

NATIONAL ASSOCIATION
OF
REGULATORY UTILITY COMMISSIONERS

UNIFORM SYSTEM OF ACCOUNTS

FOR

CLASS C

WATER DISTRICTS AND ASSOCIATIONS

Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602

The 1996 version of the NARUC USoA for Water Utilities was modified and adopted by
the Kentucky Public Service Commission in 2002.

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DEFINITIONS

When used in this system of accounts:

1. "Amortization" means the gradual extinguishment of an amount in an account by distributing such amount over a fixed period, over the life of the asset or liability to which it applies, or over the period during which it is anticipated the benefit will be realized.
2. "Commission", unless otherwise indicated by the context, means the Kentucky Public Service Commission.
3. "Composite depreciation rate" is a percentage based on the weighted average service life of a number of units of plant, each of which may have a different individual life expectancy. Composite depreciation rates may be determined for (a) a single depreciable plant account, (b) a single rate for several depreciable accounts or (c) a single composite rate may be determined for all depreciable plant of the utility.
4. "Cost" means the amount of money actually paid for property or service. When the consideration given is other than cash, the value of such consideration shall be determined on a cash basis.
5. "Cost of removal" means the cost of demolishing, dismantling, tearing down or otherwise removing utility plant, including the cost of transportation and handling incidental thereto.
6. "Depreciation", as applied to depreciable utility plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and requirements of public authorities.
7. "Net salvage value" means the salvage value of property retired less the cost of removal.
8. "Original cost", as applied to utility plant, means the cost of such property to the person first devoting it to public service.
9. "Property retired", as applied to utility plant, means property which has been removed, sold, abandoned, destroyed, or which for any cause has been withdrawn from service.
10. "Salvage value" means the amount received for property retired, less any expenses incurred in connection with the sale or in preparing the property for sale, or, if retained, the amount at which the material recoverable is chargeable to materials and supplies, or other appropriate account.

DEFINITIONS

11. "Service life" means the period between the time of installation of utility plant and the time of its retirement.
12. "Service value" means the difference between the original cost and net salvage value of utility plant.
13. "Straight-line remaining life method", as applied to depreciation accounting, means the plan under which the service value of property is charged to operating expenses (and to clearing accounts if used), and credited to the accumulated depreciation account through equal annual charges during its service life. "Remaining life" implies that estimates of future life and salvage will be reexamined periodically and that depreciation rates will be corrected to reflect any changes in these estimates.
14. "Straight-line method" as applied to depreciation accounting, means the plan under which the service value of property is charged to operating expenses (and to clearing accounts if used), and credited to the accumulated depreciation account through equal annual charges during its service life. Estimates of the service life and salvage will be reexamined periodically and depreciation rates will be corrected to reflect any changes in these estimates.
15. "Utility", as used herein and when not otherwise indicated in the context, means any public utility to which this system of accounts is applicable.
16. "Supply main" means any main, pipe, aqueduct or canal the primary purpose of which is to convey water from one unit to another unit in the source of supply, water treatment or pumping plant and generally providing no service connections with customers.
17. "Transmission and distribution main" means any main the primary purpose of which is to convey water, requiring no further processing except incidental chlorination or pressure boosting, from a unit in the source of supply, water treatment or pumping plant and generally providing no service connection with customers.

ACCOUNTING INSTRUCTIONS

1. General - Classification of Utilities

A. For the purpose of applying the system of accounts prescribed by the Commission, water utilities are divided into three classes, as follows:

Class A - Utilities having annual water operating revenues of \$750,000 or more.

Class B - Utilities having annual water operating revenues of \$250,000 or more but less than \$750,000.

Class C - Utilities having annual water operating revenues of less than \$250,000 or less than 400 customers.

B. This system of accounts applies to Class C utilities. The system of accounts applicable to Class A and B utilities is issued separately.

C. The class to which any utility belongs shall originally be determined by the average of its annual water operating revenues for the last three consecutive years. Subsequent changes in classification shall be made when the average annual water operating revenues for the three immediately preceding years exceed the upper limit or are less than the lower limit, of the annual water operating revenues of the classification previously applicable to the utility. For a utility with water and wastewater operations, the classification shall be based on the operation with the highest annual revenues.

2. General - Records

A. The books of accounts of all water utilities shall be kept by the double entry method, on an accrual basis. Each utility shall keep its accounts monthly and shall close its books at the end of each calendar year.

B. All books of accounts, together with records and memoranda supporting the entries therein, shall be kept in such a manner as to support fully the facts pertaining to such entries. The books and records referred to herein include not only the accounting records in a limited technical sense, but also all other records, reports, correspondence, invoices, memoranda and information useful in determining the facts regarding a transaction.

C. No utility shall destroy any such books or records unless the destruction thereof is permitted under the guidelines governing the preservation of records of electric, gas and water utilities, published by the National Association of Regulatory Utility Commissioners.

D. Utilities may further subdivide any of the accounts provided that such subdivisions do not impair the integrity of the accounts, or they may maintain such additional accounts as are included in the Uniform System of Accounts for Class A and B Utilities.

3. General - "Item" Lists

Lists of "items" appearing in the texts of the accounts or elsewhere herein are for the purpose of more clearly indicating the application of the prescribed accounting. The lists are intended to be representative, but not exhaustive. The appearance of an item in a list warrants the inclusion of the item in the account mentioned only when the text of the account also indicates

ACCOUNTING INSTRUCTIONS

inclusion inasmuch as the same item frequently appears in more than one list. The proper entry in each instance must be determined by the texts of the accounts.

4. **General - Estimated Items**

Whenever a financial statement is required by the Commission, if it is known that a transaction has occurred which affects the accounts but the amount involved in the transaction and its effect upon the accounts cannot be determined with absolute accuracy, then the amount shall be estimated and such estimated amount included in the proper accounts. A complete description of the transactions shall accompany the financial statement. Utilities are not required to anticipate minor items that would not appreciably affect the accounts.

5. **General - Allocation of Salaries and Expenses of Employees**

Charges to utility plant or to a salaries expense account shall be based upon the actual time engaged in either plant construction or providing operation services. In the event actual time spent in the various activities is not available or practicable, salaries should be allocated upon the basis of a study of the time engaged during a representative period. Charges should not be made to the accounts based upon estimates or in an arbitrary fashion.

6. **Utility Plant**

All utility plant acquired as an operating unit or system shall be recorded at original cost (See definition 8). All other utility plant shall be included in the plant accounts at the cost incurred by the utility.

7. **Utility Plant - Capitalization Level**

The cost of individual items of equipment of less than \$150 or of short life, including small portable tools and implements, shall not be charged to utility plant accounts. The cost shall be charged to the appropriate operating expense or clearing accounts, according to the use of such items, or, if such items are consumed directly in construction work, the cost shall be included as part of the cost of the construction unit.

8. **Utility Plant - Depreciation**

A. Depreciation charges shall be computed using either the straight-line remaining life method (See definition 13) or the straight-line method (See definition 14), according to which method has been approved by the Commission. Composite depreciation rates (See definition 3) may be used with prior Commission approval.

B. When the straight-line remaining life method is used, the rates shall be reviewed periodically and adjusted as required, so that the depreciation expense will bear a reasonable relationship to the remaining life, the estimated net future salvage, cost of plant in service and to the balance of accumulated depreciation accrued in prior periods.

C. When the straight-line method is used, the rates shall be reviewed periodically and adjusted as required, so that the

ACCOUNTING INSTRUCTIONS

depreciation expense will bear a reasonable relationship to the service life, the estimated net salvage, and the cost of plant in service.

D. When an item of plant is retired, account 108 - Accumulated Depreciation and Amortization of Utility Plant in Service, shall be charged and the appropriate plant accounts shall be credited with the entire recorded original cost of plant retired regardless of the amount of depreciation which has been accumulated for this particular item of plant, except as provided in paragraph E. Account 108 - Accumulated Depreciation and Amortization of Utility Plant in Service, also shall be charged with the costs of removal of retired plant, and shall be credited with the salvage value, sales price or other amounts recovered from plant retired.

E. In rare instances the unexpired early retirement of a major unit of property, which would eliminate or seriously deplete the existing depreciation reserve, may require accounting treatment which differs from that described in paragraph D above. In such instances the Commission may authorize or order the loss on retirement to be charged to income in the current year or transferred to account 186 - Miscellaneous Deferred Debits, and amortized in future periods. Such accounting treatment shall be used only when specifically authorized or directed by the Commission.

F. It is suggested that all utilities maintain a separate accumulated depreciation subaccount for each depreciable plant account.

9. Operating Income - Clearing Accounts

A. The purpose of a clearing account is to temporarily accumulate in one account costs of a specific type which affect more than a single account, and which subsequently will be apportioned among utility plant accounts, operating expense accounts and other appropriate accounts.

B. The use of clearing accounts is optional. In addition to the payroll clearing account, a utility may use such additional clearing accounts as it finds useful.

BALANCE SHEET ACCOUNTS

Assets and Other Debits

- 101. Utility Plant in Service
- 103. Property Held for Future Use
- 104. Utility Plant Purchased or Sold
- 105. Construction Work in Progress
- 108. Accumulated Depreciation and Amortization of Utility Plant
in Service
- 114. Utility Plant Acquisition Adjustments
- 115. Accumulated Amortization of Utility Plant Acquisition
Adjustments
- 121. Nonutility Property
- 122. Accumulated Depreciation and Amortization of Nonutility Property
- 124. Utility Investments
- 131. Cash
- 132. Special Deposits
- 141. Customer Accounts Receivable
- 143. Accumulated Provision for Uncollectible Accounts--Cr.
- 151. Plant Materials and Supplies
- 174. Miscellaneous Current and Accrued Assets
- 186. Miscellaneous Deferred Debits

Equity Capital

- 215. Retained Earnings
 - 215.1 Retained Earnings from Income Before Contributions
 - 215.2 Donated Capital

Liabilities and Other Credits

- 224. Long-Term Debt
- 231. Accounts Payable
- 232. Notes Payable
- 235. Customer Deposits
- 236. Accrued Taxes
- 237. Accrued Interest
- 242. Miscellaneous Current and Accrued Liabilities
- 252. Advances for Construction
- 253. Other Deferred Credits
- 265. Miscellaneous Operating Reserves

BALANCE SHEET ACCOUNTS

Assets and Other Debits

101. Utility Plant in Service

A. This account is the control account for plant accounts 301 through 348.

B. This account shall include the original cost of utility plant owned and used by the utility in providing water service.

103. Property Held for Future Use

A. This account shall include the cost of property owned and held for future use in utility service under a definite plan for such use.

B. The property included in this account shall be classified according to the detailed accounts (301 to 348) for utility plant in service and the account shall be maintained in such manner and in such detail as though the property were in service.

Note:--Materials and supplies, and meters held in reserve shall not be included in this account.

104. Utility Plant Purchased or Sold

A. This account shall be temporarily charged with the cost and expense incidental to acquisition of utility systems acquired as operating units or systems. The account shall be temporarily credited with the selling price of utility systems transferred to others.

B. Within six months, or the time specified by the Commission in its order approving the transaction, from the date of acquisition or sale of a water system the utility shall file with the Commission for approval, proposed journal entries to clear this account.

Note:--In clearing this account the original cost of acquired plant shall be charged to plant accounts, and accumulated depreciation shall be credited to account 108 - Accumulated Depreciation and Amortization of Utility Plant in Service. Any balance (representing the difference between the net original cost of the assets acquired and the cost to the acquiring utility) shall be charged or credited to account 114 - Utility Plant Acquisition Adjustments.

C. When an existing water system or operating unit is acquired the utility shall be obligated to obtain from the vendor all existing records, including records of plant construction dates and costs, records of accumulated depreciation and donated capital applicable to such properties, and records of Donated Capital.

105. Construction Work in Progress

This account shall include the cost of water plant in process of construction, but not ready for service.

108. Accumulated Depreciation and Amortization of Utility Plant in Service

A. This account shall reflect the depreciation and amortization accumulated on plant used in water utility service.

B. This account shall be credited with:

1. Amounts concurrently charged to account 403 - Depreciation

BALANCE SHEET ACCOUNTS

Expense, representing currently accruing depreciation of water plant.

2. Amounts concurrently charged to account 407 - Amortization Expense - Other, representing currently accruing amortization of utility plant.

3. Salvage value, sales price, insurance settlements and other amounts recovered from plant retired.

4. Amounts representing the balance of accumulated depreciation and amortization of utility plant acquired from others.

Note:--Also see account 104 - Utility Plant Purchased or Sold.

C. This account shall be charged with:

1. Original cost of depreciable utility plant retired.

2. Cost of removal of plant retired.

D. The utility is restricted in the use of this account to the purposes set forth above. It shall not transfer any portion to retained earnings or to other accounts without prior written authorization from the Commission.

Note:--See Accounting Instruction 8 for information on depreciation accruals and plant retirement procedures.

114. Utility Plant Acquisition Adjustments

A. This account shall include the difference between (1) the cost to the utility of plant acquired as an operating unit or system by purchase, merger, or otherwise, and (2) the net of amounts distributed to the plant accounts, the accumulated depreciation account and other appropriate accounts.

B. No transfers shall be made from this account unless prior written authorization has been obtained from the Commission.

Note:--See also account 104 - Utility Plant Purchased or Sold.

115. Accumulated Amortization of Utility Plant Acquisition Adjustments

This account shall be credited or debited with amounts which are includible in account 406 - Amortization of Utility Plant Acquisition Adjustments, or account 426 - Miscellaneous Nonutility Expenses, for the purpose of providing for the extinguishment of amounts in account 114 - Utility Plant Acquisition Adjustments.

121. Nonutility Property

A. This account shall include all property and other assets owned by the utility, but not used in providing water service, for which separate balance sheet accounts have not been provided.

B. This account shall be appropriately subdivided.

Items

1. Land and buildings not used in water operations.

2. Utility assets transferred to "nonoperative" status.

3. Investments in securities.

4. Assets of nonutility businesses owned by the utility.

5. Accounts receivable and notes receivable not due within one year.

BALANCE SHEET ACCOUNTS

- 122. Accumulated Depreciation and Amortization of Nonutility Property**
A. This account shall reflect the depreciation and amortization accumulated on property not used in utility operations.
B. This account shall be credited with amounts currently charged to account 426 - Miscellaneous Nonutility Expenses, representing currently accruing depreciation and amortization on property not used in utility operations.
C. This account shall be charged with the amount of depreciation accumulated on items of nonutility property sold, abandoned, or otherwise retired.
- 124. Utility Investments**
This account shall include book cost of investments in securities issued or assumed by nonassociated companies for the purpose of insuring adequate water service (i.e., source of water supply).
- 131. Cash**
This account shall include the amount of cash on hand or on deposit in banks.
- 132. Special Deposits**
This account shall include deposits with fiscal agents or others for the payment of interest and/or dividends.
- 141. Customer Accounts Receivable**
This account shall include amounts due from customers for utility service.
- 143. Accumulated Provision for Uncollectible Accounts--Cr**
This account shall be credited with amounts provided for losses on accounts receivable which may become uncollectible, and also with collections on accounts previously charged hereto. Concurrent charges shall be made to account 670 - Bad Debt Expense, for amounts applicable to utility operations, and to corresponding accounts for other operations. Records shall be maintained so as to show the write-offs of accounts receivable for each utility department.
- 151. Plant Materials and Supplies**
A. This account shall include the cost of materials and supplies on hand, purchased for use in plant construction or repair work.
B. The cost shall include, when practicable, transportation charges, sales and use taxes and other directly assignable costs. Cash discounts realized on material purchases shall be credited to this account.
C. Reusable materials which are retired from plant and returned to the materials and supplies inventory shall be charged to this account and credited to account 108 - Accumulated Depreciation and Amortization of Utility Plant in Service. Identifiable units that have been removed from service (i.e., pumps, motors, etc.) shall be carried in inventory at original cost. Items of small value whose original cost cannot be readily determined shall be carried in inventory at current prices. Scrap materials shall be carried in

BALANCE SHEET ACCOUNTS

inventory at estimated scrap value.

D. Inventories of materials and supplies shall be taken at least annually and the necessary adjustments shall be made to bring this account into agreement with the actual quantities on hand.

174. Miscellaneous Current and Accrued Assets

This account shall include the book cost of all other current and accrued assets, appropriately designated and supported so as to show the nature of each asset included herein.

186. Miscellaneous Deferred Debits

A. This account shall include such items as expenses of security issues, bond discount, items in suspense, and costs which the Commission has authorized the utility to amortize over future periods (i.e., deferred portion of rate case expense).

B. This account shall be appropriately subdivided.

Equity Capital

215. Retained Earnings

This account shall reflect earnings retained by the utility. The following subaccounts shall be maintained:

215.1 Retained Earnings from Income Before Contributions

This account shall be credited with:

1. Net Income.
2. Accounting adjustments associated with correction of errors attributable to a prior period.

This account shall be debited with:

1. Net losses.
2. Accounting adjustments associated with correction of errors attributable to a prior period.

Note: Adjustments caused by the correction of an estimate or a change in an accounting method shall not adjust the balance of this account but shall rather affect either an income, asset, liability or deferred credit account. For example, adjustments to accumulated depreciation shall not affect this account but rather shall affect an income account, account 186 - Miscellaneous Deferred Debits, or account 253 - Other Deferred Credits.

215.2 Donated Capital

This account shall include the balance of amounts recorded in account 432 - Proceeds from Capital Contributions.

Liabilities and Other Credits

224. Long-Term Debt

A. This account shall include all notes, conditional sales contracts or other evidences of indebtedness payable more than one year from date of issue.

B. Separate subaccounts shall be maintained for obligations outstanding.

BALANCE SHEET ACCOUNTS

231. Accounts Payable

This account shall include all amounts payable by the utility within one year, which are not provided for in other accounts.

232. Notes Payable

This account shall include the face value of all notes, drafts, acceptances, or other similar evidences of indebtedness, payable on demand or within a time not exceeding one year from date of issue.

235. Customer Deposits

This account shall include all amounts deposited with the utility by customers as security for the payment of bills.

236. Accrued Taxes

A. This account shall include all taxes accrued or payable by the utility including property taxes, payroll taxes, and withholding taxes.

B. This account shall be credited during the accounting period with the amount of taxes accrued during the period. Such credits may be based upon estimates, but from time to time during the year, the amount of the periodic credits shall be adjusted so as to reflect the correct tax liability. Any amount representing a prepayment of taxes applicable to a period subsequent to the date of the balance sheet shall be shown under account 174 - Miscellaneous Current and Accrued Assets.

237. Accrued Interest

This account shall include the amount of interest accrued but not matured on all liabilities of the utility not including, however, interest which is added to the principal of the debt on which incurred. Supporting records shall be maintained so as to show the amount of interest accrued on each obligation.

242. Miscellaneous Current and Accrued Liabilities

This account shall include the amount of all other current and accrued liabilities not provided for elsewhere appropriately designated and supported so as to show the nature of each liability.

252. Advances for Construction

This account shall include advances by or in behalf of customers for construction, which are to be refunded either wholly or in part. When a person is refunded the entire amount to which he is entitled according to the agreement or rule under which the advance was made, the balance, if any, remaining in this account shall be transferred to account 432 - Proceeds from Capital Contributions.

253. Other Deferred Credits

This account shall include gains on disposition of property deferred by authorization of the Commission, advance billings and receipts and other deferred credit items, not provided elsewhere, including amounts which cannot be entirely cleared or disposed of until additional information has been received.

BALANCE SHEET ACCOUNTS

265. Miscellaneous Operating Reserves

A. This account shall include all operating reserves maintained by the utility.

B. This account shall be maintained in such manner as to show the amount of each separate reserve and the nature and amounts of the debits and credits thereto.

WATER UTILITY PLANT ACCOUNTS

Amortizable

- 301. Organization
- 302. Franchises

Nondepreciable

- 303. Land and Land Rights

Depreciable

- 304. Structures and Improvements
- 305. Collecting and Impounding Reservoirs
- 306. Lake, River and Other Intakes
- 307. Wells and Springs
- 309. Supply Mains
- 310. Power Generation Equipment
- 311. Pumping Equipment
- 320. Water Treatment Equipment
- 330. Distribution Reservoirs and Standpipes
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- 334. Meters and Meter Installations
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- 336. Backflow Prevention Devices
- 339. Other Plant and Miscellaneous Equipment
- 340. Office Furniture and Equipment
- 341. Transportation Equipment
- 343. Tools, Shop and Garage Equipment
- 345. Power Operated Equipment
- 348. Other Tangible Plant

WATER UTILITY PLANT ACCOUNTS

301. Organization

This account shall include all fees paid to federal or state governments for the privilege of incorporation and expenditures incident to organizing the corporation, partnership or other enterprise and putting it into readiness to do business. A sample of items to be included in this account are listed below.

1. Actual cost of obtaining certificates authorizing an enterprise to engage in the public utility business.
2. Fees and expenses for incorporation.
3. Fees and expenses for mergers or consolidations.
4. Office expenses incident to organizing the utility.
5. Minute books and corporate seal.

302. Franchises

A. This account shall include amounts paid to the federal government, to a state or to a political subdivision thereof in consideration for franchises, consents or certificates, running in perpetuity or for a specified term of more than one year, together with necessary and reasonable expenses incident to procuring such franchises or certificates of permission and approval.

B. This account shall not include any expenses incurred in connection with the authorization or sale of securities, or discounts on securities issued.

C. This account shall not include any sum for franchises or certificates in excess of the amounts actually paid to the state or political subdivision, and necessary and reasonable expenses incident to obtaining such franchises or certificates.

D. When any franchise has expired, the book cost thereof shall be credited hereto and charged to account 426 - Miscellaneous Nonutility Expenses, or to account 108 - Accumulated Depreciation and Amortization of Utility Plant in Service, as appropriate.

303. Land and Land Rights

This account shall include the cost of land, rights-of-way and easements used in water operations.

304. Structures and Improvements

This account shall include cost in place of structures and improvements used in connection with source of supply, pumping, water treatment, transmission and distribution and general plant.

A sample of items to be included in this account are listed below:

1. Yard paving and fencing.
2. Pump houses and storage sheds.
3. Grading and clearing.
4. Meter testing shops.
5. Landscaping, sidewalks.
6. Roadways paved, concrete, etc.
7. Buildings.
8. Plant metering.

WATER UTILITY PLANT ACCOUNTS

305. Collecting and Impounding Reservoirs

This account shall include the cost in place of structures and improvements used for impounding, collecting and storing water in the source of supply system. A sample of items to be included in this account are listed below:

- | | |
|-----------------|----------------------------|
| 1. Clearing. | 5. Landscaping. |
| 2. Dams. | 6. Retaining walls. |
| 3. Embankments. | 7. Roads. |
| 4. Fences. | 8. Spillways and channels. |

306. Lake, River and Other Intakes

This account shall include the cost installed of lake, river and other intakes used as a source of water supply. A sample of items to be included in this account are listed below:

- | | |
|-----------------|------------------|
| 1. Conduits. | 4. Intake pipes. |
| 2. Fences. | 5. Intake wells. |
| 3. Gate houses. | |

307. Wells and Springs

This account shall include the cost installed of wells and springs used as a source of water supply. A sample of items to be included in this account are listed below:

- | | |
|----------------------|---|
| 1. Clearing. | 4. Landscaping. |
| 2. Collecting pipes. | 5. Springs and appurtenances. |
| 3. Fences. | 6. Wells, casings and
and appurtenances. |

309. Supply Mains

This account shall include the cost installed of supply mains, pipes, aqueducts and canals and their appurtenances. A sample of items to be included in this account are listed below:

- | | |
|---|---|
| 1. Manholes. | 5. Mains. |
| 2. Municipal inspection or
permits. | 6. Main Installation. |
| 3. Reconstruction of pavement
disturbed. | 7. Valves, valve vaults
and appurtenances. |
| 4. Master Meters. | |

310. Power Generation Equipment

This account shall include the cost installed of any equipment used for the production of power principally used in pumping operations.

311. Pumping Equipment

This account shall include the cost of electric, gas, gasoline, or other types of pumping equipment. A sample of items to be included in this account are listed below:

- | | |
|--------------|--|
| 1. Engines. | 5. Pressure regulating and
recording instruments. |
| 2. Motors. | 6. Electric power lines. |
| 3. Turbines. | 7. Switching equipment. |
| 4. Pumps. | |

WATER UTILITY PLANT ACCOUNTS

320. Water Treatment Equipment

This account shall include the cost of equipment used in treatment of water. A sample of items to be included in this account are listed below:

- | | |
|----------------------------|-------------------------------|
| 1. Softening equipment. | 6. Filtering equipment. |
| 2. Chlorination equipment. | 7. Purification equipment. |
| 3. Sand traps. | 8. Fluoridation equipment. |
| 4. Settling basins. | 9. Reverse osmosis membranes. |
| 5. Disinfection equipment. | |

330. Distribution Reservoirs and Standpipes

A. This account shall include the cost of reservoirs, storage tanks, hydropneumatic tanks and standpipes used in storing water for distribution.

B. The account shall be segregated so as to show separately the cost of each major facility or installation.

331. Transmission and Distribution Mains

This account shall include the cost installed of water mains, including valves, fittings, shut-offs, etc., between the water source and customer's service. This account shall also include the cost installed of fire mains.

333. Services

This account shall include the cost installed of service pipes leading from the water main to the customers' premises.

334. Meters and Meter Installations

A. This account shall include the cost of meters, devices and appurtenances attached thereto, used for measuring the quantity of water delivered to users, whether actually in service or held in reserve. It shall also include the cost of labor employed, materials used and expenses incurred in connection with the original installation of a customer's meters and devices and appurtenances attached thereto.

B. Records shall be kept to show the number of meters of each type and size in service or held on stock, and their location.

C. A sample of items to be included in this account are listed below:

- | | |
|-----------------|------------------------|
| 1. Meters. | 4. Stops. |
| 2. Meter boxes. | 5. Installation labor. |
| 3. Yokes. | |

Note:--The cost of "master meters" used to measure the quantity of water produced or delivered into the system shall be entered in account 309 - Supply Mains.

335. Hydrants

This account shall include the cost installed of hydrants owned by the utility.

Note:--A hydrant begins at and includes the fittings at the connection with the main.

WATER UTILITY PLANT ACCOUNTS

336. Backflow Prevention Devices

A. This account shall include the cost of backflow prevention devices, and attached appurtenances, used for preventing the backflow of water, whether actually in service or held in reserve. It shall also include the cost of labor employed, materials used and expenses incurred in connection with the original installation of a customer's backflow prevention device and appurtenances attached thereto unless done in conjunction with a meter installation.

B. When a backflow prevention device is permanently retired from service, the amount at which it is included herein shall be credited to this account.

C. The records covering backflow prevention devices shall be so kept that the utility can furnish information as to the number of backflow prevention devices of each type and size in service and in reserve as well as the location of each backflow prevention device included in this account.

339. Other Plant and Miscellaneous Equipment

This account shall include the cost installed of all other intangible, source of supply and pumping, water treatment and transmission and distribution plant not provided for in the preceding accounts.

340. Office Furniture and Equipment

This account shall include the cost of office furniture and equipment owned and used by the utility. A sample of items to be included in this account are listed below:

- | | |
|-----------------------------|--------------------------------|
| 1. Adding machines. | 6. Postage meter machines. |
| 2. Addressing machines. | 7. Desks, typewriters. |
| 3. Calculating machines. | 8. Filing cabinets. |
| 4. Drafting room equipment. | 9. Book cases, tables, chairs. |
| 5. Computers. | |

341. Transportation Equipment

A. This account shall include the cost of trucks, automobiles and trailers owned and used by the utility.

B. Records shall be maintained to show the cost of each vehicle.

343. Tools, Shop and Garage Equipment

This account shall include the cost of tools, implements, and equipment used in construction, repair work, general shops and garages and not specifically provided for or includible in other accounts.

345. Power Operated Equipment

This account shall include the cost of power operated equipment used in construction or repair work exclusive of equipment includible in other accounts. Include, also, the tools and accessories acquired for use with such equipment and the vehicle on which such equipment is mounted. A sample of items to be included in this account are listed below:

WATER UTILITY PLANT ACCOUNTS

- | | |
|---------------------------|---------------|
| 1. Air compressors. | 3. Tractors. |
| 2. Back filling machines. | 4. Trenchers. |

Note:--It is intended that this account include only such large units as are generally self-propelled or mounted on moveable equipment.

348. Other Tangible Plant

This account shall include the cost of tangible utility plant not provided for elsewhere.

INCOME ACCOUNTS

Utility Operating Income

- 400. Operating Revenues
- 401. Operating Expenses
- 403. Depreciation Expense
- 406. Amortization of Utility Plant Acquisition Adjustment
- 407. Amortization Expense - Other
- 408. Taxes Other Than Income

Utility Operations

Other Income and Deductions

- 419. Interest and Dividend Income
- 420. Allowance for Funds Used During Construction
- 421. Nonutility Income
- 426. Miscellaneous Nonutility Expenses
- 427. Interest Expense

Taxes Applicable to Other Income and Deductions

- 408. Taxes Other Than Income

Capital Contributions

- 432. Proceeds from Capital Contributions

INCOME ACCOUNTS

Operating Income

400. Operating Revenues

This is the revenue control account which totals the accounts credited to revenue accounts 460 through 474 for water systems.

401. Operating Expenses

This is the operating expense control account which totals the amounts charged to operating expense accounts 601 through 675 for water systems.

403. Depreciation Expense

A. This account shall be charged with depreciation credited to account 108 - Accumulated Depreciation and Amortization of Utility Plant In Service. Depreciation shall be accrued on a straight-line remaining life basis or straight-line basis, as required by the Commission. A single composite depreciation rate may be used if approval from the Commission is obtained.

Note:--See Accounting Instruction 8, for more detailed instructions on depreciation accounting.

B. Depreciation for property not used in water operations is charged to account 426 - Miscellaneous Nonutility Expense, and is credited to account 122 - Accumulated Depreciation and Amortization of Nonutility Property.

406. Amortization of Utility Plant Acquisition Adjustments

This account shall be debited or credited, as the case may be, only upon the approval of the governing regulatory authority, for the purpose of providing for the extinguishment of the amount in account 114 - Utility Plant Acquisition Adjustments.

407. Amortization Expense - Other

This account shall include amortization debits or credits, which relate to utility operations and are not provided for elsewhere.

408. Taxes Other Than Income

A. These accounts shall include the amount of ad valorem, gross revenue or gross receipts taxes, regulatory agency general assessments for purposes of public utility regulation, state unemployment insurance, franchise taxes, federal excise taxes, social security taxes, and all other taxes assessed by federal, state, county, municipal, or other local governmental authorities.

B. These accounts shall be charged in each accounting period with the amounts of taxes which are applicable thereto, with concurrent credits to account 236 - Accrued Taxes, or account 174 - Miscellaneous Current and Accrued Assets, as appropriate. When it is not possible to determine the exact amounts of taxes, the amounts shall be estimated and adjustments made in current accruals as the actual tax levies become known.

C. The charges to these accounts shall be made or supported so as to show the amount of each tax and the basis upon which each charge is made. In the case of a utility rendering more than one

INCOME ACCOUNTS

utility service, taxes of the kind includible in these accounts shall be assigned directly to the utility department the operation of which gave rise to the tax in so far as practicable. Where the tax is not attributable to a specific utility department, it shall be distributed among the utility departments or nonutility operations on an equitable basis after appropriate study to determine such basis.

Note A:--Special assessments for street and similar improvements shall be included in the appropriate utility plant or nonutility property account.

Note B:--Taxes specifically applicable to construction shall be included in the cost of construction.

Note C:--Gasoline and other sales taxes shall be charged as far as practicable to the same account as the materials on which the tax is levied.

Note D:--Social security and other forms of payroll taxes shall be distributed to utility departments and to nonutility functions on a basis related to payroll. Amounts applicable to construction shall be charged to the appropriate plant account.

Note E:--Interest on tax refunds or deficiencies shall not be included in these accounts but in account 419 - Interest and Dividend Income, or 427 - Interest Expense.

Other Income and Deductions

419. Interest and Dividend Income

This account shall include interest revenues on securities, loans, notes, advances, special deposits, tax refunds and all other interest bearing assets and dividends on stocks of other companies, whether the securities are carried as investments or included in sinking or other special funds accounts.

420. Allowance for Funds Used During Construction

This account shall include concurrent credits for allowance for funds used during construction based upon the net cost of funds used for construction purposes and a reasonable rate upon other funds when so used. Appropriate regulatory approval shall be obtained for "a reasonable rate".

421. Nonutility Income

In this account is entered all income not includible in operating revenue accounts 460 through 474 or in account 419 - Interest and Dividend Income. Items in this account shall include:

1. Gross income from nonutility operations;
2. Net gain on sale of nonutility property; and
3. Revenues from merchandising, jobbing and contract work.

INCOME ACCOUNTS

426. **Miscellaneous Nonutility Expenses**

This account shall contain all expenses other than expenses of utility operations and interest expense. Items which are included in this account are:

1. Expenses disallowed in a proceeding before the Commission.
2. Amortization of an Acquisition Adjustment not approved by the Commission.
3. Depreciation associated with plant not used and useful in the public service.
4. Depreciation of Nonutility Plant.
5. Imprudent expenses.
6. Donations for charitable, social or community welfare purposes.
7. Life insurance on officers and employees where utility is beneficiary (net premiums less increase in cash surrender value of policies).
8. Penalties or fines for violations of statutes pertaining to regulation.
9. Expenditures for the purpose of:
 - a. Influencing public opinion with respect to the election or appointment of public officials, or the adoption, repeal, revocation or modification of referenda, legislation or ordinances.
 - b. Influencing public opinion with respect to obtaining approval, modification or revocation of franchises.
 - c. Influencing the decisions of public officials not including such expenditures that are directly related to appearances before regulatory or other governmental bodies in connection with the utility's existing or proposed operations.
10. Loss relating to investments in securities written-off or written-down.
11. Loss on sale of investments.
12. Loss on reacquisition, resale or retirement of utility's debt securities.
13. Preliminary survey and investigation expenses related to abandoned projects, when not written-off to the appropriate operating expense account.
14. Golf club dues, social club dues and service club dues (Kiwans, Rotary, etc.) house charges and items of a similar nature whether such expenditures are made directly by the utility or indirectly by payment or reimbursement to associated companies, officers, or other employees, or by any other direct or indirect means.
15. Costs and expenses of merchandising, jobbing, and contract work.

427. **Interest Expense**

This account shall be charged all interest expense of the utility. The contra credit to entries in this account shall be charged to account 237 - Accrued Interest.

INCOME ACCOUNTS

Capital Contributions

432. Proceeds from Capital Contributions

A. This account shall include:

1. Any amount or item of money, services or property received by a utility from any person or governmental agency, which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility and which is utilized to offset the acquisition, improvement or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public.

2. Amounts transferred from account 252 - Advances for construction, representing unrefunded balances of expired contracts or discounts resulting from termination of contracts in accordance with the Commission's rules or regulations.

3. Compensation received from governmental agencies and others for relocation of water mains or other plants.

B. The balance in this account shall be transferred annually at the close of the year to account 215.2 - Donated Capital.

C. The records supporting the entries to this account shall be so kept that the utility can furnish information as to the purpose of each donation, the conditions, if any, upon which it was made, the amount of donations from (a) states, (b) municipalities, (c) customers, and (d) others, and the amount applicable to each utility department.

Note:-There shall not be included in this account advances for construction which are ultimately to be repaid wholly or in part (See account 252 - Advances for Construction).

WATER OPERATING REVENUE ACCOUNTS

Water Sales

- 460. Unmetered Water Revenue
- 461. Metered Water Revenue
 - 461.1 Metered Sales to Residential Customers
 - 461.2 Metered Sales to Commercial Customers
 - 461.3 Metered Sales to Industrial Customers
 - 461.4 Metered Sales to Public Authorities
 - 461.5 Metered Sales to Multiple Family Dwellings
 - 461.6 Metered Sales through Bulk Loading Stations
- 462. Fire Protection Revenue
- 465. Sales to Irrigation Customers
- 466. Sales for Resale

Other Water Revenues

- 469. Guaranteed Revenues
- 474. Other Water Revenues

WATER OPERATING REVENUE ACCOUNTS

Water Sales

460. Unmetered Water Revenue

A. This account shall include the net billing for water supplied for residential, commercial and industrial (except irrigation) purposes where the charge is not dependent in any way on the quantity of water delivered but is based on diameter of service pipe, room, foot of frontage or other similar unit.

B. Records shall be maintained so that the estimated quantity of water sold and the amount of revenue under each rate schedule shall be readily available.

461. Metered Water Revenue

A. This account shall include the net billing for measured water supplied for residential, commercial or industrial (except irrigation) purposes where the total charge is, or may be, in any way dependent on the quantity of water delivered.

B. Records shall be maintained so that the quantity of water sold and the amount of revenue under each rate schedule shall be readily available.

C. This account shall be subdivided at least as follows:

461.1 Metered Sales to Residential Customers

461.2 Metered Sales to Commercial Customers

461.3 Metered Sales to Industrial Customers

461.4 Metered Sales to Public Authorities

461.5 Metered Sales to Multiple Family Dwellings

461.6 Metered Sales through Bulk Loading Stations

Note:--This account includes all revenues under service classifications which consist of a rate for a specified diameter of service pipe, or per meter, fixture, room, foot of frontage, or other similar unit, plus an additional charge or an adjustment dependent upon the quantity of water delivered.

462. Fire Protection Revenue

Include herein all revenue from public agencies and others for hydrant charges, private fire protection service, street sprinkling, sewer flushing and similar sources.

465. Sales to Irrigation Customers

A. This account shall include the net billing for water supplied for commercial irrigation purposes, under distinct irrigation rates, billed under either metered or flat rate tariff schedules.

B. Records shall be maintained so that the quantity (estimated if not metered) of water sold and the amount of revenue under each rate schedule shall be readily available.

466. Sales for Resale

A. This account shall include the net billing for water supplied (including stand-by service) to other water utilities or to public authorities for resale purposes.

WATER OPERATING REVENUE ACCOUNTS

B. Records shall be maintained so that the quantity (estimated if not metered) of water sold and the amount of revenue under each rate schedule shall be readily available.

Note:--Where the contract is reciprocal, i.e., where either party thereto may take water from the other, the total amount receivable for water supplied to the other party shall be included herein and the total amount payable for water received from the other party shall be charged to account 610 - Purchased Water.

Other Water Revenues

469. Guaranteed Revenues

This account shall be credited with revenue received from developers or other persons for a period of time prior to water service being established. Normally, this type of revenue is usually received to reserve or guarantee the availability of plant capacity when needed.

474. Other Water Revenues

This account shall include revenues derived from water operations not includible in any of the preceding accounts.

WATER OPERATION AND MAINTENANCE EXPENSE ACCOUNTS

- 601. Salaries and Wages - Employees
- 603. Salaries and Wages - Officers, Directors and Commissioners
- 604. Employee Pensions and Benefits
- 610. Purchased Water
- 615. Purchased Power
- 616. Fuel for Power Production
- 618. Chemicals
- 620. Materials and Supplies
- 630. Contractual Services
- 635. Water Testing
- 640. Rents
- 650. Transportation Expenses
- 655. Insurance Expense
- 665. Regulatory Commission Expenses
- 670. Bad Debt Expense
- 675. Miscellaneous Expenses

WATER OPERATION AND MAINTENANCE EXPENSE ACCOUNTS

601. Salaries and Wages - Employees

This account shall include the compensation (salaries, bonuses and other consideration for services) paid or accrued to employees of the utility company for work related to operation and maintenance of that utility company. This account shall not include the salaries and wages of officers, directors or commissioners of the utility company.

603. Salaries and Wages - Officers, Directors and Commissioners

This account shall include the compensation (salaries, bonuses and other consideration for services) paid or accrued to officers, directors or commissioners of the utility company.

604. Employee Pensions and Benefits

This account shall include all accruals under employee pension plans to which the utility has irrevocably committed such funds, and payments for employee accident, sickness, hospital and death benefits or insurance therefor. Include also expenses for medical, educational or recreational activities of employees.

610. Purchased Water

A. This account shall include the cost at the point of delivery of water purchased for resale.

B. The records supporting this account shall be so kept as to show for each supplier from which water is purchased, point of delivery, quantity purchased, basis of charges, and the cost of water purchased.

615. Purchased Power

This account shall include the cost of all electric power expense incurred by the utility.

616. Fuel For Power Production

A. This account shall include the cost of fuel used in the production of power to operate the pumps. Records shall be maintained to show the quantity and cost of each type of fuel used.

B. The cost of fuel shall be charged initially to appropriate fuel accounts under account 151 - Plant Materials and Supplies, and cleared to this account on the basis of the fuel used.

618. Chemicals

This account shall include the cost of all chemicals used in the treatment of water. Include also the cost (except salaries and wages includible in accounts 600 - 603) of any chemicals manufactured by the utility and used to provide water services.

620. Materials and Supplies

This account shall include all materials and supplies used in the operation and maintenance of the water system, other than materials and supplies charged to account 630 - Contractual Services.

WATER OPERATION AND MAINTENANCE EXPENSE ACCOUNTS

630. Contractual Services

This account shall include the cost of operation and maintenance work not performed by utility employees. This account shall include the cost of accounting, legal, management, engineering, and data processing if such work is not performed by employees of the utility.

635. Water Testing

This account shall include costs paid to outside laboratories for testing.

640. Rents

This account shall include those costs associated with the rental of buildings, real property and equipment, except for the rental of automobiles and trucks which shall be included in account 650 - Transportation Expenses.

650. Transportation Expenses

This account shall include all truck, automobile, construction equipment, and other vehicle expense chargeable to utility operations, except depreciation and insurance.

655. Insurance Expense

This account shall include all insurance costs applicable to the accounting period, including workers' compensation, liability, vehicle, fire and theft or robbery insurance.

Note A:--Insurance dividends and refunds shall be credited to this account.

Note B:--The cost of policies extending over a period of more than one year shall be prorated over the period of coverage. Prepaid insurance shall be charged to account 174 - Miscellaneous Current and Accrued Assets.

665. Regulatory Commission Expenses

This account shall include all expenses (except salaries of regular utility employees) incurred by the utility in connection with formal cases before regulatory commissions. This account shall not include payment of taxes, which shall be reported in the taxes other than income account.

670. Bad Debt Expense

This account shall be charged with amounts sufficient to provide for losses from uncollectible utility revenues. Concurrent credits shall be made to account 143.

675. Miscellaneous Expenses

This account shall include all expenses not includible in other operating expense accounts.

1. Industry association dues for company memberships.
2. Contributions for conventions and meetings of the industry.
3. Communication service not chargeable to other accounts.

WATER OPERATION AND MAINTENANCE EXPENSE ACCOUNTS

4. Commissioner and Director meeting expenses.
5. Commissioner and Director fees and expenses.
6. Publishing and distributing annual reports to Commissioners and Directors.
7. Public notices of financial, operating and other data required by regulatory statutes, not including, however, notices required in connection with security issues or acquisition of property.
8. Write off of expenditures for preliminary surveys, plans, investigations, etc., included in account 183 - Preliminary Survey and Investigation Charges, relative to projects that have been abandoned.