

Small Utility Accounting Manual



Water/Wastewater Division

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Introduction

We recognize that many small utilities have limited resources and may rely on a board member, a recently elected clerk-treasurer, or the spouse of a developer with little accounting knowledge to be the responsible person for your utility's financial and accounting records. The IURC's Water/Wastewater Division developed this manual primarily to assist those individuals with limited accounting experience. However, utility accounting has some unique aspects to it that will be addressed. Thus, the content may benefit experienced bookkeepers as well.

Several topics discussed include commonly incurred accounting errors that have been identified in Annual Reports and rate case filings. We also explain double-entry and accrual accounting and describe the advantages over single-entry and cash basis accounting. Next, we provide some of the most commonly incurred transactions that can be easily made on an accrual basis to create or enhance the usability of your monthly financial statements and budgets. For a more detailed and thorough utility accounting guide, the NARUC Uniform System of Accounts (USoA) is a publication that all regulated utilities should possess. A more detailed discussion of the USoA is provided on the following page including information about how to obtain copies.

Toward the back of the manual, you will find a list of monthly financial/accounting duties. This list was prepared by the Indiana State Board of Accounts and is included in its Cities and Towns Manual. While this list was written for municipalities, many of the responsibilities listed also apply to not-for-profit and investor-owned utilities. You will also find a checklist that is recommended for use prior to the submission of your IURC Annual Report due on April 30th. Finally, you will find a collection of Indiana statutes from Title 8 and the administrative code that relate to accounting requirements for regulated utilities.

Also, take advantage of resources on the web that provide opportunities to learn at no cost. The content of this manual will not provide a complete understanding necessary to perform all accounting functions. For those who would like to take a more comprehensive approach to your utility's financial management, Rural Community Assistance Partnership (RCAP) has developed an excellent publication titled, "The Basics of Financial Management for Small-Community Utilities." This free guide provides an overview of financial management for small utilities, from developing a budget to collecting revenue. The guide also explains in simple, easy-to-understand terms how to read and interpret financial statements so more informed decisions can be made. This guide also provides sample financial-management policies, which are also available in Microsoft Word files, so you can adapt the policies to your utility. You will also find information about financial planning, budgeting and financial performance.
<http://www.rcap.org/finmgmtguide>

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Uniform System of Accounts (USoA)

The National Association of Regulatory Utility Commissioners (NARUC) developed the Uniform System of Accounts (USoA). The USoA prescribe accounting instructions and classifications to achieve uniform and consistent accounting records to allow regulators to fulfill their regulatory responsibilities. The IURC adopted the NARUC USoA pursuant to 170 IAC 6-2-2 for water utilities and 170 IAC 8-2-1 for wastewater utilities. Utilities may purchase the Uniform System of Accounts Manuals pertaining to their particular class for less than \$30. You can call (202)898-2200 or visit the website at www.NARUC.org. The manuals will be found in the 'Publications Store' under the 'About NARUC' option.

The USoA divides water and wastewater utilities into three classes, A, B and C, based upon the average amount of annual operating revenues for the last three consecutive years.

Utility Classifications

Class A: \$1,000,000 and more in revenues

Class B: \$200,000 to \$999,999 and

Class C: Less than \$200,000 in revenues

The double-entry accrual accounting system is required for all utilities regardless of class. Advantages of double-entry accrual accounting are the inclusion of assets and liabilities in the books of account, the ease of financial statement preparation without the necessity of analysis of supporting memoranda and documents, and a means of providing a better understanding of the financial status of the utility.

General Numbering System

Water Utilities

100-199 Assets and Other Debits
200-299 Equity, Liabilities and Other Credits
300-349 Water Plant Accounts
400-434 Income Accounts
435-439 Retained Earnings Accounts
460-489 Water Operating Revenue Accounts
600-699 Water Operation and Maintenance Exp.

Wastewater Utilities

100-199 Assets and Other Debits
200-299 Equity, Liabilities & Other Credits
350-389 Wastewater Plant Accounts
400-434 Income Accounts
435-439 Retained Earnings Accounts
521-549 Wastewater Oper. Revenue Accts.
700-799 Wastewater O&M Expenses

Double Entry Accounting

A double-entry accounting system tracks financial activity in which the debits and credits of each transaction equal zero. Double-entry accrual accounting also employs the principles of accrual basis accounting, most notably the matching principle.

The chief rule in double-entry accrual accounting, the matching principle, requires accountants to record transactions in the period the work took place regardless of when cash exchanged hands. Accountants create entries called accruals and deferrals to comply with this requirement.

The term “double entry” means that every transaction affects at least two accounts. For example, if a company borrows \$50,000 from its bank, the company’s Cash account increases, and the company’s Notes Payable account increases. Double entry also means that one of the accounts must have an amount entered as a debit, and one of the accounts must have an amount entered as a credit. For any given transaction, the debit amount must equal the credit amount. (To learn more about debits and credits, see the Explanation of Debits & Credits on the following page.)

Account

An account is a record in the general ledger that is used to collect and store similar information. Utilities present their annual accounts in two main parts: the Balance Sheet and the Income Statement (or Operating Statement).

Types of Accounts:

Assets are items of value an entity owns, such as cash, inventory, accounts receivables, buildings, plant, and office equipment. Liabilities are amounts owed to other entities. Equity or net assets is the amount of funds contributed by the owners plus the retained earnings or losses. Revenues are fees or service charges that are billed to customers for utility services rendered. Expenses are items that use a utility’s financial resources to operate the utility. Other Income or Expenses are items that are not directly related to providing services to the utility’s customers, for example, interest income, sale of assets and interest expense.

Chart of Accounts

A chart of accounts is a listing of the names of the accounts that a company has identified and made available for recording transactions in its general ledger. An IURC regulated utility has some flexibility to tailor the chart of accounts prescribed by the NARUC Uniform System of Accounts (see page 4) to best suit its needs. For instance, in addition to the prescribed accounts, clearing accounts and subdivisions of any account may be kept provided the integrity of the prescribed accounts is not impaired. Also, Class C utilities may maintain such additional accounts as are included in the USoA for Class A or Class B utilities. Within the chart of accounts, you will find that the accounts are typically listed in the following order:

Balance Sheet accounts	Assets Owner's (Stockholders') Equity Liabilities
Income Statement accounts	Operating Revenues Operating Expenses Non-operating Revenues and Gains Non-operating Expenses and Losses

Trial Balance

A trial balance is a list of all the General Ledger accounts contained in the ledger of a utility. This list contains the name and value of the ledger accounts, such as Cash, Inventory, Accounts Payable, etc. The value of the ledger will hold either a debit or a credit balance value. The name originates from the purpose of a trial balance which is to prove that the value of all the debit value balances equal the total of all the credit value balances. The Balance Sheet, Income Statement and other financial reports can then be produced using the ledger accounts listed on the trial balance.

Explanation of Debits & Credits:

A credit and debit are the two fundamental aspects of every financial transaction in the double-entry accounting system in which every debit transaction must have a corresponding credit transaction(s) and vice versa. Debits and credits form two opposite aspects of every financial transaction. A "Dr" (debit) means left side of a ledger account and "Cr" (credit) is the right side of a ledger account. Whether a debit increases or decreases an account depends on what kind of account it is.

Assets are debit accounts. This means that they are accounts that normally have a balance on the left side of the accounting equation. To increase, you debit the account. To decrease, you credit it.

Liabilities and equity are credit accounts. They normally have a balance on the right side of the equation. To increase, you credit them. To decrease, you debit them.

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Accounting is governed by the following equation:

$$\text{Assets} = \text{Liabilities} + \text{Equity} \quad (A = L + E)$$

If an asset account increases (through a debit), then one must also decrease (credit) another asset account, or increase (credit) a liability or equity account.

- An increase (+) to an asset account is a debit.
- An increase (+) to a liability account is a credit.
- A decrease (-) to an asset account is a credit.
- A decrease (-) to a liability account is a debit.

Balance Sheet Equation =

$$\text{Asset Accounts} = \text{Liability Accounts} + \text{Equity Accounts}$$

<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>	<u>Debit</u>	<u>Credit</u>
+	-	-	+	-	+

Summary table of standard increasing (+) and decreasing (-) attributes for the five accounting elements:

<u>ACCOUNT TYPE</u>	<u>DEBIT</u>	<u>CREDIT</u>
Asset	+	-
Liability	-	+
Equity	-	+
Revenue	-	+
Expense	+	-

Journal Entries

The journal entry is the act of recording financial transactions with the intent of increasing or decreasing account balances. A journal is considered the book of original entry, because it is where financial transactions are first recorded.

Journal entries answer the following three essential questions:

- a. What has happened?
- b. Which accounts are affected?
- c. Should the accounts be increased or decreased and by how much?

Sample journal entry:

	<u>Debit</u>	<u>Credit</u>
Acct. 601 Salaries Expense	\$10,000	
Acct. 131 Cash		\$10,000
To record payment of payroll for the month of June 2012.		

Accrual Accounting

Introduction

Accrual accounting is a system of accounting where revenues and expenses are recorded as they are earned and incurred. Accrual accounting has a number of advantages over cash basis accounting where revenues and expenses are recognized only when cash is received or paid. Accrual accounting matches revenue with expense providing a more accurate assessment of a utility's financial position. This allows management to measure performance using financial statements that better represent actual circumstances. With cash accounting, the financial statements may be showing favorable results while the utility is struggling because expenses are accruing, but not yet paid. For instance, debt service payments on bond issues are frequently paid on a semi-annual or annual basis. The interest expense associated with outstanding debt is not an expense that occurs only in the month when the debt payment is made, but instead occurs, or accrues, over each month. Accrual accounting records, or accrues, the interest expense in every month (even when debt payments are not made) providing a more accurate financial picture and matching revenues with expenses.

Properly matching revenues with expenses also allows a utility to better assess profit; if expenses are not properly accrued, monthly profits will be overstated until the cash payments for the expenses are made. When the cash payment is made, the monthly profit will be understated. The same concept applies to revenues as well. There was a time when many utilities billed customers on a bi-monthly or quarterly basis. If the monthly revenues are not accrued, the profit will be understated in months where customer bills are not prepared and overstated in months where customer bills have been prepared. We do not recommend utilities bill less frequently than on a monthly basis because it will adversely affect cash flow and reduces the price signal effect to consumers provided by the bill.

Accrual accounting will improve overall financial management including the enhanced use of budgets. Over the next several pages, we identify some of the more common and material transactions that benefit from accrual accounting and describe how the accounting entries might look. The transactions identified do not represent a complete list of transactions that could be accrued which would result in a more precise financial presentation. For instance, monthly accruals for unbilled revenues and payroll entries are not discussed. The intent here is to assist those with limited accounting knowledge to get started with accrual accounting and we believe the transactions identified are relatively simple to understand and/or will make a material difference to monthly financial statement results. Depending on your level of accounting knowledge, you may want to review the explanation of debits and credits in the Double Entry Accounting section.

Insurance Expense

While health insurance and other types of policies may be paid on a monthly basis, other policies are often paid quarterly, semi-annually and annually. These insurance policies do not provide coverage only for the month when the premium is paid so these costs need to be spread over time periods coverage is provided.

Example: XYZ Utility pays its liability insurance premium costing \$18,000 on April 1, 2014 and provides coverage for a 12-month time period.

In order to spread this cost over an entire year, the payment will be posted to the Prepaid Insurance account on the Balance Sheet to be allocated to the Income Statement on a monthly basis. Thus, the initial transaction might look like this:

	<u>Debit</u>	<u>Credit</u>
Acct. 162 Prepaid Insurance	\$18,000	
Acct. 131 Cash		\$18,000
To record payment of annual liability insurance premium (April 2014 – March 2015).		

Each month, 1/12 of the amount paid or \$1,500 will be transferred to the Insurance Expense account.

	<u>Debit</u>	<u>Credit</u>
Acct. 757 Insurance Expense	\$1,500	
Acct. 162 Prepaid Insurance		\$1,500
To record monthly liability insurance expense.		

The T-account below shows the balance in the Prepaid Insurance account decreasing after the April journal entry has been made. In this example, the balance in the Prepaid Insurance account will reach zero after the twelfth monthly journal entry has been recorded.

Acct. 162 Prepaid Insurance	
\$18,000	
\$16,500	\$1,500

In this example, we only show one insurance policy where the premium paid is posted to the Prepaid Insurance account. However, in practice, all of the insurance premiums that cover more than one month would be posted to Prepaid Insurance and allocated to an Insurance Expense account on a monthly basis.

Other prepaid expenses, where the expense is paid for in advance, could be accounted for in the same manner such as maintenance agreements.

Property Taxes

In Indiana, property taxes are paid with two semi-annual payments in early May and November. However, these payments should be spread out evenly throughout the entire year for more accurate accounting records. Therefore, property taxes should be accrued on a monthly basis. The semi-annual payment can be divided by six months to calculate the monthly expense. Each month, the Property Tax Expense account is increased with a debit while the Accrued Property Tax account, a liability account, is increased with a credit for the same amount. When the actual semi-annual payment is made, no entries are made to Income Statement accounts, instead, the Accrued Property Tax account is decreased with a debit and the Cash account is decreased with a credit to reflect the amount of property tax paid. Thus, the accounting entries may appear as follows:

	<u>Debit</u>	<u>Credit</u>
Acct. 408 Property Tax Expense	\$300	
Acct. 236 Accrued Property Tax		\$300
To accrue monthly property taxes owed for six months.		

Acct. 236 Accrued Property Tax	\$1,800	
Acct. 131 Cash		\$1,800
To remit semi-annual property taxes of \$1,800 in May 2012.		

The T-account below shows the Accrued Property Tax account increasing each month as a corresponding debit entry is made to the Property Tax Expense account on the Income Statement (not shown), then after the May accrual and cash payment is made, the balance is a debit of \$300. We learned that this account is a liability account and typically has a credit balance. The \$300 debit balance, in this instance, essentially represents a one month prepayment of property taxes. After the June accrual is entered, the balance will be zero before increasing again.

A/C 236 Accrued Property Tax	
	\$300 Jan.
	300 Feb.
	300 Mar.
	300 Apr.
	300 May
\$1,800	
\$300	

Depreciation Expense and Accumulated Depreciation

In the “Common Accounting Errors” section, we discuss the proper accounting for asset purchases, such as backhoes and trucks, is to record the purchases as assets, rather than as an expense. Depreciation expense is a method of attributing the historical or original cost of an asset over its estimated useful life based on normal wear and tear. This process helps to normalize the cost of assets by spreading them over the useful lives of the assets. If assets were expensed in the month incurred, the monthly financial statements would not be accurate.

Depreciation refers to two very different but related concepts:

- a.) The decrease in value of assets. This affects values of businesses and entities.
- b.) The allocation of the cost of assets to periods in which the assets are used (depreciation with the matching principle). This affects net income.

Generally, cost is allocated as depreciation expense among the periods in which the asset is expected to be used. Depreciation expense is recognized by businesses for financial reporting and tax purposes. Depreciation is a non-cash expense. The purpose of depreciation expense in ratemaking for investor-owned utilities is to recover a utility’s original investment of the asset, not for the eventual replacement of the asset. Depreciation expense generally begins when the asset is placed in service. Several standard methods of computing depreciation expense exist, including straight line, fixed percentage, and declining balance methods. However, utilities typically use group asset or mass asset depreciation accounting.

Under the group concept, assets are placed in a group that is considered to have some average life. Every asset placed in the group is assumed to have the same life and be fully depreciated when retired (see asset retirement accounting p. 25). Under group depreciation, an asset continues to generate depreciation expense even if it is in service after the average life of its group, or an asset may be retired before the asset is fully depreciated. From time to time, a depreciation study is performed to evaluate the actual lives and salvage characteristics of the assets retired. If many assets have been retired prematurely, it will likely result in a higher depreciation rate because the depreciation reserves will be understated.

Only a handful of the IURC’s regulated water and wastewater utilities perform depreciation studies because the studies are expensive and require detailed plant and accounting records. Instead, the smaller utilities apply the “standard” composite depreciation rates developed by the IURC reflected in a memo dated December 28, 1987. A composite depreciation rate is a weighted average depreciation rate for all groups of assets and is applied to the utility’s gross plant to calculate depreciation expense. The composite depreciation rates from the memo follow:

- Complete Water System – 2.0%
- Purchase Water System – 1.7%
- Complete Wastewater System – 2.5%
- Purchase Treatment System – 2.2%

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In practice, many utilities use various depreciation rates based on the asset lives of the plant account group, which is a common error found on the utility Annual Report filings and in some rate case filings. For example, for office furniture, a depreciation rate of 5% may be used for an expected service life of 20 years or for a truck, a depreciation rate of 20% may be used based on a service life of five years. Neither of these rates is correct.

On the surface, it may seem illogical for a water utility to apply a 2% depreciation rate to vehicles and furniture knowing these assets will not last for 50 years ($2\% \times 50 \text{ years} = 100\%$). However, it is important to remember that the 2% composite rate is a combination of asset classes with various useful lives. For instance, transmission and distribution mains are depreciated over 75 years or 1.33%. Fire hydrants and water storage tanks are depreciated over 60 years, or 1.67%, while Transportation Equipment is depreciated over 7 years (14.29%) and Office Furniture and Equipment over 25 years (4%). When depreciation rates for each asset class is combined, a composite depreciation rate of 2% results. Thus, when applying the 2% rate to the Utility Plant in Service balance, Transportation Equipment is really being depreciated over 7 years.

To record monthly Depreciation Expense, subtract land costs from the total Utility Plant in Service balance, multiply the remaining balance by the appropriate composite depreciation rate listed on the previous page, then divide by 12 months. Thus, the accounting entry may appear as follows:

	<u>Debit</u>	<u>Credit</u>
Acct. 403 Depreciation Expense	\$1,417	
Acct. 108 Accumulated Depreciation		\$1,417
To record monthly depreciation expense.		

Calculation: Utility Plant(less land) x Depreciation rate= Depreciation Expense
 $\$1,000,000 \times 1.7\% = \$17,000/12 \text{ months} = \$1,417/\text{month}$

Accumulated Depreciation

While Depreciation Expense is recorded on the Income Statement, its impact is recorded in a separate contra account on the Balance Sheet called Accumulated Depreciation, under Utility Plant in Service. Showing Accumulated Depreciation separately on the Balance Sheet has the effect of preserving the historical cost of assets on the Balance Sheet. The T-account below is a representation of Accumulated Depreciation showing the effect of the monthly entry above.

<u>Accumulated Depreciation</u>	
	\$432,541
	1,417
	<u>\$433,958</u>

Effect of Depreciation:

Income Statement: Depreciation Expense reduces Net Income.

Balance Sheet: Accumulated Depreciation reduces the net carrying value of the asset.

Retained Earnings is affected by Net Income.

CIAC Amortization

The IURC is one of a handful of state commissions that permit utilities to recover Depreciation Expense related to CIAC property as a component of revenue requirements when establishing rates. This recovery is accomplished by depreciating the contributed asset, but not amortizing the CIAC. For investor-owned utilities, this option may increase cash flow in the short term, but may also result in lower future earnings and possibly a negative rate base in the long term. To demonstrate, let's assume that a utility receives contributed plant worth \$200,000. The journal entry to record the plant will be a debit to Utility Plant in Service with a corresponding credit to CIAC. Thus, the rate base effect of this transaction is zero (\$200,000 UPIS less \$200,000 CIAC). Let's assume this plant is depreciated over 40 years or 2.5%. After 15 years, the Accumulated Depreciation will be \$75,000 ($\$200,000 \times 2.5\% \times 15\text{yrs}$). The rate base of this portion of the utility's plant will be calculated as follows:

	<u>After 15 yrs.</u>	<u>After 40 yrs.</u>
Utility Plant in Service	\$200,000	\$200,000
Less: Accumulated Depreciation	<u>75,000</u>	<u>200,000</u>
Net UPIS	125,000	- 0 -
Less: CIAC	<u>200,000</u>	<u>200,000</u>
Total Rate Base	<u>(\$75,000)</u>	<u>(\$200,000)</u>

To the extent the utility's investor supplied plant exceeds \$75,000, the utility will have a positive rate base on which to earn a return. However, the investor supplied plant will be offset by the negative \$75,000 from the contributed property reducing rate base and the utility's earnings. If the utility's investor supplied plant is less than the negative \$75,000 from the contributed property, the utility will have a negative rate base. The practical effect of this result is to prevent an investor from earning a return on additional investments.

One way to avoid this situation is to amortize CIAC, a practice also accepted by the IURC. CIAC is amortized over the same time period that the associated utility plant in service is depreciated. This ensures that CIAC and utility plant are synchronized. Consistent with the accounting instructions in the Uniform System of Accounts, a debit is made to Account 272, Accumulated Amortization of CIAC with the concurrent credit made to account 403, Depreciation Expense. The effect of this entry will reduce depreciation expense associated with contributed property to zero. Thus, the Depreciation Expense revenue requirement will be lower in a rate case as well and cash flow will be reduced in the short term.

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An example of the entry to record depreciation expense on contributed property is shown below along with the CIAC amortization entry and a T-account showing the resulting depreciation expense.

	<u>Debit</u>	<u>Credit</u>
Acct. 403 Depreciation Expense	\$5,000	
Acct. 108 Accumulated Depreciation		\$5,000
To record annual depreciation expense.		
Acct. 272 Accumulated Amortization of CIAC	\$5,000	
Acct. 403 Depreciation Expense		\$5,000
To record annual amortization of CIAC.		

Depreciation Expense	
\$5,000	\$5,000
-	-0-

If the utility elects to amortize CIAC, the rate base of this portion of the utility's contributed plant will be calculated as follows:

	After 15 yrs.	After 40 yrs.
Utility Plant in Service	\$200,000	\$200,000
Less: Accumulated Depreciation	75,000	200,000
Net UPIS	125,000	-0-
Less: CIAC	\$200,000	\$200,000
Less: Accumulated Amort. CIAC	(75,000) 125,000	(200,000) -0-
Total Rate Base	-0-	-0-
Rate Base from prior page (without CIAC Amort)	<u>(\$75,000)</u>	<u>(\$200,000)</u>

Interest Expense

As stated in the introduction (to the Accrual Accounting section), interest expense associated with outstanding debt is not an expense that occurs only in the month when the debt payment is made, but instead occurs, or accrues, over each month. Accrual accounting records, or accrues, the interest expense in every month (even when debt payments are not made) providing a more accurate financial picture and matching revenues with expenses.

Referencing the Schedule of Amortization for XYZ Utility’s \$1,000,000 bonds shown on page 18, the accounting entries may appear as follows:

	<u>Debit</u>	<u>Credit</u>
Acct. 427 Interest Expense	\$2,500	
Acct. 237 Accrued Interest		\$2,500
To record monthly interest expense ($\$15,000/6$ months = \$2,500).		

	<u>Debit</u>	<u>Credit</u>
Acct. 237 Accrued Interest	\$15,000	
Acct. 221 Bonds	5,000	
Acct. 131 Cash		\$20,000
To record semi-annual loan payment.		

The T-account below shows the Accrued Interest account increasing each month as a corresponding debit entry is made to the Interest Expense account on the Income Statement (not shown), then after the July 1st cash loan payment is made, the balance is - 0 -.

Accrued Interest Account	
	\$2,500 Jan
	2,500 Feb
	2,500 Mar
	2,500 Apr
	2,500 May
	2,500 June
Jul \$15,000	
- 0 -	

Common Accounting Errors

Asset Purchases

Common Error: Asset purchases such as backhoes, trucks, meter installations (including labor, materials, machinery and overhead) and other equipment are often times recorded as Material & Supplies or Miscellaneous Expense on the Income Statement.

Proper Accounting: Asset purchases having an expected service life of more than one year should be recorded as Utility Plant in Service on the Balance Sheet.

Example: XYZ Utility purchases a backhoe with cash on hand.

	<u>Debit</u>	<u>Credit</u>
Utility Plant in Service	\$60,000	
Cash		\$60,000
To record purchase of 2012 John Deere 310 backhoe.		

If the vendor financed the backhoe, the utility would credit a note payable account rather than the cash account. Also, let's assume that the utility did not use cash on hand, but instead, acquired a loan from a local bank. In this instance, the accounting entries might look like this:

	<u>Debit</u>	<u>Credit</u>
Cash	\$60,000	
Bonds		\$60,000
To record bank loan used to acquire 2012 John Deere 310 backhoe.		

Utility Plant in Service	\$60,000	
Cash		\$60,000
To record purchase of 2012 John Deere 310 backhoe.		

Remember, do not record the purchase of an asset in an expense account on the Income Statement! Doing so will overstate your expenses, understate your net operating income and understate the assets on your Balance Sheet.

	<u>Debit</u>	<u>Credit</u>
Miscellaneous Expense	\$60,000	
Cash		\$60,000
To record purchase of 2012 John Deere 310 backhoe.		

Loan Payments

Common Error: *Entire loan payment is recorded as Interest Expense on the Income Statement.*

Proper Accounting: *A portion of the loan payment is properly recorded as Interest Expense on the Income Statement. However, a portion of the loan payment represents principal and should be recorded on the Balance Sheet as a reduction to the loan or liability.*

Loan payments consist of two components: principal and interest, when recording loan payments, both components need to be accounted for separately. The interest expense portion should be recorded on the Income Statement, while the principal portion should be recorded on the Balance Sheet as an offset or reduction to the loan (or liability) for which the payment is made. Each portion of the loan payment, principal and interest, can be determined from the loan amortization schedules that should be included with the loan documents or may be calculated using the loan terms or by contacting the loan provider.

Example: Let's assume Utility XYZ borrowed \$1 million to fund infrastructure projects with an amortization schedule as outlined on page 18.

	<u>Debit</u>	<u>Credit</u>
Cash	\$1,000,000	
Bonds		\$1,000,000
To record cash proceeds and long-term debt from sale of bonds.		

	<u>Debit</u>	<u>Credit</u>
Interest Expense	\$15,000	
Bonds	5,000	
Cash		\$20,000
To record January 1, 2013 debt service payment.		

The T-account below shows that the \$1 million Bond balance has been reduced to \$995,000 after the first debt service payment has been made.

Bonds Account	
	\$1,000,000
\$5,000	\$995,000

Loan Payment Discussion Continues on Next Page

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Remember, do not record the entire loan payment as Interest Expense on the Income Statement! Doing so will overstate your expenses, understate your net operating income and overstate the liability on your Balance Sheet.

	<u>Debit</u>	<u>Credit</u>
Interest Expense	\$20,000	
Cash		\$20,000
To record loan payment.		

XYZ Utility
Schedule of Amortization of \$1,000,000 Principal Amount of Outstanding Waterworks Secured Bonds
Principal and Interest payable semiannually January 1st and July 1st

<u>Payment Date</u>	<u>Principal Balance</u>	<u>Principal Paid</u>	<u>Coupon Rate</u>	<u>Interest Paid</u>	<u>Total</u>	<u>Bond Year Total</u>
1/1/2013	\$1,000,000	\$5,000	3.00	\$15,000	\$ 20,000	\$ 39,925
7/1/2013	995,000	5,000	3.00	14,925	19,925	
1/1/2014	990,000	10,000	3.00	14,850	24,850	49,550
7/1/2014	980,000	10,000	3.00	14,700	24,700	
1/1/2015	970,000	10,000	3.00	14,550	24,550	48,950
7/1/2015	960,000	10,000	3.00	14,400	24,400	
1/1/2016	950,000	10,000	3.00	14,250	24,250	48,350
7/1/2016	940,000	10,000	3.00	14,100	24,100	
1/1/2017	930,000	10,000	3.00	13,950	23,950	47,750
7/1/2017	920,000	10,000	3.00	13,800	23,800	
1/1/2018	910,000	10,000	3.00	13,650	23,650	52,150
7/1/2018	900,000	15,000	3.00	13,500	28,500	
Years 2019 through 2024 are not displayed.						
1/1/2025	645,000	30,000	3.00	9,675	39,675	78,900
7/1/2025	615,000	30,000	3.00	9,225	39,225	
1/1/2026	585,000	35,000	3.00	8,775	43,775	87,025
7/1/2026	550,000	35,000	3.00	8,250	43,250	
1/1/2027	515,000	35,000	3.00	7,725	42,725	89,925
7/1/2027	480,000	40,000	3.00	7,200	47,200	
1/1/2028	440,000	40,000	3.00	6,600	46,600	92,600
7/1/2028	400,000	40,000	3.00	6,000	46,000	
1/1/2029	360,000	40,000	3.00	5,400	45,400	95,200
7/1/2029	320,000	45,000	3.00	4,800	49,800	
1/1/2030	275,000	45,000	3.00	4,125	49,125	97,575
7/1/2030	230,000	45,000	3.00	3,450	48,450	
1/1/2031	185,000	45,000	3.00	2,775	47,775	94,875
7/1/2031	140,000	45,000	3.00	2,100	47,100	
1/1/2032	95,000	45,000	3.00	1,425	46,425	97,175
7/1/2032	50,000	50,000	3.00	\$750	50,750	
Totals		\$1,000,000		\$402,375	\$1,402,375	\$1,402,375

Sales Tax Accounting

Common Error: *Sales tax collected is recorded as revenue and the amount of sales tax submitted to the state is recorded as an expense on the Income Statement. Sometimes, one component of the transaction is recorded on the Income Statement.*

Proper Accounting: *Sales tax collected is recorded as a liability or a debt owed to the state on the Balance Sheet and the liability is reduced when the funds collected are remitted to the state. No entries should affect the Income Statement for sales tax collected on sales.*

Sales taxes are pass-through remittances. The utility acts as an agent for state government by billing and collecting sales tax. The utility is performing a collection and remittance service for the government. Therefore, sales tax receipts are not revenues of the utility. Conversely, sales tax remittances or payments are not expenses of the utility. Sales tax receipts are ultimately remitted to the state. When a utility collects sales tax from its customers on behalf of the state, a liability is recorded on the balance sheet to reflect that the amount is owed to the state.

Example: XYZ Utility records revenue of \$30,000 for April service.

	<u>Debit</u>	<u>Credit</u>
Accounts Receivable	\$32,100	
Revenue		\$30,000
Sales Tax Payable		\$2,100
To record May billing revenue of \$30,000 and the related 7% sales tax.		

	<u>Debit</u>	<u>Credit</u>
Cash Collections	\$32,100	
Accounts Receivable		\$32,100
To record collection of May billing.		

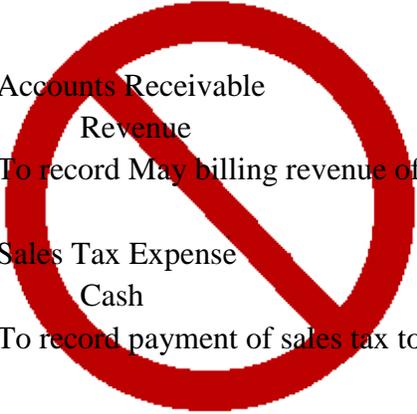
Sales Tax Payable	\$2,100	
Cash		\$2,100
To record payment of sales tax to state of Indiana.		

The T-account below shows a zero balance in the Sales Tax Payable account after the sales tax funds have been forwarded to the state.

Sales Tax Payable Account	
\$2,100	\$2,100
- 0 -	

Sales Tax Accounting (Continued)

Remember, do not include the sales tax component of the monthly billing as Revenue and the sales tax remittance to the state as Sales Tax Expense on the Income Statement! Doing so will overstate your revenues and expenses and may understate the liability on your Balance Sheet.



	<u>Debit</u>	<u>Credit</u>
Accounts Receivable	32,100	
Revenue		32,100
To record May billing revenue of \$30,000 and the related 7% sales tax.		
Sales Tax Expense	2,100	
Cash		2,100
To record payment of sales tax to state of Indiana.		

Contributions in Aid of Construction (CIAC)

Common Error: *Donations of plant or money, typically provided by a developer or new customer, are recorded as Revenue on the Income Statement.*

Proper Accounting: *Donations of plant or money should be recorded as Contributions in Aid of Construction on the Balance Sheet.*

Contributions in Aid of Construction (CIAC) are donations of plant, money or services provided to a utility at no cost. CIAC is a source of capital like debt or equity, thus, is a Balance Sheet account (Account 271). Such donations may come from developers, customers, governmental entities, or others to upgrade water and/or wastewater systems to accommodate new customers without burdening existing customers. Plant contributed to a utility increases Utility Plant in Service, but does not increase rate base of investor-owned utilities because CIAC is used as an offset to the plant. The practice of excluding CIAC from rate base also prevents customers from paying twice for the same assets – E.g., once from paying for a customer’s home and a second time through utility rates. System Development Charges and Tap Fees (see next discussion on Tap Fees) also represent donations of money or plant, and thus, should also be recorded as CIAC, not revenue. More specifically, a System Development Charge is a utility charge associated with developing system capacity to accommodate the extra demand placed on the system by new customers. For a related discussion about CIAC amortization, see the explanation provided in the Accrual Accounting section of this document.

Municipal utilities should maintain CIAC reporting for IURC reports and filings. With the passing of GASB 34, some municipal utilities’ Annual Reports reflect the removal of CIAC from the Balance Sheet and have charged it to Retained Earnings. Others have reported CIAC as operating revenue. Neither is correct for IURC reporting purposes. USoA should be followed and not GASB 34.

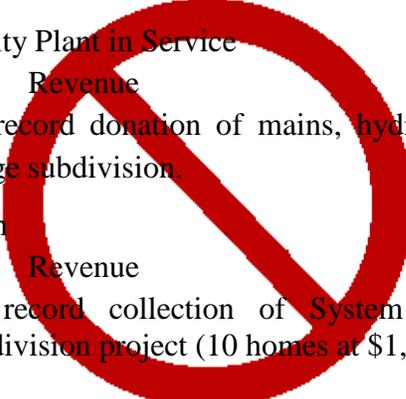
Example: XYZ Utility receives title from developer for mains, hydrants and other infrastructure within the Timber Ridge subdivision with a value of \$1,250,000 along with a \$1,500 System Development Charge for 10 homes.

	<u>Debit</u>	<u>Credit</u>
Utility Plant in Service	\$1,250,000	
Contributions in Aid of Construction		\$1,250,000
To record donation of mains, hydrants and other infrastructure in the Timber Ridge subdivision.		
Cash	15,000	
Contributions in Aid of Construction		15,000
To record collection of System Development Charge for Timber Ridge subdivision project (10 homes at \$1,500 each).		

Contributions in Aid of Construction (Continued)

Remember, in either situation above, do not credit Revenue, but instead credit CIAC as reflected. Failure to do so will overstate Revenues and understate CIAC.

	<u>Debit</u>	<u>Credit</u>
Utility Plant in Service	\$1,250,000	
Revenue		\$1,250,000
To record donation of mains, hydrants and other infrastructure in the Timber Ridge subdivision.		
Cash	15,000	
Revenue		15,000
To record collection of System Development Charge for Timber Ridge subdivision project (10 homes at \$1,500 each).		



Tap or Connection Fees

Common Error: *The fees generated from Tap Fees are recorded as revenue and the cost components are expensed on the Income Statement or one portion of the transaction is recorded on the Income Statement but not the other.*

Proper Accounting: *The fees should be recorded as Contributions in Aid of Construction and the cost components should be recorded as Utility Plant in Service.*

Tap fees are designed to recover all or a portion of the cost of materials and labor of connecting a customer to the nearest water or sewer line. Tap fees are often times recorded as revenue and the associated costs expensed on the Income Statement. However, Tap Fees should be recorded as CIAC because the fees represent a donation of plant (see prior discussion on CIAC) since the Tap Fees pay for the cost of labor, equipment and materials necessary to connect a customer to its system. When a utility installs a new meter, all costs associated with its installation should be capitalized in the Utility Plant in Service account because a tap and meter installation is an asset having an expected service life of more than one year. These costs include labor, associated payroll taxes and benefits, equipment costs, meter, yoke, pit, lid, copper service line and other material costs.

The proper accounting will depend, in part, on each utility's operation and accounting practices. Many small utilities simply hire a contractor to perform all taps where the contractor supplies all of the labor, equipment and materials. This practice is the easiest to account for and sample journal entries are shown in the first example below.

Example: XYZ Utility receives a \$1,600 payment to connect a new customer to its system at 101 W. Market Street and incurs the equivalent cost to perform the tap and install the meter.

	<u>Debit</u>	<u>Credit</u>
Cash	\$1,600	
Contributions in Aid of Construction		\$1,600
To record Tap Fee payment for new connection at 101 W. Market Street.		
Utility Plant in Service	\$1,600	
Cash		\$1,600
To record payment to Todd Excavating for tap and meter installation at 101 W. Market Street.		

Tap Fee Discussion Continues on Next Page

Tap Fees (Continued)

For utilities that use their own labor, equipment and purchase all of the materials at the time each tap is made, the transactions might look like the following entries:

	<u>Debit</u>	<u>Credit</u>
Cash	\$1,600	
Contributions in Aid of Construction		\$1,600
To record Tap Fee payment for new connection at 101 W. Market Street.		

	<u>Debit</u>	<u>Credit</u>
Utility Plant in Service	\$1,600	
Wages and Salaries Expense		\$400
Payroll Tax Expense		30
Health Insurance Expense		25
Pension Expense		40
Cash		1,105
To record crew tap and meter install at 101 W. Market Street and \$1,105 payment to Pete's Plumbing Supply for meter, yoke, pit, lid, copper line and other material.		

For utilities that use their own labor, equipment and purchase the tap and meter installation materials in advance of each tap, and record the material purchases in Inventory (an asset account on the Balance Sheet), the transactions might look like the following entries:

	<u>Debit</u>	<u>Credit</u>
Inventory	\$11,050	
Cash		\$11,050
To record purchase of 10 meters, yokes, pits and lids and 200' of copper service line from Pete's Plumbing Supply.		

	<u>Debit</u>	<u>Credit</u>
Cash	\$1,600	
Contributions in Aid of Construction		\$1,600
To record Tap Fee payment for new connection at 101 W. Market Street.		

	<u>Debit</u>	<u>Credit</u>
Utility Plant in Service	\$1,600	
Wages and Salaries Expense		\$400
Payroll Tax Expense		30
Health Insurance Expense		25
Pension Expense		40
Inventory		1,105

To record crew meter install at 101 W. Market Street and to reflect transfer of meter, pit, lid, copper line and other materials valued at \$1,105 out of Inventory.

Asset Retirement Accounting

Common Error: Assets are retired by removing the original cost of the asset from Utility Plant in Service and an amount from Accumulated Depreciation that is based on a depreciation rate multiplied by the asset cost and the number of years in service. The difference between the original cost and the accumulated depreciation for the asset is recorded as a gain or loss on the Income Statement. A separate concern exists where assets are retired or replaced without removing the asset from the utility's accounting and plant records.

Proper Accounting: The original cost of the asset retired should be removed from the Utility Plant in Service account and the same amount should be removed from the Accumulated Depreciation account.

Depreciation accounting used by utilities is different than the practice followed by non-regulated industries. Utilities typically employ a group or composite concept rather than individual asset accounting. When an asset is retired under the individual asset model, any difference between the original cost recorded in Utility Plant in Service and the amount of Accumulated Depreciation is recorded as a gain or loss on the Income Statement. Under the group accounting model, no gain or loss is recorded because it is assumed that the retired asset is fully depreciated at retirement. Thus, the original cost of the asset represents the amount to be removed from Accumulated Depreciation.

For someone familiar with individual asset accounting, this concept probably does not make a lot of sense because assets are not likely to be retired at precisely the same time the asset is fully depreciated. And in fact, under group depreciation, an asset will generate depreciation expense as long as it remains in service. To the extent assets are under or over-depreciated, the depreciation rates in a Depreciation Study will be adjusted to "correct" for these differences. For additional explanation about how group depreciation works, you can find more information on the internet and our discussion on Depreciation Expense (pages 11 and 12).

Example: XYZ Utility recently retired 20,000 feet of 12" main that was installed in 1972 for \$140,000 where a composite depreciation rate of 2% was applied.

	<u>Debit</u>	<u>Credit</u>
Accumulated Depreciation	\$140,000	
Utility Plant in Service		\$140,000
To record retirement of 20,000 feet of 12" main installed in 1972 along Copeland Ridge Road.		

Asset Retirement Accounting Discussion Continues on Next Page

Asset Retirement Accounting (Continued)

Remember, do not calculate the amount of depreciation expense on the asset retired and use that amount as the offset to Accumulated Depreciation and then record a gain or loss on the Income Statement! Doing so will improperly affect your income statement as well as Accumulated Depreciation and Retained Earnings on your Balance Sheet. It is also important to retire these assets from your accounting and plant records. Failure to do so will overstate your Depreciation Expense and, if you are subject to property taxes and use your accounting and plant records to complete Indiana Department of Local Government Finance's U.D. Form 45, you will pay property taxes on assets that are no longer in use.

	<u>Debit</u>	<u>Credit</u>
Accumulated Depreciation	\$112,000	
Loss on Disposition of Asset	28,000	
Utility Plant in Service		\$140,000

To record retirement of 20,000 feet of 12" main installed 50 years ago along Smith Ridge Road.

Monthly Financial/Accounting Duties

(from State Board of Accounts "Cities and Towns Manual")

If you represent a municipal utility, you are probably aware of the excellent resources provided by the Indiana State Board of Accounts (SBA). One such resource is the Cities and Towns Manual. The SBA includes a chapter in this manual that lists monthly duties for employees with financial responsibilities and has been reproduced below. While this manual was written for cities and towns, many of the responsibilities listed also apply to small not-for-profit and investor-owned utilities. Also as noted below, the list of duties is not complete, but the list below provides a great starting point to create your own checklist. If you would like to view the most current version of the duties and to view the entire Cities and Towns or other SBA manuals, you can do so by following this link: <http://www.in.gov/sboa/2413.htm>

CHAPTER 6 - CALENDAR OF MONTHLY DUTIES

This section contains a calendar of monthly duties and while not complete, should be referred to each month to insure that such duties are not overlooked. Duties which reoccur each month are not repeated in the calendar. Monthly duties include:

- (1) At the close of the month, post and close all records as promptly as possible and reconcile with depositories and with utilities or any other department maintaining separate records. Prepare the monthly balance and financial report for the board.
- (2) Report and pay Social Security (FICA) each reporting period to the Internal Revenue Service on or before the dates established by federal regulations. See Federal Circular E for payment procedures and due dates.
- (3) Deposit federal income tax withheld from employees' compensation in accordance with federal regulations. This may vary from one unit to another dependent on the total amount withheld per month. See Federal Circular E for payment procedures and due dates.
- (4) Deposit state and county income tax withheld from employees' compensation within 20 days after the close of each month.
- (5) Report and pay unemployment compensation commitments to Indiana Employment Security Division as required per selected plan.
- (6) Make reports of Utility Receipts Tax due from city or town to Indiana Department of Revenue as required by that agency.
- (7) Make reports of sales tax collected by and due from cities and towns to Indiana Department of Revenue as required by that agency.
- (8) Make reports of police, fire and employee pension payment contributions to the Public Employees' Retirement Fund as required by that agency.
- (9) Make reports and payments of special fuels tax due from cities and towns to Indiana Department of Revenue, Special Fuel Tax Division.

Small Utility Accounting Manual

January

- 20 Last date to report and make payment of state and county income tax withheld during December to Department of Revenue, Indianapolis.
- 31 Last day to make report and complete the payment of federal tax and F.I.C.A. (Social Security Tax) tax withheld in the fourth quarter of the preceding year to the District Director of Internal Revenue. Each employee shall be furnished Form W-2 in duplicate, showing compensation paid during the preceding year, federal tax withheld and social security tax withheld.
- Last day to provide each employee with Form WH-2 in duplicate or copy of W-2 for state and local income tax withheld.
- Last day to file Form 100-R, Report of Names and Compensation of Officers and Employees on the Gateway.

February

- 20 Last day to report and make payment of state and county income tax withheld during January to Department of Revenue, Indianapolis.
- 28 Last day to file withholding statements W-2 and WH-2 together with Yearly Reconciliation of Employer's Quarterly Tax Returns W-3 and WH-3 with District Director of Internal Revenue and Indiana Department of Revenue, respectively.

March

- 1 Last day to file Video Franchise Fee Report with the IURC.
- Last day for filing and publishing the Gateway Annual Financial Report. [IC 5-3-1-3 (a)]
- Last day to file Debt Management Report on the Gateway.
- Last day to prepare list of old outstanding checks for cancellation. [IC 5-11-10.5-3] See Page 61-14
- 20 Last day to report and make payment of state and county income tax withheld during February to Department of State Revenue, Indianapolis.

April

- 15 Last day to make report on Form URT and payment of Utility Receipts Tax for city or town for the preceding year, if not made January 31, to the Indiana Department of Revenue, State Office Building.
- 20 Last day to report and make payment of state and county income tax withheld during March to Department of State Revenue, Indianapolis.
- 30 Last day to make report and complete payment of federal tax and F.I.C.A. (Social Security Tax) tax withheld during the first quarter of the year to the District Director of Internal Revenue.

Small Utility Accounting Manual

Make report and file quarterly unemployment compensation report with the Indiana Employment Security Division.

Last day to file Water Utility Resource Report with the IURC.

Last day for filing Annual Utility Report with Utility Regulatory Commission, 101 W. Washington Street, Suite 1500 E., Indianapolis, Indiana, 46204-3407.

May

20 Last day to report and make payment of state and county income tax withheld during April to Department of State Revenue, Indianapolis.

31 Last day to certify delinquent Barrett Law assessments to the County Auditor. (IC 36-9-37-23)

June

1 Last day to certify names of persons who have money due them for salaries, wages, or other reasons to the county treasurer for determining if such persons owe delinquent taxes. [IC 6-1.1-22-14]

Last day for cities and towns with population of 20,000 or more to file Annual Operational Report of Motor Vehicle Highway Fund with State Board of Accounts, 302 W. Washington Street, Indianapolis, Indiana, 46204

20 Last day to report and make payment of state and county income tax withheld during May to Department of State Revenue, Indianapolis.

July

20 Last day to report and make payment of state and county income tax withheld during June to the Department of State Revenue, Indianapolis.

31 Last day to make report and complete payment of federal tax and F.I.C.A. (Social Security Tax) tax withheld in the second quarter of the year to the District Director of Internal Revenue.

Make report and file quarterly unemployment compensation report with the Indiana Employment Security Division.

August

20 Last day to report and make payment of state and county income tax withheld during July to the Department of State Revenue, Indianapolis.

September

20 Last day to report and make payment of state and county income tax withheld during August to the Department of State Revenue, Indianapolis.

Small Utility Accounting Manual

October

- 20 Last day to report and make payment of state and county income tax withheld during September to the Department of State Revenue, Indianapolis.
- 31 Last day to make report and complete payment of federal tax and F.I.C.A. (Social Security Tax) tax withheld in the third quarter of the year to District Director of Internal Revenue.

Make report and file quarterly unemployment compensation report with the Indiana Employment Security Division.

November

- 1 Last day for final passage of ordinance fixing salaries of appointive officers and employees of a city for ensuing year. See Page 61-11 and 61-12.
- 20 Last day to report and make payment of state and county income tax withheld during October to the Department of State Revenue, Indianapolis.

December

- 1 Last day to certify names of persons who have money due them for salaries, wages or other reasons to the County Treasurer for determining if such persons owe delinquent taxes. [IC 6-1.1-22-14]
- 20 Last day to report and make payment of state and county income tax withheld during November to the Department of State Revenue, Indianapolis.
- 31 Review year-end duties, Page 61-3.

Small Utility Accounting Manual

The Clerk-Treasurer or Controller shall deposit all collections not later than the next business day following the receipt of funds in depositories selected by the city or town as provided in an ordinance adopted by the city or town and approved as depositories of state funds. [IC 5-13-6-1]

SOCIAL SECURITY

Internal Revenue Service
575 North Pennsylvania Street
Indianapolis, Indiana 46204
Telephone: 1-800-772-1213

PENSIONS

Police Officers and Firemen Employed After May 1, 1977

Administrator
1977 Police Officers and Firefighters' Pension and Disability Fund
Public Employees' Retirement Fund
800 Harrison Building
Indianapolis, Indiana 46204
Telephone: 232-1615, Area 317

All Other City, Town, Utility Covered Employees

Executive Secretary
Public Employees' Retirement Fund
800 Harrison Building
Indianapolis, Indiana 46204
Telephone: 232-1615, Area 317

FEDERAL WITHHOLDING

Internal Revenue Service
575 North Pennsylvania Street
Indianapolis, Indiana 46204
Telephone: 685-7500, Area 317
TOLL FREE - 1-800-829-1040

STATE AND COUNTY WITHHOLDING

Withholding Section
Indiana Department of Revenue
Indiana Government Center North, Room N281
100 North Senate Avenue
Indianapolis, Indiana 46204
Telephone: 233-4016, Area 317

UNEMPLOYMENT COMPENSATION

Department of Workforce Development
Employment Security Division
Room 113, 10 North Senate Avenue
Indianapolis, Indiana 46204
Telephone: 232-7698, Area 317

STATE TAXES

Utility Receipts Tax

Liability and Reports

Administrator, Compliance Division
Department of Revenue
Indiana Government Center North
100 North Senate Avenue
Indianapolis, Indiana 46204
Telephone: 615-2662, Area 317

Sales Tax

Sales Tax Division
Department of Revenue
Indiana Government Center North
100 North Senate Avenue
Indianapolis, Indiana 46204
Telephone: 233-4015, Area 317

Gasoline Taxes

Department of Revenue
Indiana Government Center North
100 North Senate Avenue
Indianapolis, Indiana 46204
Telephone: 232-3432, Area 317

WAGE AND HOUR

Federal Wage and Hour Regulations

United States Department of Labor
Wage and Hour Division
46 East Ohio Street
Indianapolis, Indiana 46204-1515
Telephone: 226-6772 or 6801, Area 317

South Bend Office
(574) 236-8331

PUBLIC ACCESS COUNSELOR

Public Access Counselor
W074, Indiana Government Center South
402 West Washington Street
Indianapolis, Indiana 46204
Telephone: 1-800-228-6013

Annual Report Checklist

The following checklist is used by the IURC’s analysts when reviewing the utility’s annual report filing. If this information is not complete, a letter will usually be sent to the utility requesting this information be completed or reconciled.

GENERAL REVIEW

- All applicable information completed – No section or question should be blank. Insert “None” or “N/A” if a section or question does not apply

EXECUTIVE SECTION

- General Information form (page E-1) is completed and emergency contract information provided
- Utility Profile section (page E-2) is up to date
- Officer and Director information is up to date (pages E-2 and E-3)
- Personnel Data is complete (page E-4)
- Contractual Services form is completed (page E-5)
- Certification page is signed and notarized (page E-7)

FINANCIAL SECTION

- Comparative Balance sheet balances (“Total Assets and Other Debits” (page F-1(b) = “Total Equity Capital and Liabilities” (page F-2))
- On all reference pages, the account balances agree to each account balances shown on the balance sheet (pages F-1 and F-2) For example, for Account 101 – 106 “Utility Plant” on page F-1 of the balance sheet has a reference page of F-5. Thus, the “Total Utility Plant” amount shown on page F-5 should agree with the “Utility Plant” amount shown on page F-1. NOTE: Complete pages F-5 through F-21 before completing pages F-1 through F-4
- Statement of Retained Earnings form (page F-14 or F-15) – “Balance Transferred From Income” agrees with “Net Income” shown on the Comparative Operating Statement - (page F-3)
- Additions to Contributions in Aid of Construction (CIAC) are described on pages F-19 and F-20 or F-21

- For water utilities, the “Itemized Unit Costs” form (page F-21) is completed - make sure “Total number gallons of water pumped during year” agrees with the “Total Pumped from Sources. . .” shown on page W-6

OPERATION SECTION(S)

- The Beginning and ending year number of customers are provided for each customer class (page W-1)
- Operating revenues for each customer class are provided and the “Total Water or Wastewater Operating Revenues” (page W-1 or S-1, depending on type of utility) agree with Account 400, “Operating Revenues” shown on the “Comparative Operating Statement” - (page F-3)
- The total for the current year, shown on the “Comparative Detail of Operation and Maintenance Expenses (page W-2(a) or S-2(a)) agrees with Account 401, “Operating Expenses” shown on the “Comparative Operating Statement” (page F-3)
- The total in the “Current Year” column for “Total Utility Plant in Service” shown on page W-3(b) or S-3(b) agrees with the total in Account 101, “Utility Plant in Service” shown on page F-5) NOTE: If prior fixed asset records have not been maintained, it doesn’t preclude you from beginning to maintain these records
- Plant additions and retirements by sub-account are provided on pages W-3(a) or S-3(a). Also, additional information regarding any asset addition or retirement exceeding \$10,000 in a single purchase should be provided on page W-3(c) or S-3(c)
- Your are using the correct composite depreciation rate or if not using a composite depreciation rate, a depreciation study must be approved by the Commission (page W-4)
- Make sure Accumulated Depreciation is broken out by sub-account - (pages W-5 or S-5)
- For water utilities, the “Pumping and Purchased Water Statistics” (page W-6) information is completed by Month and all questions answered
- “Other System Information” (page W-8 or S-8) questions are answered completely
- For systems that serve fewer than 10,000 customers, page W-9 is answered completely
- For utilities that elect to participate in the Commission Alternative Regulatory Program, the Performance Measures are completed and reported accurately

For additional questions, call the IURC Water/Sewer Division at (317) 232-2750.

Accounting Related Statutes

(does not include finance or loan related statutes)

Title 8

IC 8-1-2-10 “Accounting systems”

Every public utility shall keep and render to the commission, in the manner and form prescribed by the commission, uniform accounts of all business transacted. In formulating a system of accounting for any class of public utilities, the commission shall consider any system of accounting established by any federal law, commission or department and any system authorized by a national association of such utilities.

IC 8-1-2-12 “Books, accounts, papers, and records”

The commission shall prescribe the forms of all books, accounts, papers and records required to be kept, and every public utility is required to keep and render its books, accounts, papers and records accurately and faithfully in the manner and form prescribed by the commission and to comply with all directions of the commission relating to such books, accounts, papers and records.

IC 8-1-2-14

Books, accounts, papers, or records; approval of system

No public utility shall keep any other books, accounts, papers or records of the business transacted than those prescribed or approved by the commission, unless required by other public authority.

IC 8-1-2-16

Accounts; closing date; filing with commission

The accounts shall be closed annually on the thirty-first day of December, and a balance sheet of that date promptly taken therefrom. On or before the thirtieth day of April following, such balance sheet, together with such other information as the commission shall prescribe, verified by an officer of the public utility, shall be filed with the commission.

IC 8-1-2-17 “Accounts; examination and audit”

The commission shall provide for the examination and audit of all accounts, and all items shall be allocated to the accounts in the manner prescribed by the commission.

IC 8-1-2-18 “Books, accounts, papers, records, and memoranda; inspection and examination”

The agents, accountants or examiners employed by the commission shall have authority, under the direction of the commission, to inspect and examine any and all books, accounts, papers, records and memoranda kept by such public utility.

IC 8-1-2-19 “Depreciation account”

Every public utility shall carry a separate, proper and adequate depreciation account whenever the commission, after investigation, shall determine that such depreciation account reasonably can be required. The commission, from time to time, shall ascertain and determine the proper and adequate rates of depreciation of the several classes of property of each public utility. The rates, tolls and charges shall be such as will provide the amounts required over and above the reasonable and necessary operating expenses, to maintain such property in an operating state of efficiency corresponding to the progress of the industry. Each public utility shall conform its depreciation accounts to such rates, so ascertained and determined by the commission. The commission shall make changes in such rates of depreciation, from time to time, as it may find necessary.

IC 8-1-2-20 “Depreciation account; rules, regulations, and forms”

The commission shall also prescribe rules, regulations and forms of accounts regarding such depreciation, which the public utility is required to carry into effect.

IC 8-1-2-21 “Depreciation; rates, tolls, and charges”

The commission shall provide for such depreciation in fixing the rates, tolls and charges to be paid by the public.

IC 8-1-2-23 “Construction accounts; additions or extension; approval by commission”

The commission shall keep itself informed of all new construction, extensions and additions to the property of such public utility and shall prescribe the necessary forms, regulations and instructions to the officers and employees of such public utility for the keeping of construction accounts which shall clearly distinguish all operating expenses and new construction. Unless a public utility shall obtain the approval by the commission of any expenditure exceeding ten thousand dollars (\$10,000) for an extension, construction, addition or improvement of its plant and equipment, the commission shall not, in any proceeding involving the rates of such utility, consider the property acquired by such expenditures as a part of the rate base, unless in such proceeding the utility shall show that such property is in fact used and useful in the public service; Provided, That the commission in its discretion may authorize the expenditure for such purpose of a less amount than shown in such estimate.

IC 8-1-2-26 “Financial statements and accounts”

Each public utility shall furnish to the commission in such form and at such time as the commission shall require, such accounts, reports, and information as will show in itemized detail:

- (1) the depreciation per unit;
- (2) the salaries and wages separately per unit;
- (3) legal expenses per unit;
- (4) taxes and rentals separately per unit;
- (5) the quantity and value of material used per unit; (6) the receipts from residuals, byproducts, services or other sales, separately per unit;
- (7) the total and net cost per unit;
- (8) the gross and net profit per unit;

- (9) the dividends and interest per unit;
- (10) surplus or reserve per unit;
- (11) the prices per unit paid by consumer;
- (12) names of, and amount of fees paid to, legal counsel who are not employees;
- (13) names of, and amount of fees paid to, other consultants; and
- (14) such other items, whether of a nature similar to those hereinbefore enumerated or otherwise, as the commission may prescribe, in order to show completely and in detail the entire operation of the public utility in furnishing the unit of its product or service for the public.

IC 8-1-2-25 “Rates and charges; rules and regulations involving changes”

The commission shall ascertain, determine and order such rates, charges and regulations as may be necessary to give effect to such arrangement, but the right and power to make such other and further changes in rates, charges and regulations as the commission may ascertain and determine to be necessary and reasonable, and the right to revoke its approval and amend or rescind all orders relative thereto, is reserved and vested in the commission, notwithstanding any such arrangement and mutual agreement.

Indiana Administrative Code

170 IAC 6-2-2 Classification of accounts for Classes A, B, and C water utilities; adoption by reference

Authority: IC 8-1-1-3; IC 8-1-2-10

Affected: IC 8-1-2-10; IC 8-1-2-46

Sec. 2. (a) The rules governing the classification of accounts for Classes A, B, and C water utilities operating within the state of Indiana shall be the 1996 edition of the Uniform System of Accounts as approved, prescribed, and promulgated by the National Association of Regulatory Utility Commissioners, which:

- (1) are hereby incorporated into this rule by reference; and
- (2) do not include any later amendments or editions.

(b) Copies of the 1996 edition of the Uniform System of Accounts prescribed for Classes A, B, and C water utilities, as approved, prescribed, and promulgated by the National Association of Regulatory Utility Commissioners are available for purchase from the National Association of Regulatory Commissioners, 1101 Vermont Avenue NW, Suite 200, Washington, D.C. 20005.

170 IAC 8-2-1 Classification of accounts; adoption by reference

Authority: IC 8-1-1-3

Affected: IC 8-1-2-10; IC 8-1-2-12

Sec. 1. (a) The rules governing the classification of accounts for Class A, B, and C private rural sewage utilities operating within the state of Indiana as approved, prescribed, and promulgated by the National Association of Regulatory Utility Commissioners at the 96th Annual Convention on November 26-29, 1984, are adopted by reference.

(b) Copies of the Uniform System of Accounts prescribed for Class A, B, and C private rural sewage utilities, as approved, prescribed, and promulgated by the National Association of Regulatory Utility Commissioners, as set out at the 96th Annual Convention on November 26-29, 1984, are available for purchase from the National Association of Regulatory Commissioners, Post Office Box 684, Room 1102, Interstate Commerce Commission Building, Washington, D.C. 20044.