

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION FOR RATE INCREASE) CASE NO. 9390  
OF BEAVER-ELKHORN WATER DISTRICT )

O R D E R

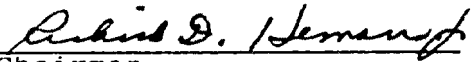
IT IS ORDERED that:

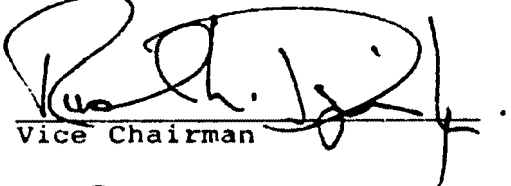
1. The Staff Audit Report for Beaver-Elkhorn Water District ("Beaver-Elkhorn") attached hereto as Appendix A shall be included as a part of the record in this proceeding.

2. Beaver-Elkhorn shall have until the close of business November 7, 1985, to file written comments concerning the contents of Appendix A.

Done at Frankfort, Kentucky, this 30th day of October, 1985.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary

APPENDIX A DATED 10/30/85.  
REPORT ON LIMITED AUDIT  
of  
BEAVER-ELKHORN WATER DISTRICT

PREFACE

On July 31, 1985, Beaver-Elkhorn Water District ("Beaver-Elkhorn") filed an application in Case No. 9390 seeking an increase in water rates. The proposed rates would generate \$50,579 annually in additional revenues.

As part of its endeavor to shorten and simplify the regulatory process, 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. As a result of this audit, the need for written data requests and the overall expense to the utility in this case should be substantially reduced. Members of the Commission staff conducting the audit were Miss Angela Schweickart and Mr. Carl Combs of the Division of Rates and Tariffs. The audit was performed on October 10-11, 1985, at the offices of Allen, England and Hensley, Certified Public Accountants in Prestonsburg, Kentucky.

SCOPE

The examination consisted of an analysis and review of major cash disbursements and related financial records for the 12-month period ending April 30, 1985, which is the test year in

Case No. 9390. The audit was limited to a review for proper accounting treatment of expenses charged to the following accounts:

<u>Account Number(s)</u>	<u>Account</u>
620, 640	Operation Labor
623, 641	Operation Supplies and Expenses
631	Chemicals
903	Supplies and Expenses
921	Office Supplies and Other Expenses
923	Outside Services
926	Employee Benefits
928	Regulatory Commission Expenses
930	Miscellaneous General Expenses
408	Taxes Other than Income Taxes

Reconciliation tests were performed on the aforementioned accounts and supporting documentation was also examined to determine whether costs reflected in the above accounts were appropriately expensed under the requirements of the Uniform System of Accounts for Class A and B Water Utilities. During the course of the audit, it was revealed that several expenses were charged to improper expense accounts. However, due to the limited scope of this audit and the fact that such adjustments have no effect on the overall dollar amount of expenses, adjustments have not been made to correct these accounting errors.

#### FINDINGS

A review of Beaver-Elkhorn's accounting system revealed no major problems. Test-year charges to the 12 accounts listed in the previous section of this report were reconciled to the general ledger once the adjusting entries were taken into consideration. An examination of invoices revealed that Beaver-Elkhorn's

accountant had reclassified all charges that should have been capitalized.

The only problem found by Commission staff involved misclassification of some expenses. For example, a breakdown of Account No. 924--Property Insurance, revealed that a portion of test-year charges to that account was for vehicle insurance which should have been charged to Account No. 933--Transportation Expenses. The Commission staff discovered several similar instances of such misclassifications.

Based on staffs' review, the misclassification of some test-year expenses has no impact on the reasonable presentation of Beaver-Elkhorn's financial statements as a whole. Therefore, no adjustments have been made to the operating statement presented by Beaver-Elkhorn. Beaver-Elkhorn's operating statement for the 12-month period ending April 30, 1985, for accounting purposes is as follows:

BEAVER-ELKHORN WATER DISTRICT

STATEMENT OF OPERATIONS PER APPLICATION

for the 12-month period ended April 30, 1985

<u>Operating Revenues</u>	
Sales	\$338,341
Penalties	6,865
Other Revenues	448
Total Sales	<u>\$345,654</u>
<u>Operating Expenses</u>	
Pumping Expenses:	
Labor	\$ 33,123
Fuel	19,678
Operations Supplies and Expenses	22,197
Water Treatment Expenses:	
Chemicals	20,883
Operations Supplies and Expenses	1,096
Transportation and Distribution Expenses:	
Labor	67,689
Operations Supplies and Expenses	37,510
Customer Account Expense:	
Customer Supplies and Expenses	13,599
Uncollected Accounts	6,021
General and Administrative Expenses:	
Salaries	25,276
Office Supplies	5,772
Outside Services	12,604
Insurance	5,186
Employee Benefits	5,015
Regulatory Commission Expense	4,428
Miscellaneous and Commissioners' Expenses	3,028
Transportation Expenses	1,574
Taxes and Other	12,233
Total Operating Expenses	<u>\$296,912</u>
Income Before Depreciation and Amortization	\$ 48,742
Depreciation and Amortization	<u>78,767</u>
Net Operating Income	<u>\$&lt;30,025&gt;</u>
<u>Non-Operating Income (Expense)</u>	
Miscellaneous Income	\$ 2,142
Interest Income	10,101
Loss on Sale of Land	<17,998>
Interest Expense	<u>&lt;42,952&gt;</u>
Net Income (Loss)	<u>\$&lt;78,732&gt;</u>

### CONCLUSION

Other than some instances of misclassification of expense items, there were no accounting discrepancies within Beaver-Elkhorn's operating statement based on the limited scope of this audit for accounting purposes. With regard to the limited areas covered in this report, Beaver-Elkhorn maintains appropriate books and supporting documentation and is to be commended for its efforts to properly account for expenses. Beaver-Elkhorn should review all its expense accounts for compliance with the Uniform System of Accounts for Class A and B Water Utilities and reclassify various expense items as appropriate.