

**CALIFORNIA PUBLIC UTILITIES COMMISSION**  
Water Division

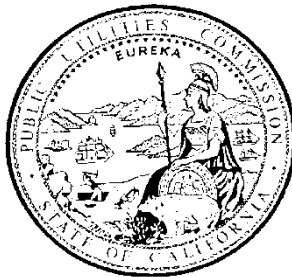
UNIFORM SYSTEM OF ACCOUNTS  
FOR CLASS B, C, AND D WATER UTILITIES

Standard Practice U-39-W

San Francisco, California  
January 2018

**UNIFORM SYSTEM OF ACCOUNTS  
FOR  
CLASS B, C, AND D  
WATER UTILITIES  
(Water utilities having less than  
10,000 service connections)**

*prescribed by the*  
PUBLIC UTILITIES COMMISSION  
OF  
THE STATE OF CALIFORNIA



Effective January 1, 2018

**PUBLIC UTILITIES COMMISSION  
OF THE  
STATE OF CALIFORNIA**

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Timothy J. Sullivan, *Executive Director*

California State Building  
505 Van Ness Avenue  
San Francisco, CA 94102

**To ALL Water Utilities:**

Proceeding under the authority conferred upon it by Public Utilities Code Section 792, the Public Utilities Commission of the State of California by its Decision \_\_\_\_\_ adopted and prescribed effective January 1, 2018, the uniform system of accounts contained herein.

In adopting and prescribing this system of accounts the Commission does not commit itself to approve or accept any item set out in any account for the purpose of fixing rates or of determining other matters which may come before it. The system is designed to set out the facts in connection with the construction, operation and financing of water utilities and therefrom the Commission will determine when passing on matters before it, what consideration and weight shall be given to the various items in the several accounts.

PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA  
BY Timothy J. Sullivan  
Executive Director

**CLASS B, C and D WATER UTILITIES  
SUMMARY OF CHANGES TO  
THE UNIFORM SYSTEM OF ACCOUNTS**

**DEFINITIONS ADDED**

Affiliated Companies	Memorandum Account
Balancing Account	User Fee
Facilities Fee	Connection Fee

**GENERAL ACCOUNTING INSTRUCTIONS ADDED**

Facilities Fees	Water Contamination Proceeds
State and Federal Grant	Balancing Accounts
Government Loan Funds	

**PRIMARY ACCOUNTS ADDED**

Account 123 – Investments in Affiliated Companies  
Account 142 – Receivables from Affiliated Companies  
Account 206 – Subchapter S Corp. Accumulated Adjustment Account  
Account 230 – Payables to Affiliated Companies

**SUBACCOUNTS ADDED**

Account 265 Subaccounts  
Account 460 - Separate Subaccounts for each Commission Approved Surcharge unless otherwise authorized or directed by the Commission  
Account 470 - Separate Subaccounts for each Commission Approved Surcharge Unless otherwise authorized or directed by the Commission  
Account 650 – Separate Subaccount to account for Contract Water Quality and Testing Work

**ACCOUNT RENUMBERING**

Account 233 – Customer Deposits from Account 235  
Account 265 – Contributions in Aid of Construction from Account 271  
Account 460 Subaccounts - renumbered in numeric sequence  
Subaccount 462.1 - Public Fire Protection from Subaccount 465.1  
Subaccount 462.2 - Private Fire Protection from Subaccount 465.2  
Account 470 Subaccounts – renumbered in numeric sequence

## TABLE OF CONTENTS

Chart of Accounts.....	6
Definitions.....	11
General Accounting Instructions.....	14
Balance Sheet Accounts.....	25
Plant Accounts.....	41
Income Statement Accounts.....	46
Operating Revenue Accounts.....	49
Operating Expense Accounts.....	52
Administrative and General Expenses.....	55
Sample Entries to Record Income Taxes – Appendix A.....	60
Sample Entries to Record SDWBA Loan – Appendix B.....	62
Sample Entries to Record Grant Funds – Appendix C.....	64

## **CHART OF ACCOUNTS**

### **BALANCE SHEET ACCOUNTS**

**No. ASSETS**

- 101 Water Plant in Service
  - 101.1 Water Plant in Service -SDWBA
  - 101.2 Water Plant in Service – Grant Funds
  - 101.3 Water Plant in Service – Other
- 103 Water Plant Held for Future Use
- 104 Water Plant Purchased or Sold
- 105 Construction Work in Progress - Water Plant
  - 105.1 Construction Work in Progress - SDWBA
  - 105.2 Construction Work in Progress – Grant Funds
  - 105.3 Construction Work in Progress – Other
- 108 Accumulated Depreciation of Water Plant
  - 108.1 Accumulated Amortization of SDWBA
  - 108.2 Accumulated Depreciation of Water Plant – Grant Funds
  - 108.3 Accumulated Depreciation of Water Plant – Other
- 114 Water Plant Acquisition Adjustments
- 121 Non-Water Utility Property and Other Assets
- 122 Accumulated Depreciation of Non-Water Utility Property
- 123 Investments in Affiliated Companies
- 124 Other Investments
- 131 Cash
  - 131.1 Cash on Hand
  - 131.2 Cash in Bank
- 132 Cash - Special Deposits
- 141 Accounts Receivable – Customers
- 142 Receivables from Affiliated Companies
- 143 Accumulated Provision for Uncollectible Accounts
- 151 Materials and Supplies
- 174 Other Current Assets
- 180 Deferred Charges
- 181 Accumulated Deferred Income Tax Assets

**No. EQUITY AND LIABILITIES**

- 201 Common Stock
- 204 Preferred Stock
- 206 Subchapter S Corporation Accumulated Adjustments Account
- 211 Other Paid-in Capital
- 215 Retained Earnings
- 218 Proprietary Capital
  - 218.1 Proprietary Drawings
- 224 Long-Term Debt
- 230 Payables to Affiliated Companies
- 231 Accounts Payable
- 232 Short-Term Notes Payable
- 233 Customer Deposits
- 236 Taxes Accrued
- 237 Interest Accrued
  - 237.1 Interest Accrued on Long-Term Debt
  - 237.2 Interest Accrued on SDWBA Loan
  - 237.3 Interest Accrued on Other Liabilities
- 241 Other Current Liabilities
- 252 Advances for Construction
- 253 Other Credits
- 255 Accumulated Deferred Investment Tax - Credits
- 265 Contributions in Aid of Construction
  - 265.1 Government Grant and Government Grant Contamination Proceeds
  - 265.2 Government Loan Contamination Proceeds
  - 265.3 Damage Award Contamination Proceeds
  - 265.4 Settlement Contamination Proceeds
  - 265.5.1 Government Order Contamination Proceeds from Private Funds
  - 265.5.2 Government Order Contamination Proceeds from Public Funds
  - 265.6 Insurance Contamination Proceeds
  - 265.7 All Other Contributions in Aid of Construction
- 272 Accumulated Amortization of Contributions - Debit
- 282 Accumulated Deferred Income Taxes – Accelerated Tax Depreciation
- 283 Accumulated Deferred Income Tax Liabilities



## PLANT ACCOUNTS

### **No. NON-DEPRECIABLE**

301 Intangible Plant

303 Land

### **DEPRECIABLE**

304 Structures

307 Wells

311 Pumping Equipment

317 Other Water Source Plant

320 Water Treatment Plant

330 Reservoirs, Tanks and Standpipes

331 Water Mains

333 Services and Meter Installations

334 Meters

335 Hydrants

339 Other Equipment

340 Office Furniture and Equipment

341 Transportation Equipment

## INCOME STATEMENT ACCOUNTS

400 Operating Revenues

401 Operating Expenses

403 Depreciation Expense

407 SDWBA Loan Amortization Expense

408 Taxes Other than Income Taxes

408.1 Property Taxes

408.2 Payroll Taxes

408.3 Other Taxes and Licenses

### **UTILITY OPERATING INCOME BEFORE INCOME TAXES**

409 State Corporate Income Tax Expense

410 Federal Corporate Income Tax Expense

### **UTILITY OPERATING INCOME**

### **NON-UTILITY INCOME**

421 Non-Utility income

426 Miscellaneous Non-Utility Expense

427 Interest Expense

## **NET INCOME**

### **OPERATING REVENUE ACCOUNTS**

- 460 Unmetered Water Revenue
  - 460.1 Residential, Single-Family & Dwellings & Multiple Dwelling Units Billed Individually
  - 460.2 Commercial and Multi-Residential
  - 460.3 Large Water Users
  - 460.4 Safe Drinking Water Bond Surcharge
  - 460.5 Other Unmetered Revenue
- 462 Fire Protection Revenue
  - 462.1 Public Fire Protection
  - 462.2 Private Fire Protection
- 465 Irrigation Revenue
- 470 Metered Water Revenue
  - 470.1 Residential, Single-Family Dwellings & Multiple Dwelling Units Individually Metered
  - 470.2 Commercial and Multi-Residential Master Metered
  - 470.3 Large Water Users
  - 470.4 Safe Drinking Water Bond Surcharge
  - 470.5 Other Metered Revenue
- 480 Other Water Revenue

### **OPERATING EXPENSE ACCOUNTS**

#### **PLANT OPERATION AND MAINTENANCE EXPENSES**

##### **A. VOLUME RELATED EXPENSES**

- 610 Purchased Water
- 615 Power
- 618 Other Volume Related Expenses

##### **B. NON-VOLUME RELATED EXPENSES**

- 630 Employee Labor
- 640 Materials
- 650 Contract Work
  - 650.1 Contract Water Quality and Testing Work
  - 650.2 Other Contract Work

660 Transportation Expense  
664 Other Plant Maintenance Expenses

**ADMINISTRATIVE AND GENERAL EXPENSES**

670 Office Salaries  
671 Management Salaries  
674 Employee Pensions and Benefits  
676 Uncollectible Accounts Expense  
678 Office Services and Rentals  
681 Office Supplies and Expenses  
682 Professional Services  
684 Insurance  
688 Regulatory Compliance Expense  
689 General Expenses  
  
800 Expenses Capitalized (Optional)  
  
900 Clearing Accounts (Optional)  
    900.1 Payroll Clearing (Optional)

## **DEFINITIONS**

When used in this system of accounts-

1. "Affiliated Companies" means any entity whose outstanding voting securities are more than 10 percent owned, controlled, directly or indirectly, by a utility, by its parent company, or by any subsidiary of either that exerts substantial operational control.
  
2. "Balancing Account" is a deferred debit or deferred credit account carried on the utility's books established to track specific costs and/or revenues previously authorized for recovery by the Commission. Disposition of the balance is subject to review of the calculations in accordance with the decision or resolution that established the account.
  
3. "Commission" means the Public Utilities Commission of the State of California having regulatory jurisdiction over a utility.
  
4. "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) each depreciable plant account, or (b) a single composite rate may be determined for all depreciable plant of the utility.
  
5. "Cost" means the actual money cost of property, or the current market value of any consideration other than money exchanged for property.
  
6. "Cost of removal" means the cost of demolishing, dismantling, removing, tearing down, or otherwise disposing of water plant.
  
7. "Depreciation" as applied to depreciable water plant means the loss in service value not restored by current maintenance, caused by factors such as wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities.
  
8. "Facilities Fee" is an amount representing a proportion of the cost of added production facilities, including storage and distribution facilities that will be required because of a new service connection.

9. "Memorandum Account" (Memo Account) is an accounting device that, after approval by the Commission or upon statutory notice, may be used by a utility to track various revenues it accrues and expenses it incurs, including, but not limited to, capital costs and associated interest. The utility may later seek authorization from the Commission for disposition of the tracked amounts through rates.
10. "Net salvage value" means the salvage value of the property retired, after deducting the cost of removal.
11. "Original cost" as applied to water plant means the cost of such property to the person or corporation first devoting it to public service.
12. "Parent Company" is an entity, including a holding company or corporation that owns, or has substantial operational control of the regulated entity.
13. "Plant retired" means plant which has been removed, sold, abandoned, destroyed, or otherwise withdrawn from water service.
14. "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 account 150, Materials and Supplies, or other appropriate account.
15. "Service life" means the period between the time of installation of water plant and the time of its retirement.
16. "Service value" means the difference between the original cost and the net salvage value of water plant.
17. "SDWBA" is Safe Drinking Water Bond Act.
18. "Straight-line remaining life method" as applied to depreciation accounting means the plan under which the service value of property is charged to operating expenses (and to clearing accounts if used), and credited to the accumulated depreciation account through equal annual charges during its service life. "Remaining life" implies that estimates of future life and salvage will be reexamined periodically and that depreciation rates will be adjusted to reflect any changes in these estimates.
19. "User Fee" is an amount levied and collected from the water utilities for funding the Commission's cost of regulating the water utilities.
20. "Connection Fee" is an amount accepted from individual customers covering actual costs to the utility of installing new connections.

## GENERAL ACCOUNTING INSTRUCTIONS

### 1. Classification of Water Utilities

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

**Class A Utilities** having more than 10,000 service connections.

**Class B Utilities** having between 2,000 service connections and 10,000 service connections.

**Class C Utilities** having between 500 service connections and 2,000 service connections.

**Class D Utilities** having less than 500 service connections.

B. The Uniform System of Accounts contained herein was prescribed for Class B, C, and D Water Utilities, effective January 1, 2018, by California Public Utilities Commission Decision No. \_\_\_\_\_. A separate Uniform System of Account for Class A Water Utilities has been prescribed by the California Public Utilities Commission.

C. Class A Water Utilities has a distinctly separate USOA.

D. If a Class B Water Utility desires to keep its accounts and records as prescribed for Class A, it is permitted to do so provided that having elected to enter a senior class it cannot later, except by the permission of the Commission, change to the class to which it belongs.

### 2. General Accounting Instructions

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

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

C. Utilities may further subdivide any of the accounts provided that such subdivisions do not impair the integrity of the accounts, or they may

maintain such additional accounts as are included in the Uniform System of Accounts for Class A Water Utilities.

### **3. Water Plant Accounts**

A. All water plants shall be recorded at original cost. (See definition (12).)

B. Work orders. It is suggested that utilities use a work order system for recording plant additions and retirements. However, use of a work order system shall be mandatory only for those water utilities having more than 500 service connections. The work orders should contain the date, description and location of each plant addition and retirement, together with an itemized record of materials, labor and other costs, and the plant or other accounts to be charged or credited.

### **4. Depreciation**

A. Depreciation charges shall be computed using the straight-line remaining life method (see definition (17)), and composite depreciation rates (see definition (4)). The rates shall be reviewed periodically and adjusted as required, so that the depreciation accrual will bear a reasonable relationship to the remaining life, the estimated net future salvage, costs of plant in service, and to the balance of accumulated depreciation accrued in prior periods

B. When an item of water plant is retired, account 108, Accumulated Depreciation of Water Plant, shall be charged and the appropriate plant accounts shall be credited with the entire recorded original cost of plant retired regardless of the amount of depreciation which has been accumulated for this particular item of plant, except as provided in paragraph C, following. Account 108, Accumulated Depreciation of Water Plant, also shall be charged with the costs of removal of retired plant, and shall be credited with the salvage value, sales price or other amounts recovered from plant retired. Account 108.1, Accumulated Amortization of SDWBA, shall be charged with retirements of SDWBA financed plant.

C. 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 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 180 - Other

Charges, and amortized in future periods. Such accounting treatment shall be used only when specifically authorized or directed by the Commission.

D. It is suggested that all utilities maintain a separate accumulated depreciation subaccount for each depreciable plant account. This shall be mandatory for water utilities having more than 500 customers.

## **5. Contributions in Aid of Construction**

A. Non-refundable contributions of cash or plant facilities donated to the water utility to assist it in constructing, extending or relocating its water facilities shall be credited to an appropriate subaccount of Account 265, Contributions in Aid of Construction. (See Account 265 for description of items includible in this account.)

B. Balances in this account representing contributions of depreciable plant shall be written off over a period equal to the estimated service life of the property involved by charges to an appropriate subaccount of Account 272, Accumulated Amortization of Contributions (instead of to account 403, Depreciation Expense), with contra credits to and credit to an appropriate subaccount of Account 108, Accumulated Depreciation of Water Plant. The charges to this account shall continue until such time as the balance in this account applicable to such properties has been completely amortized. The balance in the account applicable to non-depreciable property shall remain unchanged until such time as the property is sold or otherwise retired. At time of retirement of non-depreciable property, which was acquired by grant funds, the costs thereof shall be credited to the appropriate plant account and charged to this account in order to eliminate any credit balance in the grant account applicable thereto. The net salvage realized on the retirement of grant-funded property shall be recorded as a credit to the appropriate subaccount of Accumulated Depreciation of Water Plant.

C. The balance in this account representing contributions of non-depreciable plant 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 this account.

## **6. Clearing Accounts**

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



B. The use of clearing accounts is optional. In addition to the payroll clearing account, a utility may use such additional clearing accounts as it finds useful. The Uniform System of Accounts for Class A Water Utilities provides descriptions and instructions relating to several additional clearing accounts useful in distributing costs and expenses applicable to more than one account.

## **7. Federal Income Taxes**

### **Inter-Period Tax Allocations**

The treatment and recording of income taxes has an extensive history of development, leading to its present state for California rate-regulated enterprises. Water utilities are directed to look to CPUC decisions that provide guidance regarding income taxes for utilities in general and to decisions that may be applicable to specific utilities for purposes of the appropriate recording of income taxes in the accounts set forth in the USOA for income taxes. General instructions as to the recording of taxes in the accounts applicable for various components of income taxes are provided herewith.

### **Accounting**

A. The utility will initially charge account 409, State Corporate Income Tax Expense and account 410, Federal Corporate Income Tax Expense, and credit account 236, Taxes Accrued, to record its estimated current tax provision. A utility may, at its discretion, and if applicable, subdivide Account 410 to identify the component from the deferred Investment Tax Credit (410.2) (see Instruction G below).

B. The utility will charge or credit Accounts 409 and 410, as applicable, for the tax effects of individual normalized tax temporary differences and debit Account 181 (Deferred tax assets) or credit Account 283 (Deferred tax liabilities) as applicable and in accordance with generally accepted accounting principles (GAAP). A utility may, at its discretion, subdivide Account 410, as applicable to identify the deferred component of Accelerated Depreciation (410.1).

C. In order to properly account for deferred taxes, it will be necessary for the utility to maintain plant and depreciation records so that plant items can be identified by year of installation and service life.

D. The Federal Economic Recovery Tax Act of 1981 (ERTA) also requires the deferral of investment tax credits (ITC). Companies are

divided into "Option 1 companies," i.e., generally, companies that did not defer investment tax credits prior to enactment of ERTA, and "Option 2 companies," i.e., those companies that had elected to defer all or a portion of ITC prior to enactment of ERTA.

E. Water utilities will charge Account 236, Taxes Accrued, and credit Account 255, Accumulated Deferred Investment Tax - Cr., with the amount of investment tax credits used to reduce income taxes for the current year.

F. Option 1 companies will amortize the deferred balance of ITC by equal annual charges to Account 255, Accumulated Deferred Investment Tax Credits, with contra credits to Account 426, Miscellaneous Non-utility Expense, over the life of the related property.

G. Option 2 companies will amortize the deferred balance of ITC by equal annual charges to account 255, Accumulated Deferred Investment Tax Credits, with contra credits to account 410, Federal Corporate Income Tax Expense, over the life of the related property.

### **Ratemaking**

The instructions for a uniform system of accounts normally do not contain references to the ratemaking treatment to be accorded to items. However, because of the uncertainty that exists among some smaller water utilities as to the ratemaking treatment for Deferred Income Taxes and Deferred Investment Tax Credits, the following brief explanation has been included for information purposes.

#### **A. Deferred Income Taxes**

For ratemaking purposes, the balance in Account 282, Accumulated Deferred Income Taxes, will be deducted from ratebase by both Option 1 and Option 2 companies.

#### **B. Deferred Investment Tax Credits**

1. For ratemaking purposes, Option 1 companies will reduce rate base by the unamortized deferred ITC in Account 255. Option 1 companies will not reduce cost of service to reflect the annual amortization of deferred investment tax credits.

2. For ratemaking purposes, Option 2 companies will reduce cost of service to reflect the annual amortization of deferred investment tax credits by a credit to Account 410, Federal Corporate Income Tax Expense. Option 2 companies will not reduce rate base by the balance of unamortized deferred ITC in Account 255.

3. An example, showing how income taxes and investment tax credits are recorded in the books of account, is presented in Appendix A.

## **8. Safe Drinking Water Bond Act Loans**

Special accounting procedures are provided for those utilities that have been granted low interest rate Safe Drinking Water Bond Act (SDWBA) loans through the State Department of Water Resources (DWR).

A. Progress payments received from DWR will be deposited in a separate bank account and will be entered in Account 131.2, Cash in Bank. Disbursements will be made only for materials and services used on DWR approved construction projects.

B. The liability for the SDWBA loan will be recorded in a separate sub-account of Account 224, Long-Term Debt.

C. SDWBA loans will be repaid through surcharges on customer water bills. Surcharges will be separately shown on customer bills and credited to Account 470.4, Safe Drinking Water Bond Surcharge - Metered Revenue or Account 460.4, Safe Drinking Water Bond Surcharge - Unmetered Revenue.

D. SDWBA surcharge collections will be deposited monthly with the designated fiscal agent. The funds on deposit with the fiscal agent will be reported in Account 132 Cash - Special Deposits.

E. Safe Drinking Water Bond Act financed plant will not be depreciated on the books of account through charges to Account 403, Depreciation Expense. Instead, the principal amount of the loan will be amortized through the charges to Account 407, SDWBA Loan Amortization Expense, with contra credits to Account 108.1, Accumulated Amortization of SDWBA Loan, over the life of the SDWBA loan. These amortization charges will not be included in cost of service for ratemaking purposes. The intent of these entries is to have an accumulated depreciation balance equal to the amount of plant financed through the loan, when the SDWBA loan is fully paid.

F. An example, showing how safe drinking water bond act transactions are recorded in the books of account is presented in Appendix B.

## **9. Water Utility Users Fee**

Public Utilities Code Sections 401 through 415 provide that the Commission shall annually set a fee to be paid by water utilities to cover the costs incurred by the Commission in regulating them. A percentage of

gross revenues is added to customer bills and paid by the water companies to the Commission.

A. Class A water utilities pay a percentage of gross revenues quarterly; Class B, C, and D water utilities pay a designated amount, based on gross revenues, on January 15 of the following year. Sales of water for resale and Interdepartmental water sales should be excluded from gross revenues when computing the Water Utility Users fee.

B. Water utilities will credit regular operating revenue accounts with amounts billed to customers and charge account 688, Regulatory Commission Expense, with fees paid to the Commission.

## **10. Facilities Fees**

A. Facilities fees are available for Class B, C, and D water utilities. These fees are also available to Class A water utility districts that serve less than 2,000 service connections.

B. Eligible utilities may file an advice letter to institute a facilities fee schedule.

C. When facilities fees are received by a water utility, the amount received shall be deposited in Account 132 – Cash-Special deposits and credited to Account 253 – Deferred Credits. Interest earned on these fees shall be debited to Account 132- Cash-Special Deposits and credited to Account 421 – Non-Utility Income.

D. At the time these fees are used for water plant improvements, Account 101 – Water Plant in Service shall be debited and Account 132 – Cash – Special Deposits credited. Concurrently, Account 253 Other Credits shall be debited and Account 265.7 – Contributions in Aid of Construction credited.

E. The annual depreciation and amortization of the facilities fees plant additions shall be debited to Account 265.7 and credited to Account 108.3 Accumulated Depreciation of Water Plant.

## **11. State and Federal Grant Funds**

A. When Grant Funds are received from a funding agency; the utility must place these funds in a separate account that is restricted to Grant Funds only. The funds shall be recorded as a debit to Account 132 – Cash- Special Deposits and a credit to Account 265.1 – Contributions in Aid of Construction -Government Grant Proceeds. As the grant-funded plant is being constructed, the utility shall record those dollars expended as a debit to Account 105.2 – Construction Work in Progress – Grant Funds and a

credit to Account 132 - Cash - Special Deposits. When the authorized plant has been constructed, a second set of entries shall be recorded as a debit to Account 101.2 Utility Plant in Service - Grant Funds and a Credit to Account 105.2 - Construction Work in Progress - Grant Funds.

B. Depreciation accrued on the depreciable portion of grant funded properties shall be charged to Account 265.1 Contributions in Aid of Construction - Government Grant Funds instead of Account 403 - Depreciation Expense and credited to Account 108.2 - Accumulated Depreciation of Water Plant - Grant Funds.

C. At time of retirement of non-depreciable property, which was acquired by Grant funds, the costs thereof shall be credited to the appropriate plant account and charged to Account 265.1 - Contributions in Aid of Construction - Grant Proceeds in order to eliminate any credit balance in the grant fund account applicable thereto.

D. An example, showing how grant fund transactions are recorded in the books of account is presented in Appendix C.

## **12. Government Loan Funds**

All government loan funds shall be repaid through surcharges similar to the accounting method used for Safe Drinking Water Bond Act loans. Refer to General Accounting Instruction 8 - Safe Drinking Water Bond Act Loans.

## **13. Water Contamination Proceeds**

A. This accounting instruction applies to all transactions involving contamination proceeds from damage awards, settlements, government order, or insurance proceeds.

B. Water Contamination proceeds shall be debited to Account 132 - Cash - Special Deposits and credited to Account 253 - Deferred Credits. When the proceeds are used for construction, the appropriate Account 105 - Construction Work in Progress shall be debited and Account 132 - Cash - Special Deposits credited.

C. At the time plant is placed in service, the appropriate plant in service accounts (Account 301-341) are debited and appropriate subaccount of Account 105 is credited. Concurrent with the recording of plant in service, Account 253- Other Credits is debited and the appropriate subaccount of Account 265 - Contributions in Aid of Construction is credited.

D. Depreciation accrued on the depreciable portion of plant funded with contamination proceeds shall be charged to the appropriate subaccount of Account 265 - Contributions in Aid of Construction instead of Account 403 - Depreciation Expense and credited to an appropriate subaccount of Account 108.2 - Accumulated Depreciation of Water Plant - Grant Funds.

E. At time of retirement of un-depreciable property, which was acquired by contamination proceeds, the costs thereof shall be credited to the appropriate plant account and charged to appropriate subaccount of Account 265 - Contributions in Aid of Construction in order to eliminate any credit balance in the grant fund account applicable thereto.

#### **14. Balancing Accounts**

A. Balancing accounts are established only upon Commission authority and are recorded on a utility's accounting books as either a deferred charge (Account 180) or Other Credits (Account 253). A separate subaccount shall be maintained for each balancing account authorized by the Commission.

## **BALANCE SHEET ACCOUNTS ASSET ACCOUNTS**

### **101. Water Plant in Service**

A. This account shall include the original cost of all water plant owned and used by the utility in providing water service. The following subaccounts should be maintained, if applicable:

**101.1 Water Plant in Service - SDWBA**

**101.2 Water Plant in Service - Grant Funds**

**101.3 Water Plant in Service – Other**

B. This account is the control account for plant accounts 301 through 379.

### **103. Water Plant Held for Future Use**

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

B. The property included in this account shall be classified according to the detailed accounts (301 to 341) for utility plant in service and the account shall be maintained in such manner and in such detail as though the property were in service.

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

### **104. Water Plant Purchased or Sold**

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

B. Within six months from date of acquisition or sale of a water system the utility shall file with the Commission for approval proposed journal entries to clear this account.

Note A. 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 of Water Plant. 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, Water Plant Acquisition Adjustments.

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

### **105. Construction Work in Progress - Water Plant**

This account shall include the cost of water plant in process of construction, but not yet ready for service. The following subaccounts should be maintained, if applicable:

**105.1 Construction Work in Progress – SDWBA**

**105.2 Construction Work in Progress - Grant Funds**

**105.3 Construction Work in Progress – Other**

### **108. Accumulated Depreciation of Water Plant**

A. This account shall reflect the depreciation and amortization accumulated on plant used in water utility service. The following subaccounts should be maintained, if applicable:

**108.1 Accumulated Amortization of SDWBA**

**108.2 Accumulated Depreciation of Water Plant - Grant Funds**

**108.3 Accumulated Depreciation of Water Plant - Other**

B. This account shall be credited with:

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

2. Amounts concurrently charged to Account 265, Accumulated Amortization of Contributions, representing amortization of contributed water plant.

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

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

C. A separate subaccount, Account 108.1, Accumulated Amortization of SDWBA Loan, shall be maintained for utilities with Safe Drinking Water Bond Act loans.

Note: Also see Account 104, Water Plant Purchased or Sold.



D. This account shall be charged with:

1. Original cost of depreciable water plant retired.
2. Cost of removal of plant retired.

E. The utility should maintain separate subaccounts corresponding with the depreciable plant accounts, in which the accumulated depreciation total is segregated. Such a segregation of accumulated depreciation is mandatory for utilities having more than 500 customers.

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

Note: Refer to Paragraph 4, Accounting Instructions - Depreciation, for information on depreciation accruals and plant retirement procedures.

#### **114. Water Plant Acquisition Adjustments**

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

B. No transfers shall be made from this account unless prior written authorization has been obtained from the Commission. If authorization is obtained to amortize the balance in this account, the contra charge shall be to Account 426, Miscellaneous Non-Utility Expense.

Note: See also Account 104, Water Plant Purchased or Sold.

#### **121. Non-Water Utility Property and Other Assets**

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

B. The account shall be appropriately subdivided.

##### Items

Land and buildings not used in water operations.

Water utility assets transferred to "non-operative" status.

Investments in securities (other than those reported in account 124).

Assets of nonutility businesses owned by the water utility.

Accounts receivable and notes receivable, other than from water customers, not due within one year.

## **122. Accumulated Depreciation of Non-Water Utility Property**

This account shall reflect the depreciation and amortization accumulated on property not used in water utility operations.

A. This account shall be credited with amounts currently charged to accounts 426, Miscellaneous Non-utility Expense, representing currently accruing depreciation and amortization on property not used in water utility operations.

B. This account shall be charged with the amount of depreciation accumulated on items of non-utility property sold, abandoned, or otherwise retired.

## **123. Investments in Affiliated Companies**

Receivables from affiliated companies which do not bear a specific due date but which have been carried as a receivable from affiliated companies for more than 90 days and other receivable items which are not paid within 90 days from due date shall be recorded in this account.

## **124. Other Investments**

This account shall include the book cost of investments in securities of companies for the purpose of obtaining an adequate water supply.

Item

Stock of mutual water company.

## **131. Cash**

A. This account shall include the amount of cash on hand or on deposit in banks.

B. The following subaccounts should be maintained, if applicable:

**131.1 Cash on Hand**

**131.2 Cash in Bank**

## **132. Cash - Special Deposits**

This account shall include cash amounts set aside from general corporate funds, and deposited in a separate account with fiscal agents or others, and designated for a special use. A separate subaccount shall be maintained for each designated special use.

## **141. Accounts Receivable - Customers**

This account shall include amounts due from customers for water service.

Note: Accounts receivable other than from customers for water service shall be included in account 174, Other Current Assets, or in account 121, Non-Water Utility Property and Other Assets, as appropriate.

#### **142. Receivables from Affiliated Companies**

This account shall include the debit balances subject to current settlement in open accounts with affiliated companies, and notes and drafts which affiliated companies are liable, and which mature and are expected to be paid in full no later than one year from date of issuance, together with interest thereon. Items which do not bear a specified due date but which have been carried for more than 90 days and items which are not paid within 90 dates from due date shall be transferred to Account 123, Investments by Affiliated Companies.

#### **143. Accumulated Provision for Uncollectible Accounts**

A. This account shall be used by those utilities desiring to maintain a valuation reserve for uncollectible accounts, instead of writing off bad debts directly as they are incurred.

B. This account shall be credited with amounts to cover estimated losses on accounts receivable, with concurrent charges to Account 676, Uncollectible Accounts Expense.

C. This account also shall be credited with collections on accounts receivable previously written off as uncollectible.

D. This account shall be charged, and Account 141, Accounts Receivable - Customers, shall be credited with amounts determined to be uncollectible.

#### **151. Materials and Supplies**

A. This account shall include the cost of materials and supplies on hand, purchased for use in plant construction or repair work.

B. The cost shall include, when practicable, transportation charges, sales and use taxes and other directly assignable costs. Cash discounts realized on material purchases shall be credited to this account.

C. Reusable materials which are retired from plant and returned to the materials and supplies inventory shall be charged to this account and credited to account 108, Accumulated Depreciation of Water Plant. 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 new. 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.

#### **174. Other Current Assets**

A. This account shall include prepayment of rents, taxes, insurance and similar expenses for which payment have been made in advance of the period to which they apply. As the periods covered by such prepayments expire, this account shall be credited and the proper operating expense or other accounts shall be charged with the amounts applicable to the current period.

B. This account shall include the book cost of all notes receivable and accounts receivable, other than from customers for water service, maturing or collectible within one year.

C. This account shall include all other current assets not provided for in other balance sheet accounts.

D. Separate subaccounts shall be maintained for each class of current asset included in this account.

#### **180. Deferred Charges**

A. This account shall include such items as expenses of security issues, bond discount, items in suspense, and costs which the Commission has authorized the utility to amortize over future periods. This account shall also include specific costs the Commission has authorized to record in a balancing account for recover over future periods.

B. This account shall be appropriately subdivided.

#### **181. Accumulated Deferred Income Tax Assets**

This account shall reflect the balance of deferred income tax assets recorded in accordance with GAAP (resulting from both flow-through and normalized treatment of temporary tax differences). For enterprises that have not yet adopted Financial Accounting Standards Board (FASB) Accounting Standards Update 2015-17 – Income Taxes (Topic 740): Balance Sheet Classifications of Deferred Taxes, deferred income tax assets that are classified as current assets may also be recorded in this account.

## **EQUITY AND LIABILITY ACCOUNTS**

### **201. Common Stock**

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.

### **204. Preferred Stock**

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.

### **206. Subchapter S Corporation Accumulated Adjustments Account**

A. This account shall be used by Subchapter S Corporations for the reporting of changes in its ownership equity.

B. This account shall include all paid-in-capital not derived from earnings.

C. This account shall be credited with:

1. Net income.
2. Accounting adjustments not properly attributable to the current period.

D. This account shall be charged with:

1. Net loss.
2. Accounting adjustments not properly attributable to the current period.
3. Dividends.

### **211. Other Paid-in Capital (for corporations only)**

A. This account shall include all non-Subchapter S Corporation's 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 not properly attributable to the current period.

C. The account shall be charged with:

1. Net losses.

2. Accounting adjustments not properly attributable to the current period.

3. Dividends.

**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 water utility.

B. A separate subaccount shall be maintained for each partner.

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 not properly attributable to operations of the current period shall be charged or credited to this account.

E. All withdrawals from the business by the owner or partners other than as compensation for services performed shall be charged to subaccount 218.1, Proprietary Drawings. This subaccount shall be closed into Account 218 at the end of each accounting period.

Note: Amounts designated by a non-corporate owner or partner as a "salary", representing fair and reasonable compensation for services performed, shall be charged to operating expense account 671, Management Salaries, or to water plant accounts when appropriate. If clearing accounts are used, the owner's or partners' salaries will initially be charged to Account 900.1, Payroll Clearing, pending distribution.

## **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.

Note: Prior authorization must be obtained from this Commission before any long-term indebtedness may be incurred by the utility. (Public Utilities Code, Section 818.)

## **230. Payables to Affiliated Companies**

A. This account shall include amounts owed to affiliated companies on notes, drafts, acceptances, or other similar evidence of indebtedness, and open accounts payable on demand or not more than one year from date of issue or creation.

Note: The records supporting the entries to this account shall be so kept that the utility can furnish complete information concerning each note, draft, acceptance, indebtedness, or other open account.

## **231. Accounts Payable**

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

## **232. Short-Term Notes Payable**

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

## **233. Customer Deposits**

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

## **236. Taxes Accrued**

A. This account shall include all taxes accrued or payable by the utility including property taxes, payroll taxes, withholding taxes, and corporation 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, the amount of the periodic credits shall be adjusted so as to reflect the correct tax liability. Any amount representing a prepayment of taxes applicable to the period

subsequent to the date of the balance sheet shall be shown under Account 174, Other Current Assets.

C. This account shall be debited and Account 255, Accumulated Deferred Investment Tax - Credits, shall be credited with the amount of investment tax credits used to reduce income taxes for the current year.

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. Interest Accrued**

A. This account shall include the amount of interest accrued on long-term debt and liabilities of the utility. This account shall not include any interest which is added to the principal of the debt on which incurred.

B. The following subaccounts should be maintained, if applicable:

#### **237.1. Interest Accrued On Long-Term Debt**

This account shall include the amount of interest accrued on the long-term debt of the utility, other than safe Drinking Water Bond Act loans.

#### **237.2. Interest Accrued on SDWBA Loan)**

#### **237.3. Interest Accrued On Other Liabilities**

This account shall include the amount of interest accrued on liabilities of the utility other than long-term debt and SDWBA.

### **241. Other Current Liabilities**

A. This account shall include all current and accrued liabilities not provided for elsewhere.

B. Include herein pension accruals prior to the time they are transmitted to the trustee, accruals of vacation pay, etc.

C. A separate subaccount shall be maintained for each class of liability.

### **252. Advances for Construction**

A. This account shall include construction advances from subdividers and others, which are subject to refund in accordance with the provisions of the utility's water main extension rules.

B. Any balances in this account representing the unrefunded balances of expired contracts, or discounts resulting from termination of contracts in



accordance with the utility's water main extension rules, shall be transferred to Account 265, Contributions in Aid of Construction.

### **253. Other Credits**

This account shall include advance billings, unamortized premium on debt, items in suspense and other credit items not provided for in other accounts. This account shall also include specific revenues (Revenue Balancing Account) that the Commission has authorized the utilities to record for future repayment.

### **255. Accumulated Deferred Investment Tax - Credits**

A. This account shall be credited with all investment tax credits deferred by companies. The balance in this account shall be amortized by equal charges over the life of the related property.

B. Records shall be maintained identifying the properties related to the investment tax credits for each year, the weighted average service life of such properties, and any unused balance of such credits.

Note: Refer to Paragraph 7, Accounting Instructions - Federal Income Taxes for detailed information on charges and credits to this account.

### **265. Contributions in Aid of Construction**

A. This account shall include:

1. All non-refundable contributions of cash, land or other property received by the utility in connection with the construction or extension of its water system.
2. Compensation received from governmental agencies and others for relocation of water mains or other plant, in excess of costs incurred in such relocation.
3. The following subaccounts should be maintained, if applicable:

#### **265.1 Government Grant and Government Grant Contamination Proceeds**

Note: For booking local and federal government grant proceeds.

#### **265.2 Government Loan Contamination Proceeds**

Note: For booking contamination related government loan proceeds.

**265.3 Damage Award Contamination Proceeds**

Note: For booking contamination proceeds derived from damage awards.

**265.4 Settlement Contamination Proceeds**

Note: For booking contamination related settlement proceeds.

**265.5.1 Government Order Contamination Proceeds from Private Funds**

Note: For booking contamination related proceeds deriving from a private funding source via government order.

**265.5.2 Government Order Contamination Proceeds from Public Funds**

Note: For booking contamination related proceeds derived from a public funding source via government order.

**265.6 Insurance Contamination Proceeds**

Note: For booking insurance contamination proceeds.

**265.7 All Other Contributions in Aid of Construction**

Note: For booking all contributions not specifically provided for in the above Contribution subaccounts.

B. The utility shall maintain a separate account in which to accumulate amounts amortized. This account shall be titled: 272 Accumulated Amortization of Contributions.

C. Specific instructions for amortization of balances in this account will be found in Paragraph 5, Accounting Instructions - Contributions in Aid of Construction. In general, it is intended that balances which represent contributions of depreciable plant shall be amortized by charges to this account over a period equal to the actual service life of the contributed plant, with contra credits to the appropriate subaccounts of Account 108, Accumulated Depreciation of Water Plant. Contributions of non-depreciable plant shall not be transferred from this account unless written authorization has been obtained from this Commission.

Note A.: Construction advances which are subject to full or partial repayment shall be credited to Account 252, Advances for Construction, instead of to this account.

Note B: The records supporting the entries to this account must be so kept that the utility can furnish information as to the purpose of each grant, and shall be segregated between depreciable and non-depreciable property.

**272. Accumulated Amortization of Contributions - Debit**

This account is a valuation account, applied against balances in Account 265, Contributions in Aid of Construction.

This account shall include the amortization accumulated on balances in Account 265, Contributions in Aid of Construction. This account shall be charged and Account 108, Accumulated Depreciation of Water Plant, shall be credited with amounts sufficient to amortize balances in Account 265, Contributions in Aid of Construction, over the lives of the depreciable assets to which they relate.

**282. Accumulated Deferred Income Taxes – Accelerated Tax Depreciation**

A. Account 282 shall be credited and Account 236, Taxes Accrued, shall be charged with the difference between the federal income tax expense based on tax basis, straight-line method of depreciation and the tax liability resulting from use of accelerated tax depreciation.

B. Account 282 shall be debited and Account 236, Taxes Accrued shall be credited when the tax liability based on the use of accelerated tax depreciation exceeds the federal income tax expense based on tax basis, straight-line method of depreciation.

C. In order to employ normalized tax accounting it will be necessary for the utility to maintain plant and depreciation records grouped by year of installation and service life.

D. See Paragraph 7 Accounting Instructions - Federal Income Taxes for more detailed instructions on tax normalization accounting.

**283. Accumulated Deferred Income Tax Liability**

This account shall reflect the balance of deferred income tax liabilities recorded in accordance with GAAP (resulting from both flow-through and normalized treatment of temporary tax differences). For enterprises that have not yet adopted FASB Accounting Standards Update 2015-17 – Income Taxes (Topic 740): Balance Sheet Classifications of Deferred Taxes,

deferred income tax liabilities that are classified as current liabilities may also be recorded in this account.

## PLANT ACCOUNTS

### 301. Intangible Plant

This account shall include the cost of organizing and incorporating the business, and other intangible property used in the utility's water operations.

#### Items

Legal fees and other costs for incorporating the business and obtaining a certificate to operate as a utility.

Payments to the state or to political subdivisions for franchises or certificates, not including annual franchise payments.

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

Note B. 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.

Note C. Annual franchise payments shall be charged to subaccount 408.3, Other Taxes and Licenses.

### 303. Land

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

### 304. Structures

A. This account shall include the cost of structures used in water operations.

B. The account shall show separately the cost of each structure.

#### Items

Pump houses

Landscaping, sidewalks

Storage sheds

Buildings

Yard paving and fencing

Meter testing shops

### 307. Wells

A. This account shall include the cost of wells used in utility operations.

B. The cost of drilling wells which are nonproductive, or which produce water which cannot be used in the system shall be charged to operating expenses (Account 664, Other Plant Maintenance Expenses) in the year in which the expense is incurred unless this Commission in writing authorizes the utility to charge such costs to Account 180, Deferred Charges, and to amortize such amount over a future period.

**311. Pumping Equipment**

This account shall include the cost of electric, gas, gasoline, or other types of pumping equipment.

	Items	
Engines		Pressure regulating and recording instruments
Motors		Electric power lines
Turbines		Switching equipment
Pumps		Power generating equip.

**317. Other Water Source Plant**

This account shall include the cost of all water source plant other than wells.

	Items	
Springs		Infiltration galleries
Spillways		Lake and river intakes
Cost of connections with other water systems or water sources, including payments to public agencies for water supply connections to which utility does not receive title.		Master meters used to measure quantity of or delivered into system.

**320. Water Treatment Plant**

This account shall include the cost of equipment used in treatment of water.

	Items	
Softening equipment		Filtering equipment
Chlorination equipment		Purification equipment
Sand traps		Fluoridation equipment

Settling basins

**330. Reservoirs, Tanks and Standpipes**

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

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

**331. Water Mains**

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

**333. Services and Meter Installations**

This account shall include the cost installed of service pipes leading from the water mains to the customers' premises and the cost of labor, materials, and expense incurred in the original installation of meters.

Items	
Service piping	Yokes
Meter boxes	Stops

Note: Labor cost of removing and resetting meters shall be charged to operating expense Account 630, Employee Labor.

**334. Meters**

A. This account shall include the cost of all meters used to measure the quantity of water delivered to consumers, including meters actually in service and meters held in stock.

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

Note: The cost of "master meters" used to measure the quantity of water produced or delivered into the system shall be entered in Account 317, Other Water Source Plant.

**335. Hydrants**

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

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

### **339. Other Equipment**

A. This account shall include the cost of equipment and tools used in water operations which are not includible in any other accounts.

B. Small tools costing \$ 100 or less may be charged directly to operating expenses at the time of purchase.

#### Items

Hoists	Tractors
Communications equipment	Pipe wrapping equipment
Power tools	Leak detecting equip.
Trenchers	Backhoes

### **340. Office Furniture and Equipment**

This account shall include the cost of office furniture and equipment owned and used by the utility.

#### Items

Adding machines	Postage meter machines
Addressing machines	Desks, typewriters
Calculating machines	Filing cabinets
Drafting room equipment	Book cases, tables, chairs
	Computers

### **341. Transportation Equipment**

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

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

## **INCOME STATEMENT ACCOUNTS**

### **400. Operating Revenues**

This is the revenue control account in which is summarized the total of amounts credited to revenue accounts 460 through 480.

### **401. Operating Expenses**

This is the operating expense control account in which is entered the total of amounts charged to operating expense accounts 610 through 689.

### **403. Depreciation Expense**

This account shall be charged with that portion of the depreciation accrual credited to Account 108, Accumulated Depreciation of Water Plant, applicable to all classes of depreciable water plant except plant represented by contributions in aid of construction. Depreciation shall be accrued on a straight-line remaining life basis. Use of a single composite depreciation rate applied to all depreciable plant is permissible for water utilities with annual revenues of \$ 100,000 or less.

Note A. See Accounting Instructions - Depreciation, Paragraph 4, for more detailed instructions on depreciation accounting.

Note B. Depreciation on property not used in water operations is charged to account 426, Miscellaneous Non-Utility Expense, and is credited to Account 122, Accumulated Depreciation of Non-Water Utility Property.

### **407. SDWBA Loan Amortization Expense**

This account shall be charged and Account 108.1, Accumulated Amortization of SDWBA, shall be credited with periodic amounts sufficient to fully amortize the SDWBA loan balance over its life. The intent of these entries is to accumulate depreciation equal to the amount of plant financed through the SDWBA loan, over the life of the SDWBA loan.

### **408. Taxes Other Than Income Taxes**

This is the tax expense account to which taxes other than income taxes are charged. Property taxes, payroll taxes (and, unemployment insurance, social security taxes) and other taxes and licenses (e.g., municipal business taxes, annual franchise fees) will be entered in this account.

A separate subaccount will be maintained for each type of tax.



**408.1 Property Taxes**

**408.2 Payroll Taxes**

**408.3 Other Taxes and Licenses**

Note A: Vehicle license fees shall be included in operating expense Account 660, Transportation Expense.

Note B: Assessments for support of regulatory commissions shall be charged to operating expense Account 688, Regulatory Commission Expense.

**409. State Corporate Income Tax Expense**

A. This is the tax expense account to which State Corporate Franchise Taxes for the current calendar year are charged.

B. This account will be used only by incorporated utilities.

**410. Federal Corporate Income Tax Expense**

A. This account will be used only by incorporated water utilities.

B. This account will be charged with federal income taxes for the current calendar year.

C. See Accounting Instruction 7 - Federal Income Taxes.

**421. Non-Utility Income**

In this account is entered all income not includible in operating revenue accounts 460 through 480.

Items

Interest income

Dividend income

Gross income from non-water utility operations

Net gain on sale of non-water utility property

**426. Miscellaneous Non-Utility Expense**

To this account shall be charged all expense other than expenses of water utility operations and interest expense.

Items

Contributions for charitable or community welfare purposes.

Expenses, including depreciation and taxes, of non-water utility property.

Country club dues, service club dues (Rotary, Kiwanis, etc.) and items of a similar nature.

Amortization of balances in Account 114 - Utility Plant Acquisition

Adjustments.

**427. Interest Expense**

To this account shall be charged all interest expense of the utility. The contra credits to entries in this account shall be divided among:

**Account 237.1 Interest Accrued on Long-Term Debt**

**Account 237.2 Interest Accrued on SDWBA Loan**

**Account 237.3 Interest Accrued on Other Liabilities**

## **OPERATING REVENUE ACCOUNTS**

### **460. Unmetered Water Revenue**

A. This account shall include all revenue from unmetered water service. Surcharge revenues approved by the Commission applicable to unmetered customers shall be recorded in this account. Separate subaccounts shall be maintained for each type of surcharge approved by the Commission unless otherwise authorized or directed by the Commission.

B. Unmetered revenue shall be segregated, using the following subaccounts.

#### **460.1 Residential, Single-family Dwellings and Multiple Dwelling Units Billed Individually.**

#### **460.2 Commercial and Miscellaneous**

"Miscellaneous" is defined as an unmetered customer not properly classified in Account 460.1 or Account 460.3.

#### **460.3 Large Water Users**

Large water users are defined as unmetered customers other than customers whose revenues are reported in Account 460.1 or Account 460.2 whose estimated water usage is at least five times as much as the average single-family residential customer and have a 1-1/2" or larger service.

#### **460.4 Safe Drinking Water Bond Surcharge**

#### **460.5 Other Unmetered Revenue**

Include herein revenues from construction water sales, sales from resale and revenue from water sales under special contract.

Note: Additive flat rate charges for coolers, large lot areas, large gardens, etc. will be included in the above accounts along with the basic flat rate charges.

### **462. Fire Protection and Hydrant Revenue**

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

B. The following subaccounts shall be used:

#### **462.1 Public Fire Protection**

#### **462.2 Private Fire Protection**

#### **465. Irrigation Revenue**

This account shall include all revenue from irrigation service, under either metered or flat rate irrigation tariff schedule.

#### **470. Metered Water Revenue**

A. This account shall include all revenue from metered water service. Surcharge revenues approved by the Commission applicable to metered customers shall be recorded in this account. Separate subaccounts shall be maintained for each type of surcharge approved by the Commission unless otherwise authorized or directed by the Commission.

B. Metered revenue shall be segregated, using the following subaccounts:

##### **470.1 Residential, Single-Family Dwellings and Multiple Dwelling Units Individually Metered**

##### **470.2 Commercial and Multi-Residential Master Metered**

**470.3 Large Water Users:** Large water users are defined as customers, other than customers whose revenues are reported in account 470.1 or 470.2, who use at least five times as much water as the average single-family residential customer and have a 1-1/2" or larger meter installed.

##### **470.4 Safe Drinking Water Bond Surcharge**

##### **470.5 Other Metered Revenues**

Include herein revenues from construction water sales, sales for resale and revenue from water sales under special contract.

#### **480. Other Water Revenue**

This account shall include revenue from water operations other than the delivery of water or provision of fire protection. This account shall be appropriately subdivided.

##### Items

- Fees for changing, temporarily shutting off or reconnecting services
- Maintenance of appliances or repair of piping on customers' premises
- Rental income from water property

**OPERATING EXPENSE ACCOUNTS**  
**PLANT OPERATION AND MAINTENANCE EXPENSES**

**A. Volume Related Expenses**

**610. Purchased Water**

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

**615. Power**

This account shall include the cost of power and fuel used to operate pumps.

Note: Fuel and electricity used to heat and light offices shall be charged to Account 681, Office Supplies and Expense.

**618. Other Volume Related Expenses**

This account shall include all other expenses related to the volume of water used.

Items

Ground water replenishment charges.

Chemicals used in water treatment.

Water rights leases based on volume.

Note: Any of the above types of charges that are not based on volume shall be charged to Account 664, Other Plant Maintenance Expenses.

**B. Non-Volume Related Expenses**

**630. Employee Labor**

This account shall include the wages of all employees (other than the manager, owner, or principal stockholders) whose time is utilized in the operation, repair and maintenance of the water system. The account shall include wages of employees who perform such work as, for example:

Cutting brush and weeds at springs or streams

Checking, oiling and other pump maintenance

Repairing leaks in water mains and services

Reading meters

Removing, resetting and testing meters

Turning water off or on at customers' premises

Maintenance of water treatment equipment; labor of adding chemicals, washing filters, etc.

Note A. Wages of managers, owners, or principal stockholders who perform any of the above functions shall not be included in this account but shall be included in Account 671, Management Salaries.

Note B. The wages of employees who perform both maintenance work and office work shall be charged to the account to which the greater portion of their time is devoted, unless segregation between accounts is based on actual records of amount of time spent on each type of work. No arbitrary allocations of employee wages between accounts shall be made.

Note C. The cost of labor assignable to utility plant construction shall be charged to Account 101, Water Plant in Service; Account 105, Construction Work in Progress -Water Plant; or Account 900.1, Payroll Clearing, as appropriate.

Note D: The cost of chemicals used in water treatment shall be charged to Account 618, Other Volume related expenses.

#### **640. Materials**

This account shall include all materials and supplies used in operation and maintenance of the water system, other than repair and maintenance materials charged to Account 650, Contract Work and chemicals charged to Account 618, Other Volume Related Expenses.

#### **650. Contract Work**

This account shall include the cost of all repair and maintenance work not performed by water company employees. Examples of such expenses are pump repairs, repairs of water system leaks by local plumbers, painting of tanks by painting contractors, and testing of water by laboratories. This account shall include materials that are part of a contract price if the cost of such materials is not separately stated, and incidental operation and maintenance expenses not chargeable to accounts 630 or 640. The following subaccounts shall be used, if applicable

**650.1 Contract Water Quality and Testing Work**

**650.2 Other Contract Work**

#### **660. Transportation Expense**

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

	Items	
Tires		Oil
Batteries		Vehicle and equipment
Lubrication		rentals
Fuel		License fees
		Repairs

#### **664. Other Plant Maintenance Expenses**

This account shall include all plant operation and maintenance expenses not related to volume of water, and not separately provided for in other accounts.

Items
Well rental charges.
Charges for the right to divert water from springs and streams
Cost of drilling nonproductive wells unless special accounting is ordered by the Commission.
Telemetrying.

## **ADMINISTRATIVE AND GENERAL EXPENSES**

### **670. Office Salaries**

This account shall include the salaries of all employees (other than the manager, owner or principal stockholders) whose time is utilized in billing, collecting, record keeping, or general office work.

Note: Fees of independent accountants will be charged to Account 682, Professional Services.

### **671. Management Salaries**

A. This account shall include the portion of salaries of managers, owners, partners or principal stockholders of a utility, chargeable to utility operations.

B. No portion of such salaries shall be allocated to other expense accounts even though the owner or manager may perform other duties (e.g., billing, collecting, and maintenance) in addition to managing the utility.

C. Drawings by partners or owners of non-corporate utilities in addition to amounts designated as "salaries" for operating the utility shall be charged to subaccount 218.1, Proprietary Drawings.

D. The portion of salaries of managers, owners, partners or principal stockholders assignable to utility plant construction shall be charged to Account 101 or Account 105 as appropriate. Also see Account 900.1 Payroll Clearing.

### **674. Employee Pensions and Benefits**

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

Note: Utilities with more than 1,000 service connections shall subdivide this account to correspond with salaries reported in accounts 630 Employee Labor, 670 Office Salaries, and 671 Management Salaries.

### **676. Uncollectible Accounts Expense**

A. This account shall be charged with amounts sufficient to cover losses from uncollectible accounts receivable.



B. If a valuation reserve account is maintained for receivables, a contra credit shall be made to Account 143, Accumulated Provision for Uncollectible Accounts.

C. If the utility writes off bad debts directly as accounts are determined to be uncollectible, the contra credit shall be to Account 141, Accounts Receivable - Customers.

D. If accounts that previously were written off as bad debts are subsequently collected, the amount collected will be credited to Account 143, Accumulated Provision for Uncollectible Accounts, if the utility follows this method of accounting. If the utility writes off bad debts directly, subsequent collection of amounts previously written off will be credited to Account 676, Uncollectible Accounts.

**678. Office Services and Rentals**

Items

Computer and/or Billing Machine ..... Credit Reports  
Payments to Service Bureaus ..... Commissions to Others  
Office Equipment Rentals ..... For Collecting Bills  
Other Services

**681. Office Supplies and Expense**

This account shall include the cost of office supplies and expenses, including printing, stationery, general accounting supplies, repair, maintenance and telephone, utilities, and other office expenses.

**682. Professional Services**

This account shall include the fees of independent accountants, engineers, lawyers, and similar professional consultants. This account shall be kept in a manner that will permit ready analysis of charges.

**684. Insurance**

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

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

Note B. The cost of policies extending over a period of more than one year shall be prorated over the period of coverage. Prepaid insurance shall be charged to Account 174, Other Current Assets, when appropriate.

### **688. Regulatory Compliance Expense**

A. This account shall include all expenses (except salaries of regular utility employees) incurred by the utility in connection with formal matters before regulatory commissions.

B. Amounts of regulatory commission expense which, by direction of the commission is to be spread over future periods shall be charged to Account 180, Deferred Charges and amortized by charges to Account 688, Regulatory Commission Expense.

### **689. General Expense**

This account shall include all expenses not includible in other operating expense accounts. General expenses include advertising, subscriptions, collection agency fees and Water Association dues.

### **800. Expenses Capitalized - Credit (Optional)**

A. If this account is used it shall be credited (with concurrent charges to Account 105, Construction Work in Progress - Water Plant) for amounts of payroll overheads (payroll taxes, workers' compensation insurance, etc.), transportation expenses and other items determined to be proper components of construction cost.

B. The methods used to calculate the amount of expenses to be capitalized are not specified, but shall result in an equitable allocation of such actual overheads to the appropriate accounts charged with the direct costs giving rise to such overheads. The addition of arbitrary percentages or amounts to cover assumed overhead costs is prohibited.

### **900. Clearing Accounts - Optional**

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

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

### **900.1 Payroll Clearing (Optional)**

A. If this account is used it shall be charged with the gross wages earned by all employees. (Unincorporated utilities also shall charge to this account amounts withdrawn by the owner or partners representing the value assigned to their services in operating the utility. Other amounts withdrawn by owners or partners of unincorporated utilities in addition to amounts designated as "salaries" for operating the utility shall be charged to subaccount 218.1, Proprietary Drawings.)

B. This account shall be cleared by crediting it and charging the accounts indicated below:

1. Office employees' salaries shall be charged to Account 670, Office Salaries.

2. Wages of all employees whose time is utilized in water plant construction or in water plant maintenance and repair shall be segregated in the following manner:

a. Account 105, Construction Work in Progress -Water Plant, shall be charged with the cost of assignable to utility plant construction.

b. Account 630, Employee Labor, shall be charged with the cost of all employee labor used in the repair, operation and maintenance of the water system.

3. Salaries of owners, partners, and managers shall be segregated in the following manner:

a. Account 105, Construction Work in Progress -Water Plant, shall be charged with the portion of salaries chargeable to water plant construction.

b. Account 671, Management Salaries, shall be charged with the portion of salaries chargeable to operating expenses. (See Account 671 and Account 218)

## ATTACHMENT A

### Sample Entries to Record Income Taxes

The following example shows entries to record Federal Corporate Income Taxes and Federal Investment Tax Credits in the books of account.

Assumptions -

(a) A water utility purchases depreciable plant at a cost of \$ 10,000. The plant has a 10-year life with no salvage. (5-year accelerated tax depreciable property).

(b) The utility's federal taxable income computed on a straight-line depreciation basis both in its books of account and for ratemaking is \$ 30,000. The utility actually utilizes accelerated tax depreciation in preparing its federal income tax return. The accelerated tax depreciable life of the plant is 5-years.

(c) The investment tax credit is \$ 800 ( $\$ 10,000 \times 8\%$ ) in order to use 100% of the \$ 10,000 cost for accelerated tax depreciation.

	<u>Acc't No.</u>	<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
1.	410	Federal Corporate Income Tax Expense <sup>1</sup>	\$13,999	
	236	Taxes Accrued		\$13,800
		To record federal income tax expense ( $\$30,000 \times 46\%$ )		
2.	236	Taxes Accrued	\$230	
	282	Accumulated Deferred Income Taxes - Accelerated Tax Depreciation		\$230
		To reduce taxes accrued by the amount of deferred income taxes based on the difference between straight-line book depreciation and accelerated tax depreciation. ( $\$1,500$ accelerated tax depreciation $\$1,000$ book depreciation) $\times 46\%$ . <sup>2</sup>		

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<sup>1</sup> A utility may, at its option, subdivide Account 410 to identify the deferred components of income tax expense, e.g. Account 410.1 - Deferred Federal - Corporate Income Tax Expense - Accelerated Cost Recovery System; and Account 410.2 - Deferred Federal Corporate Income Expense - Investment Tax credit.

<sup>2</sup> At the point in time when book depreciation exceeds tax depreciation Account 236 will be credited and Account 282 debited.

**The following example shows how the various transactions are recorded:**

	<u>Acc't No.</u>	<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
3.	236	Taxes Accrued	\$800	
	255	Accumulated Deferred Investment Tax - Cr.		\$800
		To record deferral of investment tax credits arising out of plan installed in current year.		
4.	255	Accumulated Deferred Investment Tax-Cr.	\$80	
	426	Miscellaneous Non-Utility Expense		\$80
		To record the annual amortization, over the life of the related property, of a pro rata portion of the amount of ITC deferred in Entry 3. [This entry (in lieu of Entry 4) would be used only by Option 1 companies.] (See Accounting Instruction 7)		
5.	255	Accumulated Investment Tax-Cr.	\$80	
	410	Federal Corporate Income Tax Expense		\$80
		To reduce cost of service and the annual amortization, over the life of the related property, or a pro rata portion of the amount of ITC deferred in Entry 3. [This entry (in lieu of Entry 4) would be made only by Option 2 companies.] (See Accounting Instruction 7.)		

## ATTACHMENT B

### Sample Entries to Record Transactions For a 30-Year, 6% SDWBA Loan of \$ 100,000 Assume 490 Single-family Metered Residential Customers

	<u>Acc't No.</u>	<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
1.	131.2	Cash in Bank	\$ 100,000	
	224.1	Long-Term Debt – SDWBA Loan (Utility receives progress payments of \$100,000 from DWR. Payments are deposited in separate bank account		\$ 100,000
2.	101	Plant (detail entered in plant Accounts 301 through 341)	\$100,000	
	131.2	Cash in Bank (Payment is made to contractors for plant constructed with SDWBA loan proceeds.)		\$100,000
3.	141	Accounts Receivable-Customers	\$1,637	
	470.1	Residential, Single-Family Dwellings & Multiple Dwellings		\$1,000
	470.4	SDWBA Surcharge (Monthly billing of customers for ordinary revenue of \$1,000 plus SDWBA surcharge of \$637.) (\$1.30 surcharge x 490 customers = \$637)		637
4.	131.2	Cash in Bank	\$1,550	
	141	Accounts Receivable-Customers (Monthly collections of customer receivables. Consists of \$975 regular revenue and \$575 SDWBA surcharge revenue.)		\$1,550

5.	132	Cash – Special Deposits	\$575	
	131.2	Cash in Bank		\$575
		(Surcharge collections are transferred monthly to account with fiscal agent.)		
6.	427	Interest Expense – SDWBA loan	\$3,000	
	224.1	Long-Term Debt – SDWBA loan (Principal payment)	822	
	132	Cash – Special Deposit		\$3,822
		(Semi-annual payment of principal and interest to DWR by fiscal agent.)		
7.	132	Cash –n Special Deposit	\$50	
	421.2	Non-Utility Income – Interest		\$50
		(Credit of interest earned on surcharge collections deposited with fiscal agent.)		
8.	407	SDWBA Loan Amortization Expense	\$1,667	
	108.1	Accumulated Amortization of SDWBA		\$1,667
		(Semi-annual amortization of 30-year SDWBA loan.)		

**(End of Attachment B)**

## ATTACHMENT C

### Illustrative Accrual Basis Accounting Journal Entries for Recording Transactions Related to Proposition (Prop) 50 & Other Grant Funds (For Classes B, C, and D Water Utilities) (Per D.06-03-015, dated March 2, 2006)

**Scenario: A utility receives \$1,000,000 of Grant Funds to pay for the construction of a new treatment plant. The total cost of the plant is \$2,000,000 funded by \$1,000,000 of Grant Funds and \$1,000,000 of utility funds.**

<u>Acc't No.</u>	<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
1. 132	Cash - Special Deposit	\$1,000,000	
265.1	Contributions - Government Grant proceeds To record receipt of the first funding of a \$1,000,000 Prop. 50 grant.		\$1,000,000
2. 105.2	Construction Work in Progress (CWIP) - Grant Funds	\$200,000	
132	Cash - Special Deposits To record payment of \$200,000 made to contractor for plant construction using grant funds during construction		\$200,000
3. 101.3	Utility Plant in Service - Other	\$1,000,000	
101.2	Utility Plant in Service - Grant Funds	\$1,000,000	
105.3	Construction Work in Progress - Other		\$1,000,000
105.2	Construction Work in Progress - Grant Funds To record completion of constructing the treatment plant.		\$1,000,000
4. 272	Accumulated Amortization of Contributions - Debit	\$25,000	
108.2	Reserve for Depreciation of Utility Plant - Grant Funds To amortize grant funds (assuming the estimated service life of the plant is 40 years.)		\$25,000

**(End of Attachment C)**