

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE)
MILFORD WATER COMPANY OF MADISON) CASE NO. 9543
COUNTY, KENTUCKY)

O R D E R

IT IS ORDERED that:

1. The Staff Audit Report for Milford Water Company ("Milford") attached hereto as Appendix A shall be included as a part of the record in this proceeding.

2. Milford shall have until the close of business within 2 weeks of the date of this Order to file written comments concerning the contents of Appendix A.

Done at Frankfort, Kentucky, this 17th day of June, 1986.

PUBLIC SERVICE COMMISSION

Richard D. Wesson, Jr.
Chairman

Robert L. [Signature]
Vice Chairman

James M. [Signature]
Commissioner

ATTEST:

Secretary

APPENDIX A
REPORT ON LIMITED AUDIT
OF
MILFORD WATER COMPANY
CASE NO. 9543

PREFACE

On March 31, 1986, Milford Water Company ("Milford") filed an application with the Commission requesting authorization to increase its water rates. The proposed rates would generate approximately \$63,043 annually in additional revenues.

The Commission staff chose to perform a limited financial audit in order to verify test period expenditures and substantiate the propriety of the test-year financial statements. The audit was conducted by Carl Combs of the Division of Rates and Tariffs on May 8-9, 1986, at the offices of Milford in Richmond, Kentucky.

SCOPE

The examination consisted of an analysis and review of major cash disbursements and related financial records for calendar year 1985, which is the test year in this case. The audit was limited to a review for proper accounting treatment of expenses charged to the following accounts:

<u>Account No.</u>	<u>Account</u>
602	Purchased Water
660	Operation Supervision and Engineering
673	Maintenance of Transmission and Distribution Mains
676	Maintenance of Meters
901	Customer Accounts Expenses- Supervision

<u>Account No.</u>	<u>Account</u>
902	Meter Reading Expenses
920	Administrative and General Salaries
921	Office Supplies and Other Expenses
923	Outside Services Employed
930	Miscellaneous General Expenses

Reconciliation tests were performed on the aforementioned accounts and supporting documentation was also examined to determine whether costs reflected in the aforementioned accounts were appropriately expensed under the requirements of the Uniform System of Accounts for Class C Water Utilities ("Uniform System of Accounts"). Workpapers prepared by Charles Hill, a Certified Public Accountant with the firm of Amick and Helm in Richmond, Kentucky, ("CPA") were reviewed. Also, Karen Kohnle, billing secretary, and Dorothy Switzer, bookkeeper, were consulted regarding Milford's bookkeeping practices.

FINDINGS

Purchased water expense for the test year represented 67 percent of total test-year operating expense. A review of test year invoices from Milford's supplier, the City of Richmond, revealed that the total amount of those invoices matched the total charged by Milford during the test year.

Milford does not classify some expenses according to the Uniform System of Accounts, and therefore, it was difficult to track some expenses from Milford's cash disbursements journal to its 1985 Annual Report. As a result, copies of workpapers prepared by the CPA were obtained. Based upon a review of the workpapers and inspection of invoices of significant amounts, the

staff has determined that these test year expenses were appropriate. In a discussion with the CPA, it was agreed that Milford should set up its cash disbursements journal with account titles and numbers to conform with the Uniform System of Accounts. This would allow one to track expenses from the cash disbursements journal to the annual report. During the course of the audit, Milford requested a copy of the Uniform System of Accounts, a copy of which has been mailed to Milford.

An examination of work orders revealed that Milford capitalized the cost of meters and labor associated with service for new customers. Based on staff's review of the workpapers prepared by the CPA, no adjustments have been made to the test-year operating statement presented by Milford. Milford's operating statement for calendar year 1985, the test year, for accounting purposes is as follows:

<u>MILFORD WATER COMPANY</u>	
<u>STATEMENT OF OPERATINGS PER APPLICATION</u>	
<u>FOR THE YEAR ENDED DECEMBER 31, 1985</u>	
<u>Operating Revenues</u>	
Water Sales	\$116,654
Service Charges	708
Total Operating Revenues	<u>\$117,362</u>
<u>Operating Expenses</u>	
Purchased Water	\$ 86,821
Transmission and Distribution Expenses	10,592
Customer Accounts Expenses	9,183
Administrative and General Salaries	8,631
Office Supplies and Other Expenses	1,196
Outside Services Employed	6,502
Property Insurance	746
Miscellaneous General Expenses	1,261
Director's Fees	3,900
Depreciation Expense	5,284
Taxes Other Than Income Taxes	4,115
Total Operating Expenses	<u>\$138,231</u>

Net Operating Income	\$<20,869>
<u>Other Deductions</u>	
Interest on Long-Term Debt	2,412
Other Interest Expense	<u>39</u>
NET INCOME	<u>\$<23,320></u>

CONCLUSION

Due to the difficulty in tracking some expenses from its cash disbursements journal to its annual report, Milford should revise its cash disbursements journal and set it up with account titles and numbers that conform to the Uniform System of Accounts.

Respectfully Submitted,

Carl Combs

 Carl Combs
 Senior Public Utilities
 Financial Analyst
 PUBLIC SERVICE COMMISSION
 Rates and Tariffs Division
 Revenue Requirements Section