

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF NORTH SHELBY)
WATER COMPANY TO REVISE ITS) CASE NO.
EXTENSION POLICY TO INCLUDE A LINE) 2005-00327
UPSIZE CHARGE)

COMMISSION STAFF'S FIRST INFORMATION REQUEST
TO NORTH SHELBY WATER COMPANY

North Shelby Water Company ("North Shelby") is requested, pursuant to 807 KAR 5:001, to file with the Commission the original and 8 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than 15 days from the date of this request. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. Refer to Table I, which was derived from the information contained at the second page of North Shelby's Amended Motion ("Amended Motion").

Table I

	Original feet	Replaced	Remaining	Percent Replaced
2-inch main	42,000	20,090	21,910	47.83%
3-inch main	416,000	11,500	404,500	2.76%
Total	458,000	31,590	426,410	6.90%

a. Is North Shelby currently providing adequate service to all customers receiving service through the remaining 426,410 feet of 2- and 3-inch mains? Explain in full detail. Your response shall include discussion of all known and documented operating deficiencies with regard to the existing service through the 2- and 3-inch mains.

b. List and describe each complaint that North Shelby has received from customers currently receiving service through 2- or 3-inch mains. Provide a copy of all written complaints.

c. In North Shelby's opinion, is the Line Enlargement Charge an effective approach to line upsizing even though only 7 percent of the 2- and 3-inch mains have been replaced since the charge became effective. Why?

d. Does North Shelby intend to replace all remaining 2- and 3-inch mains? If not, explain why not.

e. State North Shelby's present plans for replacing the existing 426,410 feet of 2- and 3-inch mains and the expected cost of the replacement. Your response should include specific time periods if these periods are known.

f. State the amount of the remaining 426,410 feet of main to be replaced that North Shelby will replace because of anticipated customer growth.

g. State the amount of the remaining 426,410 feet of main that North Shelby will replace due to normal deterioration.

h. Provide all engineering reports, studies, and analyses that North Shelby has performed or commissioned that address the systematic replacement and upgrading of its present 2- and 3-inch mains.

2. Refer to North Shelby's Amended Motion at 2.

a. Provide all reports, studies, analyses, and other documents upon which North Shelby relies to state that "there is a great deal of 4-inch line on our system which will eventually become obsolete or inadequate if current trends continue."

b. Provide the amount of 4-inch main in North Shelby's system.

c. State North Shelby's present time table for replacing the 4-inch main and the expected cost of this replacement.

3. In its Amended Motion, North Shelby states that over the nearly 10-year period the Line Enlargement Charge has been in effect \$621,509.85 has been collected, \$312,920.50 has been expended, and \$307,589.35 remains in the account. Explain why if growth in North Shelby's service area is at a pace that requires significant line enlargements and requires the assessment of the Line Enlargement Charge, almost 50 percent of the proceeds from the Line Enlargement Charge remains unspent.

4. In Case No. 1995-00161,¹ in which the Commission approved the line upsize charge, North Shelby requested that real estate developers be assessed only half of the cost of upsizing the line because it expected that the real estate developer who developed property on the opposite side of a road would pay the remaining cost. Has this occurred as anticipated? Explain.

¹ Case No. 1995-00161, The Tariff Filing of North Shelby Water Company to Revise Its Extension Policy to Include a Line Upsize Charge.

5. List each main extension that North Shelby has constructed since January 1, 1996 and for which it did not obtain a Certificate of Public Convenience and Necessity. For each extension, state the length and size of each main. For each main installed that is less than 6 inches in diameter, explain how North Shelby determined the size of main, and state why North Shelby did not use a 6-inch main or larger.

a. If the Commission finds that a system development charge is the more appropriate means for North Shelby to fund its capital improvements necessary for future growth and development and denies the request to continue the Line Enlargement Charge, would North Shelby apply for a system development charge? Explain.

b. If the Commission denies North Shelby's request to continue the Line Enlargement Charge tariff and North Shelby does not apply for a system development charge, would North Shelby consider collecting funds for line enlargements through a system-wide surcharge as allowed by KRS 74.395(4)? Explain.

c. North Shelby's expenditures from the line enlargement account per 1,000 gallons sold is \$.1035 ($\$312,920.50$ total expended/ $3,024,402$ total thousand gallons sold between January 1, 1996 and December 31, 2004). Assume that a monthly surcharge of \$.11 per thousand gallons is sufficient to fund enlargements at the historic level, and that such charge represents approximately a 25 percent increase in the average bill for a current North Shelby customer. In light of these assumptions, explain why the use of a system-wide surcharge would not be an appropriate and equitable means of funding necessary enlargements.

6. Administrative Regulation 807 KAR 5:090 and KRS 74.395 provide two methods to generate capital improvement funds outside of general rates. These two methods require the submission of more specific capital improvement forecasts and plans.

Explain why, in light of the availability of these methods, North Shelby requires the continuation of its Line Enlargement Charge to generate capital improvement funds.

7. When approving the Line Enlargement Charge, the Commission required North Shelby to file annually with the Commission the following information: a list of prioritized projects together with the estimated cost of each project, the list of projects completed during the year, the cost of each project, an itemization of the line enlargement charge revenues collected from developers during the year, the individual expenditures, and the balance of funds remaining in the escrow account. The Commission further required North Shelby to place all funds collected from the charge in an escrow account to be used for enlargement or connection expenses. In an Accounting Inspection Report (“Report”), a copy of which is attached as Appendix A, the Commission’s Financial Audit Branch found instances in which it appears that North Shelby failed to comply with the Commission’s Order. North Shelby’s response to the Report is attached as Appendix B.

a. Provide a copy of each filing that North Shelby filed with the Commission in accordance with the Commission’s Order in Case No. 1995-00161.

b. State the years, if any, in which North Shelby failed to make the required annual filing. For each year in which North Shelby failed to submit the required filing, provide the required information and an explanation for North Shelby’s failure to file.

c. At page 10 of its Report, Staff notes that the utility established an escrow account from which it could not write checks and that it “moved” \$200,000 from the escrow account to a certificate of deposit in 2000. It is further noted that in May of 2005, North Shelby closed the escrow account by transferring all funds to its construction account.

(1) What type of account did North Shelby establish as the escrow account?

(2) What approval did North Shelby obtain from the Commission to transfer \$200,000 from the escrow account to a certificate of deposit?

(3) What approval did North Shelby obtain from the Commission to close the account?

(4) State whether North Shelby has re-established the escrow account and describe the type of account that it established.

d. At page 11 of the Report, Commission Staff reports one instance in which North Shelby charged a customer a Line Enlargement Charge that was \$2.56 per foot higher than was charged to other customers. State whether North Shelby charged a different rate to one customer than it did to others. Explain.

e. Explain why, if Commission Staff's allegations of failure to report and improper assessment of the Line Enlargement Charge are correct, the Commission should extend the charge for an additional ten years.

8. North Shelby reported in its 2004 Annual Report the following cash and investment account balances:

Utility and Other Investments	\$813
Other Special Funds	1,928,716
Cash	638,547
Working Funds	<u>248,833</u>
Total	<u>\$2,816,909</u>

a. List by account number all bank accounts, certificates of deposits, or other investments included in the annual report accounts shown above. For each listed

account or investment, state the account balance as of December 31, 2004 and the current balance.

b. For each account listed in Item 8(a), provide a detailed description of all restrictions of usage of the account's funds.

9. From information contained in North Shelby's 2004 Annual Report, Staff has determined that North Shelby collected revenues sufficient to fund 99.16 percent or \$256,759 of its Depreciation Expense reported for 2004 of \$258,927.

a. List each ordinary plant extension and/or replacement that North Shelby has funded through general rate revenues for the previous 5 years beginning with 2004. For each listed extension or replacement, describe the extension or replacement and state the total cost and date of completion.

b. Given the fact that in 2004 North Shelby funded over 99 percent of its depreciation expenses and has amassed \$2,816,909 in cash reserves as of December 31, 2004, an increase of \$277,384 from the previous year, explain how funding the average annual Line Enlargement Charge improvements of \$32,094 (\$312,921 funds spent as of August 17, 2005 / 9.75 years) through general rate revenue would have had a material impact on North Shelby's operations and thus warrant special treatment through a separate charge.



Beth O'Donnell
Executive Director
Public Service Commission
P. O. Box 615
Frankfort, KY 40602

Dated: November 16, 2005

cc: Parties of Record

Case No. 2005-00327

APPENDIX A

CASE NO. 2005-00327

NORTH SHELBY WATER COMPANY

ACCOUNTING INSPECTION

Introduction

North Shelby Water Company ("North Shelby") is a water association that serves approximately 4,200 customers in portions of Franklin, Shelby, Henry, Oldham, and Jefferson Counties in Kentucky. The utility shares an office in Bagdad, Kentucky with U. S. 60 Water District of Shelby, Spencer and Franklin Counties ("U.S. 60"). All employees are considered to be employees of North Shelby. U.S. 60 is billed monthly for operation and management of its system by North Shelby.

Scope

On July 13 and August 4, 2005, Chris Whelan of the Commission's Financial Audit Branch performed field work for an accounting inspection of the utility's records. The purpose of the inspection was to get an understanding of the utility's accounting, recordkeeping and internal control procedures. The inspection also consisted of testing compliance with the utility's tariff on file with the Commission, and certain Commission statutes and regulations.

Findings

Accounting and Internal Control

The utility's accounting records and procedures are subject to the requirements established by the Uniform System of Accounts for Water Districts and Associations ("USoA"), as well as those prescribed by the Kentucky Public Service Commission. Deviations from the USoA and the Commission's prescribed practices and procedures are noted as follows:

1. Segregation of Duties. North Shelby has two full-time office employees. One employee receives and posts payments, prepares and makes deposits, and prepares the customer billing. The other employee prepares, signs, and mails checks and receives the bank statements. Both employees make adjustments to customer accounts. This lack of segregation of duties exposes the utility to the risk of financial loss. Ideally, the person who receives payments should not post to customer accounts. However, given that the utility has only two office employees, that segregation may not be possible. Still, there are steps the utility can take to strengthen internal controls. The duties of collecting and posting customer payments should be kept separate from the duties of depositing payments and making adjustments to customer accounts. In addition, the person who prepares and signs checks should not receive the bank statements. The monthly billing summary **and billing adjustments** should be closely reviewed by the board of directors. This review should be noted in the minutes to the monthly meetings. Also, the board should require annual vacations of all employees.

2. Signing Blank Checks. According to North Shelby's office manager, there are situations in which blank checks are signed in advance. This exposes the utility to the risk of financial loss. The utility is advised to prohibit the signing of blank checks in advance.

3. Voided Checks. Rather than canceling and retaining voided checks, utility personnel shred them. The presence of a voided check is necessary to indicate that the check was in fact voided and is not outstanding. Utility personnel should cancel and retain voided checks.

4. Bank Reconciliations. The utility's CPA reconciles the bank statements each month; however, there was no documentation at the utility's office to verify this. Copies of the reconciliations should be kept at the utility's office or the utility's CPA should indicate on the statements that they have been reconciled.

5. Uncollectible Accounts. The utility has a large number of customer accounts included in its accounts receivable balance that are uncollectible. As a result, accounts receivable is overstated and bad debt expense is understated. Utility personnel should review individual accounts receivable balances and determine which are uncollectible. A list of those accounts should be presented to the utility's board of directors for write-off approval. For those that became uncollectible prior to 2005, the balances should be written off to retained earnings. On an ongoing basis, the board should review delinquent accounts annually and determine which are uncollectible and should be written off the books. It should be noted here that although accounts considered uncollectible should be written off, collection efforts on those accounts should continue.

6. Misclassifications. North Shelby misclassified several items on its financial statements. The following misclassifications are noteworthy:

<u>Item</u>	<u>Proper Account</u>	<u>Account Charged</u>
Membership fees	242 - Miscellaneous Current and Accrued Liabilities	235 – Customer Deposits
Interest on customer deposits	431 – Other Interest Expense	675 – Miscellaneous Expense
Water testing	635 - Contractual Services - Water Testing	620 – Materials and Supplies
Various maintenance items	620 - Materials and Supplies	601 – Salaries and Wages - Employees
Miscellaneous general expense items	675 - Miscellaneous Expense	636 – Contractual Services – Other

When accounting for the revenue it receives each month from U.S. 60 for contractual services, North Shelby makes the following entries to its general ledger: charges for hourly field labor are credited to account 750 Maintenance Overhead Reimbursements; charges for management salary are credited to account 808 Management Salary; charges for administrative salaries, employee benefits, utilities and office use are credited to account 885 Overhead Reimbursement; and charges for equipment rental and vehicle usage are credited to account 887 Equipment Rental Income. (If materials and supplies are used for the operation of U.S. 60, account 352 Inventory is credited.) On the annual report, the utility records accounts 750, 885 and 887 in account 471 Miscellaneous Service Revenue and account 808 in account 601 Salaries and Wages – Employees. North Shelby’s accounting for the contractual services it performs for U.S. 60 is not in compliance with the USoA. All revenue associated with the contract should be recorded in account 415 Revenues from Merchandising, Jobbing and Contract Work. All expenses incurred to provide the services should be recorded in account 416 Costs and

Expenses of Merchandising, Jobbing and Contract Work. When recording contractual expenses, account 416 should be debited and the related operating expenses should be credited.

The utility should exercise more care when recording transactions and completing its annual report. When the utility is unclear on how to account for a transaction, it should consult the USoA or contact Commission Staff.

7. Board Member Salaries. Two of North Shelby's board members receive a salary check each month in addition to their monthly board member fee. This extra monthly payment could not be explained by utility personnel. The utility is reminded that any unjustified expense would be disallowed in a rate case filed with the Commission.

8. Office Staffing. During the course of the accounting inspection, North Shelby employees were asked a number of basic accounting questions that were directed to the utility's CPA. It appears the utility has placed a large portion of its accounting and recordkeeping responsibilities on its CPA. The level of bookkeeping performed by the utility's CPA could call into question the CPA's independence with regard to performing the utility's audit. Ideally, with an office the size of the combined North Shelby and U.S. 60, there would be a controller-type position that would handle the day-to-day accounting and recordkeeping duties in-house. North Shelby is encouraged to consider employing an experienced accountant or CPA to handle the day-to-day accounting and recordkeeping or hire a CPA firm separate from its current CPA firm to perform accounting duties.

9. Usage Adjustments. Each month, after bills are issued, the utility makes adjustments to customer accounts for misreads, billing errors, etc. Some of the adjustments are of significant size. Although sales are being adjusted, it could not be

determined if the amount of water sold was being adjusted to reflect these changes. The utility should ensure that, for adjustments to customer accounts that affect usage, the amount of water sold as indicated on the billing registers is adjusted to reflect actual water sold.

10. Employee Manual. The utility's employee manual is out of date. Very few items are addressed in the manual and, for those that are, the information is too general to be beneficial. The utility should update its employee manual to cover all aspects of employment including but not limited to: hiring, firing, health insurance, work hours, vacation, sick leave, holidays, retirement, harassment issues, uniforms, evaluations, drug testing, smoking policy, etc.

11. U.S. 60 Contractual Services. North Shelby performs operation and maintenance services for U.S. 60 but there is no contract between the two entities for the services provided. Although utility personnel stated that they believed such an agreement existed, as of the date of this report, the only document provided to Staff was a page from North Shelby's minutes of meeting dated March 11, 1980. That document mentions only that North Shelby's manager "had agreed to supervise the operations of the U.S. 60 Water District and to perform the necessary water sampling procedure for that District". The document also stated that U.S. 60 would be required to pay one-fourth of North Shelby manager's telephone line. For the protection and benefit of both parties, Staff recommends that North Shelby and U.S. 60 enter into a written contract that provides the cost and terms of its agreement as well as a description of the services provided.

Laws and Regulations

The utility's accounting records and procedures are subject to laws as provided by the Kentucky Revised Statutes ("KRS"), regulations of the Public Service Commission as established by the Kentucky Administrative Regulations ("KAR"), and the Federal Internal Revenue Code. The inspection disclosed the following deviations from laws and regulations:

12. Leak Adjustment Policy and Bulk Loading Rate. North Shelby allows a leak adjustment once every twelve months; however, the policy is not in its tariff. In addition, the utility has a bulk loading station but the rate is not included in its tariff. KRS 278.160 requires utilities to file and display schedules of rates and conditions for service and adhere to those schedules. North Shelby should update its tariff to include a leak adjustment policy and bulk loading rate.

13. Customer Deposits.

a. Amount. North Shelby's tariff states that it will charge a calculated customer deposit. However, the utility charges a flat rate deposit of \$59. According to 807 KAR 5:006, Section 7(1), the deposit may be a calculated deposit or an equal deposit. The method used to determine the deposit amount should be the method specified in the tariff. North Shelby should either charge a calculated deposit or update its tariff to match its current practice.

b. Interest. 807 KAR 5:006, Section 7(6) states "[i]nterest accrued shall be refunded to the customer or credited to the customer's bill on an annual basis." The utility currently credits accounts for customer deposit interest each January. The interest calculation is based on each customer's deposit anniversary date. Therefore, if a customer

paid a deposit in July, the first interest credit would not be received until 18 months after the deposit date. Since the utility credits interest for all customers at the same time each year, it should contact its software vendor to determine how to calculate customer deposit interest through the date the credit is issued rather than the anniversary date. In addition, the interest refunds are shown on the billing card as "Deposit Refund" rather than as "Interest on Deposit." North Shelby should change the description of the refund on its billing card to indicate that it is an interest refund and not a customer deposit refund.

14. Late Payment Penalties.

a. Calculation. North Shelby charges a 10% late payment penalty. The inspection indicated that, in a few instances, late payment penalties were miscalculated. The miscalculations consisted of over-billings as well as charging a penalty on a penalty. KRS 278.160 requires utilities to file and display schedules of rates and conditions for service and adhere to schedules. KAR 5:006 Section 8(3)h prohibits the charging of a penalty on an unpaid penalty. North Shelby should contact its software vendor to determine the reason for the miscalculations and ensure that corrections are made to avoid errors in the future.

b. Removal. One instance was noted from review of the board of director meetings that a late payment penalty was removed for a customer who complained about being charged the penalty. KRS 278.170 provides that no utility may give unreasonable preference to any person as to rates or service. The utility should not remove late payment penalties when they are properly charged to customers.

15. School Tax. North Shelby provides service in Oldham and Henry Counties, both of which have a school tax. However, the utility is not remitting school tax to those

counties. In addition, the utility is not charging school tax on fire protection service. KRS 160.613 authorizes a utility gross receipts tax and KRS 160.615 requires the remittance of the tax monthly. North Shelby should collect and remit school tax for fire protection service and for service in Henry and Oldham counties.

16. Rate Codes. It appears that North Shelby incorrectly input rates into its billing software in 2004 and 2005 which resulted in a slight under-billing to its customers. North Shelby was informed of the slight under-billing for its 2005 rate change and stated that it would be corrected. In addition, a few commercial rate codes were not set-up to charge sales tax. The sales tax issue was discussed with the utility's CPA who stated that the billing was being reviewed to make sure that sales tax was being charged appropriately hereafter.

17. Tariff. A review of the utility's tariff indicated the following:

a. The tariff contains references to repealed statutes and, at times, makes incorrect references to current statutes.

b. The front page of North Shelby's tariff states that the utility serves in Shelby, Henry and Franklin; however the utility also serves in Oldham and Jefferson Counties.

North Shelby should update its tariff to correct these items.

18. Line Enlargement Charge. In Case No. 1995-00161, the Commission approved a line enlargement charge for North Shelby. Because the charge was a "novel tariff provision" that had not regularly been approved by the Commission, the Commission set a December 31, 2005 expiration date for the charge. In that case, the utility was ordered to place all funds collected from the charge in an escrow account to be used solely for enlarging distribution lines, or when more practical, for the installation of connections

between water mains. In addition, the Commission ordered the utility to file each year the following information: a list of prioritized projects together with the estimated cost of each project, the list of projects completed during the year, the cost of each project, an itemization of the line enlargement charge revenues collected from developers during year, the individual expenditures, and the balance of funds remaining in the escrow account. It appears that North Shelby has not complied with the Commission's order in that case.

a. Filings. For the year 1996, the utility filed some but not all of the required information. After repeated prompting by Commission Staff for the years 1997, 1998, 1999, and 2000, the utility filed the information. In 2003, the utility was sent a letter stating that it had failed to file the information for 2001 and 2002. The utility filed incomplete information for a portion of 2003 but filed no information for 2001 or 2002. The utility filed incomplete information in 2004 that dealt mostly with the upsize charge calculation. After being informed during this inspection that the information had not been included in its 2004 annual report, the utility filed information on July 26, 2005 that was incomplete and inaccurate. Given that the information filed by North Shelby since 2000 has been scarce and incomplete, it should immediately file the required information for the years 2001 through 2004.

b. Escrow/Disbursements. Other than a few line enlargement refunds, the only disbursement shown in the utility's line enlargement register is a transfer to the utility's construction account of \$25,025 on January 7, 2002 labeled "Old Mill Extension". (According to utility personnel, North Shelby was not able to write checks from the line enlargement account and therefore had to transfer the money to another account in order to expend it.) However, information filed by the utility on June 12, 2003, stated that

\$34,010 of the fund had been used for the Harrington Mill Upgrade.

It should be noted that the utility moved \$200,000 of the line enlargement revenues from the escrow account to a certificate of deposit in 2000 and then in May of 2005 closed the escrow account by transferring all of the funds to its construction account. The utility's manager was told by Staff on July 13, 2005 that the funds should not have been moved from the escrow account and that the amount removed should be transferred back to a separate account so the Commission could verify that it was used solely for the purpose for which it was established. Discussions with the manager in early August indicated that since the July 13, 2005 discussion, a small portion of the money was set up in a separate account but that \$312,920.50 was used for line enlargement projects. No documentation for the disbursements was provided.

c. Line Enlargement Calculation. It should be noted that by letter dated May 20, 1998, North Shelby was informed that Staff had calculated a line enlargement charge of \$4.79 per foot to be used for the year 1998. A review of the utility's records shows that during 1998 the utility charged a rate ranging from \$5.31 to \$5.33 In addition, in December 2001, it appears the utility charged one customer a line enlargement charge that was \$2.56 per foot higher than it did to others.

On August 8, 2005, in Case No. 2005-00327, North Shelby filed a request to extend the line enlargement charge for an additional 10 year period. Commission Staff will recommend to the Commission that it take into consideration the utility's noncompliance with its original order when deciding that case.

Conclusion

The examination noted a number of deficiencies and areas needing improvement. The utility is advised to correct all deficiencies and implement all recommendations included in the report. The Financial Audit Branch is available to assist the utility in correcting the deficiencies. A written response to each item is due within 30 days. The utility's response should include whether the recommendations have been implemented or the utility's plan to implement the recommendations.

APPENDIX B

CASE NO. 2005-00327

NORTH SHELBY WATER COMPANY

P.O. BOX 97
BAGDAD, KENTUCKY 40003
502-747-8942

September 27, 2005

M. Chris Whelan, CPA
Audit Reviewer
Division of Financial Analysis
Public Service Commission

SEP 30 2005

RE: Noted deficiencies from Accounting Inspection, July 13th & August 4th, 2005

Ms Whelan,

Enclosed are North Shelby Water's responses to the 18 Deficiencies you noted during your inspection of our system.

DEFICIENCY # 1.... Segregation of Duties

As you noted in this deficiency, we only have (2) full-time office employees. We are exploring the possibility of hiring an additional office employee. We do have our treasurer review our accounts Payable & Receivable, and we will be adding billing adjustments to our monthly board meeting reports.

DEFICIENCY # 2....Signing Blank Checks

The only time blank checks are signed are in situations where we have to send an employee to get supplies, (who is not authorized to sign checks).

DEFICIENCY # 3....Voided Checks

Office Staff has been instructed not to shred any voided or canceled checks.

DEFICIENCY # 4...Bank Reconciliation's

We will have our CPA to provide us with this need information for our monthly board meetings.

RECEIVED
SEP 30 2005
FINANCIAL ANA

DEFICIENCY # 5...Uncollectable Accounts

Bad Debts will be taken off at the October 2005 meeting, and we will establish a program to handle this area of deficiency.

DEFICIENCY # 6...Misclassifications.

We will meet with our CPA to correct this deficiency.

DEFICIENCY # 7....Board Member Salaries.

This deficiency is unclear, but will be discussed at the October meeting.

DEFICIENCY # 8....Office Staffing

As mentioned in our response to Deficiency # 1, we don't currently have enough personnel to correct this deficiency.

DEFICIENCY # 9...Usage Adjustments

We will work with our CPA to ensure the proper adjustments are reflected.

DEFICIENCY # 10...Employee Manual

We will have our attorney review and make any needed corrections or additions to our manual.

DEFICIENCY # 11...U.S. 60 Contractual Service

We will have our attorney draft a contract.

DEFICIENCY # 12....Leak Adjustment & Bulk Loading Rate

We will update our tariff to include these areas of deficiency.

DEFICIENCY # 13...Customer Deposits

We will make needed corrections so that our policy & tariff match.

DEFICIENCY# 14....Late Payments Penalties

A) ... CALCULATIONS.....Corrected

B)....REMOVAL....This will be discussed at the October meeting and will not happen again.

DEFICIENCY # 15 School Taxes

Corrected

DEFICIENCY # 16.... Rate Code

Corrected

DEFICIENCY # 17...Tariff

We will have our attorney address these issues and make the proper corrections.

DEFICIENCY # 18...Line Upsize

We are currently reviewing and compiling a summary of this program.

SUMMARY

Responses to the above mentioned **Noted Deficiencies** were prepared by Darrell Dees, manager & Duncan LeCompte, Chairman, with discussion by the Board of Directors of North Shelby Water Company. We were not aware of these deficiencies, but do appreciate the opportunity to address and correct them.

Respectfully Submitted By

Darrell Dees, manager



Duncan LeCompte, chairman

