

USDA Rural Utilities Service Borrower's Guide

How to Access and Manage USDA Rural Development
Loans and Grants for Your Community Project



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ASSISTANCE PARTNERSHIP**

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Table of Contents

Introduction	5
Section 1 – RUS Borrowing Basics	7
What financial assistance is available from RUS?	7
Who is eligible to borrow from RUS?	8
Who implements the loan and grant program and services loans?.....	9
What are the loan- and grant-servicing objectives?.....	10
What restrictions are on RUS loans?.....	10
What are the requirements for audits, financial reporting, and records?.....	10
Additional Requirements.....	12
Section 2 – Electronic Systems, Registrations & Applications	17
System of Award Management (SAM)	17
RD Apply	18
E-PER: Electronic Preliminary Engineering Report.....	19
Section 3 – Financial Reporting and Management Reports	21
3.1 The Annual Management Report (AKA The Annual Budget).....	23
Instructions for completing the Annual Management Report (“line-item budget”) using Form RD 442-2	24
Instructions for the Projected Cash-Flow Form using Form RD 442-2, Schedule 2	29
3.2 Annual Financial Statements.....	34
Instructions for the Annual Income and Expense Statement using Form RD 442-2, Schedule 1, Page 1	35
Instructions for completing the Supplemental Data Form using Form RD 442-2, Schedule 1, Page 2	39
Completing the Annual Balance Sheet Using Form RD 442-3.....	43
3.3 Quarterly Management Reports.....	48
Instructions for Completing Quarterly Management Reports	48
Section 4 – Best Practices for Financially Viable Public Utilities and Community Facilities	52
Regularly Review Financial Statements	52
Use Financial Ratios to Measure Performance	52
Review Financial Trends.....	54
Use Unit-of-Service Measures	54
Review User Rates Annually	55
Plan Ahead.....	56
Appendix A Community Facilities Direct Loans and Grants	57
Appendix B Solid Waste Management Grant	59
Appendix C Glossary of USDA RD Reporting Terms	61

Introduction

This guide was developed specifically for US Department of Agriculture Rural Utilities Service (RUS) applicants and current borrowers to promote the responsible stewardship of public funds and the sustainability of the infrastructure to be constructed.

Community and utility leaders can use it as a toolkit for staying on top of financial management reporting while gaining valuable insight on the financial health of their utilities.

Help with producing reports:

Most of the content in this manual is dedicated to the administrative tasks that your utility, as a borrower, must carry out in submitting the required regular financial 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.

It also summarizes all of the conditions, rules,

and promises of an RUS 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.

Help for your utility's overall financial health:

In addition to the practical assistance this guide provides for producing financial management reports, it explains the reason behind some of the reports and calculations requested in the reports, 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.

Your loan could have a term as long as 40 years, likely outlasting the terms of all current elected officials and the tenure of all current staff in your utility. It is important that all current and future decisionmakers read, understand and follow all of the conditions, rules and promises for the entire term of the loan. Be sure to pass along a copy of this guide to each new board.

THIS GUIDE INCLUDES:

- ✓ a description of the basic requirements for RUS financing.
- ✓ guidelines to assist community leaders in successfully meeting their responsibilities as an RUS borrower.
- ✓ step-by-step instructions for preparing and submitting required RUS management reports.
- ✓ ways to promote long-term sustainability of rural utilities.
- ✓ an overview of RD-funded programs that can assist your community's infrastructure.



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).

RUS 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.

Other funding programs offered by USDA Rural Development include the Community Facilities Direct Loan and Grant and the Water and Environment Programs' Solid Waste Management Grant. While the forms remain the same from program to program, we will cover their specific uses and policies in their own sections.

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:

1. be 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 7,000 RUS water and waste-disposal borrowers in the nation, representing almost 16,000 active loans.²

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. So, it's important to be aware of state-to-state differences. 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 programs. This guide is not applicable to the RUS Guaranteed Loan programs, which are distributed to lenders. Solid Waste and Community Facilities funding information is covered in separate sections.

Where can borrower requirements be found?

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

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.

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

² *Water and Environmental Programs, Annual Activity Report Fiscal Year 2016, USDA Rural Development, Washington, D.C.*

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.

Loan or 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).

These regulations (7 CFR 1780 and 7 CFR 1782) can currently be found at <https://www.ecfr.gov/current/title-7/subtitle-B/chapter-XVIII/part-1780> and <https://www.ecfr.gov/current/title-7/subtitle-B/chapter-XVIII/part-1782>, respectively.

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

Copies of these regulations may also be obtained from any USDA RD state or area office.

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.

Copies of the RUS loan and grant agreements above are available on the RUS website at www.rd.usda.gov/publications/regulations-guidelines/bulletins/water-and-environmental. For easier retrieval, search by RUS Bulletin.

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- and 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

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)

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).

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

AUDITS

An annual audit report is required if:

An annual audit under the Single Audit Act is required if you expend \$750,000 or more in Federal financial assistance per fiscal year. The total Federal funds expended from all sources shall be used to determine Federal financial assistance expended. Expenditures of interim financing are considered Federal expenditures.

RUS Borrower Loan Resolution Covenants

1. 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.

2. 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.

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

4. 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.

5. 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.

6. “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.

7. 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.

8. 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.

9. 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 require from time to time.

10. 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.

11. 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.

12. 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)



Rural Utilities Service

1. All audits are to be performed in accordance with 2 CFR Part 200, as adopted by USDA through 2 CFR Part 400. It is not intended that audits required by this part be separate and apart from audits performed in accordance with State and local laws. To the extent feasible, the audit work should be done in conjunction with those audits. The audit must be prepared by an independent licensed Certified Public Accountant, or a State or Federal auditor if allowed by State law, and must be submitted within 9 months of your fiscal year end.

2. If an audit is required, you must enter into a written agreement with the auditor and submit a copy to the Agency. The audit agreement may include terms and conditions that the borrower and auditor deem appropriate; however, the agreement should include the type of audit or financial statements to be completed, the time frame in which the audit or financial statements will be completed, what type of reports will be generated from the services provided, and how irregularities will be reported

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

FINANCIAL STATEMENTS

If you expend less than \$750,000 in Federal financial assistance per fiscal year, you may submit financial statements in lieu of an audit, which include at a minimum, a balance sheet and an income and expense statement.

The financial statements must be accompanied by supplemental information as required by the Agency, and be submitted within 60 days of your fiscal year end.

Section 3.2 (page 34) 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 financial management reports (Section 3.1, page 23, 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 financial management reports (Section 3.3, page 48, provides instructions on preparing these 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)

Additional Requirements

SAM Registration

You are required to maintain an active registration in the System for Award Management (SAM) database. Renewal can be done on-line at: <http://sam.gov>. This registration must be renewed and revalidated every twelve (12) months for as long as there are Agency funds to be expended. To ensure the information is current, accurate and complete, and to prevent the SAM account expiration, the review and updates must be performed within 365 days of the activation date, commonly referred to as the expiration date. The registration process may take up to 10 business days. (See 2 CFR Part 25 and the "Help" section at <http://sam.gov>).

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))

Vulnerability Assessments, Emergency-Response Plans (VA/ERPs)

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 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

⁴ These 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.

⁵ Compliance 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).

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

⁷ Prohibits 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.

⁸ Congress 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.

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)

Section 2 - Electronic Systems, Registrations & Applications

System of Award Management (SAM)

The System for Award Management, or SAM, is a government-wide portal that is consolidating the capabilities of multiple systems and information sources used by the Federal government in conducting the acquisition and financial assistance (which includes grants and cooperative agreements) processes. Registering with SAM is required of all recipients of RUS loans and grants as required by 2 CRF Parts 180, 417, 421, and RD Instructions 1940-M.

The federal government requires all recipients and sub-recipients of federal monies to register with SAM. This registration helps to ease the transfer of money while also eliminating excessive use of paper. SAM is an official free U.S. Government operated website – it is free to register and maintain your entity registration in SAM. It is also free to get help with www.sam.gov.

You will need a www.login.gov account to sign into SAM. Go to the login.gov FAQ in www.sam.gov for help.

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

If your organization is already registered with SAM, you will still be prompted to create a login.gov account. Click on Renew Entity and utilize the HELP tab to access resources including an FAQ on login.gov and the Federal Service Desk, for:

- Accessing your account
- Resolving technical issues
- Creating and managing help desk tickets
- Chatting with a help desk agent

Note to previous users: As of approximately April 2022, the federal government stopped using DUNS for identifying entities in SAM. DUNS has been replaced with UEI (Unique Entity Identifier). Consequently, RD no longer uses DUNS, this UEI is provided through the SAM registration process.

What information do I need to register with SAM.gov?

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

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

For most efficient operations, a Point of Contact (POC) should be reasonably secure in an employed 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 secondary POCs.

If your organization does not already have a

TIN or EIN, allow an additional two weeks for obtaining this information from the IRS.

For more help with your account, visit the Federal Service Help Desk at www.fsd.gov or by calling a toll-free number: 1-866-606-8220.

RDApply

RD Apply is an application intake system that allows community project owners to apply for loans and grants for Rural Utilities Services (RUS) Programs. With RD Apply, you can create an application, upload attachments, sign certifications, and draw service areas, to name a few features.

Benefits of RD Apply

- Convenience - the Internet allows customers access to information 24 hours a day and 7 days a week. For example, customers can fill out and submit their application any time of the day or night from their homes or offices.

What is Login.gov?

Login.gov is a secure sign-in service that allows users to access multiple government websites and programs using a single set of login credentials. It offers a simple, streamlined way to interact with participating agencies online.

Key Features:

Single Sign-On Access: With one Login.gov account, you can sign in to a variety of federal government systems, including those offered by USDA.

Multi-Factor Authentication (MFA): To protect your account, Login.gov requires MFA for all users. In addition to your password, you must set up a secondary authentication method. Common MFA options include:

- A one-time security code sent to your phone via text message
- A code generated by an authentication app

Identity Verification:

To access some USDA processes, your identity must be verified. This can be done in two ways:

- **Online Verification:** Submit personal information along with a valid, U.S.-based, state-issued photo ID.
- **In-Person Verification:** Visit a USDA Local Registration Authority (LRA) if you are unable to verify online, or prefer an alternative method.

Get Started:

To create an account or learn more about Login.gov, visit Login.gov. Follow the prompts to register, set up MFA, and complete identity verification.

By using Login.gov, you gain secure and convenient access to USDA's online services.



- Identity Security-Information submitted to the Federal Government remains safe and secure because every customer has a unique User ID and password and only authorized USDA employees can access the information.
- Reduced Paper Consumption - RDApply saves paper, which benefits the environment.
- Complete online identity verification through Login.gov, or
- Visit a USDA Service Center for in-person verification with a Local Registration Authority (LRA).

For help with application-specific access issues, contact the support desk for that USDA application, not the eAuth Help Desk.

As of September 30, 2024, USDA eAuthentication requires the use of Login.gov to access USDA online resources including RDApply and ePER.

How do I create a login.gov account to access RDApply and other USDA tools?

Go to the eAuth login page for USDA RD at rdapply.usda.gov.

1. On the eAuth login screen, select the “Customer” option, if necessary.
2. On the Customer Login page, click the Login.gov button. You’ll be redirected to Login.gov.
3. On the Login.gov site:
 - a. Click “Create Account.”
 - b. Enter a unique email address.
 - c. Create a secure password.
 - d. Set up multi-factor authentication (e.g., text message/SMS).
4. After creating your Login.gov account, you’ll be redirected back to USDA eAuth to link your new Login.gov account.
5. Once linked, you can use your Login.gov credentials to sign in to USDA websites.

Important Notes:

- Some USDA applications require additional access roles or permissions that are not managed through eAuth or Login.gov. In these cases, the USDA agency that owns the application must assign the necessary roles to your account.
- If the application you’re trying to access requires identity verification, you’ll be notified during the login process. You will then have the option to:

E-PER: Electronic Preliminary Engineering Report

As a complement to RD Apply and part of the most recent streamlining effort, WEP developed the electronic Preliminary Engineering Report (ePER). The Preliminary Engineering Report (PER) is an essential part of the application process required to access funding for water and waste infrastructure from WEP. It is a technical report describing a proposed project and alternatives to the project, which are analyzed using the life cycle cost analysis process and developed by a consulting engineer. The ePER tool is based on an Inter-agency paper template developed and approved in 2013 by five federal water and waste infrastructure funding programs: US EPA, USDA, HUD, and the Indian Health Service and 13 state governments.

The ePER tool enables consulting engineers to develop the Preliminary Engineering Report online. The ePER is an intuitive question and answer based non-linear system. It includes automated features such as a built-in population projection tool as well as a built-in life cycle cost analysis tool. It is safe and secure, allowing access to primary user with delegated roles if desired. It is flexible in that it allows for various types of file uploads to accommodate different agency and state funding requirements.

Using the RD Apply and ePER systems, the USDA is innovating the application process to improve access to water and waste infrastructure funding to rural communities across the country.

Using ePER and its Benefits

- **SECURE:** Only the consulting engineers or their designees can access the reports
- **INTERACTIVE:** ePER prompts users for information, minimizing the time and effort involved in completing reports
- **FLEXIBLE:** Reports are generated in PDF and XML for easy submission to USDA and other Federal/state funding agencies
- **COMPATIBLE:** The ePER system is compatible with the RD Apply online application system

Who Can Use the ePER Tool?

Everyone is welcome to use the tool. However, in order to submit a PER as part of an application for funding a licensed professional engineer must be the lead author of each ePER. After creating an ePER, the lead engineer may

authorize other team members with authorized access to also work on a designated ePER.

Accessing ePER

To protect your data, you will be required to go through the identity proofing system at login.gov, described previously.

Go to ePER at <https://eper.sc.egov.usda.gov> to get started. If you haven't created an account, you'll be directed to login.gov.

Need Help? If you are experiencing trouble accessing the ePER software tool, email the Help Desk at (RD.HD@STL.USDA.GOV) or call (800)-457-3642 (Monday through Friday – 7 a.m. to 5 p.m. (Central Standard Time)

1. Press 2 to select USDA Applications; and
2. Press 2 to select Rural Development.

The USDA ePER User Guide (2018) can be found here: [https://www.rd.usda.gov/files/IA we ePER user guide 013018.pdf](https://www.rd.usda.gov/files/IA_we_ePER_user_guide_013018.pdf)

Introduction
Engineering Firm
Client
Introduction
Project Type
System Component
Summary/Complete

Engineering Firm

Firm Name

DUNS Number

Tax Id

Firm Logo

Engineering Firm Address Add New

Address Type	Street 1	Street 2	City	State	Zip Code	Action
<input type="text"/>	<input type="button" value="Delete"/>					

Engineering Firm Contacts Add New

Key Contact Type	First Name	Last Name	Phone	Cell	Email	Action
<input type="text"/>	<input type="button" value="Delete"/>					

Section 3 - Financial Reporting and Management Reports

This section covers each of the three major types of reporting requirements:

- 3.1 - Annual Management Reports (a.k.a. annual budget)
- 3.2 - Annual Financial Statements
- 3.3 - Quarterly Management Reports

Each subsection has everything you need, including instructions for filling out the report, followed by the blank form and sample completed forms. The blank and sample report forms are available for download at RCAP.org in the Managerial and Financial Hub.

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 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 to meet the needs of customers and the community.

Form RD 442-2 is a 3- page standard agency form used for the reports, which we will reference throughout this section. It can be

downloaded as a completable (or printable) PDF from the USDA RD website at <https://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD442-2.PDF>

The form consists of 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)

TIP



Pay careful attention to which page(s) are needed for your specific report. For example, you will NOT need page 2 of Schedule 1 (Supplemental Data) to complete the annual management report.

3.1 - The Annual Management Report (AKA The Annual Budget)

Requirements for Filing the Annual Financial Management Reports

All RUS borrowers are required to submit annual financial management reports (which is basically your annual budget) at least 30 days prior to the beginning of each 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.



Pay careful attention to which page(s) are needed for your specific report. For example, you will NOT need page 2 of Schedule 1 (Supplemental Data) to complete the annual management report.

Refer to the blank copy and the completed sample copies of Form RD 442-2 Schedule 1 and 2 (on pages 26-28) before proceeding.

ANNUAL MANAGEMENT REPORT CHECKLIST:

- ✓ Line-item budget for the new fiscal year (RD 442-2 P.1, Sch. 1)
- ✓ Projected cash-flow statement for the new fiscal year (RD 442-2, Schedule 2)
- ✓ Current schedule of water/sewer rates
- ✓ Current list of members of the governing body
- ✓ Any additional information that may be requested by your USDA RD servicing office

...at least 30 days prior to the beginning of the fiscal year!

Form RD 442-2

Form RD 442-2 is a 3-page standard agency form used for the reports. It can be downloaded as a completable (or printable) PDF from the USDA RD website at <https://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD442-2.PDF>

The form consists of 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)

Instructions for completing the Annual Management Report (“line-item budget”) using Form RD 442-2

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.

STEP 1: Enter 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.

However, 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. Here are some suggestions for filling the lines:

In column 1:

OPERATING INCOME categories/lines:

1. water sales and/or
2. sewer user fees
3. connection fees (not including deposits)
4. late charges/penalties
5. Misc. line (included- other income, such as rent or service contracts)

OPERATING EXPENSES categories/lines:

1. personnel (includes salaries, benefits, taxes)
2. purchased water (if applicable)
3. utilities (electric, gas, telephone)
4. repairs (includes contract repairs, equipment rental, parts, etc.)
5. operating supplies

6. administrative (billing, postage, office costs, and professional services, such as legal, audit and engineering)
7. miscellaneous line (included)

NONOPERATING INCOME categories/lines:

1. interest from checking and savings accounts
2. interest from long-term deposits
3. interest from meter deposit accounts

STEP 3: When you have decided on your categories, write them in column 1 (OPERATING INCOME, OPERATING EXPENSES and NON-OPERATING INCOME).

TIP



In preparing the annual budget, it is important to list all sources of revenue and expenses and to separate them by utility: water, sewer, etc.

TIP



Whichever lines/categories of OPERATING INCOME, OPERATING EXPENSES and NONOPERATING INCOME you decide to use, be sure to make a note of what was included in the major categories—and save it where it can be easily referenced next time. This way, your reports will be consistent with each other year over year, comparing “apples to apples”.

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: To complete the expense portion of the line-item budget, you need some historical information about your system:

- 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).

TIP



If you do not know this amount, your financial staff/consultant and/or RD servicing office can provide it.

- 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, auditor, financial staff or consultants 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:

- Add lines 1 through 5.
- Subtract line 6 (Less: Allowances and Deductions) to get the Total Operating Income (line 7).
- Add lines 8 through 16 to get the Total Operating Expense (line 17).
- Subtract the Total Operating Expense (line 17) from the Total Operating Income (Line 7).
- Enter the total on NET OPERATING INCOME (LOSS) (line 18).

- Add lines 19 and 20 and put that number on Total Nonoperating Income (line 21).
- 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.

On the following pages, you'll find: 1. a blank 442-2 schedule 1 form; 2. The form completed with "Pretty Good Water System"'s (PGWS) budget; and 3. The form completed with a sample cash-expense budget.

Annual Management Report

BLANK RD 442-2 PAGE 1 SCHEDULE 1 (BUDGET)

Form RD 442-2
(Rev. 01-22)

Position 3

FORM APPROVED
OMB NO. 0575-0015, 0575-0200
OMB NO. 0572-0137

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 _____	CURRENT YEAR		
				Actual Data		
		(3)	(4)	(5)	(6)	
1. _____						
2. _____						
3. _____						
4. _____						
5. Miscellaneous						
6. Less: Allowances and Deductions						
7. Total Operating Income (Add lines 1 through 6)						
OPERATING EXPENSES						
8. _____						
9. _____						
10. _____						
11. _____						
12. _____						
13. _____						
14. _____						
15. Interest						
16. Depreciation						
17. Total Operating Expense (Add Lines 8 through 16)						
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)						
NONOPERATING INCOME						
19. _____						
20. _____						
21. Total Nonoperating Income (Add 19 and 20)						
22. NET INCOME (LOSS) (Add lines 18 and 21)						
23. Equity Beginning of Period						
24. _____						
25. _____						
26. Equity End of Period (Add lines 22 through 25)						

Budget and Annual Report Approved by Governing Body

Quarterly Reports Certified Correct

Secretary

Date

Appropriate Official

Date

A federal agency may not conduct or sponsor, and a person is not required to respond to, nor shall a person be subject to a penalty for failure to comply with a collection of information subject to the requirements of the Paperwork Reduction Act unless that collection of information displays a currently valid OMB Control Number. The OMB Control Number for this information collection is 0575-0015, 0572-0137, and 0575-0200. Public reporting for this collection of information is estimated to be approximately 2-1/2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering, and maintaining the data needed, completing, and reviewing the collection of information. All responses to this collection of information are voluntary. However, in order to obtain or retain a benefit, the information in this form is required by 7 CFR 1942-A, Community Facility Loans; 7 CFR 1782, Servicing of Water Programs Loans and Grants, and Section 1002 of the American Rescue Plan Act. Rural Development has no plans to publish information collected under the provisions of this program. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Information Collection Clearance Officer, Rural Development Innovation Center, Regulations Management Division at ICRMTRequests@usda.gov.

REPORTING



Annual Management Report

COMPLETED FORM RD 442-2 PAGE 1 SCHEDULE 1(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 Pretty Good Water System Address PO Box 100
Small Town, USA, 10001

(1) <u>OPERATING INCOME</u>	PRIOR YEAR <u>Actual</u> (2)	ANNUAL BUDGET	For the _____ Months Ended _____		Actual YTD (Over) Under Budget Col. 3 - 5 = 6 (6)
		BEG 1/1/2026	CURRENT YEAR		
		END 12/31/2026 (3)	Actual Data		
			Current Quarter (4)	Year To Date (5)	
1. <u>Water Sales</u>		80,000			
2. <u>Late Charges</u>		1,500			
3. <u>Connection Fees</u>		2,000			
4. _____					
5. <u>Miscellaneous</u>					
6. <u>Less: Allowances and Deductions</u>					
7. <u>Total Operating Income</u> (Add lines 1 through 6)	0	83,500	0	0	
<u>OPERATING EXPENSES</u>					
8. <u>Personnel</u>		21,000			
9. <u>Purchased Water</u>		18,500			
10. <u>Utilities</u>		2,000			
11. <u>Repairs/Maint</u>		4,000			
12. <u>Supplies</u>		1,500			
13. <u>Admin/Insurance</u>		3,000			
14. <u>Miscellaneous</u>		2,000			
15. <u>Interest</u>		11,700			
16. <u>Depreciation</u>		17,640			
17. <u>Total Operating Expense</u> (Add Lines 8 through 16)	0	81,340	0	0	
18. <u>NET OPERATING INCOME (LOSS)</u> (Line 7 less 17)	0	2,160	0	0	
<u>NONOPERATING INCOME</u>					
19. <u>Interest Earned</u>		1,025			
20. _____					
21. <u>Total Nonoperating Income</u> (Add 19 and 20)	0	1,025	0	0	
22. <u>NET INCOME (LOSS)</u> (Add lines 18 and 21)	0	3,185	0	0	
23. <u>Equity Beginning of Period</u>					
24. _____					
25. _____					
26. <u>Equity End of Period</u> (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 RD 442-2 PAGE 1 SCHEDULE 1 (BUDGET)
COMPLETED USING CASH-EXPENSE 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		
[1]	PRIOR YEAR Actual	ANNUAL BUDGET BEG <u>1/1/2026</u> END <u>12/31/2026</u>	For the _____ Months ended _____		
			CURRENT YEAR		
			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

REPORTING



Instructions for 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 31-33) 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. on line 1 of section B, write the depreciation figure from the Statement of Budget, Income and Equity, Schedule 1, column 3, line 16 (that's form RD 442-2 page 1, the line item budget we covered previously in section 3.1 above).
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:

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

Item G: Cash Balances in Accounts

Item G (not to be confused with Section 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) \$ _____

Add

B. Items in Operations not Requiring Cash:

1. Depreciation (line 16 schedule 1) _____

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 _____

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 _____

Add

F. Beginning Cash Balances _____

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

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 \$ _____

REPORTING



Annual Management Report

**PROJECTED CASH FLOW FORM RD 442-2 SCHEDULE 2
COMPLETED**

Schedule 2

PROJECTED CASH FLOW

For the Year BEG. 1-1-26 END. 12-31-26
(same as schedule 1 column 3)

A. Line 22 from Schedule 1, Column 3 NET INCOME (LOSS)	\$ <u>3,185</u>
<u>Add</u>	
B. Items in Operations not Requiring Cash:	
1. Depreciation (line 16 schedule 1)	<u>17,640</u>
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 (<u>Exclude cash</u>)	_____
5. Other:	_____
6.	_____
D. Total all A, B and C Items	<u>\$20,825</u>
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	<u>\$11,400</u>
4. Principal Payment Other Loans	_____
5. Other:	_____
6. Total E 1 through 5	<u>\$11,400</u>
<u>Add</u>	
F. Beginning Cash Balances	<u>\$100,550</u>
G. Ending Cash Balances (Total of D Minus E 6 Plus F)	<u>\$ 109,975</u>
Item G Cash Balances Composed of:	
Construction Account	<u>\$ 0</u>
Revenue Account	<u>\$ 0</u>
Debt Payment Account	<u>\$23,925</u>
O&M Account	<u>\$22,500</u>
Reserve Account	<u>\$23,050</u>
Funded Depreciation Account	<u>\$28,000</u>
Others:	_____
<u>Meter Deposit Account</u>	<u>\$12,500</u>
Total - Agrees with Item G	<u>\$ 109,975</u>

REPORTING



Annual Management Report

**PROJECTED CASH FLOW FORM RD 442-2 SCHEDULE 2
COMPLETED USING CASH-EXPENSE BUDGET**

SAMPLE COMPLETED FORM (Cash-Expense Budget)
(Use for Reference Only)
SAMPLE CASH FLOW REPORT
PROJECTED CASH FLOW

Schedule 2

For the Year BEG. 1/1/2026 END. 12/31/2026

A.	Line 22 from Schedule 1, Column 3 NET INCOME (LOSS)		\$9,425
	<u>Add</u>		
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
	<u>Add</u>		
F.	Beginning Cash Balances	\$	100,550
G.	Ending Cash Balances (Total of D minus E6 Plus F)	\$	109,975

	(Current Year) 2025	(Budget Year) 2026
<u>Item G Cash Balances Composed of:</u>		
Construction Account		
Revenue Account	\$ 14,500	\$ 23,925
Debt Service (Reserve)	\$ 23,050	\$ 23,050
O&M Account	\$ 22,500	\$ 22,500
Reserve (Depreciation)	\$ 28,000	\$ 28,000
Other: <u>Meter Deposit Account</u>	\$ 12,500	\$ 12,500
Total (Agrees with Item G)	\$ 100,550	\$ 109,975

REPORTING



3-2 Annual Financial Statements

All RUS borrowers are required to provide RUS with either an annual audit report or annual financial statements. RUS borrowers, see Section 1 on audit requirements.

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.



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 (Income/Expenses- 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)
- ✓ Current list of members of the governing body
- ✓ Any additional information that may be requested by your USDA RD servicing office

...within 60 days following the end of each fiscal year

Where can I get the forms?

Forms RD 442-2 (Statement of Budget, Income and Equity- referenced previously) and RD 442-3 (Balance Sheet) can be downloaded from RCAP's Financial Management Toolkit or:

Form RD 442-2: <https://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD442-2.PDF>

Form RD 442-3: <https://www.rd.usda.gov/files/VTNHCFRD442-3.pdf>

Instructions for the Annual Income and Expense Statement using Form RD 442-2, Schedule 1, Page 1

Refer to the blank copy and the AFS income expenses rd form 442-2 completed, Schedule 1 (on pages 36-38) 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

BLANK Form RD 442-2 Schedule 1 Page 1

Form RD 442-2
(Rev. 01-22)

Position 3

FORM APPROVED
OMB NO. 0575-0015, 0575-0200
OMB NO. 0572-0137

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

Budget and Annual Report Approved by Governing Body

Quarterly Reports Certified Correct

Secretary

Date

Appropriate Official

Date

A federal agency may not conduct or sponsor, and a person is not required to respond to, nor shall a person be subject to a penalty for failure to comply with a collection of information subject to the requirements of the Paperwork Reduction Act unless that collection of information displays a currently valid OMB Control Number. The OMB Control Number for this information collection is 0575-0015, 0572-0137, and 0575-0200. Public reporting for this collection of information is estimated to be approximately 2-1/2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering, and maintaining the data needed, completing, and reviewing the collection of information. All responses to this collection of information are voluntary. However, in order to obtain or retain a benefit, the information in this form is required by 7 CFR 1942-A, Community Facility Loans; 7 CFR 1782, Servicing of Water Programs Loans and Grants, and Section 1002 of the American Rescue Plan Act. Rural Development has no plans to publish information collected under the provisions of this program. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Information Collection Clearance Officer, Rural Development Innovation Center, Regulations Management Division at ICRMTRequests@usda.gov.

REPORTING



Annual Financial Statements

**ANNUAL INCOME & EXPENSE STATEMENT
COMPLETED Form RD 442-2**

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, USDA 10001

(1) <u>OPERATING INCOME</u>	PRIOR YEAR Actual (2)	ANNUAL BUDGET BEG 01-01-2025 END 12-31-2025 (3)	For the <u>twelve</u> Months Ended <u>12-31-2025</u>		Actual YTD (Over) Under Budget Col. 3 - 5 = 6 (6)
			CURRENT YEAR		
			Actual Data		
			Current Quarter (4)	Year To Date (5)	
1. <u>Water Sales</u>	78,442	79,000		77,153	1,847
2. <u>Late Charges</u>	1,347	1,500		1,475	25
3. <u>Connection Fees</u>	500	2,000		2,400	-400
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)	80,289	82,500	0	81,028	1,472
<u>OPERATING EXPENSES</u>					
8. <u>Personnel</u>	19,875	20,000		19,950	50
9. <u>Purchased Water</u>	17,546	17,000		17,800	-800
10. <u>Utilities</u>	1,934	1,800		1,899	-99
11. <u>Repairs/Maintena</u>	3,889	3,500		3,925	-425
12. <u>Supplies</u>	1,242	1,500		1,480	20
13. <u>Admin/Insurance</u>	2,576	2,750		2,000	750
14. <u>Misc.</u>	1,287	2,000		3,050	-1,050
15. <u>Interest</u>	12,663	12,300		12,184	116
16. <u>Depreciation</u>	17,640	17,640		17,640	0
17. <u>Total Operating Expense</u> (Add Lines 8 through 16)	78,652	78,490	0	79,928	-1,438
18. <u>NET OPERATING INCOME (LOSS)</u> (Line 7 less 17)	1,637	4,010	0	1,100	2,910
<u>NONOPERATING INCOME</u>					
19. <u>Interest</u>	925	1,000		253	747
20. _____					0
21. <u>Total Nonoperating Income</u> (Add 19 and 20)	925	1,000	0	253	747
22. <u>NET INCOME (LOSS)</u> (Add lines 18 and 21)	2,562	5,010	0	1,353	3,657
23. <u>Equity Beginning of Period</u>					0
24. _____					0
25. _____					0
26. <u>Equity End of Period</u> (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
COMPLETED Form RD 442-2 (Cash-Expense)

SAMPLE COMPLETED FORM: ANNUAL INCOME STATEMENT

(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				
		For the 12 Months ended: 12/31/10				
		CURRENT YEAR				
[1]	PRIOR YEAR Actual	ANNUAL BUDGET BEG 1/1/2010 END 12/31/2010	Actual Data		Actual YTD	
			Current Quarter	Year to date	(Over) Under Budget Col 3 - Col 5 = 6	
	[2]	[3]	[4]	[5]	[6]	
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

REPORTING

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 the blank copy and the completed copy (which can be for either type of budget) of Form RD 442-2, Schedule 1, Page 2 (on pages 41 & 42) 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 doesn't apply to water and wastewater systems, solid waste. If you're unsure, ask your USDA field office.

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 if you represent a water or wastewater systems. Medical facilities utilizing Community Facilities should complete as applicable.

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:

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

TIP



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.

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

Annual Financial Statements

**BLANK SUPPLEMENTAL DATA FORM RD 442-2 SCHEDULE 1,
Page 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) \$ _____

Add

B. Items in Operations not Requiring Cash:

- 1. Depreciation (line 16 schedule 1)
- 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

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

Add

F. Beginning Cash Balances

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

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 \$ _____

REPORTING



Annual Financial Statements

**COMPLETED 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:

Insurance Coverage and Policy Number	Insurance Company and Address	Amount of Coverage	Expiration Date of Policy
Property Insurance Policy # <u>26-000-1</u>	<u>Dependable Insurance, Small Town</u>	<u>500,000</u>	<u>06-30-2026</u>
Liability Policy # <u>26-000-2</u>	<u>Dependable Insurance, Small Town</u>	<u>1,000,00</u>	<u>06-30-2026</u>
Fidelity Policy # <u>26-000-03</u>	<u>Dependable Insurance, Small Town</u>	<u>250,000</u>	<u>06-30-2026</u>

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. 15,000,0 gal.
- b. Water sold (CU FT - GAL) _____ gal. 14,250,0 gal.
- c. Treated waste (CU FT - GAL) _____ gal. gal.
- d. Number of users - water _____ 250
- 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 Savings and Investments	\$ _____	\$ <u>14,500</u>	\$ _____	\$ <u>22,500</u>	\$ _____	\$ _____	\$ <u>37,000</u>
	\$ _____	\$ _____	\$ <u>23,050</u>	\$ _____	\$ <u>28,000</u>	\$ <u>12,500</u>	\$ <u>63,550</u>
Total	\$ <u>0</u>	\$ <u>14,050</u>	\$ <u>23,050</u>	\$ <u>22,500</u>	\$ <u>28,000</u>	\$ <u>12,500</u>	\$ <u>100,550</u>

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	\$ <u>5,250</u>	\$ <u>434</u>	\$ <u>146</u>	\$ <u>124</u>		\$ <u>5,954</u>
Number of Accounts	<u>220</u>	<u>21</u>	<u>6</u>	<u>3</u>		<u>250</u>

*Totals must agree with those on Balance Sheet.

REPORTING



Completing the Annual Balance Sheet Using Form RD 442-3

The final report in the Annual Financial Report is the balance sheet, which summarizes all 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 of Form RD 442-3, which can be used for both types of budgets (on pages 46 & 47) before proceeding.

INSTRUCTIONS

Download a printable and fillable copy of RD 442-3 at: <https://www.rd.usda.gov/files/VTNHCFRD442-3.pdf> or RCAP.org.

COMPARATIVE BALANCE SHEET (FORM RD 442-3)

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.

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:

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

As you'll see in the completed sample balance sheet for the "Pretty Good Water System", the far-right column is the balance sheet for 2024. The left-hand column of figures is for the current year, which ends on December 31, 2025.

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):

- 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: 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:

$\$705,600 \div 40 \text{ years} = \$17,640$
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.

- 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.)
- Add lines 10 through 13, and subtract line 14. Enter the 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). Long-term liabilities represent what the utility owes to others beyond the current fiscal year.

STEP 7 (Current Liabilities): To determine your total current liabilities:

- Accounts payable: Enter the current total amounts due to others on line 19.
- Notes payable: Enter the principal portion of any loans payable during the coming year on line 20.
- Current portion of USDA note: Enter the principal portion of the RUS loan payable during the next year on line 21.
- Customer deposits: Enter the current total of customer deposits on line 22.
- Taxes payable: Enter all taxes that will be due and payable during the next fiscal year on line 23.
- 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).
- Add lines 19 through 26, and enter the total on line 27.

STEP 8 (Long Term Liabilities): To determine your total long- term liabilities:

- Notes Payable USDA: Enter the remaining unpaid loan balance on the RUS loan (principal only) on line 28.

- Other long-term liabilities: Enter other long-term liabilities on lines 29 and 30.
- Add lines 28 through 30, and enter the total on line 31.

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 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:

- Retained earnings: Subtract line 32 (Total Liabilities) from line 18 (Total Assets). Enter the result on line 33 (Retained Earnings).
- Memberships: If your utility has collected membership fees from customers, enter the value of membership fees on line 34.
- 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 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 - BLANK

Position 3

FORM APPROVED
OMB No. 0575-0015

Form RD 442-3 (Rev. 3-97)	Name
BALANCE SHEET	Address

		Month	Day	Year		Month	Day	Year
		<i>Current Year</i>				<i>Prior Year</i>		
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



Annual Financial Statements

ANNUAL BALANCE SHEET RD FORM 442-3 - COMPLETED

Position 3

FORM APPROVED
OMB No. 0575-0015

Form RD 442-3 (Rev. 3-97)	Name Pretty Good Water System	
BALANCE SHEET	Address PO Box 100 Small Town, USA 10001	
	12 31/2025	12/31/2024
	Month Day Year	Month Day Year
	<i>Current Year</i>	<i>Prior Year</i>
ASSETS		
<u>CURRENT ASSETS</u>		
1. Cash on hand in Banks	\$37,000.00	\$33,652.00
2. Time deposits and short-term investments	\$63,550.00	\$60,498.00
3. Accounts receivable	\$5,954.00	\$4,274.00
4. Less: Allowance for doubtful accounts	(\$124.00)	(\$190.00)
5. Inventories	\$200.00	\$200.00
6. Prepayments		
7.		
8.		
9. Total Current Assets (Add 1 through 8)	\$106,580.00	\$98,434.00
<u>FIXED ASSETS</u>		
10. Land	\$10,000.00	\$10,000.00
11. Buildings	\$25,000.00	\$25,000.00
12. Furniture and equipment	\$5,000.00	\$5,000.00
13. <u>Water Plant and Equipment</u>	\$705,600.00	\$705,600.00
14. Less: Accumulated depreciation	(\$373,627.00)	(\$355,987.00)
15. Net Total Fixed Assets (Add 10 through 14)	\$371,973.00	\$389,613.00
<u>OTHER ASSETS</u>		
16.		
17.		
18. Total Assets (Add 9, 15, 16 and 17)	\$478,553.00	\$488,047.00
LIABILITIES AND EQUITIES		
<u>CURRENT LIABILITIES</u>		
19. Accounts payable	\$2,820.00	\$3,130.00
20. Notes payable		
21. Current portion of USDA note	\$10,916.00	\$10,437.00
22. Customer deposits	\$12,500.00	\$12,500.00
23. Taxes payable	\$214.00	\$274.00
24. Interest payable	\$12,184.00	\$12,663.00
25.		
26.		
27. Total Current Liabilities (Add 19 through 26)	\$38,634.00	\$39,004.00
<u>LONG-TERM LIABILITIES</u>		
28. Notes payable USDA	\$284,084.00	\$295,000.00
29.		
30.		
31. Total Long-Term Liabilities (Add 28 through 30)	\$284,084.00	\$295,000.00
32. Total Liabilities (Add 27 and 31)	\$322,718.00	\$334,004.00
<u>EQUITY</u>		
33. Retained earnings	\$155,835.00	\$154,043.00
34. Memberships		
35. Total Equity (Add lines 33 and 34)	\$155,835.00	\$154,043.00
36. Total Liabilities and Equity (Add lines 32 and 35)	\$478,553.00	\$488,047.00

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



3.3 - Quarterly Management Reports

Quarterly management reports are required every three months for at least 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 your system's quarterly management reports are due. It is recommended to submit quarterly reports within 20 days after the end of each quarter of the fiscal year (or 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 49-51) before proceeding.

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).

STEP 1: Much of the groundwork was done with your completion of the annual budget. 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 YTD/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.

Management Report

BLANK Quarterly "Budget-to-Actual" Form RD 442-2 Schedule 1

Form RD 442-2
(Rev. 01-22)

Position 3

FORM APPROVED
OMB NO. 0575-0015, 0575-0200
OMB NO. 0572-0137

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

Budget and Annual Report Approved by Governing Body

Quarterly Reports Certified Correct

Secretary

Date

Appropriate Official

Date

A federal agency may not conduct or sponsor, and a person is not required to respond to, nor shall a person be subject to a penalty for failure to comply with a collection of information subject to the requirements of the Paperwork Reduction Act unless that collection of information displays a currently valid OMB Control Number. The OMB Control Number for this information collection is 0575-0015, 0572-0137, and 0575-0200. Public reporting for this collection of information is estimated to be approximately 2-1/2 hours per response, including the time for reviewing instructions, searching existing data sources, gathering, and maintaining the data needed, completing, and reviewing the collection of information. All responses to this collection of information are voluntary. However, in order to obtain or retain a benefit, the information in this form is required by 7 CFR 1942-A, Community Facility Loans; 7 CFR 1782, Servicing of Water Programs Loans and Grants, and Section 1002 of the American Rescue Plan Act. Rural Development has no plans to publish information collected under the provisions of this program. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Information Collection Clearance Officer, Rural Development Innovation Center, Regulations Management Division at ICRMTRequests@usda.gov.

REPORTING



Management Report

**COMPLETED Quarterly "Budget-to-Actual" Form RD 442-2
Schedule 1**

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

Position 3

FORM APPROVED

OMB NO. 0575-0015

UNITED STATES DEPARTMENT OF AGRICULTURE

Schedule 1

STATEMENT OF BUDGET, INCOME AND EQUITY

Name Pretty Good Water System Address PO Box 100
Small Town, USA, 10001

(1) OPERATING INCOME	PRIOR YEAR Actual (2)	ANNUAL BUDGET	For the ⁰¹⁻⁰¹⁻²⁰²⁵ Months Ended ⁰³⁻³¹⁻²⁰²⁵		Actual YTD (Over) Under Budget Col. 3 - 5 = 6
		BEG <u>01-01-2025</u>	CURRENT YEAR		
		END <u>12-31-2025</u> (3)	Actual Data		
			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. Miscellaneous					0
6. Less: Allowances and Deductions					0
7. Total Operating Income (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
<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. Interest		11,700	2,925	2,925	8,775
16. Depreciation		17,640	4,410	4,410	13,230
17. Total Operating Expense (Add Lines 8 through 16)	0	81,340	18,265	18,265	63,075
18. NET OPERATING INCOME (LOSS) (Line 7 less 17)	0	2,160	135	135	2,025
NONOPERATING INCOME					
19. <u>Interest Earned</u>		1,025	250	250	775
0.					0
21. Total Nonoperating Income (Add 19 and 20)	0	1,025	250	250	775
2. NET INCOME (LOSS) (Add lines 18 and 21)	0	3,185	385	385	2,800
3. Equity Beginning of Period					0
24.					0
25.					0
6. Equity End of Period (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



Management Report

**COMPLETED Quarterly “Budget-to-Actual” Form RD 442-2
Schedule 1 (Cash Expense Budget)**

SAMPLE COMPLETED FORM: Quarterly Financial Report

(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		
			For the 3 Months ended: March 31, 2025		
[1]	PRIOR YEAR <u>Actual</u>	ANNUAL BUDGET BEG <u>1/1/2025</u> END <u>12/31/2025</u>	CURRENT YEAR		Actual YTD (Over) Under Budget Col 3 - Col 5 = 6
			Actual Data		
			Current Quarter	Year to date	
	[2]	[3]	[4]	[5]	[6]
OPERATING INCOME					
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

REPORTING



Section 4- Best Practices for Financially Viable Public Utilities and Community Facilities

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

For many small towns and rural areas, the infrastructure funded by the USDA loan represents the largest single capital investment in the community. From this standpoint alone, it is critically important to preserve its value. Considering the enormous public benefit utilities provide, 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.

Being “financially viable” means the utility consistently generates enough revenue to meet all expenses (both short- and long-term), spends funds correctly, and can borrow if necessary.

Regularly Review Financial Statements

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

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.

Use 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, from the balance sheet, find current assets and current liabilities. Then, divide current assets by current liabilities. The result will be the current ratio.

Current Assets

$$\text{-----} = \text{Current Ratio}$$

Current Liabilities

Example Current Ratio Calculation

Look at the annual balance sheet for the “Pretty Good Water System” in Section 3 of this guide

(page 47. The current ratio is calculated below for both fiscal years 2024 and 2025.

For 2024:

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

For 2025:

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

What does it mean? “The “Pretty Good Water System”” has a current ratio that far exceeds 1.5 and therefore by that metric, 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 38) of this guide. The current ratio is calculated below for both fiscal years 2024 and 2025.

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:

Examples with Depreciation and Interest Expense Included:

For FY 2024:

$$\begin{aligned} \text{Net operating income} &= \$1,100 \\ \text{Depreciation expense} &= \$17,640 \\ \text{Interest expense} &= \$12,184 \\ \text{Total debt services} &= \$23,100 \end{aligned}$$

$$\begin{aligned} &\text{Net income} \\ &+ \text{depreciation} \\ &+ \text{interest expense} \\ \hline &= \text{DSCR} \\ &\text{Total debt service} \end{aligned}$$

$$\begin{aligned} &\$1,100 \\ &\$17,640 \\ &\$12,184 \\ \hline &= 1.34 \\ &\$23,100 \end{aligned}$$

For FY 2025:

$$\begin{aligned} \text{Net operating income} &= \$1,100 \\ \text{Depreciation expense} &= \$17,640 \\ \text{Interest expense} &= \$12,184 \\ \text{Total debt services} &= \$23,100 \end{aligned}$$

$$\begin{aligned} &\text{Net income} \\ &+ \text{depreciation} \\ &+ \text{interest expense} \\ \hline &= \text{DSCR} \\ &\text{Total debt service} \end{aligned}$$

$$\begin{aligned} &\$1,100 \\ &\$17,640 \\ &\$12,184 \\ \hline &= 1.34 \\ &\$23,100 \end{aligned}$$

Examples Using Cash-Basis Income and Budget Statement

(Depreciation and Interest Excluded)

For FY 2024:

Net operating income = \$8,840
Depreciation expense = \$23,000

$$\begin{array}{r} \text{Net income} \\ + \text{ total debt service} \\ \hline \text{Total debt service} \\ \\ \$8,840 \\ + \$23,100 \\ \hline \$23,100 \end{array} = \text{DSCR} = 1.38$$

For FY 2024:

Net operating income = \$8,840
Depreciation expense = \$23,000

$$\begin{array}{r} \text{Net income} \\ + \text{ total debt service} \\ \hline \text{Total debt service} \\ \\ \$8,840 \\ + \$23,100 \\ \hline \$23,100 \end{array} = \text{DSCR} = 1.38$$

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.

$$\frac{\text{Total Annual Revenue}}{\text{Total Annual Expense}} = \text{Operating Ratio}$$

Total Annual Expense

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.

Use 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 2025 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 2025:

- ✓ 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 three

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? The following is offered as general guidance for funding of adequate reserves. Consult your loan documents, state statutes, and financial advisor for more specifics.

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 following things:

- Replacement or rehabilitation cost for each component
- Current condition of each piece of equipment
- 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

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.

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. Access them at: <http://water.epa.gov/type/drink/pws/smallsystems/index.cfm>

APPENDIX A

COMMUNITY FACILITIES (CF)

DIRECT LOANS AND GRANTS

In many rural towns and communities, finding money to build or improve important public spaces can be a challenge. The goal of the CF loans and grants is to provide affordable loans and grants to create or upgrade “essential community facilities” that support stronger, healthier, and better-connected places to live.

What Are Essential Community Facilities?

These are places and services that are crucial to everyday life. They’re not private businesses; they house public services that benefit the whole community, such as:

- Healthcare facilities: dental, medical, assisted living
- Public safety & services: fire and police buildings & vehicles, emergency sirens
- Public facilities: town halls, courthouses, airport hangars, street improvements
- Educational spaces: libraries, private schools, museums, community centers
- Utility and communication services: telemedicine, online learning
- Local food systems: community gardens, greenhouses & kitchens, food banks

Eligible Expenses

The funds from the CF program can go toward a variety of activities, such as:

- Buying land or buildings
- Constructing new facilities
- Improving or renovating existing buildings
- Purchasing equipment for community use
- Cover costs related to the project (planning, permits, etc.)

Types of Funding Available

This program offers financial help in the form of low-interest loans and grants (which don’t have to be paid back). The goal is to keep costs low while tackling community projects.

Loans from this program are paid back over time, up to 40 years, depending on how long the facility is expected to last. The interest rate is locked in once the loan is approved, and there’s no penalty for paying it off early. The exact interest rate depends on the population size and median household income, and are posted at <https://www.rd.usda.gov/programs-services/community-facilities/community-facilities-direct-loan-grant-program>. At the time of writing this guide, interest rates were 4.25% to 4.5%.

The percentage of the project covered by a grant depends on the town’s size and average income. Grants can be allocated for up to 75% of the total project cost. Larger towns or those with slightly higher incomes might get smaller grants of 35% or 15%. Grant funds are limited, not guaranteed, and applicants must meet all the requirements to be considered.

Population	Income Limit (Compared State Nonmetro MHI)	Max Grant
5,000 or fewer	Below poverty or < 60%	75%
12,000 or fewer	< 70%	55%
20,000 or fewer	< 80%	35%
20,000 or fewer	< 90%	15%

Who Can Apply?

The program is designed for certain types of organizations:

- Public bodies (like city or county governments)
- Community-based non-profit groups
- Federally Recognized Tribes

Eligible Areas

The focus is on rural communities of 20,000 people or fewer, including towns, villages, and tribal lands, according to the latest US Census Data.

Other Considerations

To qualify, applicants must prove they're legally allowed to borrow money and run the facility they want to build or improve. They also must show they can't get the money from another source, such as a commercial bank, and that their community really needs and supports the project.

Developing a community facility requires careful planning to ensure the work is safe and completed according to standards. This includes preparing detailed plans and specifications, conducting public bids, hiring contractors, construction, and monitoring.

Rural Development environmental requirements (RD 1970) can be found here: <http://www.ecfr.gov/cgi-bin/text-idx?SID=2d8457de87c022d0e240337e369f665f&mc=true&node=pt7.14.1970&rgn=div5>

As early as possible, applicants should submit a Preliminary Architectural Feasibility Report, including the Cost Estimate, for review by the RD Area Loan Specialist and RD State Architect. Their review is essential to determine if the project is financially and technically feasible.

The State Architect works with the applicant and their hired architect to provide professional guidance in the following areas:

- Conducting an initial site visit and evaluating the proposed project
- Reviewing the Preliminary Feasibility Study
- Approving and accepting agreements, plans/specs, and contracts
- Monitoring construction

This collaborative process helps keep projects on schedule and within scope while also ensuring they meet all required regulations and guidelines.

It's important to note that each state may have additional requirements based on its own laws and building codes. These local rules may affect your project's planning or approval process.

Program Priorities

Because funds are limited, projects are chosen through a competitive process. Certain communities get priority:

- Populations of 5,500 or fewer
- Communities with low incomes (less than 80% of the state's non-metropolitan median household income)

How to Get Started

If your community has a project in mind, reach out to your local Rural Development Community Programs Specialist (<https://www.rd.usda.gov/contact-us/state-offices>) or RCAP office.

Applications are accepted year-round.

A Unique Entity ID number (<https://sam.gov/content/home>) and SAM registration (<https://sam.gov/SAM/>) is required for CF applicants.

An application checklist for Public Bodies (RD Form 1942-40) is available at <https://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD1942-40.PDF>

An application checklist for all other organizations, RD Form 1942-39, can be found at <https://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD1942-39.PDF>

For More Information

For the latest information on this program, contact your state or local Rural Development office. You can also read the updated rules online. Direct loans are governed by the Code of Federal Regulations 7 CFR Part 1942, Subpart A <http://go.usa.gov/hrBF>, and grants follow 7 CFR Part 3570, Subpart A (<http://go.usa.gov/hrK3>).



APPENDIX B

SOLID WASTE MANAGEMENT GRANT (SWMG)

This program supports efforts to reduce or eliminate pollution of water resources by improving how solid waste is managed in rural communities. However, unlike the other programs we have discussed that fund construction, SWMG projects must focus on technical assistance or training that helps improve the planning, management, and operation of solid waste facilities. The goal is to strengthen how communities plan, operate, and manage their solid waste facilities.

What Projects Can be Funded?

Examples of eligible project goals include:

- Evaluating the condition of existing landfills to identify risks to water sources
- Training landfill operators on better maintenance and operations
- Helping communities reduce the amount of solid waste entering landfills
- Assisting with plans for closing landfills and reusing the sites safely

Eligible Expenses

Funds from this program can be used for a range of activities directly related to providing technical assistance and training:

- Technical assistance or training programs
- Community outreach and education
- Consulting services to support landfill management improvements
- Planning for post-closure use of landfill sites

But **cannot** be used for:

- Services already being provided or paid for by another sources

- Capital assests, real estate, vehicles
- Construction, maintenance, or operational activities
- Office renovations or maintenance of private property

See 7 CFR 1775.5 <https://www.ecfr.gov/cgi-bin/text-idx?SID=e773f3c6f73bc1d36be879584ea858cc&mc=true&node=pt7.12.1775&rgn=div5> for a complete list.

Types of Funding Available

This is a grant-only program that operates on a nationally competitive basis. While matching funds are not required, applicants are encouraged to contribute either financially or through in-kind support. Projects should be structured to be completed within twelve months, and funding is subject to availability.

Who Can Apply?

A variety of organizations are eligible to apply for funding, including public bodies, nonprofit organizations, federally recognized tribes, and academic institutions. Applicants must demonstrate a proven ability to successfully complete similar projects and must have the legal authority to provide technical assistance or training.

Eligible Areas

Projects must be located in rural areas or towns with populations of 10,000 or fewer. Additional consideration may be given to applications from smaller communities with fewer than 5,500 or even 2,500 people. Check rural eligibility here: <https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

Projects that serve a broader geographic scope, such as multi-state or national initiatives, or that focus on low-income populations, may be prioritized.

Other Considerations

Applicants should have a clearly defined project plan with achievable goals and outcomes. The ability to complete the project within the grant timeframe is essential. Proposals must show how the activities will have a measurable, positive impact on solid waste management and the protection of water resources in the community.

Program Priorities

Priority may be given based on several factors. These include the size of the population served (with smaller communities receiving more attention), the scale of the project (regional or national efforts are viewed favorably), and the economic needs of the area (with preference for communities with lower median incomes).

How to Get Started

To apply, organizations must submit their application through the federal Grants.gov portal. The application period runs each year from October 1 to December 31. Detailed resources, including required forms, application guidance, and supporting materials, are available online through USDA Rural Development's official website at <https://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home>.

It is important for applicants to carefully follow all submission instructions and review eligibility guidelines in advance.

For More Information

For any questions about the program or assistance with the application process, applicants can contact the USDA Rural Development grant manager by email at water-rd@usda.gov.

This program is governed by the Code of Federal Regulations, Title 7, Part 1775, <http://www.ecfr.gov/cgi-bin/text-idx?SID=ad6338402b738d2059196dab4d777c8f&mc=true&node>

[=pt7.12.1775](https://www.agriculture.senate.gov/imo/media/doc/87-128%20-%20Agricultural%20Act%20Of%201961%20&%20Consolidated%20Farm%20And%20Rural%20Development%20Act.pdf) as well as Section 310B of the Consolidated Farm and Rural Development Act <https://www.agriculture.senate.gov/imo/media/doc/87-128%20-%20Agricultural%20Act%20Of%201961%20&%20Consolidated%20Farm%20And%20Rural%20Development%20Act.pdf>. Its purpose is to support small and rural communities in managing solid waste in a way that protects natural resources and supports public health.

<https://www.rd.usda.gov/programs-services/water-environmental-programs/solid-waste-management-grants>

APPENDIX C

Glossary of USDA RD Reporting Terms

Accounts Payable (AP): Your Municipality or District's obligations to pay off short-term debts to its creditors or suppliers. Accounts payable is a part of your current liabilities.

Accounts Receivable (AR): Balances of money due to your Municipality or District for goods and services delivered but not yet paid for by your customers. Annual Audit: Explained in Section 1, on page 8.

Annual Management Report (annual budget report): A report that projects your income and expenses and is completed 30 days prior to the beginning of your fiscal year. The annual report is completed using the Budget, Income and Equity Form 442-2, Schedules 1 and 2.

Approved Annual Budget: See Below, "Budget".

Balance Sheet: Form 442-3. On this form total Assets should equal your total Liabilities and Equity. Assets are "balanced" with Liabilities and Equity.

Bank Balances (By Award): Balances for each of the accounts occupied by Federal awards. All Federal awards received by your district or municipality will be maintained in accounts specifically designated for the purpose and identified as such. Identification will consist of, if applicable, the Catalog of Federal Domestic Assistance (CFDA) title and number, the Federal Award Identification Number (FAIN), the award year and the names of the Federal awarding agency and the State or County "pass through" agency.

Budget: For the purpose of USDA RD reporting, "Budget" refers to your system (water and/or wastewater) budget. Not your entire municipal budget.

Cash: A physical form of currency (banknotes or coins) or an article of transfer of such (check).

Current Assets: Cash on Hand plus Time Deposits (CDs) plus Short-Term Investments plus Value of Inventories plus any Loan PrePayments minus any Bad Debt.

Current Liabilities: Your Municipality or District's debts or obligations that are due within one year or within a normal operating cycle (fiscal year).

Current Ratio: Liquidity ratios measure availability of cash to pay current debt. System ratios of less than 1.5 are considered to denote "financial distress". $\text{Current assets} / \text{Current liabilities} = \text{current ratio}$.

Debt Service: Measure of the cash flow available to meet annual interest Coverage Ratio and principal payments on debt. Ratios of less than 1.1 indicate "DOUBT" in ability to make principal and interest payments. $(\text{Net operating income} + \text{depreciation}) / \text{Total debt service} = \text{Debt service coverage ratio}$.

Debt Service Reserve: 10 percent of annual debt service payment until one full year of payment has accrued.

Decreases in Cash Balances: Major construction or improvement expenses or capital not included in your operating expense budget expenses.

Depreciation: A non-cash expense representing the annual loss of value of your system (see "System Value" below). To be determined by your accountant, auditor, previous expense budgets or audit reports and transferred to your depreciation account.

Depreciation Account: A bank account specifically described by your USDA RD loan agreement to receive depreciation payments.

Emergency Reserve: Amount equal to the most recent year's expenditures for unscheduled/reactive repairs plus 10 percent.

Equity: In the case of USDA RD reporting, Equity refers to Retained Earnings plus Membership Fees, however, as Membership Fees do not apply, Equity equals Retained Earnings.

ERP and VA or RA: An Emergency Response Plan (ERP) and Vulnerability Assessment (VA) or Risk and Resilience Assessment (RA) specific to your wastewater/water treatment system(s).

Fixed Assets: Represents tangible things such as land, buildings, equipment or your system(s).

GAGAS: Generally Accepted Government Auditing Standards General Ledger: The main accounting record of your municipality.

Increases in Cash Balances: Reserved for funds received from USDA RD or another funding agency to be used for capital improvements such as new systems and system additions or improvements.

Insurance: Insurance policies that cover the extent of the facilities created or purchased using federal loans and grants.

Inventories: Expendable items such as office supplies, lab supplies, chemicals, postage, etc.

Letter of Conditions: A written document issued by USDA RD describing the conditions that the borrower and/or grantee must meet for funds to be advanced and for the loan and/or grant to be closed.

Loan Resolution Security Agreement: Lists requirements and prohibitions as conditions of the loan. Also known as Loan Resolution.

Long-Term Liabilities: Your Municipality or District's debts or obligations that are not due within one year or within a normal operating cycle (fiscal year).

Membership Fees: Fees required to become a member in a private water and/or wastewater

association, they are probably not relevant/applicable in a municipal situation/for municipal systems. Membership fees should not be confused with meter deposits.

Net Income/Loss: Operating Income minus Operating Expenses plus Non-Operating Income such as interest.

Net Operating Income/Loss: Operating Income minus Operating Expenses.

Non-Operating Income: Income not directly related to the operation of your system including but not limited to interest.

Non-cash expense: When an expense is incurred through non-cash means, such as a transfer between accounts. An example of this would be the transfer of funds from your operating account into your depreciation account.

Notes Payable: Written promissory notes. Under these agreements, your Municipality or District obtains specific amount of money from lenders and promises to pay it back. Should include long-term principal due on RD Loans.

Operating Expenses: Expenses generated by the operation of your system, including but not limited to personnel, repairs, supplies, etc.

Operating Income: Income generated by the operation of your system, including but not limited to water sales, treatment sales connection fees, late charges, etc.

Operating Ratio: A measure of financial efficiency that represents system's ability to cover total expenses with revenues. Your system should exhibit a minimum operating ratio of 1.1 or greater to be considered financially functional. $\text{Total annual revenue} / \text{total annual expense} = \text{operating ratio}$

Planned Equipment Replacement Reserve: A replacement fund for "short-lived" assets; the amount/contribution should be set in the Letter of Conditions.

Projected Cash Flow: A determination of the amount of money that you will have in the bank at the end of the year. Cash flow is projected using Form RD 442-2, Schedule 2.

Quarterly Report: A report that documents your income and expenses for each quarter. 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 reports are required for the first full year of operation for all new borrowers and borrowers experiencing financial or managerial difficulties. The quarterly report is completed using the Budget, Income and Equity Form 442-2, Schedules 1 (pages 1 & 2) and additional information that may be requested by your USDA RD servicing office.

Reserve Fund: You are required to open an account(s) specifically for a restricted use reserve fund as specified in your Federal loan/grant agreement(s).

Retained Earnings: Retained earnings are the total net income or net loss for your system since your system has been operating. Retained Earnings are equal to Total Assets minus Total Liabilities.

RUS Interest: Interest paid on USDA Rural Utilities Service (RUS) loans.

Short-Lived Assets: In this case, short-lived assets are physical assets whose life span is less than 10 to 15 years, such as pumps, meters, etc.

Statement of Budget, Income and Equity: Form 442-2. This is the form used to show Income, Expenses and profit/loss.

System Value: System construction cost (loan and grant) minus its yearly depreciation. Yearly depreciation is determined by finding the system residual value over its life (life of the USDA loan or 40 years), subtracting the residual value from its initial cost and dividing that amount by 40 (the 40-year life). To find a system's value for any year, multiply its yearly depreciation by its age in years and subtract this value from its initial cost.

Year: A Year refers to your municipality's or district's Fiscal Year, defined as a customized 12-month period used for accounting and tax purposes. Can be a calendar year.

Year-End Report: (Annual Financial Statement): Borrowers that do not submit an Annual Audit Report must submit a Year-End Report. The report documents your income and expenses and is due 60 days following the end of each fiscal year. The year-end report is completed using Budget, Income and Equity Form 442-2 and 442-2, Schedule 1 (pages 1 and 2) and Balance Sheet Form 442-3.

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

The Rural Community Assistance Partnership Incorporated (RCAP) is a national network of nonprofit organizations working to ensure that rural and small communities throughout the United States have access to drinking water treatment 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.



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