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§ 561.1 Classification of 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 annual water operating revenues of \$ 1,000,000 or more.

Class B. Utilities having annual water operating revenues of \$ 700,000 or more but less than \$ 1,000,000.

Class C. Utilities having annual water operating revenues of \$ 400,000 or more but less than \$ 700,000.

Class D. Utilities having annual water operating revenues of \$ 100,000 or more but less than \$ 400,000.

(b) This system of accounts applies to Class A and B utilities. Those applicable to Class C and Class D utilities are issued separately.

(c) The class to which any utility belongs shall originally be determined by the average of its annual water operating revenues for the last three consecutive years. Subsequent changes in classification shall be made when the annual water operating revenues for each of the three immediately preceding years shall exceed the upper limit, or be less than the lower limit, of the annual water operating revenues of the classification previously applicable to the utility.

(d) Any utility may, at its option, adopt the system of accounts prescribed by the commission for any larger class of utilities. Notice of such action shall be promptly filed with the commission.

§ 561.2 Records

(a) Each utility shall keep its books of account and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit ready identification, analysis, and verification of all facts relevant thereto.

(b) The books and records referred to herein include not only accounting records in a limited technical sense, but all other records, such as minute books, stock books, reports, correspondence, memoranda, etc., which may be useful in developing the history of or facts regarding any transaction. All such records shall be accessible, at all times, to the authorized representatives of the commission at a location within the State of New York, unless the company is specifically exempted by order of this commission.

(c) No utility shall destroy any such books or records unless the destruction thereof is permitted by rules and regulations of the commission.

(d) In addition to prescribed accounts, clearing accounts, temporary or experimental accounts, and subdivisions of any account, may be kept, provided the integrity of the prescribed accounts is not impaired.

(e) All amounts included in the accounts prescribed herein for water plant and operating expenses shall be just and reasonable and any payments or accruals by the utility in excess of just and reasonable charges shall be included in account 426, Miscellaneous Income Deductions.

(f) The arrangement or sequence of the accounts prescribed herein shall not be controlling as to the arrangement or sequence in report forms which may be prescribed by the commission.

(g) Not later than March 31, 1974, each utility shall have filed with the commission a copy of its manual of accounts, or other systematic statement of accounts showing every account or subaccount kept during the year 1973, and thereafter shall file (either as changes occur, or for each calendar year at a date not later than the filing of its annual report) a statement of each account, subaccount, and clearing account opened or discontinued and the effective date of such change. For each clearing account opened, the purpose of the account shall be stated.

§ 561.3 Numbering system

(a) The account numbering scheme used herein consists of a system of three-digit whole numbers as follows:

(100-199) Assets and Other Debits.

(200-299) Liabilities and Other Credits.

(300-399) Plant Accounts.

(400-432, 434-435) Income Accounts.

(433, 436-439) Retained Earnings Accounts.

(460-479) Revenue Accounts.

(600-699) Production, Transmission and Distribution Expenses.

(900-949) Customer Accounts, Sales and General Administrative Expenses.

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

(c) The numbers prefixed to account titles are to be considered as part of the titles. Each utility, however, may adopt for its own purposes a different system of account numbers (see also general instruction 561.2, subd. (d)) provided that the numbers herein prescribed shall appear in the descriptive headings of the ledger accounts and in the various sources of original entry; however, if a utility used a different group of account numbers and it is not practicable to show the prescribed account numbers in the various sources of original entry, such reference to the prescribed account numbers may be omitted from the various sources of original entry. Moreover, each utility using different account numbers for its own purposes shall keep readily available a list of such account numbers which it uses and a reconciliation of such account numbers with the account numbers provided herein. It is intended that the utility's records shall be so kept to permit ready analysis by prescribed accounts (by direct reference to sources of original entry to the extent practicable) and to permit preparation of financial and operating statements directly from such records at the end of each accounting period according to the prescribed accounts.

§ 561.4 Accounting period

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

§ 561.5 Submission of questions

To maintain uniformity of accounting, utilities shall submit questions of doubtful interpretation to the commission for consideration and decision.

§ 561.6 Item lists

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

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

§ 561.7 Extraordinary items

It is the intent that net income shall reflect all items of profit and loss during the period with the sole exception of prior period adjustments as described in section 561.8. Those items related to the effects of events and transactions which have occurred during the current period and which are not typical or customary business activities of the company shall be considered extraordinary items. Accordingly, they will be events and transactions of significant effect which would not be expected to recur frequently and which would not be considered as recurring factors in any evaluation of the ordinary operating processes of business. (In determining significance, items of a similar nature should be considered in the aggregate. Dissimilar items should be considered individually; however, if they are few in number, they may be considered in the aggregate.) To be considered as extraordinary under the above guidelines, an item should be more than approximately five percent of income, computed before extraordinary items. Commission approval must be obtained to treat an item of less than five percent, as extraordinary. (See accounts 434, Extraordinary Income, and 435, Extraordinary Deductions.)

§ 561.8 Prior period items

(a) As a general rule, items relating to transactions which occurred prior to the current calendar year but were not recorded in the books of account shall be included in the same accounts in which they would have been recorded had the item been recorded in the proper period. Such items relate to events or transactions which occurred in a prior period, or periods, the accounting effects of which could not be determined with reasonable assurance at the time, usually because of major uncertainty then existing. When the amount of a prior period item is relatively so large its inclusion for a single month would distort the accounts for that month, the amount may be distributed in equal amounts to the accounts for the current and remaining months of the calendar year. However, if the amount of any prior period item is so large that the company believes its inclusion in the income statement would seriously distort the net income for the year, the company may request commission approval to record the amount in account 439, Adjustments to Retained Earnings. Such a request must be accompanied by adequate justification.

(b) Treatment as prior period adjustments should not be applied to the normal, recurring corrections and adjustments which are the natural result of the use of estimates inherent in the accounting process. For example, changes in the estimated remaining lives of fixed assets affect the computed amounts of depreciation, but these changes should be considered prospective in nature and not prior period adjustments. Similarly, relatively insignificant adjustments of provisions for liabilities (including income taxes) made in prior periods should be considered recurring items to be reflected in operations of the current period. Some uncertainties, for example those relating to the realization of assets (collectibility of accounts receivable, ultimate recovery of deferred costs of realizability of inventories or other assets), would not qualify for prior period adjustment treatment, since economic events subsequent to the date of the financial statements must of necessity enter into the elimination of any previously-existing uncertainty. Therefore, the effects of such matters are considered to be elements in the determination of net income for the period in which the uncertainty is eliminated. (See account 439, Adjustments to Retained Earnings.)

§ 561.9 Unaudited items

Whenever a financial statement is required by the commission, if it is known that a transaction has occurred which affects the accounts but the amount involved in the transaction and its effect upon the accounts cannot be determined with absolute accuracy, the amount shall be estimated and such estimated amount included in the proper accounts. The utility is not required to anticipate minor items which would not appreciably affect the accounts.

§ 561.10 Bases of distribution of pay and expenses of employees

(a) The charges to water plant, operating expenses and other accounts for services and expenses of employees engaged in activities chargeable to various accounts, such as construction, maintenance, and operations, shall be based upon the actual time engaged in the respective classes of work or, in case that method is impracticable, upon the basis of a study of the time actually engaged during a representative period.

(b) The pay and expenses of general officers shall be charged to the actual work on which they are engaged, to the particular operations over which they have direct supervision, or to the appropriate accounts provided in the administrative and general group in operating expenses.

(c) Salaries of officers or employees and incidental expenses which can be distributed equitably upon a predetermined basis may be distributed through clearing accounts.

(d) Except as otherwise specifically provided in this system of accounts or by order of the commission, no amounts for salaries or wages shall be included in charges to water plant, cost of removal, or water operating expenses, except account 926, Employee Pensions and Benefits, which are not paid to the employees affected subject to their free disposition. Payroll deductions made under a statute or order of a court; or for such purposes as group insurance, purchase of appliances or homes, etc., authorized by written order of the employee without coercion of any kind, may be included.

§ 561.11 Payroll distribution

Underlying accounting data shall be maintained so that the distribution of the cost of labor charged direct to the various accounts will be readily available. Such underlying data shall permit a reasonably accurate distribution to be made of the cost of labor charged initially to clearing accounts so that the total labor cost may be classified among construction, cost of removal, water operating functions (source of supply, power, pumping, purification, transmission, distribution, etc.), and non-utility operations.

§ 561.12 Operating reserves

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

§ 561.13 Records for each plant and for territorial subdivisions

(a) Unless otherwise authorized or directed by the commission, each city, borough, village, or town and each water plant shall constitute a cost area and separate records shall be maintained of the book cost of water plant located therein. The term "plant" as here used means each source of supply, each pumping station (small booster stations may be grouped), each water treatment plant and the transmission and distribution system in each city, borough, village, town or such other operating area as the commission may require.

(b) Operating revenues shall be recorded so that the amount for each city, borough, village, town or other operating area required by the commission, may be readily determined.

(c) Records shall be currently maintained so that the utility will be prepared to show operating revenue deductions separately for each city, borough, village, town, or other operating area required by the commission, and for each water plant; provided that, with the approval of the commission two or more such territories which are contiguous and are operated as a unit, may be combined into an accounting division.

(d) Records shall be kept to show separately the accumulated provisions for depreciation applicable to property in each accounting division.

§ 561.14 Accounting for other departments

If the utility also operates other departments, such as gas, electric, etc., it shall keep such accounts for the other departments as may be prescribed by proper authority and in the absence of prescribed accounts, it shall keep such accounts as are proper or necessary to reflect the results of operating each such department. It is not intended that proprietary and similar accounts which apply to the utility as a whole shall be departmentalized.

§ 561.15 Transactions with associated companies

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

(b) If a clearing account is not maintained for each associated company in which all gross charges by that company are entered and from which they are distributed, all charges of any nature whatsoever by any associated company shall be credited at the gross amounts involved to a subaccount for that company under the appropriate subdivisions of accounts for Advances from Associated Companies and Payables to Associated Companies, even though immediately transferred to an account for capital stock, long-term debt, or other liability. In like manner, in the absence of clearing accounts, all gross charges to any associated company shall be debited to a subaccount for that company under the appropriate subdivisions of accounts for investments in Associated Companies and Receivables from Associated Companies, even though immediately transferred to a special deposit, special fund, other investment account, or other asset.

(c) Dividends, rebates, or earnings from associated companies or mutual service companies, representing refunds of the excess charges made by such companies over the cost to them, shall be debited to account 146, Accounts Receivable from Associated Companies, and shall be credited so far as practicable to the same accounts to which the corresponding charges were made, including proper distinction between construction and operating expenses. Credits applicable to operating expenses, where it is impracticable to allocate them among the accounts to which the corresponding charges have been made shall be recorded in account 929, Duplicate Charges--Credit.

§ 561.16 Contingent assets and liabilities

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

§ 561.17 Employee pensions and benefits

(a) All costs of employee pensions whether such costs represent pensions payable currently to retired employees or their beneficiaries, advance provision for such payments, or both, are includible in the charges of each accounting period, provided:

(1) the pension program under which the costs are determined is reasonable;

(2) amounts paid are irrevocably dedicated to pension purposes;

(3) any program of advance provision is based on actuarial studies or other recognized and acceptable systematic method of computation and allocation.

(b) Account 926, Employee Pensions and Benefits, is provided under Administrative and General Expenses to include pension payments and accruals, employee welfare expenses, and expenses incurred in the administration of the welfare and pension department. However, a utility may clear from that account and distribute to construction and retirement work orders and to clearing and other accounts an applicable portion of the pension costs, and shall clear any

such costs applicable to nonutility activities. Employee welfare expenses include costs of accident and health insurance; hospital and surgical insurance; disability and lump sum separation allowances; life insurance, when the utility is not the beneficiary; and similar employee benefits, together with the costs of operating educational and recreational facilities. Welfare and pension administrative expenses include salaries payable and costs incurred in the administration of the welfare and pension department.

Note: Incidental refunds or credits to the utility of amounts disbursed for pension purposes; if such refunds are made under the provisions of a pension program filed with the commission, shall not be deemed to impair the irrevocable dedication of monies to pension purposes.

(c) No charge shall be made to any account in this system of accounts to reflect advance provision for employee pension and benefit costs or to augment incomplete provision at a given date for amounts computed in relation to service prior to that date, unless full particulars of the program shall have been filed with the commission, including a copy of such supporting documents as:

- (1) the resolution of the governing board authorizing the program;
- (2) insurance contract, actuarial formula, or data supporting other method of computation and allocation;
- (3) trust agreement, if any.

Like filings shall be promptly made of any subsequent material changes in the pension plan. Acceptance by the commission of such data, as filed, shall not be interpreted as constituting approval of a pension and employee benefits program or of the documents associated therewith, or of any accounting made thereunder by the utility.

(d) The utility shall keep supporting records which will disclose as of the end of each accounting period:

- (1) the amounts disbursed by the company during the period direct to pensioners or their beneficiaries;
- (2) the amounts paid into the fund dedicated to future pension payments; and for each of such classes of disbursements, the accumulated total from the beginning of the year;
- (3) the amount accumulated in the pension fund as provision for future pension payments; and
- (4) at each year end, the amount by which pension commitments under the plan as then in effect, even though subject to future amendment or termination, computed in relation to employee service to that date, (generally the "actuarial liability"), exceed the amount in the pension fund.

§ 561.18 Spreading of income, revenue, and expense items

(a) When the amount of any unusual item includible in an income, operating revenue, or operating expense account for a single month is relatively so large that its inclusion in the accounts for that month would seriously distort those accounts, it may be included in account 186, Miscellaneous Deferred Debits, or account 253, Other Deferred Credits, as appropriate, and distributed in equal amounts to the accounts for the current and remaining months of the calendar year.

(b) When the amount of any unusual item includible in the income, operating revenue, or operating expense accounts is relatively so large that its inclusion in the accounts for the year in which the transaction occurred, would seriously distort those accounts, the company may request permission to include all or a part of the amount in account 186, Miscellaneous Deferred Debits, or account 253, Other Deferred Credits to be amortized over such period and through such accounts as the commission shall determine. Without permission of this commission no such items shall be carried beyond the year in which the transaction occurred.

§ 561.19 Allocation of costs between water plant and operating expenses to be made currently

Each utility shall determine currently the costs which are applicable to the water plant accounts and in the case of costs involving allocation, the amount which is applicable to other accounts, such as operating expenses, taxes, retirement work in progress, other balance sheet accounts, and income accounts; the intent of this provision being that such costs shall be allocated to the accounts to which they are applicable when they are incurred.

§ 561.20 Approval by the commission

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

§ 561.21 Long-term debt; premium, discount and expense, and gain or loss on reacquisition

(a) Premium, discount and expense.

(1) A separate premium, discount and expense account shall be maintained for each class and series of long-term debt (including receivers' certificates) issued or assumed by the utility. The premium will be recorded in account 225, Unamortized Premium on Long-term Debt, the discount be recorded in account 226, Unamortized Discount on Long-term Debt--Debit, and the expense of issuance shall be recorded in account 181, Unamortized Debt Expense.

(2) The premium, discount and expense shall be amortized over the life of the respective issues under a plan which will distribute the amounts equitably over the life of the securities. The amortization shall be on a monthly basis, and amounts thereof relating to discount and expense shall be charged to account 428, Amortization of Debt Discount and Expense. The amounts relating to premium shall be credited to account 429, Amortization of Premium on Debt--Credit.

(b) Reacquisition, without refunding. When long-term debt is reacquired or redeemed without being converted into another form of long-term debt and when the transaction is not in connection with a refunding operation (primarily redemptions for sinking fund purposes), the difference between the amount paid upon reacquisition and the face value; plus any unamortized premium less any related unamortized debt expense and reacquisition costs; or less any unamortized discount, related debt expense and reacquisition costs applicable to the debt redeemed, retired and cancelled, shall be included in account 421, Miscellaneous Nonoperating Income, or account 426.5, Other Deductions, as appropriate.

(c) Reacquisition, with refunding. When the redemption of one issue or series of bonds or other long-term obligations is financed by another issue or series before the maturity date of the first issue, the difference between the amount paid upon refunding and the face value; plus any unamortized premium less related debt expense; or less any unamortized discount and related debt expense, applicable to the debt refunded, shall be included in account 421, Miscellaneous Nonoperating Income, or account 426.5, Other Deductions, as appropriate. If the utility desires to amortize any of the discount, expense, or premium associated with the issuance or redemption of the first issue over a period subsequent to the date of redemption, the permission of the commission must be obtained.

(d) When the utility chooses to use the optional privilege of deferring the tax on the gain attributable to the reacquisition of debt by reducing the depreciable basis of utility property for tax purposes, pursuant to *section 108 of the Internal Revenue Code*, the related tax effect shall be deferred as the income is recognized for accounting purposes, and the deferred amounts shall be amortized over the life of the associated property on a vintage year basis. Account 410.1, Provision for Deferred Income Taxes, Utility Operating Income, shall be debited, and account 283, Accumulated Deferred Income Taxes--Other, shall be credited with an amount equal to the estimated income tax effect applicable to the portion of the income attributable to reacquired debt, recognized for accounting purposes during the period. Account 283 shall be debited and account 411.1, Provision for Deferred Income Taxes--Credit, Utility Operating Income, shall be credited with an amount equal to the estimated income tax effects during the life of the property, attributable to the reduction in the depreciable basis for tax purposes.

(e) The tax effects relating to gain or loss shall be allocated as above to utility operations except in cases where a portion of the debt reacquired is directly applicable to nonutility operations. In that event the related portion of the tax effects shall be allocated to nonutility operations. Where it can be established that reacquired debt is generally applicable to both utility and nonutility operations, the tax effects shall be allocated between utility and nonutility operations based on the ratio of net investment in utility plant to net investment in nonutility plant.

(f) Premium, discount or expense on debt shall not be included as an element in the cost of construction or acquisition of property (tangible or intangible), except under the provisions of water plant instruction 563.3(a)(17) and account 419.1, Allowance for Funds Used During Construction.