

# WATER UTILITY REFERENCE MANUAL

## Contributions in Aid of Construction

Contributions in Aid of Construction (CIAC) is plant owned and used by the utility, that has an expected life in service of more than one year from the date of installation. This plant is financed by donations or contributions in cash, services or property from states or other municipalities or other governmental agencies, individuals, and others for construction purposes.

In April, 2001, the Commission ordered in Docket 05-US-105 changes in the Uniform System of Accounts that in affect eliminated Account 271, Contributions in Aid of Construction. Contributions are now recorded as revenue in Account 421, Miscellaneous Nonoperating Income. The depreciation on contributed plant is no longer an expense in establishing rates for the utility. Depreciation Expense on CIAC plant is now charged to Account 426, Other Income Deductions. A major reason for the change is to keep CIAC from being a permanent reduction to rate base.

A supplemental order in 2004 prescribed that the reclassified depreciation be placed in a deferred regulatory liability account (Account 253, Other Deferred Credits) and amortized over 20 years. The annual amortization is recorded in Account 425, Miscellaneous Amortization. For ratemaking purposes, the deferred regulatory liability account balance will be a reduction in the net investment rate base computation.

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### Current Accounting Procedures (per Docket 05-US-105)

To further clarify, Contributed Plant includes plant that is financed by donations from entities other than the Utility or the Municipality. These sources could include:

- Grants, typically from state or federal agencies
- Donations from other governmental units
- Special assessments
- Impact fees
- Developer agreement donations

Plant is recorded in Plant in Service – Financed by Contributions when constructed and placed into service. As noted above, the donation is recorded in Account 421, Miscellaneous Nonoperating Income when it is received. If the financial donation is received over several years (especially the case with impact fees), the plant is recorded in one year while the donations are recorded over a several year period.

## Questions and Answers

Q1: How should grant proceeds for contributions be recorded?

A: If a specific project is identified and the grant can be used only for utility related construction, then the grant is reported in 421, Nonoperating Income. The actual plant additions are recorded in Utility Plant in Service – Financed by Contributions. When a general grant is used to finance a construction project and the grant does not require grant funds to be used for utility construction only, the grant is recorded in Account 200, Capital Paid in by the Municipality and the plant additions are recorded in Utility Plant in Service-Financed by the Utility or Municipality.

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Q2: Are special assessments recorded differently if paid in cash or deferred?

A: Regardless of whether the special assessments are paid in cash, deferred, or retained by the municipality to be collected, when recorded by the utility, the assessment is credited to Account 421, Nonoperating Income.

Q3: What is the proper accounting treatment for transactions arising from tax incremental districts?

A: The utility plant installed in the district is charged to the appropriate water utility plant accounts at the cost of construction, estimated if not known.

Depending on the circumstances, the credit entry can be more complex. If the municipality paid for the costs relating to the water utility plant installed in the district, the amounts actually expended by the municipality (and not special assessed) should be credited to Account 200, Capital Paid In by Municipality. The actual plant additions are capitalized and recorded to Utility Plant in Service – Financed by the Utility or Municipality.

If there are contributions directly from states, municipalities, other governmental agencies, individuals, or others (including grant money) for construction of water plant in the district, the amount received designated for that purpose is credited to Account 421, Non-operating Income. In this case, the actual plant additions are capitalized and recorded to Utility Plant in Service – Financed by Contributions.