash Balances**.

The last step is to make sure the annual management report is signed and dated by an authorized representative of your organization. All reports should be approved by your governing board with your secretary or president given authorization to sign. The space for this is at the bottom of the first page of Form RD 442-2, Schedule 1.

You are now ready to submit the annual management report. Add a copy of your current rate schedule and a current list of governing body members, and send all the information to your USDA RD servicing office.

Annual Management Report
PROJECTED CASH FLOW
FORM RD 442-2 SCHEDULE 2

Schedule 2

PROJECTED CASH FLOW

For the Year BEG. _____ END. _____
(same as schedule 1 column 3)

A. Line 22 from Schedule 1, Column 3 NET INCOME (LOSS) \$ 0

Add

B. Items in Operations not Requiring Cash:

1. Depreciation (line 16 schedule 1) 0

2. Others:

C. Cash Provided From:

1. Proceeds from Agency loan/grant

2. Proceeds from others

3. Increase (Decrease) in Accounts Payable, Accruals and other Current Liabilities

4. Decrease (Increase) in Accounts Receivable, Inventories and

Other Current Assets (Exclude cash)

5. Other:

6.

D. Total all A, B and C Items \$0

E. Less: Cash Extended for:

1. All Construction, Equipment and New Capital Items (loan & grant funds)

2. Replacement and Additions to Existing Property, Plant and Equipment

3. Principal Payment Agency Loan

4. Principal Payment Other Loans

5. Other:

6. Total E 1 through 5 \$0

Add

F. Beginning Cash Balances

G. Ending Cash Balances (Total of D Minus E 6 Plus F) \$ 0

Item G Cash Balances Composed of:

Construction Account \$

Revenue Account

Debt Payment Account

O&M Account

Reserve Account

Funded Depreciation Account

Others:

.....

Total - Agrees with Item G \$

Annual Management Report
PROJECTED CASH FLOW
FORM RD 442-2 SCHEDULE 2

Schedule 2

PROJECTED CASH FLOW

For the Year BEG. 01-01-2011 END. 12-31-2011
(same as schedule 1 column 3)

A. Line 22 from Schedule 1, Column 3 NET INCOME (LOSS) \$ 3,185

Add

B. Items in Operations not Requiring Cash:

1. Depreciation (line 16 schedule 1) 17,640

2. Others:

C. Cash Provided From:

1. Proceeds from Agency loan/grant

2. Proceeds from others

3. Increase (Decrease) in Accounts Payable, Accruals and other Current Liabilities

4. Decrease (Increase) in Accounts Receivable, Inventories and

Other Current Assets (Exclude cash)

5. Other:

6.

D. Total all A, B and C Items \$20,825

E. Less: Cash Extended for:

1. All Construction, Equipment and New Capital Items (loan & grant funds)

2. Replacement and Additions to Existing Property, Plant and Equipment

3. Principal Payment Agency Loan \$11,400

4. Principal Payment Other Loans

5. Other:

6. Total E 1 through 5 \$11,400

Add

F. Beginning Cash Balances \$100,550

G. Ending Cash Balances (Total of D Minus E 6 Plus F) \$ 109,975

Item G Cash Balances Composed of:

Construction Account \$ 0

Revenue Account \$0

Debt Payment Account \$23,925

O&M Account \$22,500

Reserve Account \$23,050

Funded Depreciation Account \$28,000

Others:

Meter Deposit Account \$12,500

Total - Agrees with Item G \$ 109,975

REPORTING

Annual Management Report
PROJECTED CASH FLOW
FORM RD 442-2 SCHEDULE 2

SAMPLE COMPLETED FORM: Projected Cash Flow

(Use for Reference Only)

SAMPLE CASH FLOW REPORT: EXCEL SPREADSHEET

Schedule 2

PROJECTED CASH FLOW

For the Year BEG. 1/1/2011 END. 12/31/2011

A. Line 22 from Schedule 1, Column 3 NET INCOME (LOSS) \$9,425

Add

B. Items in Operations not Requiring Cash:

1. Depreciation (line 16 schedule 1)

2. Others:

C. Cash Provided From:

1. Proceeds from FmHA loan/grant (Balance FmHA Interest Acct)

2. Proceeds from Others

3. Increase (decrease) in Accounts Payable etc.

4. Decrease (increase) in Accounts Receivable, etc.

5. Other:

6.

D. Total all A,B,C Items \$9,425

E. Less: Cash Expended for:

1. Construction, Equipment, New Capital (loan & grant funds)

2. Replacement and additions to existing property, plant, equipt.

3. Principal Payment FmHA Loan (Included Line 15)

4. Principal Payment Other Loans (Included Line 14)

5. Other:

6. Total E1 through 5 \$0

Add

F. Beginning Cash Balances \$ 100,550

G. Ending Cash Balances (Total of D minus E6 Plus F) \$ 109,975

(Current Year)

(Budget Year)

2010

2011

Item G Cash Balances Composed of:

Construction Account

Revenue Account

Debt Service (Reserve)

O&M Account

Reserve (Depreciation)

Other: Meter Deposit Account

Total (Agrees with Item G) \$ 100,550 \$ 109,975

SECTION 3B

Preparing Annual Financial Statements

All RUS borrowers are required to provide RUS with either an annual audit report or annual financial statements. RUS borrowers are required to submit an annual audit report if:

1. they expend more than \$500,000 in federal financial assistance during a fiscal year **OR**
2. they have an outstanding loan balance of \$1,000,000 or more

Many RUS borrowers that are not required by RUS regulations to submit an annual audit report prepare one anyway, either for good business practices or because audits may be required by state or local law. Borrowers that do have annual independent audit reports completed should submit copies of their audit reports to USDA Rural Development, even though they may not be required to do so by RUS program regulations.

Note: *Be sure to check with your USDA RD servicing office to determine what other year-end information may be required in addition to an audit report. For example, the information contained on Form RD 442-2, Schedule 1, Page 2, is typically not included in an audit report.*

Purpose of annual financial statements

The purpose of annual financial statements is to provide a comprehensive report to USDA RD on the financial status of your system. The annual financial statements will provide vital financial data, including:

- expenditures for the past year
- budget for the current year
- insurance coverage
- operational information
- bank balances
- accounts receivable
- net worth of your system
- financial trends (comparative data from previous vs. current year)

Submitting annual financial statements

RUS borrowers that do not submit annual audit reports must submit annual financial statements within 60 days following the end of each fiscal year. Annual financial statements consist of the organization's balance sheet and statement of income and expense, certified by an appropriate official of the organization. Forms RD 442-2 (Statement of Budget, Income and Equity) and RD 442-3 (Balance Sheet) may be used (RUS Instruction 1780.47 (e)).

Annual financial statements— checklist of contents:

- ☐ Completed Statement of Budget, Income and Equity (Form RD 442-2, Schedule 1, Page 1)
- ☐ Completed Supplemental Data form (Form RD 442-2, Schedule 1, Page 2)
- ☐ Completed Balance Sheet (Form RD 442-3)
- ☐ any additional information that may be requested by your USDA RD servicing office

Where can I get the forms?

Forms RD 442-2 (Statement of Budget, Income and Equity) and RD 442-3 (Balance Sheet) can be found on the CD that accompanies this guide as PDFs with fields that can be filled in. They can also be downloaded from the USDA Rural Development website at:

- Form RD 442-2: www.rurdev.usda.gov/regs/forms/0442-02.pdf
 - Form RD 442-3: www.rurdev.usda.gov/regs/forms/0442-03.pdf
- or on the RCAP website at www.rcap.org/pubs/usdaborrguide

Instructions for completing the annual income and expense statement using Form RD 442-2, Schedule 1, Page 1

Refer to the blank copy and the completed sample copy of Form RD 442-2, Schedule 1 (on pages 44-46) before proceeding.

■ **Step 1:** Fill in your system's name and address in the boxes at the top of the form.

■ **Step 2:** Complete column 1 by filling in your income and expenses line items. These items should be the same income and expense categories that are used in your annual budget (water sales, late fees, personnel costs, utilities, repairs, etc.). Be sure and include any non-operating income on lines 19 and 20 (such as interest earned).

■ **Step 3:** Fill in column 2 (actual income and expenses for the prior year). This information should be available from your previous annual income and expense reports, from your general ledger, bookkeeping reports, or your previous year's audit.

■ **Step 4:** In column 3, **ANNUAL BUDGET**, fill in the line-item budget income and expense figures for each of the lines provided (lines 1 through 22) for the fiscal year just completed. Be sure to enter the fiscal year beginning and ending dates in the space provided at the top of column 3.

■ **Step 5:** Above columns 4-6, enter your fiscal year beginning and ending dates in the space provided above **CURRENT YEAR**.

■ **Step 6:** You may choose to enter your actual income and expenses in column 4 if you choose to do so. Column 4 applies only to the last 3 months of your fiscal year.

■ **Step 7:** In column 5, enter your actual income and expenses for the entire fiscal year that has just ended.

■ **Step 8:** In column 6, subtract the values in column 5 (lines 1 through 22) from the budgeted line items in column 3. Enter the difference in column 6. (The figures in column 6 indicate whether you were over budget [positive value] or under budget [negative value] for each of your income and expense line-items.)

In all of the columns (2 through 6) on the form, make sure that you have entered figures down to line 22. You have now completed the annual income and expense statement. Make sure that the completed statement is signed and dated at the bottom of the form before it is submitted to your USDA RD servicing office.

Annual Financial Statements

ANNUAL INCOME & EXPENSE STATEMENT

Form RD 442-2
(Rev. 9-97)

Position 3

FORM APPROVED
OMB NO. 0575-0015

UNITED STATES DEPARTMENT OF AGRICULTURE STATEMENT OF BUDGET, INCOME AND EQUITY

Schedule 1

Name

Address

(1) <u>OPERATING INCOME</u>	PRIOR YEAR <u>Actual</u> (2)	ANNUAL BUDGET BEG _____ END _____ (3)	For the _____ Months Ended _____		Actual YTD (Over) Under Budget Col. 3 - 5 = 6 (6)
			CURRENT YEAR		
			Actual Data		
			Current Quarter (4)	Year To Date (5)	
1. _____					0
2. _____					0
3. _____					0
4. _____					0
5. Miscellaneous					0
6. Less: Allowances and Deductions					0
7. Total Operating Income (Add lines 1 through 6)	0	0	0	0	0
<u>OPERATING EXPENSES</u>					
8. _____					0
9. _____					0
10. _____					0
11. _____					0
12. _____					0
13. _____					0
14. _____					0
15. Interest					0
16. Depreciation					0
17. Total Operating Expense (Add Lines 8 through 16)	0	0	0	0	0
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)	0	0	0	0	0
<u>NONOPERATING INCOME</u>					
19. _____					0
20. _____					0
21. Total Nonoperating Income (Add 19 and 20)	0	0	0	0	0
22. NET INCOME (LOSS) (Add lines 18 and 21)	0	0	0	0	0
23. Equity Beginning of Period					0
24. _____					0
25. _____					0
26. Equity End of Period (Add lines 22 through 25)	0	0	0	0	0

Budget and Annual Report Approved by Governing Body

Quarterly Reports Certified Correct

Secretary

Date

Appropriate Official

Date

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB

REPORTING



Annual Financial Statements

ANNUAL INCOME & EXPENSE STATEMENT

Form RD 442-2
(Rev. 9-97)

Position 3

FORM APPROVED
OMB NO. 0575-0015

UNITED STATES DEPARTMENT OF AGRICULTURE STATEMENT OF BUDGET, INCOME AND EQUITY

Schedule 1

Name **Pretty Good Water System**

Address **PO Box 100
Small Town, USA 10001**

(1) OPERATING INCOME	PRIOR YEAR Actual (2)	ANNUAL BUDGET BEG 01-01-2010 END 12-31-2010 (3)	For the 01-01-2010 Months Ended 12-31-2010 CURRENT YEAR		
			Actual Data		Actual YTD (Over) Under Budget Col. 3 - 5 = 6 (6)
			Current Quarter (4)	Year To Date (5)	
1. Water Sales	78,442	79,000		77,153	1,847
2. Late Fees-Chgs	1,347	1,500		1,475	25
3. Connection Fees	500	2,000		2,400	-400
4. _____					0
5. Miscellaneous					0
6. Less: Allowances and Deductions					0
7. Total Operating Income (Add lines 1 through 6)	80,289	82,500	0	81,028	1,472
OPERATING EXPENSES					
8. Personnel	19,875	20,000		19,950	50
9. Purchased Water	17,546	17,000		17,800	-800
10. Utilities	1,934	1,800		1,899	-99
11. Repairs/Maint	3,889	3,500		3,925	-425
12. Supplies	1,242	1,500		1,480	20
13. Admin/Insurance	2,576	2,750		2,000	750
14. Miscellaneous	1,287	2,000		3,050	-1,050
15. Interest	12,663	12,300		12,184	116
16. Depreciation	17,640	17,640		17,640	0
17. Total Operating Expense (Add Lines 8 through 16)	78,652	78,490	0	79,928	-1,438
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)	1,637	4,010	0	1,100	2,910
NONOPERATING INCOME					
19. Interest	925	1,000		253	747
20. _____					0
21. Total Nonoperating Income (Add 19 and 20)	925	1,000	0	253	747
22. NET INCOME (LOSS) (Add lines 18 and 21)	2,562	5,010	0	1,353	3,657
23. Equity Beginning of Period					0
24. _____					0
25. _____					0
26. Equity End of Period (Add lines 22 through 25)	2,562	5,010	0	1,353	3,657

Budget and Annual Report Approved by Governing Body

Quarterly Reports Certified Correct

Secretary _____ Date _____ Appropriate Official _____ Date _____

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0015. The time required to complete this information collection is estimated to average 2-1/2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

REPORTING



Annual Financial Statements

ANNUAL INCOME & EXPENSE STATEMENT

SAMPLE COMPLETED FORM: ANNUAL INCOME STATEMENT						
(Use for Reference Only)						
SAMPLE BUDGET FORM: EXCEL SPREADSHEET						
STATEMENT OF BUDGET, INCOME AND EQUITY					Schedule 1	
Name:			Address:			
Pretty Good Water System			PO Box 100 Small Town, USA 10001			
			For the 12 Months ended: 12/31/10			
			CURRENT YEAR			
			Actual Data		Actual YTD	
			Current Quarter	Year to date	(Over) Under Budget Col 3 - Col 5 = 6	
[1]			Actual		END 12/31/2010	
PRIOR YEAR			ANNUAL BUDGET		BEG 1/1/2010 END 12/31/2010	
[2]			[3]		[4]	
[5]			[6]		[7]	
OPERATING INCOME						
1	Water Sales	\$78,442	\$79,000		\$77,153.00	\$1,847
2	Late Charges/Penalties	\$1,347	\$1,500		\$1,475.00	\$25
3	Connection Fees	\$500	\$2,000		\$2,400.00	(\$400)
4						\$0
5	Miscellaneous					\$0
6	Less Allowances and Deductions					
7	Total Operating Income (Add lines 1 through 6)	\$80,289	\$82,500	\$0	\$81,028	\$1,472
OPERATING EXPENSES						
8	Personnel	\$19,875.00	\$20,000		\$19,950.00	\$50
9	Purchased Water	\$17,546.00	\$17,000		\$17,800.00	(\$800)
10	Utilities	\$1,934.00	\$1,800		\$1,899.00	(\$99)
11	Repairs/ Maintenance	\$3,889.00	\$3,500		\$3,925.00	(\$425)
12	Supplies	\$1,242.00	\$1,500		\$1,480.00	\$20
13	Admin/ Insurance	\$2,576.00	\$2,750		\$2,000.00	\$750
14	Miscellaneous	\$1,287.00	\$2,000		\$3,050.00	(\$1,050)
15	RD Loan Pymt (Prin & Int)	\$23,100.00	\$23,100		\$23,100.00	\$0
16						\$0
17	Total Operating Expense (Add Lines 8 through 16)	\$71,449	\$71,650	\$0	\$73,204	(\$1,554)
18	NET OPERATING INCOME (LOSS) (Line 7 less 17)	\$8,840.00	\$10,850	\$0	\$7,824	\$3,026
NON-OPERATING INCOME						
19	Interest earned	\$925.00	\$1,000		\$253	\$747
20						
21	Total nonoperating Income (Add lines 19 and 20)	\$925	\$1,000	\$0	\$253	\$747
22	NET INCOME (LOSS) (Add lines 18 and 21)	\$9,765	\$11,850	\$0	\$8,077	\$3,773
23	Equity Beginning of Period					
24						
25						
26	Equity End of Period (Add lines 22 through 23)					
Budget and Annual Report Approved by Governing Body				Quarterly Reports Certified Correct		
Secretary				Date		
				Appropriate Official		
				Date		

Instructions for completing the Supplemental Data form using Form RD 442-2 Schedule 1, Page 2

The completed Supplemental Data form provides a variety of information that USDA RD needs to evaluate your system's financial stability.

Refer to the blank copy and the completed sample copy of Form RD 442-2, Schedule 1, Page 2 (on pages 48-50) before proceeding.

Section 1 (Lines 1a through 1e): The questions in Section 1 ask for assurances that you are meeting your legal obligations by having your funds deposited in insured accounts (FSLIC or FDIC), that you are tax-exempt, that you do not owe any delinquent taxes, and that your corporate status is current.

After circling "Yes" or "No" for each question, provide the requested insurance information. To do this, you need your policy numbers, name and address (town is sufficient), amount of coverage and expiration date of your policies. If you cannot find this information, call your agent. **DO NOT LEAVE THIS SECTION BLANK!**

Section 2: Leave blank. This section does not apply to water and wastewater systems.

Section 3: You may now need to do a bit of research. For water systems, you are asked to report total gallons of water produced or purchased and the total gallons of water sold. Sewer systems are asked to report the total gallons of wastewater treated. These figures are for the entire year. Your operator should be able to provide records of production. If you purchase water, that information should be on the monthly water bill you receive. Information on water sold should be available in your billing or customer account records. It may take some time to gather this information, but it is very important. It will tell you how much water you are losing and whether you need to invest time and money in finding leaks, illegal connections, or other sources of

your loss. Do not forget to also list your current number of water and sewer customers.

Sections 4 and 5: Leave blank. These sections do not apply to water and wastewater systems.

Section 6: This section simply asks how much money you have in each of your accounts (as of the end of your fiscal year). The categories on the form are designated for a number of different types of programs and may not describe your accounts. You may need to change the name(s) to better reflect the type of accounts that apply to your system. Use categories that are appropriate for your system. For reference, look at the entries in section 6 on the Sample Form (page 50). When you have decided on categories:

- Enter your checking account funds in the blanks in the first row.
- Enter your savings accounts and short- and long-term deposit amounts in the second row.
- Then add the columns down and add the rows across to provide totals in the bottom row and in the far-right column.

***Note:** The dollar amount shown in the Grand Total column is your utility's beginning cash balance for the new fiscal year.*

Section 7: From your customer accounts and billing records, write down the number of customers and the total value of the dollar amounts receivable (outstanding billing amount) as of the end of your fiscal year. Separate the total amounts into billings due from 0-30 days, 31-60 days, 61-90 days and over 91 days, and the number of customers in each category. Add the dollar values and the number of accounts across rows to provide totals in the far-right column.

***Note:** The total listed under accounts receivable will transfer directly to your balance sheet for the fiscal year.*



Annual Financial Statements
SUPPLEMENTAL DATA FORM
RD 442-2 SCHEDULE 1, Page 2

Schedule 1
Page 2

SUPPLEMENTAL DATA

The Following Data Should Be Supplied Where Applicable

Circle One

1. ALL BORROWERS

- a. Are deposited funds in institutions insured by the Federal Government? Yes No
b. Are you exempt from Federal Income Tax? Yes No
c. Are Local, State and Federal Taxes paid current? Yes No
d. Is corporate status in good standing with State? Yes No

e. List kinds and amounts of insurance and fidelity bond: Complete Only when submitting annual budget information:

<u>Insurance Coverage and Policy Number</u>	<u>Insurance Company and Address</u>	<u>Amount of Coverage</u>	<u>Expiration Date of Policy</u>
Property Insurance Policy # _____	_____	_____	_____
Liability Policy # _____	_____	_____	_____
Fidelity Policy # _____	_____	_____	_____

2. RECREATION AND GRAZING ASSOCIATION BORROWERS ONLY

Current Quarter

Year to Date

- a. Number of Members _____

3. WATER AND/OR SEWER UTILITY BORROWERS ONLY

- a. Water purchased or produced (CU FT - GAL) _____ gal. _____ gal.
b. Water sold (CU FT - GAL) _____ gal. _____ gal.
c. Treated waste (CU FT - GAL) _____ gal. _____ gal.
d. Number of users - water _____
e. Number of users - sewer _____

4. OTHER UTILITIES

- a. Number of users _____
b. Product purchased _____
c. Product sold _____

5. HEALTH CARE BORROWERS ONLY

- a. Number of beds _____
b. Patient days of care _____
c. Percentage of occupancy _____ 0 % _____ 0 %
d. Number of outpatient visits _____

6. DISTRIBUTION OF ALL CASH AND INVESTMENTS*

Indicate balances in the following accounts:

	<u>Construction</u>	<u>Revenue</u>	<u>Debt Service</u>	<u>Operation & Maintenance</u>	<u>Reserve</u>	<u>All Others</u>	<u>Grand Total</u>
Cash	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ 0
Savings	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ 0
and Investments	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ 0
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

7. AGE ACCOUNTS RECEIVABLE AS FOLLOWS:

	<u>Days</u>				<u>*Total</u>
	<u>0-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91 and Older</u>	
Dollar Values	\$ _____	\$ _____	\$ _____	\$ _____	\$ 0

REPORTING

Annual Financial Statements
SUPPLEMENTAL DATA FORM
RD 442-2 SCHEDULE 1, Page 2

Schedule 1

Page 2

SUPPLEMENTAL DATA

The Following Data Should Be Supplied Where Applicable

Circle One

1. ALL BORROWERS

- a. Are deposited funds in institutions insured by the Federal Government?
b. Are you exempt from Federal Income Tax?
c. Are Local, State and Federal Taxes paid current?
d. Is corporate status in good standing with State?

☒ Yes No
☒ Yes No
☒ Yes No
☒ Yes No

e. List kinds and amounts of insurance and fidelity bond: Complete Only when submitting annual budget information:

Insurance Coverage and Policy Number	Insurance Company and Address	Amount of Coverage	Expiration Date of Policy
Property Insurance Policy # 11-000-1	Dependable Insurance, Small Town	500,000	06-30-2011
Liability Policy # 11-000-2	Dependable Insurance, Small Town	1,000,000	06-30-2011
Fidelity Policy # 11-000-03	Dependable Insurance, Small Town	250,000	06-30-2011

2. RECREATION AND GRAZING ASSOCIATION BORROWERS ONLY

Current Quarter

Year to Date

- a. Number of Members

3. WATER AND/OR SEWER UTILITY BORROWERS ONLY

- a. Water purchased or produced (CU FT - GAL)
b. Water sold (CU FT - GAL)
c. Treated waste (CU FT - GAL)
d. Number of users - water
e. Number of users - sewer

gal. 15,000,00 gal.
gal. 14,250,00 gal.
gal. gal.
250

4. OTHER UTILITIES

- a. Number of users
b. Product purchased
c. Product sold

5. HEALTH CARE BORROWERS ONLY

- a. Number of beds
b. Patient days of care
c. Percentage of occupancy
d. Number of outpatient visits

0 % 0 %

6. DISTRIBUTION OF ALL CASH AND INVESTMENTS*

Indicate balances in the following accounts:

	Construction	Revenue	Debt Service	Operation & Maintenance	Reserve	All Others	Grand Total
Cash	\$ _____	\$ 14,500	\$ _____	\$ 22,500	\$ _____	\$ _____	\$ 37,000
Savings and Investments	\$ _____	\$ _____	\$ 23,050	\$ _____	\$ 28,000	\$ 12,500	\$ 63,550
Total	\$ 0	\$ 14,500	\$ 23,050	\$ 22,500	\$ 28,000	\$ 12,500	\$ 100,550

7. AGE ACCOUNTS RECEIVABLE AS FOLLOWS:

	Days				*Total
	0-30	31-60	61-90	91 and Older	
Dollar Values	\$ 5,250	\$ 434	\$ 146	\$ 124	\$ 5,954
Number of Accounts	220	21	6	3	250

*Totals must agree with those on Balance Sheet.

REPORTING

SAMPLE COMPLETED FORM: YEAR END FINANCIAL STATEMENT

(Use for Reference Only)

SUPPLEMENTAL DATA FORM

Schedule 1
 Page 2

The Following Data Should Be Supplied Where Applicable

Circle One

ALL BORROWERS

- | | | | |
|---|--|-----|----|
| 1 | a. Are deposited funds in institutions insured by the Federal Government? | Yes | No |
| | b. Are you exempt from Federal Income Tax? | Yes | No |
| | c. Are Local, State and Federal Taxes paid current? | Yes | No |
| | d. Is corporate Status in good standing with State? | Yes | No |
| | e. List kinds and amounts of insurance and fidelity bond: Complete only when submitting annual budget information: | | |

Insurance Coverage and Policy Number	Insurance Company And Address	Amount of Coverage	Expiration Date of Policy
Property Insurance Policy #: 11-000-01	Dependable Insurance, Small Town, USA	\$500,000	6/30/11
Liability Policy #: 11-000-02	Dependable Insurance, Small Town, USA	\$1,000,000	6/30/11
Fidelity Policy #: 11-000-03	Dependable Insurance, Small Town, USA	\$250,000	6/30/11

RECREATION AND GRAZING ASSOCIATION BORROWERS ONLY

- | | | | |
|---|----------------------|-----------------|--------------|
| 2 | a. Number of Members | Current Quarter | Year to Date |
| | | | |

WATER AND/OR SEWER UTILITY BORROWERS ONLY

- | | | |
|---|--|---------------|
| 3 | a. Water purchased or produced (CU FT - GAL) | 15000000 gals |
| | b. Water sold (CU FT - GAL) | 14250000 gals |
| | c. Treated Waste (CU FT - GAL) | |
| | d. Number of users - water | 250 |
| | e. Number of users - sewer | |

OTHER UTILITIES

- | | | |
|---|----------------------|--|
| 4 | a. Number of users | |
| | b. Product purchased | |
| | c. Product Sold | |

HEALTH CARE BORROWERS ONLY

- | | | |
|---|--------------------------------|--|
| 5 | a. Number of beds | |
| | b. Patient days of care | |
| | c. Percentage of occupancy | |
| | d. Number of outpatient visits | |

DISTRIBUTION OF ALL CASH AND INVESTMENTS*

6	Indicate balances in the following accounts	(Reserve)	Operation & Maintenance	(Deprec.) Reserve	(Meter Dep)	All Others	Grand Total *
	Construction	Revenue	Debt Service				
	Cash	\$0	\$14,500	\$0	\$22,500	\$0	\$37,000
	Savings and Investments	\$0	\$0	\$23,050	\$0	\$28,000	\$63,550
	Total	\$0	\$14,500	\$23,050	\$22,500	\$28,000	\$100,550

AGE ACCOUNTS RECEIVABLE AS FOLLOWS:

7		Days				
		0-30	31-60	61-90	91 and older	Total *
	Dollar Values	\$5,250	\$434	\$146	\$124	\$5,954
	Number of Accounts	220	21	6	3	250

* Totals must agree with Balance Sheet

Instructions for completing the annual balance sheet using Form RD 442-3

The final report is the balance sheet, which summarizes all of your current financial information, adds long-term assets and liabilities, and determines your system's net worth. The balance sheet (sometimes called the statement of financial position) shows your system's net worth—or how much your system is worth at a particular point in time.

A balance sheet can be difficult to successfully complete without having access to historical financial data. You should collect financial records that may be necessary to help complete Form RD 442-3. This may include previous audit reports, prior-year balance sheets and income statements, and other pertinent data.

Refer to the blank copy and the completed sample copy of Form RD 442-3 (on pages 54-56) before proceeding.

Comparative Balance Sheet (Form RD 442-3)

Note: Form RD 442-3 is a comparative balance sheet, meaning it compares the ending balances from the prior fiscal year to the ending balances from your current fiscal year. In the completed sample balance sheet for the Pretty Good Water System, the far-right column is the balance sheet from 2009. The left-hand column of figures is for the current year, which ends on December 31, 2010.

A comparative statement, whether it is a balance sheet or an income statement, is important because it allows you to see the financial trend(s) for your utility and helps you answer questions like:

- Is net income increasing or decreasing?
- Are retained earnings increasing or decreasing?

■ **Step 1:** Fill in your system's name and address at the top of the page.

■ **Step 2—prior year:** Complete the entries for each line on the balance sheet for the prior year in the far-right column. The prior-year balances should be taken from your previous year's annual financial statements or audit reports. Be sure to enter the prior year's ending date at the top of column.

ASSETS

■ **Step 3—current assets:** To determine total current assets:

- Enter values for lines 1 through 3 (Cash on hand, Time deposits and short-term investments, and accounts receivable). All of this information is shown at the bottom of the Supplemental Data Sheet (Form RD 442-2, Schedule 1, Page 2).
- Enter and subtract any bad debts that you anticipate on line 4.
- Add the estimated value of inventories (supplies, chemicals, equipment, etc.).
- Add any pre-payments you may have made (prepayments would be the value of expenses paid in advance for the current year. An example would be the remaining value of an insurance policy whose annual premium was paid in the current year).
- Add lines 1 through 8, and enter the total on line 9. This is your total current assets.

■ **Step 4—fixed assets:** The value of fixed assets represents items such as land, buildings and equipment. To complete this section:

- Enter the purchase price of land, buildings, furniture and equipment on lines 10 through 12.
- Enter the value of your water plant and equipment on line 13. Your water or



sewer system is the major fixed asset on the balance sheet. On line 13, enter the original construction cost of your system (both loan and grant funds). You will also need to establish a depreciation schedule. The simplest form of depreciation is the straight-line method, with the same amount depreciated each year.

Determining depreciation

On the sample balance sheet, the original construction cost of the Pretty Good Water System was \$705,600. The estimated useful life of the facility has been established as 40 years. Using the straight-line method of determining annual depreciation, you divide the original construction cost of the utility by the total useful life and arrive at an annual depreciation amount of \$17,640 per year:

$$\text{\$705,600} \div 40 \text{ years} = \text{\$17,640 per year depreciation}$$

Note: Because fixed assets and depreciation involve high values, it is wise to get advice from your auditor or your USDA RD servicing office to determine the useful life span and any resale or residual value of your system.

- i. Enter the accumulated depreciation amount of buildings, furniture and equipment, and the water utility since inception on line 14. (On the sample Balance Sheet for the Pretty Good Water System, the water utility is depreciating at \$17,640 per year; buildings, furniture and equipment are fully depreciated.)
- ii. Add lines 10 through 13, and subtract line 14. Enter this total on line 15, as this is the net total value of all fixed assets.

■ Step 5—other assets:

This section includes anything of value that your system owns that is not included as a current or fixed asset (typically this section is left blank).

■ Step 6—total assets:

To determine total assets, add together lines 9, 15, 16 and 17:

Total Current Assets
Fixed Assets
+Other Assets

TOTAL ASSETS (enter on line 18)

LIABILITIES AND EQUITIES

Liabilities are what the utility owes to others. Current liabilities represent what the system owes to others over the next fiscal year (the next 12 months).

Current Liabilities

■ **Step 7:** To determine your total current liabilities:

- a. Accounts payable: Enter the current total amounts due to others on line 19.
- b. Notes payable: Enter the principal portion of any loans payable during the coming year on line 20.
- c. Current portion of USDA note: Enter the principal portion of the RUS loan payable during the next year on line 21.
- d. Customer deposits: Enter the current total of customer deposits on line 22.
- e. Taxes payable: Enter all taxes that will be due and payable during the next fiscal year on line 23.
- f. Interest payable: Enter the total amount of interest on loans that will be paid during the next 12 months on line 24 (include interest payable on the RUS loan).
- g. Add lines 19 through 26, and enter the total on line 27.

Long Term Liabilities

Long-term liabilities represent what the utility owes to others beyond the current fiscal year.

■ **Step 8:** To determine your total long-term liabilities:

- a. Notes Payable USDA: Enter the remaining unpaid loan balance on the RUS loan (principal only) on line 28.
- b. Other long-term liabilities: Enter other long-term liabilities on lines 29 and 30.
- c. Add lines 28 through 30, and enter the total on line 31.

Total Liabilities

■ **Step 9—Total liabilities:** To determine total liabilities, add together lines 27 and 31:

Total Current Liabilities
+ Total Long-Term Liabilities

TOTAL LIABILITIES (enter on Line 32)

Equity

Equity is the net value of the system over time. Equity is what should be left if the utility closed its doors, paid off all of its outstanding bills, collected everything that it was owed, and sold all of its assets for exactly the same price as they were recorded in the financial statements.

■ **Step 10: To determine your equity:**

- a. Retained earnings: Subtract line 32 (**Total Liabilities**) from line 18 (**Total Assets**). Enter the result on line 33 (**Retained Earnings**).
- b. Memberships: If your utility has collected membership fees from customers, enter the value of membership fees on line 34.
- c. Add lines 33 and 34, and enter the total on line 35.

■ **Step 11—Total Liabilities and Equity:** To determine total liabilities and equity, add lines 32 and 35:

Total Liabilities
+ Total Equity

TOTAL LIABILITIES and EQUITY (enter on Line 36)

Total Assets should now equal your **Total Liabilities and Equity**. That is why it is called a balance sheet (these figures balance each other).

The final step is to have the appropriate official of your organization sign and date in the spaces provided at the bottom of the form.

Annual Financial Statements
ANNUAL BALANCE SHEET
RD FORM 442-3

Position 3		FORM APPROVED OMB No. 0575-0015	
Form RD 442-3 (Rev. 3-97) <div style="text-align: center; font-weight: bold; font-size: 1.2em;">BALANCE SHEET</div>	<div style="border-bottom: 1px solid black; padding-bottom: 5px;">Name</div> <div style="border-bottom: 1px solid black; padding-bottom: 5px;">Address</div>		
		<div style="display: flex; justify-content: space-around; font-weight: bold; font-size: 0.8em;"> Month Day Year Month Day Year </div> <div style="display: flex; justify-content: space-around; font-size: 0.7em;"> Current Year Prior Year </div>	
ASSETS			
<u>CURRENT ASSETS</u>			
1. Cash on hand in Banks			
2. Time deposits and short-term investments			
3. Accounts receivable			
4. Less: Allowance for doubtful accounts		()	()
5. Inventories			
6. Prepayments			
7.			
8.			
9. Total Current Assets (Add 1 through 8)		\$0.00	\$0.00
<u>FIXED ASSETS</u>			
10. Land			
11. Buildings			
12. Furniture and equipment			
13.			
14. Less: Accumulated depreciation		()	()
15. Net Total Fixed Assets (Add 10 through 14)		\$0.00	\$0.00
<u>OTHER ASSETS</u>			
16.			
17.			
18. Total Assets (Add 9, 15, 16 and 17)		\$0.00	\$0.00
LIABILITIES AND EQUITIES			
<u>CURRENT LIABILITIES</u>			
19. Accounts payable			
20. Notes payable			
21. Current portion of USDA note			
22. Customer deposits			
23. Taxes payable			
24. Interest payable			
25.			
26.			
27. Total Current Liabilities (Add 19 through 26)		\$0.00	\$0.00
<u>LONG-TERM LIABILITIES</u>			
28. Notes payable USDA			
29.			
30.			
31. Total Long-Term Liabilities (Add 28 through 30)		\$0.00	\$0.00
32. Total Liabilities (Add 27 and 31)		\$0.00	\$0.00
<u>EQUITY</u>			
33. Retained earnings			
34. Memberships			
35. Total Equity (Add lines 33 and 34)		\$0.00	\$0.00
36. Total Liabilities and Equity (Add lines 32 and 35)		\$0.00	\$0.00
CERTIFIED CORRECT	Date	Appropriate Official (Signature)	
According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0570-0015. The time required to complete this information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.			
RD 442-3 (Rev. 3-97)			

REPORTING



SAMPLE COMPLETED FORM: BALANCE SHEET
(Use for Reference Only)

BALANCE SHEET		Name:	Pretty Good Water System					
		Address:	PO Box 100, Small Town, USA 10001					
			12 Month	31 Day	2010 Year	12 Month	31 Day	2009 Year
ASSETS								
<u>CURRENT ASSETS</u>								
1. Cash on Hand in Banks								
2. Time Deposits and short-term investments								
3. Accounts receivable								
4. Less: Allowance for doubtful accounts								
5. Inventories								
6. Prepayments								
7. _____								
8. _____								
9. Total Current Assets (Add 1 through 8)								
<u>FIXED ASSETS</u>								
10. Land								
11. Buildings								
12. Furniture and equipment								
13. Water Plant and Equipment								
14. Less: Accumulated depreciation								
15. Net Total Fixed Assets (Add 10 through 14)								
<u>OTHER ASSETS</u>								
16. _____								
17. _____								
18. Total Assets (Add 9, 15, 16, and 17)								
LIABILITIES AND EQUITIES								
<u>CURRENT LIABILITIES</u>								
19. Accounts Payable								
20. Notes Payable								
21. Current portion of USDA note								
22. Customer deposits								
23. Taxes payable								
24. Interest payable USDA								
25. _____								
26. _____								
27. Total Current Liabilities (Add 19 through 26)								
<u>LONG-TERM LIABILITIES</u>								
28. Notes payable USDA								
29. _____								
30. _____								
31. Total Long-term Liabilities (Add 28 through 30)								
32. Total Liabilities (Add 27 and 31)								
<u>EQUITY</u>								
33. Retained earnings								
34. Memberships								
35. Total Equity (Add lines 33 and 34)								
36. Total Liabilities and Equity (Add lines 32 and 35)								
CERTIFIED CORRECT		Date	Appropriate Official (Signature)					

SECTION 3C

Quarterly Management Reports

Quarterly management reports are required for the first full year of operation for all new borrowers or for borrowers experiencing financial or management difficulties (RUS Instruction 1780.47 (f) (1)).

The purpose of quarterly management reports is to provide regular updates on how your budget and system operations are doing. Check with your USDA RD servicing office to determine when quarterly management reports are due. It is recommended to submit quarterly reports within 20 days after the end of each quarter of your fiscal year (if your fiscal year is the same as the calendar year, reports would be due by April 20, July 20, October 20 and January 20).

Quarterly management reports— checklist of contents

- ❑ Completed income and expense statement (a budget-to-actual comparison report) (using Form RD 442-2, Schedule 1, Page 1)
- ❑ any additional information that may be requested by your USDA RD servicing office

Instructions for completing quarterly management reports

Refer to the blank copy and the completed sample copy of Form RD 442-2, Schedule 1, page 1 (on pages 58-60) before proceeding.

■ **Step 1:** Much of the groundwork was done with your completion of the annual budget. The quarterly management report begins with the same form as the budget—the Statement of Budget, Income and Equity (Form RD 442-2, Schedule 1, page 1). You have already completed columns 1 and 3 by deciding on major categories of income and expenses and putting your current budget figures in column 3.

■ **Step 2:** For each quarterly management report, all income and expenses for the three months covered in the report are placed in

column 4 (**Current Quarter**). In column 5 (**Year to Date**), enter the total income and expenses for the year to date (that is, since the beginning of the fiscal year). For the first quarter, column 4 and column 5 will be the same. For the second, third and fourth quarters, you will need to add your current quarter income and expenses to the Year to date income and expenses from your previous quarterly reports. The year to date totals will be entered in column 5 for all quarterly reports.

■ **Step 3:** The last column to fill in is column 6 (**Actual YDT/Year to Date**). This column shows whether you are over or under budget for the year. To arrive at the correct figure for this column, subtract column 5 from Column 3 (**ANNUAL BUDGET**). As you will soon discover, column 6 becomes more meaningful as the year goes on.

■ **Step 4:** Make sure that columns 3, 4, 5 and 6 are filled in down to line 22. Make sure the correct dates for the current quarter (located above columns 4, 5 and 6) are entered. Sign and date the quarterly management report before submitting it to your USDA RD servicing office.

Form for Quarterly "Budget-to-Actual" Management Report

Form RD 442-2
(Rev. 9-97)

Position 3

FORM APPROVED
OMB NO. 0575-0015

UNITED STATES DEPARTMENT OF AGRICULTURE STATEMENT OF BUDGET, INCOME AND EQUITY

Schedule 1

Name

Address

(1) OPERATING INCOME	PRIOR YEAR Actual (2)	ANNUAL BUDGET	For the _____ Months Ended _____		Actual YTD (Over) Under Budget Col. 3 - 5 = 6 (6)
		BEG _____ END _____ (3)	CURRENT YEAR		
		Actual Data			
			Current Quarter (4)	Year To Date (5)	
1. _____					0
2. _____					0
3. _____					0
4. _____					0
5. Miscellaneous					0
6. Less: Allowances and Deductions					0
7. Total Operating Income (Add lines 1 through 6)	0	0	0	0	0
OPERATING EXPENSES					
8. _____					0
9. _____					0
10. _____					0
11. _____					0
12. _____					0
13. _____					0
14. _____					0
15. Interest					0
16. Depreciation					0
17. Total Operating Expense (Add Lines 8 through 16)	0	0	0	0	0
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)	0	0	0	0	0
NONOPERATING INCOME					
19. _____					0
20. _____					0
21. Total Nonoperating Income (Add 19 and 20)	0	0	0	0	0
22. NET INCOME (LOSS) (Add lines 18 and 21)	0	0	0	0	0
23. Equity Beginning of Period					0
24. _____					0
25. _____					0
26. Equity End of Period (Add lines 22 through 25)	0	0	0	0	0

Budget and Annual Report Approved by Governing Body

Quarterly Reports Certified Correct

Secretary

Date

Appropriate Official

Date

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0015. The time required to complete this information collection is estimated to average 2-1/2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

REPORTING



Form for Quarterly "Budget-to-Actual" Management Report

Form RD 442-2
(Rev. 9-97)

Position 3

FORM APPROVED
OMB NO. 0575-0015

UNITED STATES DEPARTMENT OF AGRICULTURE STATEMENT OF BUDGET, INCOME AND EQUITY

Schedule 1

Name Pretty Good Water System

Address PO Box 100
Small Town, USA, 10001

(1) OPERATING INCOME	PRIOR YEAR Actual (2)	ANNUAL BUDGET BEG 01-01-2011 END 12-31-2011 (3)	For the 01-01-2011 Months Ended 03-31-2011 CURRENT YEAR		
			Actual Data		Actual YTD (Over) Under Budget Col. 3 - 5 = 6 (6)
			Current Quarter (4)	Year To Date (5)	
1. <u>Water Sales</u>		80,000	18,000	18,000	62,000
2. <u>Late Charges</u>		1,500	250	250	1,250
3. <u>Connection Fees</u>		2,000	150	150	1,850
4. _____					0
5. <u>Miscellaneous</u>					0
6. <u>Less: Allowances and Deductions</u>					0
7. <u>Total Operating Income</u> (Add lines 1 through 6)	0	83,500	18,400	18,400	65,100
OPERATING EXPENSES					
8. <u>Personnel</u>		21,000	5,000	5,000	16,000
9. <u>Purchased Water</u>		18,500	3,900	3,900	14,600
10. <u>Utilities</u>		2,000	430	430	1,570
11. <u>Repairs/Maint</u>		4,000	550	550	3,450
12. <u>Supplies</u>		1,500	300	300	1,200
13. <u>Admin/Insurance</u>		3,000	600	600	2,400
14. <u>Miscellaneous</u>		2,000	150	150	1,850
15. <u>Interest</u>		11,700	2,925	2,925	8,775
16. <u>Depreciation</u>		17,640	4,410	4,410	13,230
17. <u>Total Operating Expense</u> (Add Lines 8 through 16)	0	81,340	18,265	18,265	63,075
18. <u>NET OPERATING INCOME (LOSS)</u> (Line 7 less 17)	0	2,160	135	135	2,025
NONOPERATING INCOME					
19. <u>Interest Earned</u>		1,025	250	250	775
20. _____					0
21. <u>Total Nonoperating Income</u> (Add 19 and 20)	0	1,025	250	250	775
22. <u>NET INCOME (LOSS)</u> (Add lines 18 and 21)	0	3,185	385	385	2,800
23. <u>Equity Beginning of Period</u>					0
24. _____					0
25. _____					0
26. <u>Equity End of Period</u> (Add lines 22 through 25)	0	3,185	385	385	2,800

Budget and Annual Report Approved by Governing Body

Quarterly Reports Certified Correct

Secretary

Date

Appropriate Official

Date

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0015. The time required to complete this information collection is estimated to average 2-1/2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

REPORTING



Form for Quarterly "Budget-to-Actual" Management Report

SAMPLE COMPLETED FORM: Quarterly Financial Report						
(Use for Reference Only)						
SAMPLE BUDGET FORM: EXCEL SPREADSHEET						
STATEMENT OF BUDGET, INCOME AND EQUITY						Schedule 1
Name:				Address:		
Pretty Good Water System				PO Box 100		
				Small Town, USA 10001		
				For the 3 Months ended: March 31, 2011		
				CURRENT YEAR		
		PRIOR YEAR	ANNUAL BUDGET	Actual Data		Actual YTD
			BEG 1/1/2011			
			END 12/31/2011			
[1]		Actual		Current Quarter	Year to date	(Over) Under Budget Col 3 - Col 5 = 6
OPERATING INCOME		[2]	[3]	[4]	[5]	[6]
1	Water Sales		\$80,000	\$18,000	\$18,000	\$62,000
2	Late Charges/Penalties		\$1,500	\$250	\$250	\$1,250
3	Connection Fees		\$2,000	\$150	\$150	\$1,850
4						\$0
5	Miscellaneous					\$0
6	Less Allowances and Deductions					\$0
7	Total Operating Income (Add lines 1 through 6)		\$83,500	\$18,400	\$18,400	\$65,100
OPERATING EXPENSES						
8	Personnel		\$21,000	\$5,000.00	\$5,000	\$16,000
9	Purchased Water		\$18,500	\$3,900.00	\$3,900	\$14,600
10	Utilities		\$2,000	\$430.00	\$430	\$1,570
11	Repairs/ Maintenance		\$4,000	\$550.00	\$550	\$3,450
12	Supplies		\$1,500	\$300.00	\$300	\$1,200
13	Admin/ Insurance		\$3,000	\$600.00	\$600	\$2,400
14	Miscellaneous		\$2,000	\$150.00	\$150	\$1,850
15	RD Loan Pymt (Prin & Int)		\$23,100	\$5,775.00	\$5,775	\$17,325
16						
17	Total Operating Expense (Add Lines 8 through 16)		\$75,100	\$16,705	\$16,705	\$58,395
18	NET OPERATING INCOME (LOSS) (Line 7 less 17)		\$8,400	\$1,695	\$1,695	\$6,705
NON-OPERATING INCOME						
19	Interest earned		\$1,025	\$250	\$250	\$775
20						\$0
21	Total nonoperating Income (Add lines 19 and 20)		\$1,025	\$250	\$250	\$775
22	NET INCOME (LOSS) (Add lines 18 and 21)		\$9,425	\$1,945	\$1,945	\$7,480
23	Equity Beginning of Period					
24						
25						
26	Equity End of Period (Add lines 22 through 23)					
Budget and Annual Report Approved by Governing Body				Quarterly Reports Certified Correct		
Secretary		Date		Appropriate Official		Date

Section 4

Maintaining sustainable water and waste-disposal services

Maintaining system viability

A community's water or waste-disposal facility is an essential component of the overall well-being and quality of life of a rural community. Safe, affordable drinking water and sanitary waste disposal are vital to the public's health and the environment. Water and waste-disposal services are building blocks for community growth and development, economic development, and job creation and retention.

In terms of money, for many small towns and rural communities, the water-supply and/or wastewater-disposal facility may be the largest single capital investment in the community. From this standpoint alone, it is critically important to preserve the value of this infrastructure investment. Considering the enormous public benefit of water and waste-disposal utilities for residents of a community, it is of the highest importance that decision makers and managers ensure that water and waste facilities are operated as economically and financially sustainable enterprises.

The purpose of this section is to discuss specific measures and actions that can be employed to help maintain financially viable and sustainable water and waste disposal services.

Being "financially sustainable" means you are selling water and/or wastewater-disposal services to your customers at a rate that consistently generates enough revenue to meet all of your expenses (both short- and long-term).

Reviewing financial statements

The governing body and management should review the financial statements of the utility regularly to determine financial performance.

- **Monthly budget-to-actual income and expense statements** should be reviewed to assure that current revenues and expenses are performing according to plan.
- **Annual financial statements** (annual income statements and balance sheet) need to be reviewed in detail to determine what financial adjustments may be made in future years' operations.
- **Income statements and balance-sheet information** should be presented in a comparative annual format (that is, information presented for the current year vs. the prior year) so that financial decision makers can quickly see trends.

Using financial ratios to measure performance

Financial ratios are a short-hand way of measuring financial performance of an organization or an enterprise. A ratio is a comparison of one value with another value. It is expressed as a percentage or fraction. Several important financial ratios can be calculated from the financial data in the annual financial statements—specifically the annual income statement and the annual balance sheet.

USDA RD’s critical ratios

USDA RD considers two financial ratios as critical ratios in terms of their borrowers’ ability to maintain sustainable operations: the current ratio and the debt service coverage ratio.

CURRENT RATIO

The current ratio is a liquidity ratio that measures an organization’s availability of cash to pay current debt. The current ratio should be 1.5 or greater, and systems with less than a 1.5 current ratio would have to be considered in “financial distress.”

To determine the current ratio, look at the balance sheet, find **current assets** and **current liabilities**, then divide current assets by current liabilities. The result will be the current ratio.

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \text{current ratio}$$

Example current ratio calculation

Look at the annual balance sheet for the Pretty Good Water System in Section 3 of this guide (page 55). The current ratio is calculated below for both fiscal years 2009 and 2010.

For 2009:

$$\frac{\$98,434 \text{ (current assets)}}{\$39,004 \text{ (current liabilities)}} = 2.52$$

For 2010:

$$\frac{\$106,580 \text{ (current assets)}}{\$38,634 \text{ (current liabilities)}} = 2.76$$

What does it mean? The Pretty Good Water System has a current ratio that far exceeds 1.5 and therefore is in good shape. In terms of the trend, the current ratio is growing in a positive direction from one year to the next.

DEBT SERVICE COVERAGE RATIO

The second critical USDA RD ratio is the debt service coverage ratio (DSCR), which is a measurement of the cash flow available to meet annual interest and principal payments on debt. The debt service coverage ratio should be 1.1 or higher. A debt service coverage ratio that is lower than 1.1 would indicate that the ability to meet annual principal and interest payments is in doubt.

The general formula for calculating the debt service coverage ratio is:

$$\frac{\text{Net operating income} + \text{depreciation}}{\text{Total debt service}} = \text{debt service coverage ratio}$$

Example debt service coverage ratio calculation

Look at the annual income statement for the Pretty Good Water System in Section 3 (pages 45 and 46) of this guide. The current ratio is calculated below for both fiscal years 2009 and 2010.

Note: For these example calculations, the general formula is altered to calculate the debt service coverage ratio. For budgets and income statements that include depreciation and interest expenses, these costs must be added to net income. For the cash-basis income and expense model, the total debt service payment is added to net income. See the Pretty Good System examples that follow:



Depreciation and interest expense included

For fiscal year 2009:

Net operating income = \$1,637
Depreciation expense = \$17,640
Interest expense = \$12,663
Total debt service = \$23,100

$$\frac{\text{Net income} + \text{depreciation} + \text{interest expense}}{\text{Total debt service}} = \text{DSCR}$$

$$\frac{\$1,637 + \$17,640 + \$12,663}{\$23,100} = 1.38$$

For fiscal year 2010:

Net operating income = \$1,100
Depreciation expense = \$17,640
Interest expense = \$12,184
Total debt service = \$23,100

$$\frac{\text{Net income} + \text{depreciation} + \text{interest expense}}{\text{Total debt service}} = \text{DSCR}$$

$$\frac{\$1,100 + \$17,640 + \$12,184}{\$23,100} = 1.34$$

Cash-basis income and budget statement (depreciation and interest not included)

For fiscal year 2009:

Net operating income = \$8,840
Total debt service = \$23,100

$$\frac{\text{Net income} + \text{total debt service}}{\text{Total debt service}} = \text{DSCR}$$

$$\frac{\$8,840 + \$23,100}{\$23,100} = 1.38$$

For fiscal year 2010:

Net operating income = \$7,824
Total debt service = \$23,100

$$\frac{\text{Net income} + \text{total debt service}}{\text{Total debt service}} = \text{DSCR}$$

$$\frac{\$7,824 + \$23,100}{\$23,100} = 1.34$$

What does this mean? The Pretty Good Water System has a debt service coverage ratio that exceeds the minimum DSCR ratio of 1.1. The ratio trend moved in a negative direction from the prior year to the current year; the trend needs to be watched in future years.

OPERATING RATIO

Another frequently used ratio is the operating ratio, which is a measure of financial efficiency. It indicates the utility's ability to cover total expenses with revenues. The minimum operating ratio should be 1.0 or greater, and it is recommended to have a minimum operating ratio of 1.1 or greater. Your final operating ratio depends upon whether or not you include a non-cash expense (like depreciation) in your calculation.

$$\frac{\text{Total annual revenues}}{\text{Total annual expense}} = \text{operating ratio}$$

REVIEW FINANCIAL TRENDS

Having good financial data and using financial ratios are excellent tools for determining financial status at a point in time, but this information is best used to look at financial trends—how the utility's financial performance changes from one year to the next. Without looking at trends, the management and decision-makers of a system cannot determine if the financial position is getting better or getting worse. When looking at trends, consider these questions:

- **Are the financial ratios moving in a positive or negative direction?**
- **Are retained earnings (in the balance sheet) going up or down?**
- **Is net income going up or down?**

If you know whether you are going in the right or wrong direction, you can take steps in advance to deal with a potential problem.

Using unit-of-service measures

It is often simpler to understand the “business” of a utility by developing and reviewing short-hand unit-of-service measurements. The utility is not only generating revenues and expenses, but it is also producing and selling a product—water and wastewater treatment (often measured in thousands of gallons)—for a number of customers (usually measured on a monthly basis). Reviewing a utility's operations from a unit-of-service perspective can give decision-makers a better understanding of how the utility is performing over time. Common unit-of-service measurements can be calculated from the information in the annual financial statements and management reports submitted to USDA RD. Consider some of the common unit-of-service measures calculated from the 2010 annual financial statements and Supplemental Data sheet for the example Pretty Good Water System shown below:

Pretty Good Water System unit-of-service performance data for 2010:

- Average revenue per customer per month: $\$81,028 \div 250 \div 12 \text{ mos.} = \27.00
- Total expense per customer per month: $\$79,928 \div 250 \div 12 \text{ mos.} = \26.64
- Total debt service per customer per month: $\$23,100 \div 250 \div 12 \text{ mos.} = \7.70
- Total cost to produce water per 1,000 gallons: $\$79,928 \div 15,000,000 \text{ gals}/1,000 = \5.33
- Revenue per 1,000 gallons sold: $\$77,153 \div 14,250,000 \text{ gals}/1,000 = \5.41
- Average customer use per month: $14,250,000 \div 250 \div 12 \text{ mos.} = 4,750 \text{ gallons}$

Using unit-of-service measures is a good way of simplifying a complex sheet of financial data. Similar to financial ratios, comparing common units of service from one year to the next enables managers and board members to quickly determine whether the utility is moving in the right direction.

Review user rates annually

User rate fees should be reviewed every year to ensure that projected revenues will be sufficient to cover all anticipated expenses. The best time to review user rates is during the annual budget-preparation process. The projected expense portion of the annual budget should be realistic in stating the full cost of running the system, including operations and maintenance expenses plus annual debt service and funding of appropriate reserves. Generally, it is good to adjust user rates at least once every five to six years. Allowing very long intervals between rate adjustments usually leads to the necessity for a major increase at some point, and as a result “customer rate shock” occurs.

Fund Adequate Reserves

Annual budgets should provide for the funding and accumulation of financial reserves. At a minimum, reserves should include: a debt-service reserve, emergency-repair reserve, and a planned equipment-replacement reserve (for replacement of short-lived system components). With respect to minimum levels of reserves, the most common question is: *What are “adequate” reserve levels?* There is no absolute right answer. The following is offered as guidance for funding of adequate reserve levels.

Guidance for budgeting annual reserves

Debt-service reserve: RUS requires a debt-service reserve be funded each year that is equal to 10 percent of annual debt-service payment until one full year’s principal and interest payments have accumulated.

For example, if your annual principal and interest payment on a loan is \$125,000, you will need to put in the debt-service reserve \$12,500 each year for 10 years to build up

to the total of \$125,000. Once this amount is accumulated in the reserve, no further payments into the reserve are needed (in order to fulfill the RUS requirement).

Emergency reserve: An emergency reserve is needed for significant unforeseen/unplanned repairs that may occur during the year. A recommended emergency-reserve level is an amount equal to the most recent years’ typical expenditure for unscheduled/reactive repairs plus 10 percent.

Planned equipment-replacement

reserve: Also known as the reserve for short-lived assets, this reserve fund is for the replacement or rehabilitation of a system’s components that have a significantly shorter useful lifespan than the entire facility, that is, less than 10 to 15 years. A planned replacement/rehabilitation reserve may typically be used for replacing components such as pumps, electrical controls and meters and for major rehabilitation items such as cleaning and repainting water-storage tanks.

The amount of money placed into a replacement reserve will depend upon the types of equipment each facility has, the replacement or rehabilitation cost for each component, the current condition of each piece of equipment, and the number of years of remaining useful life for each item. The equipment-replacement reserve fund should be based upon a prioritized schedule (or inventory) of system components that require replacement or rehabilitation in the foreseeable future. Your consulting engineer may be able to assist you with advice on developing an equipment-replacement schedule. The U.S. Environmental Protection Agency also has developed a series of publications and tools covering similar topics. Some sources of additional information are provided at the end of this section.

Plan Ahead

Historically, one of the biggest problem areas for small-community utilities has been the failure to plan for the future. It is important for the management and board of small systems to look beyond the annual budget year and look at the system's needs in future years--both operational needs and the needs for capital improvements. Many state regulatory agencies require water and waste utilities to prepare long-range plans or capital-improvement plans. Whether required or not, projecting for financial needs (both operational and capital) is a key part of a financially sustainable utility.

Additional resources for topics covered in this section

The Environmental Finance Center at Boise State University has developed easy-to-use software tools dealing with financial ratios, rate setting and ensuring sustainable operations.

*[http://efc.boisestate.edu/
SustainableInfrastructure/
FinancialSustainability/tabid/150/Default.aspx](http://efc.boisestate.edu/SustainableInfrastructure/FinancialSustainability/tabid/150/Default.aspx)*

The U.S. Environmental Protection Agency's drinking water website for small systems has resource information, publications and other tools to help small utilities with planning, rate setting, compliance, and asset-management issues.

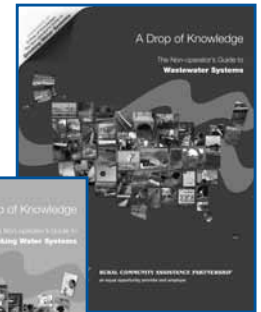
*[http://water.epa.gov/type/drink/pws/
smallsystems/index.cfm](http://water.epa.gov/type/drink/pws/smallsystems/index.cfm)*

Other RCAP publications to help in the operations and oversight of water systems

If you are a board or council member or staff with responsibilities for overseeing your community's water system, the Rural Community Assistance Partnership (RCAP) has produced many other publications to assist you in these responsibilities. These publications are on the topics of:

- drinking water systems explained for non-technical audiences
- wastewater systems explained for non-technical audiences
- responsibilities (managerial, financial, legal, etc.) of board members of small water systems
- registering and reporting requirements for communities that have received American Recovery and Reinvestment Act (ARRA) loans and grants
- planning and resources for sustainable infrastructure for small water systems
- financial management of small water systems
- customer fees (setting rates, hookup fees, fines, etc.)
- developing and managing a water- or sewer-construction project
- water-distribution system maintenance
- asset management and conducting vulnerability assessments and emergency-response planning

All of the above publications can be accessed and downloaded for free (in PDF) on the RCAP website at www.rcap.org (click on "Publications & Resources" on the main menu).



Free resources that can be sent to you regularly:

RCAP has a magazine—*Rural Matters*—that is produced several times each year. Subscriptions are free. Included in each issue are articles that are useful to small community leaders and system operators. RCAP also produces an electronic newsletter, the eBulletin. Subscribing by email is also free. Each issue provides helpful tips, guides and resources on practical subjects. Find subscription information for both of these resources at www.rcap.org (click on Publications & Resources).

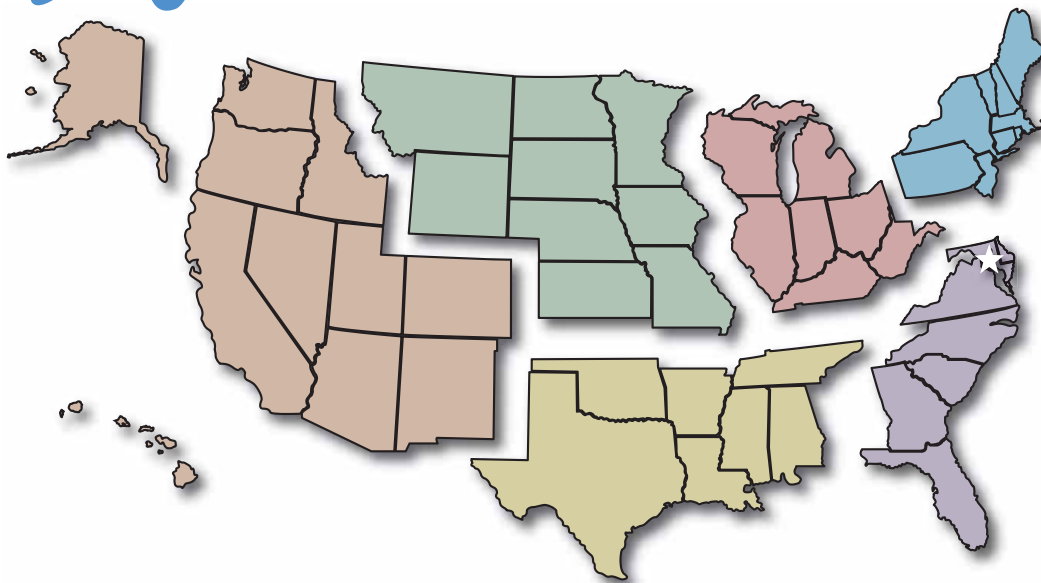
Need help with your community's water or wastewater system?

The Rural Community Assistance Partnership (RCAP) is a national network of nonprofit organizations working to ensure that rural and small communities throughout the United States have access to safe drinking water and sanitary wastewater disposal. The six regional RCAPs provide a variety of programs to accomplish this goal, such as direct training and technical assistance, leveraging millions of dollars to assist communities develop and improve their water and wastewater systems.

If you are seeking assistance in your community, contact the office for the RCAP region that your state is in, according to the map below. Work in individual communities is coordinated by these regional offices.



Rural Community Assistance Partnership



Puerto Rico
(Northeast RCAP)
and U.S. Virgin
Islands (RCAC)

Western RCAP

Rural Community Assistance Corporation
3120 Freeboard Drive, Suite 201
West Sacramento, CA 95691
(916) 447-2854
www.rcac.org

Northeast RCAP

RCAP Solutions
P.O. Box 159
205 School Street
Gardner, MA 01440
(800) 488-1969
www.rcapsolutions.org

Midwest RCAP

Midwest Assistance Program
P.O. Box 81
212 Lady Slipper Avenue NE
New Prague, MN 56071
(952) 758-4334
www.map-inc.org

Great Lakes RCAP

WSOS Community Action Commission
P.O. Box 590
219 S. Front St., 2nd Floor
Fremont, OH 43420
(800) 775-9767
www.glrcap.org

Southern RCAP

Community Resource Group
3 East Colt Square Drive
Fayetteville, AR 72703
(479) 443-2700
www.crg.org

Southeast RCAP

Southeast Rural Community Assistance Project
P.O. Box 2868
347 Campbell Ave. SW
Roanoke, VA 24016
(866) 928-3731
www.southeastrcap.org

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Visit our website for other publications, electronic and print periodicals, and ways your community can get assistance with its water and wastewater system.