

STATE OF NEW HAMPSHIRE

UNIFORM SYSTEM of ACCOUNTS for SEWER UTILITIES



Published by the  
NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION  
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Concord, NH  
June 2015

**NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

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UNIFORM SYSTEM OF ACCOUNTS  
FOR SEWER UTILITIES

PREFACE

**I. Background**

The revised Uniform System of Accounts (USOA) is a historical financial accounting system which reports the results of operational and financial events in a manner which enables both management and regulators to assess these results within a specified accounting period. The USOA also provides the financial community and others with financial performance results. In order for an accounting system to fulfill these purposes, it must exhibit a consistency and stability in financial reporting (including the results published for regulatory purposes.) Accordingly, the USOA has been designed to reflect stable, recurring financial data based to the extent regulatory considerations permit upon the consistency of the well-established body of accounting theories and principles commonly referred to as generally accepted accounting principles.

**II. Basis of the Accounts**

(a) The financial accounts of a company are used to record, in monetary terms, the basic transactions which occur. Certain natural groupings of these transactions are called (in different contexts) transaction cycles, business processes, functions or activities. The concept, however, is the same in each case; i.e., the natural groupings represent what happens within the company on a consistent and continuing basis. This repetitive nature of the natural groupings, over long periods of time, lends an element of stability to the financial account structure.

(b) The financial data contained in the accounts, together with the detailed information contained in the underlying financial and other subsidiary records required by this Commission, will provide the information necessary to support cost of service and management reporting requirements. The basic account structure has been designed to remain stable as reporting requirements change.

**III. Authority**

**Order authorizing Uniform System of Accounts.**

(a) The attached uniform system of accounts for Sewer Utilities is required for every sewer company subject to the jurisdiction of the Commission, and every such sewer company is required to keep its records and accounts in conformity therewith.

(b) Each sewer company for which this uniform system of accounts is prescribed shall classify, set forth, and carry all assets, liabilities, capital stock, and retained earnings (or unincorporated proprietorship) existing as of the effective date of this uniform system of accounts as prescribed in such system of accounts.

(c) In prescribing this system of accounts, the Commission does not commit itself to the approval or acceptance of any item set out in any account for the purpose of fixing rates or in determining other matters before the Commission. The prescribed system of accounts is designed

to set out the facts in connection with the capitalization, construction, income, expenditures, etc., and there from the Commission shall determine, in connection with such matters as shall be deemed advisable from time to time, just what consideration shall be given to the various items in the several accounts.

(d) The system of accounts prescribed became effective January 1, 1990.

#### **IV. Abstracts from the Law**

This Uniform System of Accounts has been prepared under the following authority:

##### **New Hampshire R.S.A. 374:8 Accounting Systems.**

“The Commission may, whenever it deems advisable, establish a system of accounts and records to be used by public utilities for their business within this state, may classify them and prescribe a system of accounts for each class, and may prescribe the manner in which said accounts shall be kept.”

##### **New Hampshire R.S.A. 374:13 Form of Accounts and Records.**

“When the Commission has prescribed the form of accounts and records to be kept by public utilities of any class, each public utility of that class shall thereafter keep the accounts and records so prescribed accurately and honestly and in the manner prescribed; and it shall be unlawful for it to keep any other accounts or records covering the matters included in the accounts and records prescribed, except those which it may be required to keep by the authority of the United States or of any other state.”

##### **New Hampshire R.S.A. 374:14 False Entries, etc.**

“No person shall willfully make any false entry in the accounts or records of any public utility, or willfully destroy, mutilate or by any other means falsify such accounts or records, or willfully neglect or fail to make full, true or correct entries of all facts and transactions appertaining to the business of any public utility, which it is his duty to make; provided, that the Commission may at its discretion issue orders specifying operating, accounting or financial accounts, records, memoranda, books or papers of public utilities which may, after a reasonable time, be destroyed, and may prescribe the length of time the same shall be preserved.”

##### **Puc 706.05 Uniform System of Accounts for Accounting Records.**

“(a) Each utility shall maintain its accounts and records in conformity with the "Uniform Classification of Accounts for Sewer Utilities" established and issued by the commission as a uniform system of accounts pursuant to RSA 374:8.

(b) Each utility shall keep and preserve all accounts and records as provided in the "Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities Regulation", issued by the National Association of Regulatory Utility Commissioners, which is established and designated by the commission as part of its uniform system of accounts pursuant to RSA 374:8.”

Pursuant to RSA 374:8, II and RSA 541-A:21, I(q), as amended effective 7-23-94 by 1994 N.H. Laws 193:3 and 1994 N.H. Laws 193:4, the uniform system of accounts (USOA) for regulated utilities as referenced in Puc 706.05 is exempt from the rulemaking requirements of RSA 541-A.

In light of 1994 N.H. Laws 193, New Hampshire Public Utilities Commission issued Order No. 21,310, dated August 8, 1994 and ordered that the USOAs, including the USOA for sewer utilities, “shall remain in effect until such time as the Commission shall prescribe, amend, rescind or otherwise affect the USOAs currently prescribed for regulated utilities.”

The Commission publishes the USOA separately and has done so first in 1994 and second in 2008. The Commission also files a copy of the USOA with the Office of Legislative Services. The text of the USOA for sewer utilities subject to Order No. 21,310 was last filed in Document #6625.

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765.8 Regulatory Commission Expenses

775.8 Miscellaneous Expenses

**UNIFORM SYSTEM OF ACCOUNTS FOR SEWER UTILITIES****GLOSSARY**

When used in this system of accounts:

“Account” means a specific element of a chart of accounts used to record, classify and accumulate similar financial transactions resulting from the operations of the entity. Accounts or these accounts refer to the accounts of this system of accounts.

“Accounting system” means the total set of interrelated principles, rules, requirements, definitions, accounts, records, procedures and mechanisms necessary to operate and evaluate the entity from a financial perspective. An accounting system generally consists of a chart of accounts, various parallel sub-systems and subsidiary records. An accounting system is utilized to provide the necessary financial information to users to meet judiciary and other responsibilities.

“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.

“Book cost” means the amount at which property is recorded in these accounts, without deduction of related accumulated provision for depreciation, amortization or allowances for other purposes.

“Commission or this Commission” means the New Hampshire Public Utilities Commission.

“Company or the Company,” when not otherwise indicated in the context, means the accounting entity.

“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.

“Control” (including the terms “controlling,” “controlled by,” and “under common control with”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement with, one or more other companies, and whether such power is established through a majority or minority ownership or voting of securities, common directors, officers, or stock holders, voting trusts, holding trusts, affiliated companies, contract, or any other direct or indirect means.

“Cost,” except as applied to water utility plant, franchises, and patent rights, means the amount of money actually paid (or the current money value of any consideration other than money exchanged) for property or services. See also Original Cost.

“Cost of removal” means the cost of demolishing, dismantling, removing, tearing down, or otherwise disposing of water utility plant and recovering the salvage, including the cost of transportation and handling incident thereto.

“Depreciation,” as applied to depreciable water utility plant, is a systematic means of charging operations with the loss in service value not restored by current maintenance over the estimated useful life of the asset, incurred in connection with the consumption or prospective retirement of water utility plant in the course of service from causes which are known to be in current operation, against which the company is not protected by insurance, and the effect of which can be forecasted with a reasonable approach to accuracy. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in technology, changes in demand and requirements of public authorities.

“Intangible property” means assets that have no physical existence but in stead have value because of the rights which ownership confers.

“Net salvage value” means the salvage value of the property retired after deducting the cost of removal.

“Original cost or cost” as applied to water utility plant, rights of way and other intangible property, means the actual money cost of (or the current money value of any consideration or other than money exchanged for) property at the time when it was first dedicated to public service by a regulated water entity, whether the accounting company or by predecessors.

“Plant retired” means plant which has been removed, sold, abandoned, destroyed, or otherwise withdrawn from service.

“Property record units” means those items, groups of items, or quantities of property in terms of which the continuing property record of water utility plant accounts is maintained.

“Retained earnings” (formerly earned surplus) means the accumulated net income of the utility less distribution to stockholders and transfers to other capital accounts.

“Retirement units”, as applied to depreciable water utility plant, means those major items of plant which when removed (with or without replacement) cause the initiation of retirement accounting entries.

“Salvage value” means the amount received for property retired, if sold, or if retained for reuse, the amount at which the material recovered is chargeable to Material and Supplies, or other appropriate account.

“Service life” means the period between the time of installation of water utility plant and the time of its retirement.

“Service value” means the difference between the original cost and the net salvage of utility plant.

“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 value will be reexamined periodically and depreciation rates will be corrected to reflect any changes in these estimates.

“Subsidiary record” means the accumulation of detailed information which is required by this Commission to be maintained in support of entries to the accounts.

“Subsidiary record categories” means those segregations of certain regulated costs, expenses and revenues which must be maintained and are subject to specific reporting requirements of this

“Tangible property” means assets characterized by physical existence, such as land, buildings, equipment, furniture, fixtures and tools.

“Utility”, as used herein and when not otherwise indicated in the context, means any public utility to which this system of accounts is applicable.

**Section 1 GENERAL INSTRUCTIONS**

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- (b) Records
- (c) Regulated Accounts
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  - (2) General - Accounting Period
  - (3) General - "Item" Lists
  - (4) General - Extraordinary Items
  - (5) General - Prior Period Items
  - (6) General - Unaudited Items
  - (7) General - Allocation of Salaries and Expenses of Employees
  - (8) General - Payroll Distribution
  - (9) General - Operating Reserves
  - (10) General - Records for Each Plant
  - (11) General - Accounting for Other Departments
  - (12) General - Transactions with Associated Companies
  - (13) General - Contingent Assets and Liabilities
  - (14) General - Account Information
- (e) Utility Plant - General
  - (1) Utility Plant - To be Recorded at Cost
  - (2) Utility Plant - Components of Construction Cost
  - (3) Utility Plant - Overhead Construction Costs
  - (4) Utility Plant - Purchased or Sold
  - (5) Utility Plant - Accounting for Capital and Operating Leases
  - (6) Utility Plant - Expenditures on Leased Property
  - (7) Utility Plant - Land and Land Rights
  - (8) Utility Plant - Structures and Improvements
  - (9) Utility Plant - Reserved
  - (10) Utility Plant - Additions and Retirements

- (11) Utility Plant - Work Order and Property Record System Required
- (12) Utility Plant - Transfers of Property
- (13) Utility Plant - Common Plant
- (14) Utility Plant - Multiple Use
- (15) Utility Plant - Plant Account Matrix
- (16) Utility Plant - Account Information
- (f) Utility Plant - Depreciation
- (g) Utility Plant - Contributions in Aid of Construction
- (h) Operating Income - Income Taxes
- (i) Interpretation of Accounts
- (j) Preservation of Records
- (k) Waivers
- (l) Address for Reports and Correspondence
- (m) Sequence of Accounts
- (n) Comprehensive Interperiod Tax Allocation Other Than Depreciation
- (n) Unusual Items and Contingent Liabilities
- (o) Materiality
- (p) Approval by the Commission

**Section 1 GENERAL INSTRUCTIONS****(a) Classification of Companies**

A. All sewer companies shall be required to maintain the accounts and comply with the record keeping requirements described herein.

B. Sewer companies shall keep all the accounts of this system of accounts which are applicable to their affairs and are designated. These companies shall also keep Continuing Property Records.

**(b) Records**

A. The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts. The books of accounts of all sewer 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. The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission.

C. The Commission shall require a company to maintain financial and other subsidiary records in such a manner that specific information, of a type not warranting disclosure as an account or subaccount, shall be readily available. When this occurs, or where the full information is not otherwise recorded in the general books, the subsidiary records shall be maintained in sufficient detail to facilitate the reporting of the required specific information. The subsidiary records, in which the full details are shown, shall be sufficiently referenced to permit ready identification and examination by representatives of this Commission, and shall be kept in such manner that they may be produced within the state at such times and places as the Commission may designate.

1. The books referred to herein include not only books of accounts in a limited technical sense but all other records such as minute books, stock books, etc., which will be useful in developing the history of any transaction.

**(c) Regulated Accounts**

A. In the context of this system of accounts, the regulated accounts shall be interpreted to include the investments, revenues and expenses associated with those water products and services to which the tariff filing requirements contained in this Commission's rules, as amended, are applied, except as may be otherwise provided by the Commission. Regulated sewer products and services shall thereby be fully subject to the accounting requirements as specified in this Commission's rules, as amended, and as detailed in this system of accounts.

B. In addition to those amounts considered to be regulated by the provisions of (A) above, those sewer products and services to which the tariff filing requirements of other jurisdictions are applied shall be accounted for as regulated, except where such treatment is

prescribed or otherwise excluded from the requirements pertaining to regulated sewer products and services by this Commission.

**(d) Accounts - General**

**(d)(1) General - Numbering System**

A. The account numbering scheme used herein consists of a system of three digit numbers as follows:

- 100-199 Assets and Other Debits
- 200-299 Equity, Liabilities and Other Credits
- 350-399 Water Plant Accounts
- 400-434 Income Accounts
- 521-549 Sewer Operating Revenue Accounts
- 700-799 Sewer Operation and Maintenance Expenses

B. The Utility plant and operation and maintenance expense accounts are further subdivided using a suffix of one decimal place as explained in following instructions.

C. In certain instances, numbers have been skipped in order to allow for possible later expansion or to permit better coordination with the numbering system for other utility departments.

D. The numbers prefixed to account titles are solely for convenience of reference and are not a part of the titles. Each utility may adopt such scheme of account numbers as it deems appropriate; provided, however, that it shall keep readily available a list of the account numbers and subdivisions of accounts which it uses and a reconciliation of such numbers and subdivisions with the account numbers and titles provided herein. Further, the records must be kept to permit classification or summarization of each accounting period according to the prescribed accounts.

**(d)(2) General - Accounting Period**

Each utility shall keep its books on a monthly basis so that for each month all transactions applicable thereto, as nearly as may be ascertained, shall be entered in the books of the utility. Amounts applicable or assignable to specific utility departments shall be so segregated monthly. Each utility shall close its books at the end of each calendar year unless otherwise authorized by the Commission.

**(d)(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 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.

**(d)(4) General - Extraordinary Items**

It is the intent that net income shall reflect all items of profit and loss during the period with the sole exception of prior period adjustments as described below. Those items related to the effects of events and transactions which have occurred during the current period and which are not typical or customary business activities of the company shall be considered extraordinary items. Commission approval must be obtained to treat an item as extraordinary. Such request must be accompanied by complete detailed information.

**(d)(5) General- Prior Period Items**

A. All prior period adjustments to retained earnings shall be approved by the Commission. Generally the only types of transactions which will be considered as a prior period adjustment are:

1. Correction of an error in the financial statements of a prior period; or
2. Adjustments that result from realization of income tax benefits of preacquisition loss carry forwards of purchased subsidiaries.

B. Prior period adjustments shall be recorded net of all state and federal income tax effects.

C. Changes in depreciation or amortization estimates or methods are considered changes in accounting estimates rather than accounting errors; and therefore are not subject to prior period adjustments. Any adjustments made to the accumulated amortization or depreciation balances of the utility due to a change in estimate or method shall be offset by a charge or credit to either: an income account; account 186.2 - Other Deferred Debits; or account 253 - Other Deferred Credits, as directed by the Commission.

**(d)(6) General - Unaudited Items**

Whenever a financial statement is required by the Commission and 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 transaction(s) shall accompany the financial statements. Utilities are not required to anticipate minor items which would not appreciably affect the accounts.

**(d)(7) 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 operational 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.

**(d)(8) General - Payroll Distribution**

Underlying accounting data shall be maintained so that the distribution of the costs of labor charged to the various accounts shall be available. The utility may utilize clearing accounts

in its accounting process; however, the use of clearing accounts does not relieve the utility from the responsibility of providing a distribution of the costs of labor or from being able to substantiate its labor charged with sufficient source documents.

**(d)(9) General - Operating Reserves**

Accretions to operating reserve accounts made by charges to operating expenses shall not exceed a reasonable provision for the expense. Material balances in such reserve accounts shall not be diverted from a purpose for which provided, unless the permission of the Commission is first obtained.

**(d)(10) General - Records for Each Plant**

Separate records are to be maintained by utility plant accounts detailing book cost of each plant owned including additions by the utility to plant leased from others and the cost of operating and maintaining each plant owned or operated.

**(d)(11) General - Accounting for Other Departments**

If the utility also operates other utility departments, such as electric, water, gas, etc., it shall keep such accounts for the other departments as may be prescribed by proper authority and in the absence of prescribed accounts, it shall keep such accounts as are proper or necessary to reflect the results of operating each other department.

**(d)(12) General - Transactions with Associated Companies**

Each utility shall keep its accounts and records so as to be able to furnish accurately and expeditiously statements of all transactions with associated companies. The statements may be required to show the general nature of the transactions, the amounts involved therein and the amounts included in each account prescribed herein with respect to such transactions. Transactions with associated companies shall be recorded in the appropriate accounts for transactions of the same nature. Nothing herein contained, however, shall be construed as restraining the utility from subdividing accounts for the purposes of recording separately transactions with associated companies.

**(d)(13) General - Contingent Assets and Liabilities**

Contingent assets represent a possible source of value to the utility contingent upon the fulfillment of conditions regarded as uncertain. Contingent liabilities include items which may under certain conditions become obligations of the utility but which are neither direct nor assumed liabilities at the date of the balance sheet. The utility shall be prepared to give a complete statement of material contingent assets and liabilities (including cumulative dividends on preferred stock) in its annual report and at such other times as may be requested by the Commission.

**(d)(14) General - Account Information**

A. As a general rule, all accounts kept by reporting companies shall conform in numbers and titles to those prescribed herein. However, reporting companies may use different numbers

for internal purposes when separate accounts (or subaccounts) maintained are similar to the title and content of accounts and subaccounts prescribed in the system.

1. Accounts which are clearly summaries of other accounts or subaccounts shall be used for reporting purposes and are not otherwise required to be maintained.
2. A company may subdivide any of the accounts prescribed. The titles of all such subaccounts shall refer, by number or title, to the controlling account.
3. A company may establish temporary or experimental accounts provided that within 30 days of the opening of such accounts, the company notifies the Commission of the nature and purpose thereof.

B. Exercise of the preceding options shall be allowed only if the integrity of the prescribed accounts is not impaired.

1. The first annual report filed with this Commission by a utility covering its operations subsequent to the adoption of this system of accounts shall include copies of the statements referred to in subdivision (C)(2), supra, and shall be accompanied by a statement of the company's independent auditors attesting to the conformity, in all material aspects, of the transfer of the balance sheet account balances and detail water plant accounts as required by subdivision (C)(2)(b), supra, with this system of accounts.

C. Nothing contained in this uniform system of accounts shall prohibit or excuse any company, receiver, or operating trustee of any water utility from subdividing the accounts hereby prescribed for the purpose of:

1. Complying with the requirements of the state Commission(s) having jurisdiction; or
2. Securing the information required in the prescribed reports to such Commission(s).

D. Where the use of subsidiary records is considered necessary in order to secure the information required in reports to the Commission, the company shall incorporate the following controls into their accounting system with respect to such subsidiary records:

1. Subsidiary records shall be reconciled to the company's general ledger or books of original entry, as appropriate.
2. The company shall adequately document the accounting procedures related to subsidiary records.
3. The subsidiary records shall be maintained at an adequate level of detail to satisfy state regulators.

**(e) Utility Plant - General****(e)(1) Utility Plant - To be Recorded at Cost**

A. All amounts included in the accounts for utility plant acquired as an operating unit or system shall be stated at the cost incurred by the person who first devoted the property to utility service. All other utility plant shall be included in the accounts at the cost incurred by the utility except as otherwise provided in the texts of the intangible plant accounts. Where the term “cost” is used in the detailed plant accounts, it shall have the meaning stated in the glossary.

B. When the consideration given for property is other than cash, the value of such consideration shall be determined on a cash basis. In the entry recording such transaction, the actual consideration shall be described with sufficient particularity to identify it. The utility shall be prepared to furnish the Commission the particulars of its determination of the cash value of the consideration if other than cash.

C. When property is purchased under a plan involving deferred payments, no charge shall be made to the utility plant accounts for interest, insurance, or other expenditures occasioned solely by such form of payment.

D. Utility plant accounts shall be charged with construction costs (estimated, if not known) of the utility plant contributed by others or constructed by the utility using contributed cash or its equivalent. For contributed utility plant, the accumulated depreciation or amortization account shall be charged with the estimated amount of depreciation or amortization applicable to the property at the time it was contributed to the utility. Account 271 - Contributions in Aid of Construction shall be credited with the net of the amounts charged to the plant and the accumulated depreciation or amortization accounts. For plant constructed using contributed cash or its equivalent, account 271 - Contributions in Aid of Construction shall be credited with the amount of the cash or its equivalent contribution.

**(e)(2) Utility Plant - Components of Construction Cost**

A. The cost of construction properly included in the utility plant accounts shall include, where applicable, the direct and overhead costs as listed and defined hereunder:

1. “Contract work” includes amounts paid for work performed under contract by other companies, firms, or individuals, costs incident to the award of such contracts, and the inspection of such work.
2. “Labor” includes the pay and expenses of employees of the utility engaged in construction work, and related workmen’s compensation insurance, payroll taxes and similar items of expense. It does not include the pay and expenses of employees which are distributed to construction through clearing accounts, nor the pay and expenses included in other items hereunder.
3. “Materials and supplies” includes purchase price at point of free delivery plus: customs duties, excise taxes, the cost of inspecting, loading and transportation, the related stores expenses, and the cost of fabricated materials from the utility’s shop. In determining the cost of materials and supplies used for construction,

proper allowance shall be made for unused materials and supplies, for materials recovered from temporary structures used in performing the work involved, and for discounts allowed and realized in the purchase of materials and supplies.

**Note:** — The cost of individual items of equipment of small value (for example, \$100 or less) or short life, including small portable tools and implements, shall not be charged to utility plant accounts unless the correctness of the accounting therefore is verified by current inventories. 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.

4. “Transportation” includes the cost of transporting employees, materials and supplies, tools, purchased equipment, and other work equipment (when not under own power) to and from points of construction. It includes amounts paid to others as well as the cost of operating the utility’s own transportation equipment (See item 5 following).

5. “Special machine service” includes the cost of labor (optional), materials and supplies, depreciation, and other expenses incurred in the maintenance, operation and use of special machines, such as pile drivers, derricks, ditchers, scrapers, material unloaders, and other labor saving machines; it also includes expenditures for rental, maintenance and operation of machines of others. It does not include the cost of small tools and other individual items of small value or short life which are included in the cost of materials and supplies (See item 3, above). When a particular construction job requires the use for an extended period of time of special machines, transportation or other equipment, the net book cost thereof, less the appraised or salvage value at time of release from the job, shall be included in the cost of construction.

6. “Shop service” includes the proportion of the expense of the utility’s shop department assignable to construction work, except the cost of fabricated materials from the utility’s shop shall be included in “materials and supplies.”

7. “Protection” includes the cost of protecting the utility’s property from fire or other casualties and the cost of preventing damages to others, or to the property of others, including payments for discovery or extinguishment of fires, cost of apprehending and prosecuting incendiaries, witness fees in relation thereto, amounts paid to municipalities and other fire protection, and other analogous items of expenditures in connection with construction work.

8. “Injuries and damages” include expenditures or losses in connection with construction work on account of injuries to persons and damages to the property of others; it also includes the cost of investigation of and defense against actions for such injuries and damages. Insurance recovered or recoverable on account of compensation paid for injuries to persons incident to construction shall be credited to the account or accounts to

which such compensation is charged. Insurance recovered or recoverable on account of property damages incident to construction shall be credited to the account or accounts charged with the cost of damages.

9. "Privileges and permits" include payments for and expenses incurred in securing temporary privileges, permits for and expenses incurred in securing temporary privileges, permits or rights in connection with construction work, such as for the use of private or public property, streets, or highways, but it does not include rents or amounts chargeable as franchises (See account 352 - Franchises).

10. "Rents" include amounts paid for the use of construction quarters and office space occupied by construction forces and amounts properly included in construction costs for such facilities jointly used.

11. "Engineering and supervision" includes the portion of the pay and expenses of engineers, surveyors, draftsmen, inspectors, superintendents and their assistants applicable to construction work.

12. "General administration capitalized" includes the portion of the pay and expenses of the general officers and administrative and general expenses applicable to construction work.

13. "Engineering services" include amounts paid to other companies, firms or individuals engaged by the utility to plan, design, prepare estimates, supervise, inspect, or give general advice and assistance in connection with construction work.

14. "Insurance" includes premiums paid or amounts provided or reserved as self-insurance for the protection against loss and damages in connection with construction, by fire or other casualty, injuries to or death of persons other than employees, damages to property of others, defalcations of employees and agents, and the nonperformance of contractual obligations of others. It does not include workmen's compensation or similar insurance on employees included as "labor" in item 2 above.

15. "Legal expenditures" includes the general legal expenditures incurred in connection with construction and the court and legal costs directly related thereto, other than legal expenses included in "Protection", item 7 and in "Injuries and Damages", item 8.

16. "Taxes" include taxes on physical property (including land) during the period of construction and other taxes properly included in construction costs before the facilities become available for service.

17. "Allowance for funds used during construction" (AFUDC) includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate upon the utility's own funds when so used. No allowance for funds used during construction shall be

included in these accounts upon expenditures for construction projects which have been abandoned.

**Note:** — When only a part of a plant or project is placed in operation or is completed and ready for service but the construction work as a whole is incomplete, that part of the cost of the property placed in operation, or ready for service, shall be treated as “Utility Plant in Service” and the allowance for funds used during construction thereon as a charge to construction shall cease. Allowance for funds used during construction on that part of the cost of the plant which is incomplete may be continued as a charge to construction until such time as it is placed in operation or is ready for service, except as limited in item 17 above.

18. “Earnings and expenses during construction.” The earnings and expenses during construction shall constitute a component of construction costs.

a. The earnings shall include revenues received or earned by plants during the construction period. The revenues shall also include rentals for lands, buildings, etc., and miscellaneous receipts not properly included in other accounts.

b. The expenses shall consist of the cost of operating the water plant, and other costs incident to the water utility costs for which construction is credited under paragraph (a) above, including the cost of repairs and other expenses of operating and maintaining lands, buildings, and other property, and other miscellaneous and like expenses not properly included in other accounts.

### **(e)(3) Utility Plant - Overhead Construction Costs**

A. All overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others than the accounting utility, legal expenses, insurance, injuries and damages, relief and pensions, taxes and allowance for funds used during construction, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, so that each job or unit shall bear its equitable proportion of such costs and that the entire costs of the unit, both direct and overhead, shall be deducted from the plant accounts at the time the property is retired.

B. As far as practicable, the determination of payroll charges included in construction overheads shall be based on time card distributions thereof. Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities so that only such overhead costs as have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted.

C. The records supporting the entries for overhead construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of each overhead expenditure charged to each construction work order and to each utility plant account, and the basis of distribution of such costs.

**(e)(4) Utility Plant - Purchased or Sold**

A. When utility plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, the costs of acquisition, including expenses incidental thereto properly includible in utility plant, shall be charged to account 104 - Utility Plant Purchased or Sold.

B. The accounting for the acquisition shall then be completed as follows:

1. The original cost of plant, estimated if not known, shall be credited to account 104- Utility Plant Purchased or Sold, and concurrently charged to the appropriate utility plant in service accounts and to account 102 - Utility Plant Leased to Others and account 103 - Property Held for Future Use, and account 105 - Construction Work in Progress, as appropriate.
2. The requirements for accumulated depreciation and amortization applicable to the original cost of the properties purchased, if required by the Commission to be recorded by the accounting utility determined with due regard to operating practices of the purchaser and his plans regarding such property and giving consideration also to the effect on such requirements of any rehabilitation expenditures (See Paragraph C), shall be charged to account 104 - Utility Plant Purchased or Sold and concurrently credited to the appropriate account for accumulated depreciation or amortization.
3. The cost to the utility of any property included in account 121 - Non-utility Property shall be transferred thereto.
4. The amount of contributions in aid of construction applicable to the property acquired, and which the purchaser may be required to record, shall be charged to account 104 - Utility Plant Purchased or Sold and concurrently credited to account 271 - Contributions in Aid of Construction.
5. The amount of accumulated amortization applicable to contributed property, and which the purchaser may be required to record, shall be credited to account 104 - Utility Plant Purchased or Sold and concurrently debited to account 272 - Accumulated Amortization of Contributions in Aid of Construction according to the regulatory treatment of the Commission.
6. The amount remaining in account 104 - Utility Plant Purchased or Sold shall then be closed to account 114 - Utility Plant Acquisition Adjustments.

C. If property acquired in the purchase of an operating unit or system is in such physical condition when acquired that it is necessary substantially to re habilitate it in order to bring the property up to the standards of the utility, the cost of such work, except replacements, shall be accounted for as a part of the purchase price of the property.

D. When any property acquired as an operating unit or system includes duplicate or other plant which will be retired by the accounting utility in the reconstruction of the acquired property or its consolidation with previously owned property, the accounting for such property shall be presented to the Commission.

E. In connection with the acquisition of utility plant, the utility shall procure, if possible, all existing records relating to the property acquired, or certified copies thereof, and shall preserve such records in conformity with regulations or practices governing the preservation of records of its own construction.

F. When utility plant constituting an operating unit or system is sold, conveyed, or transferred to another by sale, merger, consolidation, or otherwise, the book cost of the property sold or transferred to another shall be credited to the appropriate utility plant accounts, including amounts carried in account 114 - Utility Plant Acquisition Adjustments, and the amounts (estimated if not known) carried with respect thereto in the accounts for accumulated depreciation and amortization and in account 252 - Advances for Construction, and account 271 - Contributions in Aid of Construction, shall be charged to such accounts and the contra entries made to account 104 - Utility Plant Purchased or Sold. Unless otherwise ordered by the Commission, the difference, if any between (a) the net amount of debits and credits and (b) the consideration received for the property (less commissions and other expenses of making the sale) shall be included in account 414 - Gains (Losses) from Disposition of Utility Property (See account 104 - Utility Plant Purchased or Sold).

**Note:** — In cases where existing utilities merge or consolidate because of financial operating reasons or statutory requirements rather than as a means of transferring title of purchased properties to a new owner, the accounts of the constituent utilities, with the written approval of the Commission, may be combined. In the event original cost has not been determined, the resulting utility shall proceed to determine such cost as outlined herein.

**(e)(5) Utility Plant - Accounting for Capital and Operating Leases**

A. For each lease entered into, the utility shall maintain sufficient documents and other background information as necessary to determine whether the lease is a capital or operating lease. This information includes, but is not limited to:

1. Evidence or documents of ownership;
2. Signed copies of the lease agreement;
3. Estimated life of the leased property;
4. Evidence as to the value of the lease property;
5. Evidence as to the lessor's implicit interest rate (if available);

6. Evidence as to the lessee's borrowing rate; and
7. The amount and disposition of executory costs (taxes, maintenance, and insurance).

B. Leases shall be accounted for by the utility as described in Statement of Financial Accounting Standards Nos. 13 (as amended) and 71 published by the Financial Accounting Standards Board; however, the Commission may elect to approve the entries made to the utility's accounts in recording the effect of utility leases.

C. Capitalized leases shall be recorded in the appropriate plant in service account(s) which describe the type of asset leased. These records shall be maintained in sufficient detail such that the utility will be able to report the number, general nature, and residual balances of all capitalized leased assets as well as any related leasehold amortization balances and the balance of any leasehold obligations.

**(e)(6) Utility Plant - Expenditures on Leased Property**

A. The cost of substantial initial improvements (including repairs, rearrangements, additions and betterments) made in the course of preparing for utility property leased for a period of more than one year, and the cost of subsequent substantial additions, replacements, or betterments to such property, shall be charged to the utility plant account appropriate for the class of property leased. If the service life of the improvements is terminable by action of the lease, then the cost, less net salvage value, of the improvements shall be spread over the life of the lease by charges to account 407.1 - Amortization of Limited Term Plant. However, if the service life is not terminated by action of the lease but by depreciation proper, then the cost of the improvements, less net salvage, shall be accounted for as depreciable plant.

B. If improvements made to property leased for a period of more than one year are of relatively minor cost, or if the lease is for a period of not more than one year, the cost of the improvements shall be charged to the account in which the rent is included either directly or by amortization thereof.

**(e)(7) Utility Plant - Land and Land Rights**

A. The accounts for land and land rights include the cost of land owned in fee by the utility and rights, interests, and privileges held by the utility in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights of way, and other like interests in land. Do not include in the accounts for land and land rights costs incurred in connection with first clearing and grading of land, rights of way, the damage costs associated with the construction and installation of plant. Such costs shall be included in the appropriate plant accounts directly benefited.

B. Where special assessments for public improvements provide for deferred payments, the full amount of the assessments shall be charged to the appropriate land account and the unpaid balance shall be carried in an appropriate liability account. Interest on unpaid balances shall be charged to the appropriate interest account. If any part of the cost of public improvements is included in the general tax levy, the amount thereof shall be charged to the appropriate tax account.

C. Separate entry shall be made for the acquisition, transfer or retirement of each parcel of land and each land right (except rights of way for collection lines), or water rights having a life of more than one year. A record shall be maintained showing the nature of ownership, full legal description, area, map reference, purpose for which used, city, county and tax district in which situated, from whom purchased or to whom sold, payment given or received, other costs, contract date and number, date of recording of deed, and book and page of record. Entries transferring or retiring land or land rights shall refer to the original entry recording its acquisition.

D. Any difference between the amount received from the sale of land or land rights, less agents' commissions and other costs incident to the sale, and the book cost of such land or rights, shall be included in account 414 - Gains (Losses) from Disposition of Utility Property, unless a reserve has been authorized and provided or, unless otherwise authorized or required by the Commission. Appropriate adjustments of the accounts shall be made with respect to any structures or improvements located on land sold.

E. The cost of buildings and other improvements (other than public improvements) shall not be included in the land accounts. If at the time of acquisition of any interest in land, such interest extends to buildings or other improvements (other than public improvements) which are then devoted to water utility operations, the land and improvements shall be separately appraised and the cost allocated to land and buildings or improvements on the basis of the appraisals. If the improvements are removed or, wrecked without being used in operations, the cost of removing or wrecking shall be charged and the salvage value credited to the account in which the cost of the land is recorded.

F. When the purchase of land for utility operations requires the purchase of more land than is needed for such purposes, the charge to the specific land account shall be based upon the cost of the land purchased, less the fair market value of that portion of the land which is not to be used in utility operations. The portion of the cost measured by the fair market value of the land not to be used shall be included in account 103 - Property Held for Future Use or account 121 - Non-utility Property, as appropriate.

G. Provision shall be made for amortizing amounts carried in the accounts for limited term interests in land so as to apportion equitably the cost of each interest over the life thereof (See account 110.1 - Accumulated Amortization of Utility Plant in Service and account 407.1 - Amortization of Limited Term Plant).

**(e)(8) Utility Plant - Structures and Improvements**

A. The accounts for structures and improvements include the cost of all buildings and facilities to house, support, or safeguard property or persons, including all fixtures permanently attached to and made a part of buildings and which cannot be removed therefrom without cutting into the walls, ceilings, or floors, or without in some way impairing the buildings, and improvements of a permanent character on or to land. It also includes those costs incurred in connection with the first clearing and grading of land, rights of way, the damage costs associated with construction and installation of plant.

B. The cost of specially provided foundations not intended to outlast the machinery or apparatus for which provided and the cost of angle irons, castings, etc., installed at the base of any item of equipment shall be charged to the same account as the cost of the machinery, apparatus or equipment.

C. The equipment accounts shall include angle irons and similar items which are installed at the base of an item of equipment, but piers and foundations which are designed to be as permanent as the buildings which house the equipment, or which are constructed as a part of the buildings and which cannot be removed without cutting into the walls, ceilings or floors or without in some way impairing the building, shall be included in the building accounts.

D. The equipment accounts shall include the necessary costs of testing or running a plant or part thereof during an experimental or test period prior to becoming available for service. The utility shall furnish the Commission with full particulars of and justification for any test or experimental run extending beyond a period of thirty days.

E. The cost of efficiency or other tests made subsequent to the date equipment becomes available for service shall be charged to the appropriate expense accounts, except that tests to determine whether equipment meets the specifications and requirements as to efficiency, performance, etc., guaranteed by manufacturers, made after operations have commenced and within the period specified in the agreement or contract of purchase, may be charged to the appropriate utility plant account.

**(e)(9) Utility Plant - Reserved**

**(e)(10) Utility Plant - Additions and Retirements**

A. For the purpose of avoiding undue refinement in accounting for additions to and retirements and replacements of utility plant, all property shall be considered as consisting of (1) retirement units and (2) minor items of property. Each utility shall use such list of retirement units as is in use by it at the effective date hereof or as may be prescribed by the Commission, with the option, however, of using smaller units provided the utility's practice in this respect is consistent.

B. The addition and retirement of retirement units shall be accounted for as follows:

1. When a retirement unit is added to the utility plant, the cost thereof shall be added to the appropriate utility plant account, except that when units are acquired in the acquisition of any utility plant constituting an operating system, they shall be accounted for as provided in the instructions.

2. When a retirement unit is retired from utility plant, with or without replacement, the book cost thereof shall be credited to the utility plant account in which it is included, determined in the manner set forth in paragraph D below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to utility plant shall be charged to the accumulated depreciation applicable to such property. The cost of removal and the salvage value shall be charged or credited, as appropriate, to such depreciation account.

C. The addition and retirement of minor items of property shall be accounted for as follows:

1. When a minor item of property which did not previously exist is added to plant and a substantial addition results, the cost thereof shall be accounted for in the same manner as for the addition of a retirement unit, as set forth in paragraph B(1); otherwise the charge shall be to the appropriate maintenance expense account.
2. When a minor item of property is retired and not replaced, the book cost thereof shall be credited to the utility plant account in which it is included; and, in the event the minor item is a part of a depreciable plant, the account for accumulated depreciation shall be charged with the book cost and cost of removal and credited with the salvage value. If, however, the book cost of the minor item retired and not replaced has been or will be accounted for when such unit is retired, no separate credit to the property account is required.
3. When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance expense account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate utility plant account.

D. The book cost of the utility plant retired shall be the amount at which such property is included in the utility plant accounts, including all components of construction costs. The book cost shall be determined from the utility's records and if this cannot be done, it shall be estimated. When it is impracticable to determine the book cost of each unit due to the relatively large number or small cost thereof, an appropriate average book cost of the units, with due allowance for any differences in size and character, shall be used as the book costs of the units retired.

E. The book cost of land retired shall be credited to the appropriate land account. If the land is sold, the difference between the book cost (less any accumulated provision for depreciation, depletion or amortization therefore which has been authorized and provided) and the sale price of the land (less commissions and other expenses of making the sale) shall be included in account 414 - Gains (Losses) from Disposition of Utility Property, unless otherwise authorized by the Commission. If the land is not used in utility service but is retained by the utility, the book cost shall be charged to account 103 - Property Held for Future Use or account 121 - Non-utility Property, as appropriate.

F. The book cost less net salvage value of depreciable utility plant retired shall be charged in its entirety to account 108.1 - Accumulated Depreciation of Utility Plant in Service. Any amounts which, by approval or order of the Commission, are charged to account 182 -

Extraordinary Property Losses shall be credited to account 108.1 - Accumulated Depreciation of Utility Plant in Service.

G. The accounting for the retirement of amounts included in account 352 -Franchises and the items of limited term interest in land included in the accounts for land and land rights shall be as provided for in the text of account 110.1 - Accumulated Amortization of Utility Plant in Service, account 407.1 - Amortization of Limited Term Plant and account 407.3 - Amortization of Other Utility Charges.

H. In some instances the unexpected 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 B above. In such instances the Commission may authorize or order the loss on retirement (less any tax savings) 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.

**(e)(11) Utility Plant – Work Order System and Continuing Property Records Required**

A. Each utility shall record all construction and retirements of utility plant by means of work orders or job orders. Separate work orders shall be opened for additions to and retirements of utility plant or the retirements may be included with the construction work order, provided, however, that all items relating to the retirements shall be kept separate from those relating to construction and further provided that any maintenance costs involved in the work shall likewise be segregated.

B. Each utility shall keep its work order system so as to show the nature of each addition to or retirement of utility plant, the total cost thereof, the source or sources of costs, and the utility plant account or accounts to which charged or credited. Work orders covering jobs of short duration shall be cleared monthly.

C. Each utility shall maintain records in which, for each plant account, the amounts of the annual additions and retirements are classified so as to show the number and the cost of the various retirement units or other appropriate record units included therein.

**(e)(12) Utility Plant - Transfers of Property**

A. When property is transferred from one utility plant account to another, from one utility department to another, such as from water to sewer, from one operating division or area to another, to or from accounts 101 - Utility Plant in Service, 102 - Utility Plant Leased to Others and 103 - Property Held for Future Use, the transfer shall be recorded by transferring the original cost thereof from the one account, department, or location to the other. Any related amounts carried in the accounts for accumulated depreciation or amortization shall be transferred in accordance with the segregation of such accounts.

B. When depreciable property is transferred from the utility plant accounts to account 121 - Non-utility Property, the transfer shall be accomplished by crediting the utility plant accounts and charging the accumulated depreciation with the book cost of the item transferred; the accumulated depreciation shall then be credited and account 121 - Non-utility Property

concurrently charged with the market value of the property transferred. If the property is sold within a relatively short time, a debit or credit shall be made to the accumulated depreciation to adjust the estimated salvage value to the amount actually realized.

**(e)(13) Utility Plant - Common Plant**

A. If the utility is engaged in more than one utility service such as water, sewer, electric and gas, and if any of its utility plant is used in common for several utility services or for other purposes to such an extent and in such manner that it is impracticable to segregate it by utility services currently in the accounts, then such property with the approval of the Commission, may be designated and classified as ‘common utility plant’.

B. Utility plant designated as common utility plant shall be classified according to the detailed utility plant accounts appropriate for the property.

C. The utility shall be prepared to show at any time and to report to the Commission annually, or more frequently if required, by utility plant accounts (351 to 399) the following: (1) the book cost of common utility plant; (2) the allocation of such cost to the respective departments using the common utility plant; and (3) the basis of the allocation.

D. The accumulated provision for depreciation and amortization of the utility shall be segregated so as to show the amount applicable to the property classified as common utility plant.

E. The expenses of operation, maintenance, rent, depreciation and amortization of common utility plant shall be recorded in the accounts prescribed herein but designated as common expenses, and the allocation of such expenses to the departments using the common utility plant shall be supported in such manner as to reflect readily the basis of allocation used.

**(e)(14) Utility Plant - Multiple Use**

Land, rights of way and structures used jointly for several functions, such as supply, and transmission and distribution purposes, shall be classified according to the major use thereof.

**(e)(15) Utility Plant - Plant Account Matrix**

Utilities are required to subdivide the plant accounts into “functional” operations. The subaccounts are to be designated by adding a suffix of one decimal place to the three digit account number.

**(e)(16) Utility Plant - Account Information**

A. As of the date a company becomes subject to this system of accounts, it shall prepare opening entries in accordance with the following provisions:

1. Utility Plant, all utility plant shall be recorded at original cost.
2. The accounts prescribed herein shall be opened by transferring thereto the balances carried in the accounts previously maintained. The company may make any such subdivisions, reclassifications or consolidations of

existing balances as are necessary to meet the requirements of this system of accounts.

3. The company shall prepare and keep supporting records with summary statements showing:

(a) the closing balances in each account carried on the books prior to the adoption of this system of accounts;

(b) the journal entries to effect the transfer of those balances to the accounts prescribed herein, arranging such entries so as to show for each account or subdivision thereof from what account and to what account each amount was transferred; and

(c) the resultant opening balance of each account under this system of accounts.

**(f) Utility Plant - Depreciation**

A. Depreciation charges shall be computed using the straight-line method (see Glossary). Composite depreciation rates may be used with prior Commission approval.

B. When the straight-line method is used, the rates shall be reviewed periodically and adjusted with Commission approval so that the depreciation accrual will bear a reasonable relationship to the service life, the estimated net salvage, and the cost of plant in service.

C. 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 section (e)(10)(C). Account 108 - Accumulated Depreciation and Amortization of Utility Plant in Service, shall also 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.

D. In rare instances, the unexpected 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 C above. In such instances, the Commission may authorize or order the loss on retirement (less any tax savings) 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 only be used when specifically authorized or directed by the Commission.

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

**(g) Utility Plant - Contributions in Aid of Construction**

A. Nonrefundable contributions of cash or plant facilities donated to the water utility to assist it in constructing, extending or relocating its sewer facilities shall be credited to account

271 - Contributions in Aid of Construction (See account 271 for description of items allowable in this account).

B. Balances in this account representing contributions of depreciable plant shall be amortized using the contra account 272 - Accumulated Amortization of Contributions in Aid of Construction. The corresponding credit shall be to account 403 - Depreciation Expenses, (if amortization is recognized by the Commission).

C. The balance in this account representing contributions of non-depreciable plant (i.e.: land) shall remain unchanged until such time as the property is sold or otherwise retired. At the time of retirement of non-depreciable contributed plant, its cost shall be credited to the appropriate plant account and charged to account 271.

#### **(h) Operating Income - Income Taxes**

##### **A. Current income tax provision**

1. The utility shall initially debit account 409 - Income Taxes and credit account 236 - Taxes Accrued, to record its estimated current income tax liability. As the exact amounts of taxes become known, the current tax accruals shall be adjusted by debits or credits to these accounts unless such adjustments are properly included in account 215 - Retained Earnings, so that this account, as nearly as can be ascertained, shall include the actual taxes payable by the utility.

2. The accruals for income taxes shall be apportioned among utility departments and to Other Income and Deductions so that, as nearly as practicable, each tax shall be included in the expenses of the utility department or Other Income and Deductions shall be related to the income which gave rise to the tax. The income tax effect of amounts recorded in account 215 - Retained Earnings, shall be recorded in that account.

##### **B. Interperiod Income Tax Allocation - Depreciation**

1. The Federal Economic Recovery Tax Act of 1981 (ERTA).

ERTA provides that a utility claiming accelerated depreciation (Accelerated Cost Recovery System or ACRS) must use a normalized method of accounting for federal income taxes on its regulated books of account and for ratemaking purposes. A utility must use the same depreciation method and lives in computing federal income tax expense when establishing cost of service for ratemaking purposes as is used in its regulated books of account or, if it uses a different method, it must make adjustments to a reserve to reflect the deferral of taxes resulting from such differences. Similarly, in order to claim investment tax credits, a utility must defer the entire balance of investment tax credits on its books of account and amortize the balance over the life of the related property.

**(i) Interpretation of Accounts**

To the end that uniform accounting shall be maintained within the prescribed system, questions involving matters of significance which are not clearly provided for shall be submitted to the Director, Gas/Water/Sewer Division of the New Hampshire Public Utilities Commission for explanation, interpretation, or resolution. Questions and answers thereto with respect to this system of accounts shall be maintained by the Director, Gas/Water/Sewer Division.

**(j) Preservation of Records**

Except with the permission of this Commission, the companies shall not destroy any records beyond those specifically permitted under the Regulation to Govern the Preservation of Records of Electric, Gas and Water Utilities Regulation of the National Association of Regulatory Utility Commissioners governing the preservation of records of water utilities, effective April 1974, revised October 2007, and as thereafter amended.

**(k) Waivers**

A waiver from any provision of this system of accounts shall be made by the Commission upon its own initiative or upon the submission of written request therefore from any water company, or group of water companies, provided that such a waiver is in the public interest and each request for waiver expressly demonstrates that: existing peculiarities or unusual circumstances warrant a departure from a prescribed procedure or technique which will result in a substantially equivalent or more accurate portrayal of operating results or financial condition consistent with the principles embodied in the provisions of this system of accounts and the application of such alternative procedure will maintain or improve uniformity in substantive results as among water companies.

**(l) Address for Reports and Correspondence**

Reports, statements, and correspondence submitted to the New Hampshire Public Utilities Commission in accordance with or relating to instructions and requirements contained herein shall be addressed to the New Hampshire Public Utilities Commission, 21 S. Fruit Street, Suite 10, Concord, NH 03301-2429.

**(m) Sequence of Accounts**

The order in which the accounts are presented in the system of accounts is not to be considered as necessarily indicative of the order in which they shall be scheduled at all times in reports to this Commission.

**(n) Comprehensive Interperiod Tax Allocation Other Than Depreciation**

A. Certain regulatory bodies have required comprehensive interperiod income tax allocation of all material book-tax timing differences other than depreciation differences. They have reasoned that where there are timing differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income, the income tax effects of such transactions are to be recognized in the periods in which the differences between book accounting income and taxable income arise and in the periods in which the differences reverse using the deferred tax method. In general,

comprehensive interperiod tax allocation should be followed whenever transactions enter into the determination of pretax accounting income for the period even though some transactions may affect the determination of taxes payable in a different period, as further qualified below.

B. Where comprehensive interperiod tax allocation accounting is not practiced, the utility shall include as a note to each financial statement prepared for public use a footnote explanation setting forth the utility's accounting policies with respect to interperiod tax allocation and describing the treatment for ratemaking purposes of the tax timing difference by regulatory authorities having rate jurisdiction.

C. Should the utility be subject to more than one agency having rate jurisdiction, its accounts shall appropriately reflect the ratemaking treatment (deferral or flow through) of each jurisdiction.

D. Once comprehensive interperiod tax allocation has been initiated, either in whole or in part, it shall be practiced on a consistent basis and shall not be changed or discontinued without prior Commission approval.

**(o) Unusual Items and Contingent Liabilities**

Extraordinary items, prior period adjustments, and contingent liabilities shall be submitted to this Commission for review before being recorded in the company's books of account.

**(p) Materiality**

Companies shall follow this system of accounts in recording all financial and statistical data irrespective of individual items materiality under Generally Accepted Accounting Principles (GAAP), unless a waiver has been granted under the provisions of paragraph (i) of this system of accounts to do otherwise.

**(q) Approval by the Commission**

Whenever the phrases "with the permission of the Commission, with the approval of the Commission, approved by the Commission, or directed by the Commission" are used herein, such permission, approval, authorization, or direction shall be specific and in writing.

**Section 2 INSTRUCTIONS FOR BALANCE SHEET ACCOUNTS**

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**Section 2 INSTRUCTIONS FOR BALANCE SHEET ACCOUNTS****101 Utility Plant in Service**

A. This account is the control account for plant accounts 351 through 399.

B. This account shall include the original cost of utility plant included in the plant accounts prescribed herein and in similar accounts for other utility departments, owned and used by the utility in its utility operations, and having an expected life in service of more than one year from the date of installation, including such property owned by the utility but held by nominees. Separate subaccounts shall be maintained hereunder for each utility department and/or division.

C. The cost of additions to and betterment of property leased from others, which are includible in this account, shall be recorded in subdivisions, separate and distinct from those relating to owned property. (See General Instruction (e)(6).)

**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. There shall be included herein property acquired and never used by the utility in utility service but held for such service in the future under a definite plan and property previously used by the utility in utility service, but retired from such service and held pending its reuse in the future, under a definite plan, in utility service.

B. The property included in this account shall be classified according to the detailed accounts (351 to 399) for utility plant in service and the account shall be maintained in such manner and in detail as though the property were in service.

C. In the event that property recorded in this account shall no longer be needed or appropriate for future utility operations, the company shall notify the Commission of such condition and request approval of journal entries to remove such property from this account.

**Note:** — Materials and supplies 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 the acquisition of utility systems acquired as operating units or systems by purchase, merger, consolidation, liquidation, or otherwise and shall be temporarily credited with the selling price of like property transferred to others pending the distribution to appropriate accounts in accordance with General Instruction (e)(4).

B. Within six months from the date of acquisition or sale of a system, the utility shall file with the Commission for approval the proposed journal entries to clear from 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 party acquired from, all existing records including records of plant construction dates and costs and records of accumulated depreciation applicable to such properties and Contributions in Aid of Construction.

### **105 Construction Work in Progress**

A. This account shall include the total of the balances of work orders for utility plant in process of construction, but not ready for service, at the date of the balance sheet.

B. Work orders shall be cleared from this account as soon as practicable after completion of the job. Further, if a project, such as pumping station or treatment plant, is designed to consist of two or more units which may be placed in service at different dates, any expenditures which are common to and which will be used in the operation of the project as a whole shall be included in utility plant in service upon the completion and the readiness for service of the first unit. Any expenditures which are identified exclusively with units of property not yet in service shall be included in this account.

C. Expenditures on research and development projects for construction of utility facilities are to be included in a separate subdivision in this account. Records must be maintained to show separately each project along with complete details of the nature and purpose of the research and development project together with the related costs.

### **108 Accumulated Depreciation**

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

B. This account shall be credited with:

1. Amounts concurrently charged to account 403 - Depreciation Expense, representing currently accruing depreciation of utility plant (other than contributed plant).

2. Amounts concurrently charged to account 407 - Amortization Expense – Other, representing currently accruing amortization of utility plant.
3. Amounts concurrently charged to account 272 - Accumulated Amortization of Contributions in Aid of Construction, representing amortization of contributed utility plant, if recognized by the Commission.
4. Salvage value, sales price, insurance settlements and other amounts recovered from plant retired.
5. 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 its 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 this Commission.

**Note:** — See General Instructions (e) 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, consolidation, liquidation, or otherwise and (2) the original cost estimated, if not known, of such property less the amount or amounts credited by the utility at the time of acquisition to accumulated depreciation, accumulated amortization and contributions in aid of construction with respect to such property.

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

C. The amounts recorded in this account, with respect to each property acquisition, shall be amortized or otherwise disposed of, as the Commission may approve or direct.

**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 Non-utility Expenses, for the purpose of providing for the extinguishment of amounts in account 114 - Utility Plant Acquisition Adjustments.

**121 Non-utility Property**

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

B. This account shall be subdivided.

**Items:**

1. Land and buildings not used in sewer operations.
2. Utility assets transferred to “non-operative” status.
3. Investments in securities.
4. Assets of non-utility businesses owned by the utility.
5. Accounts receivable and notes receivable not due within one year.

**122 Accumulated Depreciation and Amortization of Non-utility 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 Non-utility 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 non-utility property sold, abandoned, or otherwise retired.

**123 Investment in Associated Companies**

A. This account shall include the book cost of investments in securities issued or assumed by associated companies (See Glossary definition) and investment advances to such companies, including interest accrued thereon when such interest is not subject to current settlement. Include, also, the offsetting entry to the recording of amortization of discount or premium on interest bearing investments. (See account 419 - Interest and Dividend Income).

B. The account shall be maintained in such manner as to show the investment in securities of, and advances to, each associated company together with full particulars regarding any of such investments that are pledged.

**Note A:** — Securities and advances of associated companies owned and pledged shall be included in this account, but such securities, if held in special deposits or in special funds, shall be included in the appropriate deposit or fund account. A complete record of securities pledged shall be maintained.

**Note B:** — Securities of associated companies held as temporary cash investments are includible in account 135 - Temporary Cash Investments.

**Note C:** — Balances in open accounts with associated companies, which are subject to current settlement, are includible in account 145 - Accounts Receivable from Associated Companies.

**Note D:** — The utility may write down the cost of any security in recognition of a decline in the value thereof. Securities shall be written off or written down to a nominal value if there is no reasonable prospect of substantial value. Fluctuations in market value shall not be recorded, but a permanent impairment in the value of securities shall be recognized in the accounts. When securities are written off or written down, the amount of the adjustment shall be charged to account 426 - Miscellaneous Non-utility Expenses or to an appropriate account for provisions for loss in value established as a separate subdivision of this account.

**124 Utility Investments**

This account shall include the book cost of investments in securities issued or assumed by non-associated companies for the purpose of insuring adequate sewer

**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.

**135 Temporary Cash Investments**

A. This account shall include the book cost of investments, such as demand and time loans, bankers' acceptances, United States Treasury certificates, marketable securities, certificates of deposit, and other similar investments, acquired for the purpose of temporarily investing cash.

B. This account shall be so maintained as to show separately temporary cash investments in securities of associated companies and of others. Records shall be kept of any pledged investments.

**141 Customer Accounts Receivable**

A. This account shall include amounts due from customers for utility service. This account shall not include amounts due from associated companies.

B. This account shall be maintained so as to show separately amounts due from each type of utility service.

**Note:** — Accounts receivable other than from customers for utility service shall be included in account 174 - Miscellaneous Current and accrued Assets, or in account 121 - Non-utility Property, as appropriate.

**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 770 - 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.

**145 Accounts Receivable from Associated Companies**

See account 146.

**146 Notes Receivable from Associated Companies**

These accounts shall include notes and drafts upon which associated companies are liable, and which mature are expected to be paid in full not later than one year from date of issue, together with any interest thereon, and debit balances subject to current settlement in open accounts with associated companies. Items which do not bear a specified due date but which have been carried for more than twelve months and items which are not paid within twelve months from due date shall be transferred to account 123 - Investment in Associated Companies.

**Note A:** — On the balance sheet, accounts receivable from an associated company may be set off against accounts payable to the same company.

**Note B:** — The face amount of notes receivable discounted, sold or transferred without releasing the utility from liability as endorser thereon, shall be credited to a separate subdivision of this account and appropriate disclosure shall be made in financial statements of any contingent liability arising from such transaction.

**151 Plant Material and Supplies**

A. This account shall include the cost of materials and supplies on hand 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 which have been removed from service (e.g. 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 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.

**153 Other Materials and Supplies**

This account shall include the book cost of materials and supplies held primarily for non-utility purposes. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account.

**162 Prepayments**

A. This account shall include the amounts representing prepayments of insurance, rents, interest, and miscellaneous items, and shall be kept or supported in such manner as to disclose the amount of each class of prepayment.

B. This account shall include the amounts of rents, insurance, interest and like disbursements made in advance of the period to which they apply. As the periods covered by such prepayments expire, the amount applicable to the period shall be credited to this account and charged to the applicable operating expense or other account.

**Note:** — See also account 409.10 - Income Taxes, Utility Operating Income.

**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.

**184 Clearing Accounts**

A. This caption shall include undistributed balances in clearing accounts at the date of the balance sheet. Balances in clearing accounts shall be substantially cleared not later than the end of the accounting year unless items held therein relate to a future period.

B. Use of the following subaccounts is recommended. This list is intended to be representative, but not exhaustive.

- 184.1 Building Service Expenses - Clearing
- 184.2 Electronic Data Processing Expenses - Clearing
- 184.3 Laboratory Expenses - Clearing
- 184.4 Payroll - Clearing
- 184.5 Shop Expenses - Clearing
- 184.6 Tools and Work Equipment Expenses - Clearing
- 184.7 Transportation Expenses - Clearing
- 184.8 Charges by Associated Companies - Clearing

**186 Miscellaneous Deferred Debits**

A. This account shall include all debits not elsewhere provided for, such as miscellaneous work in progress, other than on utility plant; losses on disposition of property, net of income taxes, deferred by authorization of the Commission; unusual or extraordinary expenses, not included in other accounts, which are in process of amortization; and items the proper final disposition of which is uncertain.

B. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to each deferred debit.

C. The following subaccounts shall be maintained at a minimum, unless otherwise authorized by the Commission. The utility may add additional subaccounts, if desired (such as deferred tank painting expenses).

186.1 Deferred Rate Case Expenses

186.2 Other Deferred Debits

**190 Accumulated Deferred Income Taxes**

A. This account shall be debited and account 411.10 - Provision for Deferred Income Taxes – Credit, Utility Operating Income or account 411.20 - Provision for Deferred Income Taxes – Credit, Other Income and Deductions, as appropriate, shall be credited with an amount equal to that by which income taxes payable for the year are higher because of the inclusion of certain items in income for tax purposes, which items for general accounting purposes will not be fully reflected in the utility's determination of annual net income until subsequent years.

B. This account shall be credited and account 410.10 - Deferred Income Taxes, or account 410.20 - Provision for Deferred Income Taxes, Other Income and Deductions, as appropriate, shall be debited with an amount equal to that by which income taxes payable for the year are lower because of prior payment of taxes as provided by paragraph A above, because of differences in timing for tax purposes of particular items of income or income deductions from that recognized by the utility for general accounting purposes. Such credit to this account and debit to accounts 410.10 or 410.20 shall, in general, represent the effect on taxes payable in the current year of the smaller amount of book income recognized for tax purposes as compared to the amount recognized in the utility's current accounts with respect to the item or class of items for which deferred tax accounting by the utility was authorized by the Commission.

C. Vintage year records with respect to entries to this account as described above and the account balance shall be so maintained as to show the factor of calculation with respect to each annual amount of the item or class of items for which deferred tax accounting by the utility is utilized.

D. The utility is restricted in its use of this account to the purpose set forth above. It shall not make use of the balance in this account or any portion thereof except as provided in the text of this account, without prior approval of the Commission. Any remaining deferred tax account balance with respect to an amount for any prior year's tax deferral, the amortization of which or other recognition in the utility's income accounts has been completed, or other disposition made shall be debited to account 410.10 - Deferred Income Taxes, or 410.20, Provision for Deferred Income Taxes - Other Income and Deductions, as appropriate, or otherwise disposed of as the Commission may authorize or direct. (See General Instruction (1).)

E. The following subaccounts shall be maintained:

- 190.1 Accumulated Deferred Federal Income Taxes
- 190.2 Accumulated Deferred State Income Taxes
- 190.3 Accumulated Deferred Local Income Taxes

**201 Common Stock Issued**

A. This account shall be credited with the total par value or stated value of common stock outstanding.

B. Premiums related to the issue of common stock shall be carried in a separate subaccount of account 211 - Other Paid-In Capital.

**202 Common Stock Subscribed**

A. This account shall include the amount of legally enforceable subscriptions to capital stock of the utility. They shall be credited with the par or stated value of the stock subscribed, exclusive of accrued dividends, if any. Concurrently, a debit shall be made to subscriptions to capital stock, included as a separate subdivision of account 142 - Other Accounts Receivable, for the agreed price and any premium shall be credited to the appropriate premium account. When properly executed stock certificates have been issued representing the shares subscribed, this account shall be debited, and the appropriate capital stock account credited, with the par or stated value of such stock.

B. The records shall be kept in such manner as to show the amount of subscriptions to each class and series of stock.

**204 Preferred Stock Issued**

A. This account shall be credited with the total par value or stated value of preferred stock outstanding.

B. A separate subaccount shall be maintained for each class and series of preferred stock.

C. Premiums and discounts related to the issue of preferred stock shall be carried in a separate subaccount of account 211 - Other Paid-In Capital.

**207 Premium on Capital Stock**

A. This account shall include in a separate subdivision for each class and series of stock the excess of the actual cash value of the consideration received on original issues of capital stock over the par or stated value and accrued dividends of such stock, together with assessments against stockholders representing payments required in excess of par or stated values.

B. Premium on capital stock shall not be set off against expenses. Further, a premium received on an issue of a certain class or series of stock shall not be set off against expenses of another issue of the same class or series.

C. When capital stock which has been actually issued is retired, the amount in this account applicable to the shares retired shall be transferred to account 210 - Gain on Resale or Cancellation of Reacquired Capital Stock.

**211 Other Paid-In Capital (for corporations only)**

A. This account shall include all paid-in capital not derived from earnings. It shall include such items as premiums and discounts related to the issuance of capital stock, donations to the utility of its capital stock, credits arising from the forgiveness of debt of the utility; credits arising out of a reorganization of the utility, or in connection with its recapitalization.

B. Each type of paid-in capital shall be carried in a separate subaccount.

**215 Retained Earnings (for corporations only)**

A. This account shall reflect corporate earnings retained in the business.

B. The account shall be credited with:

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

C. The account shall be charged with:

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

D. Adjustment 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.

**218 Proprietary Capital (for proprietorships and partnerships only)**

- A. This account shall be credited with the investment of a sole proprietor or partners, in an unincorporated sewer utility.
- B. At the end of each calendar year, the net income or loss for the year shall be entered in this account.
- C. At the end of each calendar year the net income or loss for the year shall be entered in this account.
- D. Accounting adjustments associated with correction of errors attributable to a period shall be charged or credited to this account. (See also account 215, item D, above.)

**Note:** — This account may be restricted to the amount considered by the proprietor to be the permanent investment in the business, subject to change only by additional investment by the proprietor or the withdrawal of portions thereof not representing net income. When this option is taken, the earned surplus accounts shall be maintained and entries thereto shall be made in accordance with the texts thereof.

**223 Advances from Associated Companies**

- A. This account shall include the face value of notes payable to associated companies and the amount of open book accounts representing advances from associated companies. It does not include notes and open accounts representing indebtedness subject to current settlement which are includible in account 233 - Accounts Payable to Associated Companies or account 234 - Notes Payable to Associated Companies.
- B. The records supporting the entries to these accounts shall be so kept that the utility can furnish complete information concerning each note and open account.

**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. A separate subaccount shall be maintained for each obligation outstanding. Records shall be maintained to show separately for each class all details as to date of obligation, date of maturity, interest dates and rates, security for obligation, etc.

**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.

**233 Accounts Payable to Associated Companies**

This account shall include all amounts payable by the utility to associated companies which are not provided for in other accounts.

**Note:** — Exclude from this account amounts which are includible in account 223 - Advances from Associated Companies.

**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, withholding taxes and corporate income taxes.

B. This account shall be credited during each 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 as the facts become known, the amount of the periodic credits shall be adjusted so as to reflect the 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.

**Note:** — Liability for personal income or self-employment taxes of owner or partners shall not be entered in the books of the utility although payment of such taxes may be charged as withdrawals to proprietary capital.

**237 Accrued Interest**

A. 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.

**238 Accrued Dividends**

This account shall include the amount of dividends which have been declared but not paid. Dividends shall be credited to this account when they become a liability.

**241 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/she is entitled according to the agreement or rule under which the advance was made, the balance, if any, remaining in this account shall be credited to account 271 - Contributions in Aid of Construction.

**253 Other Deferred Credits**

This account shall include gains on disposition of property net of income taxes 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.

**255 Accumulated Deferred Investment Tax Credits**

A. This account shall be credited with all investment tax credits deferred by companies which have elected to follow deferral accounting, partial or full, rather than recognizing in the income statement the total benefits of the tax credit as realized. After such election, a company may not transfer amounts from this account except as authorized herein and in accounts 412.11 - Investment Tax Credits Restored to Operating Income, Utility Operations, 412.20 - Investment Tax Credits – Net, Non-utility Operations, and 412.30 - Investment Tax Credits Restored to Non-operating Income, Utility Operations, or with approval of the Commission.

B. Where the company's accounting provides that investment tax credits are to be passed on to customers, this account shall be debited and account 412.11 credited with a proportionate amount determined in relation to the book depreciable life of all utility property or utility property to which the tax credits relate or such lesser period of time as allowed by a regulatory agency having rate jurisdiction. If, however, the deferral procedure provides that investment tax credits are not passed on to customers, the proportionate restorations to income shall be credited to account 412.30 - Investment Tax Credits Restored to Non-operating Income.

C. Subdivisions of this account by department shall be maintained for deferred investment tax credits that are related to non-utility or other operations. Contra

entries affecting such account subdivisions shall be appropriately recorded. Use of deferral or non-deferral accounting procedures adopted for non-utility or other operations are to be followed on a consistent basis.

D. Separate records for each utility department and non-utility or other operations shall be maintained identifying the properties giving rise to the investment tax credits for each year with the appropriate service life of such properties and any unused balances of such credits. Such records are not necessary unless the tax credits are deferred.

**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.

**271 Contributions in Aid of Construction**

- 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, any portion of 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 and regulations.
  - 3. Compensation received from governmental agencies and others for relocation of water mains or other plants.
- B. The credits to this account shall not be transferred to any other account without the approval of the Commission.
- 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 amounts 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).

**272 Accumulated Amortization of Contributions in Aid of Construction**

A. This account shall reflect the amortization accumulated on account 271 - Contributions in Aid of Construction.

B. Specifically, balances in account 271 which represent contributions of depreciable plant shall be amortized by charges to this account over a period equal to the estimated service life of the contributed asset. A group or overall composite rate may be used for contributed balances that cannot be directly related to a plant asset.

C. The concurrent credit for the amortization recorded in this account shall be made to account 403 - Depreciation Expenses.

**Accumulated Deferred Income Taxes**

Before using the deferred tax accounts provided below, refer to General Instruction (h)B - Interperiod Income Tax Allocation - Depreciation and (n) - Comprehensive Interperiod Tax Allocation Other Than Depreciation.

Public utilities shall use the accounts provided below for prior accumulations of deferred taxes on income and for additional provisions. Prior to any use of these accounts, the utility must file with the Commission, for the purpose of obtaining authorization, its proposed plan of accounting for deferred taxes on income. The utility shall not use these accounts unless such use has been authorized by the Commission. If deferred tax accounting is initiated with respect to any property, such accounting shall not be discontinued on that property without prior approval of the Commission.

The utility is restricted in its use of these accounts to the purposes set forth therein. It shall not make any transfers from these accounts or make any use thereof, except as provided in the text of the accounts, without prior approval of the Commission. It shall not transfer the balance in these accounts or any portion thereof to retained earnings, except as provided in the text of this account, without prior approval of the Commission.

Upon the disposition by sale, exchange, transfer, abandonment, or premature retirement of plant on which there is a related balance in these accounts, the deferred tax account shall be debited with an amount equal to the related income tax expense, if any, arising from such disposition and account 411 - Provision for Deferred Income Taxes-Credit shall be credited. When the remaining balance, after consideration of any related income tax expenses, is not significant, the deferred tax account shall be debited and account 411 credited with such balance. If after consideration of any related income tax expense the remaining amount is significant, then the Commission shall authorize or direct how such amount shall be accounted for at the time approval for the disposition of account is granted. When plant is disposed of by transfer to a wholly owned subsidiary, the related balance in the deferred tax account shall also be transferred. When the disposition

related to retirement of an item or items under a group method of depreciation where there is no tax effect in the year of retirement, no entries are required in the deferred tax account if it can be determined that the related balances would be necessary to be retained to offset future group item tax deficiencies.

**Note:** — Public utilities having more than one utility department and/or non-utility property and which have deferred taxes on income with respect thereto shall classify such deferrals in the accounts provided below so as to allow ready identification of items relating to each utility department and to Other Income and Deductions.

**281 Accumulated Deferred Income Taxes - Accelerated Amortization**

A. This account shall include tax deferral resulting from adoption of the principles of Comprehensive Interperiod Tax Allocation - Other Than Depreciation, described in General Instruction (n) of this system of accounts, that relate to property for which the utility has availed itself of the use of accelerated (5-year) amortization of (1) certified defense facilities as permitted by Section 168 of the Internal Revenue Code and (2) certified pollution control facilities as permitted by Section 169 of the Internal Revenue Code.

B. This account shall be credited and accounts 410.10 - Deferred Income Taxes or account 410.20 - Provision for Deferred Income Taxes - Other Income and Deductions, as appropriate, shall be debited with tax effects related to property described in paragraph A above, where taxable income is lower than pretax accounting income due to differences between the periods in which revenues and expense transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income.

C. This account shall be debited and accounts 411.10 - Provision for Deferred Income Taxes - Credit, Utility Operating Income or 411.20 - Provision for Deferred Income Taxes - Credit, Other Income and Deductions, as appropriate, shall be credited with tax effects related to property described in paragraph A above, where taxable income is higher than pretax accounting income due to differences between the periods in which revenues and expense transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income.

D. Records with respect to entries to this account, as described above and the account balance shall be so maintained as to show the factors of calculation and the separate amounts applicable to the plant additions of each vintage year for each class, group, or unit. The underlying calculations to segregate and associate deferred tax amounts with the respective vintage years may be based on reasonable methods of approximation, if necessary, consistently applied.

**282 Accumulated Deferred Income Taxes - Liberalized Depreciation**

A. This account shall include all tax deferrals resulting from the adoption of the principles of comprehensive interperiod income tax allocation described in General Instruction (n) of this system of account other than those deferrals which are includible in accounts 281 - Accumulated Deferred Income Taxes - Accelerated Amortization and 283 - Accumulated Deferred Income Taxes - Other.

B. This account shall be credited and the subaccounts of account 410.10 - Deferred Income Taxes, or 410.20 - Provision for Deferred Income Taxes, Other Income and Deductions, as appropriate, shall be debited with tax effects related to items described in paragraph A above, where taxable income is lower than pretax accounting income due to differences between the periods in which revenue and expense transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income.

C. This account shall be debited and accounts 411.10 - Provision for Deferred Income Taxes - Credit, Utility Operating Income or 411.20 - Provision for Deferred Income Taxes - Credit, Other Income and Deductions, as appropriate, shall be credited with tax effects related to items described in paragraph A above, where taxable income is higher than pretax accounting income due to differences between the periods in which revenues and expense transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income.

D. Records with respect to entries to this account, as described above and the account balance shall be so maintained as to show the factors of calculation and the separate amounts applicable to the plant additions of each vintage year of each class, group or unit. The underlying calculations to segregate and associate deferred tax accounts with the respective vintage years may be based on reasonable methods of approximation, if necessary, consistently applied.

E. For ratemaking purposes, the balance in accounts 281, 282, and 283 - Accumulated Deferred Income Taxes - Accelerated Amortization, Liberalized Depreciation, and Other, net of any balance in account 190 - Accumulated Deferred Income Taxes, shall either be deducted from rate base by all companies having a net credit balance of deferred taxes.

**Section 3 INSTRUCTIONS FOR SEWER UTILITY PLANT ACCOUNTS**

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<b>(b) Collection Plant</b>	
Non-depreciable	
Land and Land Rights	353.2
Depreciable	
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Collection Sewers - Gravity	361.2
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Non-depreciable	
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Chart of Accounts

Section 3 - Sewer Utility Plant Accounts

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Tools, Shop and Garage Equipment	393.5
Power Operated Equipment	395.5
Communication Equipment	396.5
Other Tangible Plant	398.5

**Section 3 INSTRUCTIONS FOR WATER UTILITY PLANT ACCOUNTS****351 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 is listed below.

- A. Actual cost of obtaining certificates authorizing an enterprise to engage in the public utility business.
- B. Fees and expenses for incorporation.
- C. Fees and expenses for mergers or consolidations.
- D. Office expenses incident to organizing the utility.
- E. Stock and minute books and corporate seal.

**352 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, consents 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 Non-utility Expenses, or to account 108 - Accumulated Depreciation and Amortization of Utility Plant in Service, as appropriate.

**Non-depreciable****353 Land and Land Rights**

This account shall include the cost of land, rights-of-way and easements used in sewer operations. A sample of items to be included in this account is listed below:

- A. Bulkheads buried, not requiring maintenance or replacement.
- B. Cost, first, of acquisition including mortgages and other liens assumed (but not subsequent interest thereon).

- C. Condemnation proceedings, including court and counsel costs.
- D. Consents and abutting damages, payment for.
- E. Conveyancers' and notaries' fees.
- F. Fees, commissions, and salaries to brokers, agents and others in connection with the acquisition of the land or land rights.
- G. Leases, cost of voiding upon purchase to secure possession of land.
- H. Removing, relocating or reconstructing property of others, such as buildings, highways, railroads, bridges, cemeteries, churches, telephone and power lines, etc., in order to acquire quiet possession.
- I. Retaining walls unless identified with structures.
- J. Special assessments levied by public authorities for public improvements on the basis of benefits for new roads, new bridges, new sewers, new curbing, new pavements and other public improvements but not taxes levied to provide for the maintenance of such improvements.
- K. Surveys in connection with the acquisition but not amounts paid for topographical surveys and maps where such costs are attributable to structures or plant equipment erected or to be erected or installed on such land.
- L. Taxes assumed, accrued to date of transfer of title.
- M. Title, examining, clearing, insuring and registering in connection with the acquisition and defending against claims relating to the period prior to the acquisition.
- N. Appraisals prior to closing title.
- O. Cost of dealing with distributees or legatees residing outside of the state or county, such as recording power of attorney, recording will or exemplification of will, recording satisfaction of state tax.
- P. Filing satisfaction of mortgage.
- Q. Documentary stamps.
- R. Photographs of property at acquisition.
- S. Fees and expenses incurred in the acquisition of water rights and grants.

T. Cost of fill to extend bulkhead line over land under water, where riparian rights are held, which is not occasioned by the erection of a structure.

U. Sidewalks and curbs constructed by the utility on public property.

V. Labor and expenses in connection with security rights of way, where performed by company employees and company agents.

### **Depreciable**

#### **354 Structures and Improvements**

This account shall include cost in place of structures and improvements used in connection with sewage collection, pumping, treatment and disposal, and general plant operations. A sample of items to be included in this account is listed below:

- A. Yard paving and fencing.
- B. Pump houses and storage sheds.
- C. Grading and clearing.
- D. Landscaping and clearing.
- E. Roadways (paved, concrete, etc.).
- F. Buildings.

#### **360 Collection Sewers - Force**

This account shall include all sewers which are used to lift sewage from a low elevation to a higher elevation. The force sewer will include that pipe between the discharge outlet of the lift station and the receiving manhole.

#### **361 Collection Sewers – Gravity**

This account shall include the installed cost of all gravity collecting sewers, interceptor, branch, trunk, lateral including service wye, including manholes and lampholes. Manholes shall be included as a separate unit of property.

#### **362 Special Collecting Structures**

Inverted siphon shall be included in this account but so distinctly notes; also any other special designed structures unusual to sewer system should be included herein but specifically noted as to what they are.

#### **363 Services to Customers**

This account shall include the installed cost of service sewers, from collection sewer to the customer's property or curb line. A sample of items to be included in this account is listed below:

- A. Manhole or clean-out.

- B. Municipal inspection and permits.
- C. Jointing.
- D. Pavement disturbed.
- E. Taping saddle.

**364 Flow Measuring Devices**

- A. This account shall include the cost of flow measuring and recording equipment and initial testing used for measuring the quantity of sewage or sewage effluent delivered by customers, whether actually in service or held in reserve.
- B. When flow measuring equipment is permanently retired from service, the amount at which it is included herein shall be credited to this account.
- C. The records covering flow measuring equipment shall be so kept that the utility can furnish information as to the number of devices of each type and size in service and in reserve, as well as the location of each device included in this account.

**365 Flow Measuring Installations**

- A. This account shall include the cost of labor employed, materials used and expenses incurred in connection with the original installation of customer's flow measuring equipment. A sample of items to be included in this account is listed below:
  - 1. Floats, connections, flumes, or wires.
  - 2. Special manhole, boxes, or other separate housing.
- B. When a flow measuring installation is permanently retired from service, the cost thereof shall be credited to this account.

**370 Receiving Wells**

- This account shall include the cost installed of pumping equipment driven by electric power or diesel engines. A sample of items to be included in this account is listed below:
- A. Motors or engines for driving pumps.
  - B. Pumps, including settings, gearing, shafting and belting.
  - C. Sewage piping within station, including valves.
  - D. Auxiliary equipment for motors and pumps such as oiling systems, cooling systems, condensers, etc.
  - E. Electric power lines and switching.
  - F. Foundations, frames and bed plates.
  - G. Hoist units.

**380 Treatment and Disposal Equipment**

This account shall include the cost installed of apparatus, equipment and other facilities used for the treatment of sewage and/or disposal of sewage wastes. A sample of items to be included in this account is listed below:

- A. Aeration chambers.
- B. Chemical equipment.
- C. Imhoff tank.
- D. Oxidation pond or lagoon.
- E. Sedimentation equipment.
- F. Screen unit.
- G. Sludge system.
- H. Trucks, tractors, or other equipment used primarily for sludge disposal.
- I. Package mechanical treatment plant.
- J. Sedimentation basin.
- K. Sludge digestion and filtration or dewatering equipment.

**381 Plant Sewers**

This account shall include the cost installed of plant yard piping and appurtenances, and facilities required to dispose of treatment plant liquid effluent into the outfall sewer line. A sample of items to be included in this account is listed below:

- A. Unit to unit sections of yard piping.
- B. Valves and vaults.
- C. Pipe tunnels or galleries.

**382 Outfall Sewer Lines**

This account shall include the installed cost of sewer line carrying effluent from treatment facility to point of discharge. Includible in this account would be headwall or outlet.

**389 Other Plant and Miscellaneous Equipment**

This account shall include the cost installed of other intangible, collection system pumping, and treatment and disposal plant not provided for in the preceding accounts.

**390 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 is listed below:

- A. Adding machine.
- B. Addressing machines.
- C. Calculating machines.
- D. Drafting room equipment.
- E. Computers.
- F. Postage meter machines.
- G. Desks, typewriters.
- H. Filing cabinets.
- I. Book cases, tables, chairs.

**391 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.

**393 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.

**395 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 is listed below:

- A. Air compressors.
- B. Back filling machines.
- C. Tractors.
- D. Trenchors.

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

**396 Communication Equipment**

This account shall include the cost installed of telephone, telegraph and wireless equipment for general use in connection with utility operations. A sample of items to be included in this account is listed below:

- A. Antennae.
- B. Booths.
- C. Cables.
- D. Distribution boards.
- E. Extension cords.
- F. Gongs.
- G. Handsets, manual and dial.
- H. Insulators.
- I. Intercommunicating sets.
- J. Loading coils.
- K. Operators' desks.
- L. Poles and fixtures used wholly for telephone and telegraph wires.
- M. Radio transmitting and receiving sets.
- N. Remote control equipment and lines.
- O. Sending keys.
- P. Storage batteries.
- Q. Switchboards.
- R. Teleautograph circuit connections
- S. Telegraph receiving sets.
- T. Telephone and telegraph circuits.
- U. Testing instruments.
- V. Towers.
- W. Underground conduit used wholly for telephone or telegraph wires and cable wires.

**398 Other Tangible Plant**

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

**Section 4 INSTRUCTIONS FOR INCOME ACCOUNTS**

	<b>Account</b>
<b>(a) Utility Operating Income</b>	
Operating Revenues	400
Operating Expenses	401
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Deferred Income Taxes	410.10
Provision for Deferred Income Taxes, Other Income and Deductions	410.20
Provision for Deferred Income Taxes - Credit	411
Provision for Deferred Income Taxes - Credit, Utility Operating Income	411.10
Provision for Deferred Income Taxes - Credit, Other Income and Deductions	411.20
Investment Tax Credits	412
Investment Tax Credits - Net, Non-utility Operations	412.20
Investment Tax Credits Restored to Non-operating Income, Utility Operations	412.30
<b>(d) Interest Expense</b>	
Interest Expense	427

**Section 4 INSTRUCTIONS FOR INCOME ACCOUNTS****400 Operating Revenues**

This is the revenue control account which totals the accounts credited to revenue accounts 521 through 536 for sewer systems.

**401 Operation and Maintenance Expenses**

This is the operating expense control account which totals the amounts charged to operating expense accounts 701 to 775 for sewer systems.

**403 Depreciation Expenses**

A. This account shall be charged with depreciation credited to account 108 - Accumulated Depreciation and Amortization of Utility Plant in Service and credited with amortization debited to account 272 - Accumulated Depreciation of Contributions in Aid of Construction. 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 General Instruction (e) for more detailed instructions on depreciation accounting.

B. Depreciation for property not used in sewer operations is charged to account 426 - Miscellaneous Non-utility Expense and is credited to account 122 - Accumulated Depreciation and Amortization of Non-utility 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 government authorities, except income taxes.

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 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 non-utility 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 non-utility 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 non-utility 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.

#### **409 Income Taxes**

A. These accounts shall include the amounts of local, state and federal income taxes on income properly accruable during the period covered by the income statement to meet the actual liability for such taxes. Concurrent credits for the tax accruals shall be made to account 236 - Accrued Taxes, and as the exact amounts of taxes become known, the current tax accruals shall be adjusted by charges or credits to these accounts unless such adjustments are properly includible in account 215 - Retained Earnings, so that these accounts, as nearly as can be ascertained, shall include the actual taxes payable by the utility.

(See General Instruction (d)(5) for prior period adjustments.)

B. The accruals for local, state and federal income taxes shall be apportioned to Utility Operating Income (by department/division), Other Income and Deductions and Extraordinary Items so that, as nearly as practicable, each tax shall be included in the expenses of the utility department, Other Income and Deductions or Extraordinary Items, shall be related to the income which gave rise to the tax.

The income tax effect of amounts recorded in account 215 - Retained Earnings shall be recorded in that account. The tax effects relating to interest charges, other than interest specifically applicable to indebtedness on property in Account 121 shall be included in account 409.10 - Income Taxes, Utility Operating Income.

C. This account shall be maintained according to the subaccount 409.10 and 409.20, as shown below:

**Note A:** — Interest assumed by the utility on taxes shall be charged to account 427 - Interest Expense.

**Note B:** — Interest on tax refunds or deficiencies shall not be included in this account but in account 419 - Interest and Dividend Income or account 427 - Interest Expense, as appropriate.

**Note C:**—See General Instruction (h).

#### **409.10 Federal Income Taxes, Utility Operating Income**

This account shall include the amount of those federal, state and local income taxes reflected in account 409 - Income Taxes, which relate to utility operating income after interest charges and other tax adjustments. This account shall be maintained so as to allow ready identification of tax effects (both positive and negative) relating to Utility Operating Income (by department/division), Utility Plant Leased to Others and Other Utility Operating Income.

#### **409.20 Income Taxes, Other Income and Deductions**

This account shall include those local, state and federal income taxes reflected in account 409 - Income Taxes, (both positive and negative), which relate to Other Income and Deductions.

#### **410 Provision for Deferred Income Taxes**

A. Accounts 410.10 and 410.20 shall be debited and accounts 281, 282 or 283 - Accumulated Deferred Income Taxes - Accelerated Amortization, Liberalized Depreciation or Other shall be credited with amounts equal to any current deferrals of taxes on income or any allocations of deferred taxes originating in prior periods as provided by the texts of accounts 190, 281, 282, and 283. No credit amounts appropriately includible in account 411.10 or 411.20 shall be netted against entries required to be made to these accounts.

B. This account shall be maintained according to the subaccounts 410.10 and 410.20 inclusive, as shown below.

**Note:** — See General Instruction (h).

**410.10 Deferred Income Taxes**

This account shall include the amounts of those deferrals of federal, state, and local income taxes and allocations of deferred federal income taxes which relate to Utility Operating Income (by department/division).

**410.20 Provision for Deferred Income Taxes, Other Income and Deductions**

This account shall include the amount of those deferred federal, state and local income taxes reflected in account 410 - Provision for Deferred Income Taxes which relate to other Income and Deductions.

**411 Provision for Deferred Income Taxes – Credit**

Accounts 411.10 and 412.20 shall be credited and accounts 281, 282 or 283 - Accumulated Deferred Income taxes - Accelerated Amortization, Liberalized Depreciation or Other shall be debited with amounts equal to any allocations of deferred taxes originating in prior periods or any current deferrals of taxes on income as provided by the texts of accounts 190, 281, 282 and 283. No debit amounts appropriately includible in account 410.10 or 410.20 shall be netted against entries required to be made to these accounts.

**411.10 Provision for Deferred Income Taxes - Credit, Utility Operating Income**

This account shall include the amounts of those allocations of deferred federal, state and local income taxes and deferrals of federal, state and local income taxes, credit which relate to Utility Operating Income (by department/division).

**411.20 Provision for Deferred Income Taxes - Credit, Other Income and Deductions**

This account shall include the amounts of those allocations of deferred taxes and deferrals of taxes, credit, which relate to Other Income and Deductions.

**412 Investment Tax Credits**

A. This account shall be debited with the total amount of investment tax credits used in calculating the reported current year's income taxes payable.

Account 255 - Accumulated Deferred Investment Tax Credits shall be credited with an equal amount of the investment tax credits debited to this account. Investment tax credits related to property used in utility operations shall be debited to subaccount 412.10 - Investment Tax Credits Deferred to Future Periods, Utility Operations. Those investment tax credits related to property used in non-utility operations shall be debited to account 412.20 - Investment Tax Credits - Net, Non-utility Operations.

B. A company which has deferred its investment tax credits shall amortize these deferred credit amounts by crediting and debiting account 255 - Accumulated Deferred Investment Tax Credits. Such annual amortization shall be allocated proportionately over the service lives of all assets or of the assets generating the

credits. The proportional amounts shall be determined in relation to the method of depreciation actually used on the regulated books of account.

1. In amortizing the deferred investment tax credits related to property used in utility operations, the annual proportional amount credited to account 412 - Investment Tax Credits may or may not be passed on to customers in accordance with the Internal Revenue Code section applicable to the company. Where the company is subject to Section 46 (f)(2) of the Code which provides a “Special rule for ratable flow-through” or Option 2 treatment, the annual proportional amortization is to be credited to subaccount 412.11 - Investment Tax Credits Restored to Operating Income, Utility Operations. Where the company is subject to Code Section 46 (f)(1), which is the “General Rule” or Option 1, treatment, the annual proportional amortization shall be credited to subaccount 412.30 - Investment Tax Credits Restored to Non-operating Income, Utility Operations.

2. In amortizing the deferred investment tax credits related to property used in non-utility operations, the annual amount shall be credited to subaccount 412.20 - Investment Tax Credits - Net, Non-utility Operations.

C. This account shall be maintained so that the debits and credits relating to each allowable percentage of credit, i.e., 3% 4%, 6%, 7%, 8%, 10%, etc., may be readily identified.

D. This account shall be maintained so that the debits and credits relating to each utility department/division and each non-utility operation may be readily identified as well as the vintage year in which they were deferred.

E. This account shall be maintained according to subaccounts 412.10, 412.11, 412.20 and 412.30 as shown below.

#### **412.10 Investment Tax Credits Deferred to Future Periods, Utility Operations**

This account shall be debited and account 255 - Accumulated Deferred Investment Tax Credits shall be credited with the amounts of realized investment tax credits deferred to future periods related to property used in utility operations (by department/division).

#### **412.11 Investment Tax Credits Restored to Operating Income, Utility Operations**

This account shall be credited and account 255 - Accumulated Deferred Investment Tax Credits shall be debited with the proportionate amounts of deferred investment tax credits related to property used in utility operations being restored to operating income in accordance with the “Special Rule for Ratable Flow-through” or Option 2 treatment as provided in the Revenue Act of 1971, the Tax Reduction Act of 1975 or the Economic Recovery Tax Act of 1981.

**412.20 Investment Tax Credits - Net, Non-utility Operations**

A. This account shall be debited and account 255 - Accumulated Deferred Investment Tax Credits shall be credited with the amounts of realized investment tax credits deferred to future periods which relate to property used in non-utility operations.

B. This account shall be credited and account 255 - Accumulated Deferred Investment Tax Credits shall be debited with the proportionate amounts of deferred investment tax credits related to property used in non-utility operations being restored to non-operating income.

**412.30 Investment Tax Credits Restored to Non-operating Income, Utility Operations**

This account shall be credited and account 255 - Accumulated Deferred Investment Tax Credits shall be debited with the proportionate amounts of deferred investment tax credits related to property used in utility operations being restored to non-operating income in accordance with the “General Rule” or Option 1 as provided by the Revenue Act of 1971, the Tax Reduction Act of 1975 and the Economic Recovery Tax Act of 1981.

**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 Non-utility Income**

In this account is entered all income not includible in operating revenue accounts 521 through 536 or in account 419 - Interest and Dividend Income. Items in this account shall include:

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

**426 Miscellaneous Non-utility Expenses**

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

- A. Expenses disallowed in a proceeding before the Commission.
- B. Amortization of an Acquisition Adjustment not approved by the Commission.
- C. Depreciation associated with plant not used and useful in the public service.
- D. Depreciation of non-utility plant.
- E. Imprudent expenses.
- F. Life insurance on officers and employees where utility is beneficiary (net premiums less increase in cash surrender value of policies).
- G. Penalties or fines for violations of statutes pertaining to regulation.
- H. Expenditures for the purpose of:
  - 1. 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.
  - 2. Influencing public opinion with respect to obtaining approval, modification or revocation of franchises.
  - 3. Influencing the decisions of public officials not including such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the utility's existing or proposed operations.
- I. Loss relating to investments in securities written-off or written-down.
- J. Loss on sale of investments.
- K. Loss on reacquisition, resale or retirement of utility's debt securities.
- L. Preliminary survey and investigation expenses related to abandoned projects when not written off to the appropriate operating expense account.
- M. Golf club dues, social club dues and service club dues (Kiwanis, 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.

N. Costs and expenses of merchandising, jobbing and contract work.

**427 Interest Expense**

To 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.

**Section 5 INSTRUCTIONS FOR  
SEWER OPERATING REVENUE ACCOUNTS**

	<b>Account</b>
<b>(a) Sewer Sales</b>	
Flat Rate Revenues	521
Residential Revenues	521.1
Commercial Revenues	521.2
Industrial Revenues	521.3
Revenues from Public Authorities	521.4
Multiple Family Dwelling Revenues	521.5
Other Revenues	521.6
Measured Revenues	522
Residential Revenues	522.1
Commercial Revenues	522.2
Industrial Revenues	522.3
Revenues from Public Authorities	522.4
Multiple Family Dwelling Revenues	522.5
Revenues from Other Systems	524
<b>(b) Other Sewer Revenues</b>	
Other Sewer Revenues	536

**Section 5 INSTRUCTIONS FOR SEWER OPERATING REVENUE ACCOUNTS****(a) Sewer Sales****521 Flat Rate Revenues**

A. This account shall be credited with all revenue for sewage service rendered to residential, commercial and industrial property where the charge is not dependent upon metered water consumption or metered effluent output but is based on diameter of service, structure size, area front footage or other similar unit.

B. All revenues credited hereto shall be classified to one of the following subaccounts:

1. 521.1 Residential Customers
2. 521.2 Commercial Customers
3. 521.3 Industrial Customers
4. 521.4 Revenues from Public Authorities
5. 521.5 Multiple Family Dwelling Revenue
6. 521.6 Other Revenues

**Note:** — When service is supplied through a single lateral or property used for both residential and commercial purposes, the total revenue shall be included in subaccount 521.1 or 521.2 accordingly to the principal use of the property.

**522 Measured Revenues**

A. This account shall be credited with all revenue for sewage service rendered to residential, commercial and industrial property where the charge is, or may be, in any way dependent on the quantity of water consumed or the quantity of effluent output by the customers.

B. All revenues credited hereto shall be classified to one of the following subaccounts:

1. 522.1 Residential Customers
2. 522.2 Commercial Customers
3. 522.3 Industrial Customers
4. 522.4 Revenues from Public Authorities
5. 522.5 Multiple Family Dwelling Revenue

**Note:** — When service is supplied through a single lateral or property used for both residential and commercial purposes, the total revenue shall be included in subaccount 521.1 or 521.2 accordingly to the principal use of the property.

**524 Revenues from Other Systems**

This account shall be credited with all revenues derived from sewage services rendered to other sewage system properties, whether operated by a public authority or a private enterprise.

**(b) Other Water Revenues**

**536 Other Sewer Revenues**

This account shall include revenues for all miscellaneous services and charges billed to customers which are specifically provided for in other accounts.

**Section 6 INSTRUCTIONS FOR SEWER OPERATION AND  
MAINTENANCE EXPENSE ACCOUNTS**

	<b>Account</b>
<b>(a) Collection Expenses-Operation</b>	
Salaries and Wages - Employees	701.1
Salaries and Wages - Officers, Directors, and Majority Stockholders	702.1
Employee Pensions and Benefits	704.1
Purchased Power	715.1
Fuel for Power Production	716.1
Chemicals	718.1
Materials and Supplies	720.1
Contractual Services	730.1
Rents	740.1
Transportation Expense	750.1
Insurance Expense	755.1
Regulatory Commission Expense	765.1
Miscellaneous Expense	775.1
<b>(b) Collection Expenses-Maintenance</b>	
Salaries and Wages - Employees	701.2
Salaries and Wages - Officers, Directors, and Majority Stockholders	702.2
Employee Pensions and Benefits	704.2
Chemicals	718.2
Materials and Supplies	720.2
Contractual Services	730.2
Rents	740.2
Transportation Expense	750.2
Insurance Expense	755.2
Regulatory Commission Expense	765.2
Miscellaneous Expense	775.2

	<b>Account</b>
<b>(c) Pumping Expenses-Operation</b>	
Salaries and Wages - Employees	701.3
Salaries and Wages - Officers, Directors, and Majority Stockholders	702.3
Employee Pensions and Benefits	704.3
Purchased Power	715.3
Fuel for Power Production	716.3
Chemicals	718.3
Materials and Supplies	720.3
Contractual Services	730.3
Rents	740.3
Transportation Expense	750.3
Insurance Expense	755.3
Regulatory Commission Expense	765.3
Miscellaneous Expense	775.3
<b>(d) Pumping Expenses-Maintenance</b>	
Salaries and Wages - Employees	701.4
Salaries and Wages - Officers, Directors, and Majority Stockholders	702.4
Employee Pensions and Benefits	704.4
Chemicals	718.4
Materials and Supplies	720.4
Contractual Services	730.4
Rents	740.4
Transportation Expense	750.4
Insurance Expense	755.4
Regulatory Commission Expense	765.4
Miscellaneous Expense	775.4

	<b>Account</b>
<b>(e) Treatment and Disposal Expenses-Operation</b>	
Salaries and Wages - Employees	701.5
Salaries and Wages - Officers, Directors, and Majority Stockholders	702.5
Employee Pensions and Benefits	704.5
Purchased Sewage Treatment	710.5
Sludge Removal Expense	711.5
Purchased Power	715.5
Fuel for Power Production	716.5
Chemicals	718.5
Materials and Supplies	720.5
Contractual Services	730.5
Rents	740.5
Transportation Expense	750.5
Insurance Expense	755.5
Regulatory Commission Expense	765.5
Miscellaneous Expense	775.5
<b>(f) Treatment and Disposal Expenses-Maintenance</b>	
Salaries and Wages - Employees	701.6
Salaries and Wages - Officers, Directors, and Majority Stockholders	702.6
Employee Pensions and Benefits	704.6
Sludge Removal Expense	711.6
Chemicals	718.6
Materials and Supplies	720.6
Contractual Services	730.6
Rents	740.6
Transportation Expense	750.6
Insurance Expense	755.6
Regulatory Commission Expense	765.6

	<b>Account</b>
Miscellaneous Expense	775.6
<b>(g) Customer Accounts Expenses</b>	
Salaries and Wages - Employees	701.7
Salaries and Wages - Officers, Directors, and Majority Stockholders	702.7
Employee Pensions and Benefits	704.7
Purchased Power	715.7
Fuel for Power Production	716.7
Materials and Supplies	720.7
Contractual Services	730.7
Rents	740.7
Transportation Expense	750.7
Insurance Expense	755.7
Regulatory Commission Expense	765.7
Bad Debt Expense	770.7
Miscellaneous Expense	775.7
<b>(h) Administrative and General Expenses</b>	
Salaries and Wages - Employees	701.8
Salaries and Wages - Officers, Directors, and Majority Stockholders	702.8
Employee Pensions and Benefits	704.8
Purchased Power	715.8
Fuel for Power Production	716.8
Materials and Supplies	720.8
Contractual Services	730.8
Rents	740.8
Transportation Expense	750.8
Insurance Expense	755.8
Regulatory Commission Expense	765.8
Miscellaneous Expense	775.8

**Section 6 INSTRUCTIONS FOR SEWER OPERATION AND  
MAINTENANCE EXPENSE ACCOUNTS**

**701 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 the operation and maintenance of that utility company. This account shall not include the salaries and wages of officers, directors or majority stockholders of the utility company.

**702 Salaries and Wages – Officers, Directors and Majority Stockholders**

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

**704 Employee Pension 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 therefore. Include, also, expenses incurred in medical educational or recreational activities for the benefit of employees.

**710 Purchased Sewage Treatment**

A. This account shall include the cost at the point of delivery of wastewater treatment provided by another entity.

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

**711 Sludge Removal Expense**

This account shall include the costs of removal of sludge if such work is performed by persons other than owners, stockholders and employees of the utility.

**715 Purchased Power**

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

**716 Fuel for Power Production**

A. This account shall include the cost of fuel used in the production of power to operate the pumps and other equipment used in the sewage treatment process. 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.

**641 Chemicals**

This account shall include the cost of all chemicals used in the treatment of sewage. Include also the cost (except salaries and wages includible in accounts 700 and 703) of any chemicals manufactured by the utility and used in providing utility services.

**720 Materials and Supplies**

This account shall include all materials and supplies used in the operation and maintenance of the sewer system, other than materials and supplies charged to account 730 - Contractual Services.

**730 Contractual Services**

A. 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.

B. This account shall include materials and supplies that are part of a contract price, if the cost of such materials and supplies is not separately stated.

**740 Rents**

This account shall include all 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 750 - Transportation Expenses.

**750 Transportation Expenses**

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

**755 Insurance Expense**

This account shall include all insurance costs applicable to the accounting period, including workman's 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.

**765 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.

**770 Bad Debt Expense**

This account shall be charged with amounts sufficient to provide for losses from uncollectible utility revenues. Concurrently credits shall be made to account 143 - Accumulated Provision for Uncollectible Accounts – Cr.

**775 Miscellaneous Expenses**

This account shall include all expenses not includible in other operating expense accounts. Items chargeable to this account shall include the following:

- A. Industry association dues for company memberships.
- B. Contributions for conventions and meetings of the industry.
- C. Communication service not chargeable to other accounts.
- D. Trustee, registrar, and transfer agent fees and expenses.
- E. Stockholders meeting expenses.
- F. Dividend and other financial notices.
- G. Printing and mailing dividend checks.
- H. Director's fees and expenses.
- I. Publishing and distributing annual reports to stockholders.
- J. Public notices of financial, operating, and other data required by regulatory statutes not including, however, notices required in connection with security issues or acquisitions of property.
- K. Write-off of expenditures for preliminary surveys, plans, investigations, etc., included in account 183 - Preliminary Survey and Investigation Charges relative to projects which have been abandoned.

- END -