



Checklist Helps Communities Assess Financial Practices

Editor's Note: This checklist is based on a section from the Self-Evaluation Guide for Decision Makers of Small Community Water Systems, published by the Community Resource Group, Inc., Southern Rural Community Assistance Program.

A community water system is a business. Yet it is often operated by individuals who are unfamiliar with the latest business and financial practices. More than just keeping the books, good financial management, according to Community Resource Group (CRG), means "planning for the future, estimating expenses and revenues, keeping records, and providing internal controls to guard system assets."

The following checklist will help communities assess their financial management practices:

Annual Budget

1. *Does your local board prepare an annual budget before the beginning of each fiscal year?*

As a written financial plan or road map for the next 12 months, an annual budget is the primary means of controlling costs and ensuring revenues to meet the costs of the operating system.

2. *Does your annual budget take into account the past year's costs of operation into account?*

In order to project the system's future expenses, it is advisable to review previous expenses. For the best prediction, the past several years' costs of operations should be taken considered.

3. *When preparing the annual budget, do you consider possible changes in operations?*

The costs of doing business change from year to year. Your budget should provide for these anticipated changes.

4. *When developing the budget, are both board members and employees involved in the process?*

Although board members are responsible for the administration of the budget, the employees have valuable information critical to the development of an accurate budget. The day-to-day experiences of the staff are invaluable in making some of these decisions and predictions.

5. *Does your annual budget separate the revenues generated by each type of utility that*

your agency may be involved in besides water (such as collecting wastewater, trash disposal)?

It is essential that budgets for additional utilities/services are kept separate.

Lumping together the accounts masks the real cost of providing each service.

6. *Are all interest and principal repayments due on debts included in your budget?*

The annual expenses to lenders and financing agencies must be included. Often, state statutes require that these debts be paid first.

7. *Are all operating and maintenance expenses such as repairs, supplies, salaries, chemicals, and power and telephone fees included and separately identified?*

All operating and maintenance expenses must be included and identified as line-item details.

8. *Do the Financial Reserves cover the costs of Debt Service Reserves?*

The Debt Service Reserve is a special account required if you borrowed money through a bond issue or a direct loan from an agency, such as USDA's Rural Utilities Service (RUS). You are usually required to set aside a percent of the annual repayment in a Debt Service Reserve until a certain dollar level is reached.

9. *Does your annual budget include financial reserves to cover the costs of planned expansion or improvements and/or emergencies?*

A reserve to fund system improvements, such as equipment replacement or expansion should be created. Even if the reserve can only fund part of the cost, it will reduce the amount you'll need to borrow. An appropriate emergency fund can be calculated by estimating how many times service has been interrupted over the last four to five years and the average cost to restore service each time.

Financial Reporting

10. *Are monthly expense and revenue reports generated for board members?*

Current monthly statements are required to determine whether the system is making or losing money from operations. In order to notice trends as they start to develop, it's important that you review

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monthly financial gains or losses.

Transfers between operating accounts and other accounts must be tracked monthly to determine where water revenues are going and if funds from other accounts are subsidizing the system.

11. Do monthly reports include past due accounts?

Delinquent accounts must be handled before they become a financial burden on the system. Board members must determine the measures necessary to collect these funds.

12. From the monthly reports, can you determine whether the revenues from the sale of water are meeting your operating expenses?

Revenue from water sales should be enough to meet the system's annual operating expenses. Other income, such as interest on accounts and refunds, shouldn't be counted on to meet operating expenses. If water sale revenues are not meeting expenses, the system is losing money—you should review and revise the water rate structure at least every two years.

13. Do you have a policy in place that allows for the revision of the budget as needed during the year?

In many states, overspending a budget is prohibited by law. A procedure for amending the approved budget is mandatory.

Accountability

14. Are there policies in place that restrict the use of funds?

This includes the transfer or expenditure of funds from reserve accounts, as well as the use of system funds to approved purposes. These financial transactions should be governed by board-approved rules and procedures.

15. Are there written procedures in place regarding the use of purchase orders or pre-authorization forms for purchasing goods or service?

The purchase order or pre-authorization system for the expenditures of funds for supplies, goods, or services is recommended. Submitting these purchase orders, before the actual expenditure of funds, allows for better control.

16. Is there a policy for assuring a division of tasks and responsibilities between two or more people in the finance and accounting function?

The receipt and expenditure of funds should be shared by two or more persons. The same person should not have complete control over these processes.

17. Are all persons who have access to system funds adequately bonded?

The amount of bond coverage may be specified by state statutes, or by loan agreements, if the system has borrowed funds. Generally, bond coverage should be equal to or greater than the amount of funds on hand at any one time.

18. Does the system maintain adequate insurance coverage for general liability, fire and property damage, and Workers' Compensation?

Insurance coverage is necessary to protect workers as well as protecting the system from potential losses.

19. Does an independent auditor perform an annual audit of the system's financial records?

An independent, annual audit discloses any problems with the financial management and the accounting system. The board should review the audit report and implement any recommendations the auditor suggests to strengthen the accounting system and safeguard financial assets.

20. Are system financial reports submitted in a timely manner to lending agencies or state regulatory agencies?

External agencies often require financial reports. Typical agencies expecting these reports are the public service commission, the state auditor, or a lender, such as RUS.

How did you score? Obviously, the correct answer to the 20 questions listed above is "yes." If you answered "no" to several of them, perhaps it's time to review your system's financial management practices.

To order a copy of *The Self-Evaluation Guide for Decision-Makers for Small Community Water Systems*, write to the *Community Resource Group, Inc., 2423 E. Robinson Ave., Springdale, AR, 72762* or call (501) 756-5583. \$

WATER FACT



On average, each American uses about 160 gallons of water a day at a cost of 27 cents.

U.S. Environmental Protection Agency