

Western Lewis Rectorville Water and Gas District
8044 KY 3160
Maysville, KY 41056

March 19, 2019

Public Service Commission
Attn: Gwen R. Pinson, Executive Director
PO Box 615
Frankfort, KY 40602-0615

RE: Case No. 2019-00028
Response to Commission Staff's Second Request for Information dated February 28, 2019

Summary of Findings:

- 1) Chad Clark was officially hired as the District's General Manager on January 13, 2015. The minutes indicate that it is a part-time salaried position (Attachment 1). However, Mr. Clark was, and is still, performing the same duties and responsibilities as the previous General Manager who was considered full time. Mr. Clark does not receive any insurance, paid time off, or retirement benefits from the District. Mr. Clark works approximately 32 hours per week at the District.
- 2) Please see Attachment 2 for Mr. Clark's time records for September, October, November and December 2018, and January 2019.
- 3) Timesheets have been kept by hourly employees at the District for several years. However, until after the Gas Rate Adjustment proceedings (Case No 2017-0074), the hours were not split between the water and gas divisions. Beginning in February 2018, the timesheets were modified to keep track of hours spent on the water and gas divisions, respectively. See Attachment 3 for the spreadsheet with the calculations for the how payroll should be allocated.
- 4) A) The response to issues filed to the Commissions January 23, 2019 Order, stated that the general managers salary was \$1,040 per week, not \$1,400. The general manager started keeping track of his time in 2018, when it was determined after the Gas Rate Case, that it was necessary to track a salaried employees time and divide the hours between the water and gas divisions. At \$1,040 per week the annual salary calculates to be \$54,080. Therefore, using the 32 hour average, his hourly rate would have been \$32.50.

B) The general managers salary increased to \$1,100 per week in 2018, which totals \$57,200 annually. Once again using the 32 hour average, his hourly rate would have been \$34.38.

C) The two neighboring districts referenced in the previous response are a City utility operation and a Water Association who prefer to not be mentioned specifically by name. The City utility operation services 2,589 water customers and the Water Association services 4,970 customers. The General Manager's salary at the City utility operation for 2017 was \$78,062.40 and for 2018

was \$80,412.80. This includes management of all the utilities including electric, water, sewer and gas. The Water Association General Manager was paid \$70,574 in 2017 and \$71,134 in 2018. In addition to their salaries, their health insurance is also paid by the respective Boards.

D) Managers of both are full time employees. Only calculating the hourly rate based on base salary the City utility operation hourly rates for 2017 and 2018 would have been \$37.53 (\$78,062.40/2080) and \$38.66 (\$80,412.80/2080), respectively. The Water Association hourly rates for 2017 and 2018 would have been \$33.92 (\$70,574/2080) and \$34.19 (\$71,134/2080).

E) Mr. Clark's predecessor was considered full time and as such received benefits (i.e. health insurance paid at 100%, retirement, and paid time off for holiday, sick and vacation), which Mr. Clark does not receive. The previous GM was hurt in a work-related accident on May 1, 2013. He was not able to recover and come back to the District in any capacity. This is when the District reached out to Mr. Clark for assistance with the GM position, as he was familiar with procedures and operations of a utility company. According to payroll records the prior GM worked the following hours during the last five years of employment:

	Regular		Vacation		
	Hours	Holiday	Sick	Payout	
2008	1968	72	40	120	2200
2009	1952	72	96	120	2240
2010	1968	72		120	2160
2011	1776	88	216	120	2200
2012	1968	88	24	120	2200
1/1/13 - 05/17/13	664	32	104	120	920

It should be noted, however, that payroll was calculated at 40 hours per week regardless of how many hours were actually worked. There are no records of hours worked for the preceding General Manager because he was on salary and at the time, hours worked were not required to be tracked.

- 5) In the response to Request for Information, item 5, it does not say that Mr. Clark is contracted with two other water districts, it states that he is contract on an as needed basis with two other Districts. Mr. Clark is contracted with the Buffalo Trail Water Association (BTWA) and the Western Mason Sanitation District (WMSD). He does not manage either of these operations. The BTWA has one office staff person, everyone else is contract labor. The Board is the manager of the BTWA. At WMSD there is a General Manager who is contracted with the District, not Mr. Clark. WMSD has no employees or equipment, all work is contracted. Each of these operations are required to have a licensed operator to fulfill the reporting function and maintenance on the systems as needed. Mr. Clark is a licensed operator for each of these operations, as documented in our Response for Case No. 2017-00074 dated May 22, 2017, Item 14a and 14b. Mr. Clark is paid a monthly salary from each and is not required to keep time sheets as it is a salaried position. Mr. Clark averages 8 and 10 hours, respectively, per month at each operation.
- 6) A) The meters have historically been read to the nearest 1000 gallon, with rates being approved as such by PSC.
 B) The meter software is set to be read at the 1,000 gallon increment. The information is then uploaded into the billing software at the 1,000 gallon increment.

C) According to Mr. Clark, the District could modify the rounding function. However, it would require resetting all the meter reading equipment. Additionally, rates are approved at the 1,000 gallon increment.

7) Following are the calculations for actual billing vs current billing over a six month period of time:

A)	Actual Usage	Usage Billed	Bill Amount	Calculation
Month 1	4657	4657	37.86	$16.65 + (4657 - 1000) * (5.80 / 1000)$
Month 2	9314	9314	37.86	$16.65 + (4657 - 1000) * (5.80 / 1000)$
Month 3	13971	13971	37.86	$16.65 + (4657 - 1000) * (5.80 / 1000)$
Month 4	18628	18628	37.86	$16.65 + (4657 - 1000) * (5.80 / 1000)$
Month 5	23285	23285	37.86	$16.65 + (4657 - 1000) * (5.80 / 1000)$
Month 6	27942	27942	37.86	$16.65 + (4657 - 1000) * (5.80 / 1000)$
			<u>227.16</u>	

B)	Actual Usage	Usage Billed	Bill Amount	Calculation
Month 1	4657	4000	34.05	$16.65 + (4000 - 1000) / 1000 * 5.80$
Month 2	9314	5000	39.85	$16.65 + (5000 - 1000) / 1000 * 5.81$
Month 3	13971	4000	34.05	$16.65 + (4000 - 1000) / 1000 * 5.82$
Month 4	18628	5000	39.85	$16.65 + (5000 - 1000) / 1000 * 5.83$
Month 5	23285	5000	39.85	$16.65 + (5000 - 1000) / 1000 * 5.84$
Month 6	27942	4000	34.05	$16.65 + (4000 - 1000) / 1000 * 5.85$
			<u>221.70</u>	

C) There is no journal entry booked month to month for the amount billed. A report is ran daily from the billing system which is used to create the deposit in the accounting software and reconcile cash.

8) A, B, C, and D) There is no way to accurately reconcile the differences referenced with the \$864,706. The \$864,706 is an estimated calculation based on a reported number of gallons used printed from the billing software. There are timing differences, underpaid, not paid, late payments, etc., all which need to be considered when attempting to reconcile between an estimated calculation and real world. The amounts provided by the District can be reconciled. Please see the attached transaction detail for the water collection line item (Attachment 4). Highlighted in yellow is the cash receipts for the 2017 calendar year. Highlighted in green is the balance after GAAP adjustments were made.

9) The office of Jeffrey D Newman, CPA, LLC, did not use the spreadsheet titled *Allocations of Profit and Loss* to convert the District's records from cash basis to accrual basis. The *Allocations of Profit and Loss* spreadsheet is an informational worksheet detailing how the combined revenues and expenses were separated between the water and gas divisions within the District. Following is the spreadsheet as requested (Attachment 5):

STATEMENT OF REVENUES AND EXPENSES
PROPRIETARY FUND
For the Year Ended December 31, 2017

	81.78%	18.22%	
	<u>Water</u>	<u>Gas</u>	<u>Total</u>
OPERATING REVENUES			
Water and Gas Sales:			
Residential	\$ 723,740	\$ 161,244	\$ 884,984 A
Commercial	89,451	19,929	109,380 A
Service Charges and Other Revenue	<u>48,366</u>	<u>10,775</u>	<u>59,141 %</u>
Total Operating Revenues	861,557	191,948	1,053,505
OPERATING EXPENSES			
Salaries & Wages - Employees	231,474	24,214	255,688 % based on actual payroll time sheets
Salaries & Wages - Officers & Director:	23,307	5,193	28,500 %
Retirement Expense	69,696	15,528	85,224 %
Purchased Gas	71,163	142,422	213,585 A
Purchased Power	42,212	9,405	51,617 %
Chemicals & Salt	12,233	2,725	14,958 %
Materials & Supplies	37,594	1,147	38,741 A
Professional Fees	17,215	18,135	35,350 % Russmar - \$14300; All other \$21,050
Maintenance Expense	72,963	3,989	76,952 A
Rental Expense	207	-	207 A
			% Health/Vision - at actual time sheet rate; Liability and bond certificate at overall rate
Insurance	81,832	14,130	95,962
Depreciation and Amortization	339,305	6,580	345,885 A
Utilities and Telephone	5,639	1,256	6,895 %
Office and Program Expense	60,311	13,437	73,748 %
Taxes Other Than Income	<u>20,335</u>	<u>2,127</u>	<u>22,462 % based on actual payroll time sheets</u>
Total Operating Expenses	1,085,486	260,288	1,345,774
OPERATING INCOME (LOSS)	(223,929)	(68,340)	(292,269)
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	469	-	469
Gain/Loss on Sale/Disposal of Asset	25,554	5,693	31,247
Tollesboro Sanitation District No. 1 Fee	13,372	-	13,372
Interest Expense	<u>(108,282)</u>	<u>-</u>	<u>(108,282)</u>
Net Non-Operating Revenues (Expenses)	(68,887)	5,693	(63,194)
Income (Loss) Before Capital Cont	(292,816)	(62,647)	(355,463)
Customer Tap Fees	<u>22,049</u>	<u>3,600</u>	<u>25,649</u>
Change in Net Assets	<u>\$ (270,767)</u>	<u>\$ (69,047)</u>	<u>\$ (329,814)</u>

10) A) The billing software is not integrated into the QuickBooks accounting software. The staff at the District maintain the books using the cash basis. It provides the District with an accurate profit and loss during the year to determine where they are on a strictly cash basis. There are no reports required during the year that need to be on an accrual basis, that is simply a year-end procedure.

B) The cost to convert the accounting records from cash to accrual basis was \$2,300 for 2017, \$2,250 for 2016, and \$2,200 for 2015.

C & D) The District converts the records from cash to accrual annually to comply with accounting principles generally accepted in the United States.

11) Bills are due the 15th of each month. A late charge is assessed when account is past due. A disconnect notice is sent out on tariff approved dates. The service is then shut off at the meter. Bills continue to be sent to the customer even when service has been disconnected, between 3 and 6 months, when it is marked inactive and unbillable in the system

12) Please see Attachment 6a, 6b, and 6c.

13) In a Notice of Filing of Staff Report dated May 25, 2017 involving Case No. 2017-00074, item 3 under the Summary of Findings, "Allocation and Assignment of Costs Between Divisions", the Commission states "...Western Lewis continues to use an operating revenue factor to allocate costs between its water and gas divisions. Staff believes that the operating revenue factor does not result in an accurate allocation of costs between the two divisions." Continuing on it states "Staff...has reallocated the shared costs using the customer number allocation factor." In the last paragraph of the item it states that the District "make the necessary revisions to its accounting procedures and internal controls so that proper assignment and allocation of revenues and expenses are recorded in its books of original entry in all future reporting periods."

14) A) There are reports kept on flushing/leaks, however, the gallons used are not often listed.

B) There is a once a year scheduled system flush. There are also flushes during the year when there are line breaks. Of course, the number of flushes for this varies from year to year. Within the plant there is water used that is not metered. This would include the online chlorine analyzer, which runs 24 hours day, 7 days a week to monitor the chlorine. This is estimated to be 5 gallons per minute. Additionally, the treated water is pulled out of the system to perform chemical feed functions. This is estimated to be 10 gallons per minute for 20 hours a day.

C) As noted above, complete logs are not kept by the District that include gallons used. As provided in Attachment 7, the log that was kept.

D) The District is required to report water loss on a monthly basis. Attachment 8a, 8b, and 8c are the water loss reports from 2016, 2017, and 2018, respectively.

The information was provided by Chad Clark, General Manager, Pauline Calhoun, Sr. Office Clerk, and Lyn Rhonemus, CPA. The information provided is true and accurate to the best of our knowledge, information and belief formed after a reasonable inquiry.

Lyn Rhonemus, CPA

Lyn Rhonemus, CPA

Pauline Calhoun, Sr. Office Manager

Pauline B. Calhoun

Chad Clark, General Manager

Chad Clark

Date

March 20, 2019

Date

03/20/2019

Date

03/20/2019