

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

**ELECTRONIC PURCHASED WATER)
ADJUSTMENT FILING OF SOUTH) **CASE NO. 2024-00005**
EASTERN WATER ASSOCIATION, INC.)**

**RESPONSE OF
SOUTH EASTERN WATER ASSOCIATION, INC.
TO
COMMISSION STAFF’S FIRST
REQUEST FOR INFORMATION
DATED FEBRUARY 15, 2024**

FILED: March 18, 2024

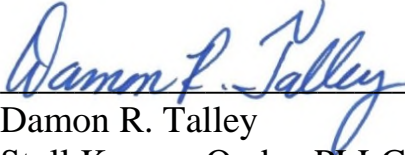
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**RESPONSE OF SOUTH EASTERN WATER ASSOCIATION, INC.
TO COMMISSION STAFF’S FIRST REQUEST FOR INFORMATION**

Comes South Eastern Water Association (the “Association”) for its Response to Commission Staff’s First Request for Information, and states as shown on the following pages.



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**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

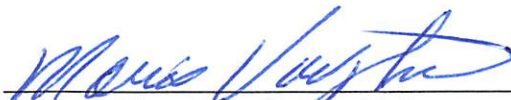
In the Matter of:

ELECTRONIC PURCHASED WATER)	
ADJUSTMENT FILING OF SOUTH)	CASE NO. 2024-00005
EASTERN WATER ASSOCIATION, INC.)	

**CERTIFICATION OF RESPONSE OF SOUTH EASTERN WATER
ASSOCIATION, INC. TO COMMISSION STAFF'S
FIRST REQUEST FOR INFORMATION**

This is to certify that I have supervised the preparation of South Eastern Water Association, Inc.'s Response to Commission Staff's First Request for Information. The response submitted on behalf of South Eastern Water Association, Inc. is true and accurate to the best of my knowledge, information, and belief formed after a reasonable inquiry.

Date: March 19, 2024



Morris Vaughn, General Manager
South Eastern Water Association, Inc.

CERTIFICATE OF SERVICE

In accordance with the Commission's Order of July 22, 2021 in Case No. 2020-00085 (Electronic Emergency Docket Related to the Novel Coronavirus COVID-19), this is to certify that the electronic filing has been transmitted to the Commission on March 18, 2024; and that there are currently no parties in this proceeding that the Commission has excused from participation by electronic means.



SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2024-00005

Response to Commission Staff's First Request for Information

Question No. 1

Responding Witness: Morris Vaughn

Q-1. Explain how South Eastern Water has utilized its cash basis income for the years 2020, 2021, and 2022, respectively, in the amounts of \$1,095,463, \$1,741,328 and \$1,581,317, respectively.

A-1. South Eastern Water uses its cash basis income to meet its financial obligations and to maintain and improve its water distribution system. Below is a summary of how South Eastern Water has utilized operating cash in the years 2020, 2021 and 2022. All of the items listed below were funded through current operating revenues in excess of expenses, as well as reserve funds meticulously and thoughtfully maintained by the Association in anticipation of these needs.

The Association sought and was granted a Certificate of Public Convenience and Necessity ("CPCN") for two projects that appear in 2022. The Commission granted a CPCN for the system-wide meter replacement project in Case No. 2021-00222.¹ The Commission granted a CPCN for an office and operations building

¹ Case No. 2021-00222, *Electronic Application of South Eastern Water Association, Inc. for Commission Approval pursuant to 807 KAR 5:001 and KRS 278.020 for a Certificate of Public Convenience and Necessity to Deploy an Advanced Metering Infrastructure (AMI) System*, (Ky PSC Aug. 12, 2021).

in Case No. 2022-00065.² As noted in the Commission's Orders approving these projects, South Eastern Water financed these projects with cash reserves.

2020

\$ 62,352	Tank Improvements
99,700	New Backhoe
90,585	New Meter Sets and Line Connections
10,124	Office and Computer Equipment
141,640	Four Service Trucks
<u>693,089</u>	<u>Ongoing Projects for New and Expanded Service</u>
\$1,095,463	

2021

\$260,688	Tank Improvements
115,252	New Meter Sets and Line Connections
222,400	Generators
94,530	Three Dodge Service Trucks
<u>1,048,458</u>	<u>Ongoing Projects for New and Expanded Service</u>
\$1,741,328	

2022

\$160,907	New Meter Sets and Line Connections
128,650	Generators
17,302	Computer Equipment
55,015	GMC Service Truck
98,127	New Backhoe
40,779	Preliminary Plans for Office Building
<u>1,080,536</u>	<u>System-wide Meter Replacement Project</u>
\$1,581,316	

² Case No. 2022-00065, *Electronic Application of South Eastern Water Association, Inc. for Commission Approval Pursuant to 807 KAR 5:001 and KRS 278.020 for a Certificate of Convenience and Necessity to Construct a Customer Service and Operations Facility*, (Ky PSC Aug. 22, 2022).

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2024-00005

Response to Commission Staff's First Request for Information

Question No. 2

Responding Witness: Morris Vaughn

Q-2. Explain how South Eastern Water anticipates using projected 2024 income, if any.

A-2. The Association's water mains extend to the outer edges of Pulaski County. The southern region of Pulaski County has become prone to interruptions of electric service. Electric power is more frequently interrupted by storms and unforeseen problems. Therefore, South Eastern Water is currently installing generators at all pumping stations within its system. Funds not designated for another purpose will be utilized for this in-house project. In 2023, South Eastern Water also replaced two aging pumping stations with unrestricted reserves and depreciation reserves.

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2024-00005

Response to Commission Staff's First Request for Information

Question No. 3

Responding Witness: Morris Vaughn

Q-3. Refer to Case No. 2021-00126, September 17, 2021 final Order at 3-4. Explain in detail the steps South Eastern Water has taken to reduce its system usage.

A-3. The Association is adding mixing systems in all tanks as it does system maintenance and tank painting. In order to meet the requirements of the Stage 2 Disinfectant and Disinfection Byproducts Rule (DBPR) and comply with the established maximum contaminant levels (MCL) for contaminants and maximum residual disinfection levels (MRDL) for disinfectants, South Eastern Water must use large quantities of water to frequently flush its system. This is because South Eastern Water purchases its water from the city of Somerset, Kentucky, rather than produces its water and relies upon the supplier, the city of Somerset, to treat the water it purchases. The Association has no chemical feeds in its system. The Association's system is comprised of four former distribution systems, consisting of eleven storage tanks, eleven booster pump stations, and approximately 550 miles of water mains that range from 3-inches to 12-inches in diameter.

The water that the Association purchases must travel several miles to reach the outer edges of the system. The system runs from just north of McCreary County to the boundaries of Laurel County on the east and north into Lincoln County. The system has a large number of dead-end water mains that require frequent flushing to maintain water quality standards required by the Kentucky Division of Water (“DOW”). Purchased water is pumped from the supplier’s tanks to South Eastern Water’s storage tanks. In some cases, water must travel through three (3) tanks to reach the far edges of its system. The chlorine level in the water drops the longer it is stored. Chlorine levels also drop faster in warmer weather. Flushing is necessary to maintain the appropriate level of chlorine to ensure water quality. If the Association reduces flushing, it risks negatively impacting water quality and failing to maintain safe standards for drinking water.

The mixing systems help hold a positive chlorine residual longer, which should reduce the amount of flushing necessary to meet DOW requirements. The Association is aware of the Commission’s concern about the amount of water South Eastern Water uses in the operation of its system. The Association has installed the Tide Flex mixing system in five of its eleven tanks: Eagles Nest, Dahl, Highway 192, Bandy, and Tateville. In 2024 the Association anticipates installing a mixing system in the tanks at Haynes Knob Road and Dixie Bend.

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2024-00005

Response to Commission Staff's First Request for Information

Question No. 4

Responding Witness: Morris Vaughn

Q-4. Provide any supporting documentation on how the steps that South Eastern Water has undertaken to reduce its system usage has resulted in water savings.

A-4. The Association has not yet experienced a reduction in its system usage of water.

SOUTH EASTERN WATER ASSOCIATION, INC.

CASE NO. 2024-00005

Response to Commission Staff's First Request for Information

Question No. 5

Responding Witness: Morris Vaughn

Q-5. Explain whether South Eastern Water has undertaken a 2023 Audit. If not, explain why, and if so, provide the estimated completion date.

A-5. South Eastern Water has contracted with Randall Turpin, CPA to conduct its 2023 audit. The audit should be completed before the end of May 2024. See **Attachment 5.**

ATTACHMENT
5

#5

Randall D. Turpin, CPA, PLLC

225 Parkers Mill Road
Somerset, Kentucky 42501

Phone: 606-451-1550
Fax: 606-451-0194
Email: rdt1869@aol.com

January 30, 2024

To the Board of Directors and Management
Southeastern Water Association, Inc.
147 E. Somerset Church Rd.
Somerset, KY 42503

I am pleased to confirm my understanding of the services I am to provide for Southeastern Water Association, Inc. for the year ended December 31, 2023.

Audit Scope and Objectives

I will audit the financial statements of Southeastern Water Association, Inc., which comprise the statements of financial position as of December 31, 2023 and 2022, the related statements of activities, functional expenses, and cash flows for the years then ended, and the disclosures (collectively, the "financial statements").

The objectives of my audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and issue an auditor's report that includes my opinion about whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements, including omissions, can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate they would influence the judgment of a reasonable user made based on the financial statements.

The objective also include reporting on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.

Auditor's Responsibilities for the Audit of the Financial Statements

I will conduct my audit in accordance with GAAS and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of your accounting records and other procedures I consider necessary to enable me to express such an opinion. As part of an audit in accordance with GAAS and *Government Auditing Standards*, I exercise professional judgment and maintain professional skepticism throughout this audit.

To the Board of Directors
January 30, 2024
Page 2

I will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management. I will also evaluate the overall presentation of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. I will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets or (4) violations of laws or governmental regulations that are attributable to the Organization or to acts by management or employees acting on behalf of the Organization. Because the determination of waste and abuse is subjective, *Government Auditing Standards* do not expect auditors to perform specific procedures to detect waste or abuse in financial audits nor do they expect auditors to provide reasonable assurance of detecting waste or abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because I will not perform a detailed examination of all transactions, there is an unavoidable risk that some material misstatements may not be detected by me, even though the audit is properly planned and performed in accordance with GAAS and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, I will inform the appropriate level of management of any material errors, fraudulent financial reporting, or misappropriation of assets that come to my attention. I will also inform the appropriate level of management of any violations of laws or governmental regulations that come to my attention, unless clearly inconsequential. My responsibility as auditor is limited to the period covered by my audit and does not extend to any later periods for which I am not engaged as auditor.

I will also conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

My procedures will include tests of documentary evidence supporting the transactions recorded in the accounts and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors and financial institutions. I will also request written representations from the Organization's attorneys as part of the engagement.

We have identified the following significant risks of material misstatement as part of my audit planning:

- Small staff size resulting in challenges to segregation of duties.

My audit of financial statements does not relieve you of your responsibilities.

Audit Procedures—Internal Control

I will obtain an understanding of the Organization and its environment, including the system of internal control, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, and to design and perform audit procedures responsive to those risks and obtain evidence that is sufficient and appropriate to provide a basis for my opinion. Tests of controls may be performed to test the effectiveness of certain controls that I consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. My tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in my report on internal control issued pursuant to *Government Auditing Standards*. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. Accordingly, I will express no such opinion. However, during the audit, I will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I will perform tests of Southeastern Water Association, Inc.'s compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of my audit will not be to provide an opinion on overall compliance, and I will not express such an opinion in my report on compliance issued pursuant to *Government Auditing Standards*.

Other Services

I will assist in preparing the financial statements and related notes of the Organization in conformity with accounting principles generally accepted in the United States of America based on information provided by you. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. I will perform these services in accordance with applicable professional standards issued by the American Institute of Certified Public Accountants. The other services are limited to the financial statement and related note preparation services previously defined. I, in my sole professional judgment reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

To the Board of Directors
January 30, 2024
Page 4

You agree to assume all management responsibilities relating to the financial statements, related notes, and any other nonaudit services I provide. You will be required to acknowledge in the management representation letter my assistance with the preparation of the financial statements and related notes and that you have evaluated the adequacy of my services and reviewed and approved the results of the services and the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Responsibilities of Management for the Financial Statements

My audit will be conducted on the basis that you acknowledge and understand your responsibility for designing, implementing, establishing and maintaining effective internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, and for evaluating and monitoring ongoing activities to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements and all accompanying information in conformity with accounting principles generally accepted in the United States of America, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

You are also responsible for making drafts of financial statements, all financial records, and related information available to me and for the accuracy and completeness of that information (including information from outside of the general and subsidiary ledgers). You are also responsible for providing me with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, identification of all related parties and all related-party relationships and transactions, and other matters; (2) additional information that I may request for the purpose of the audit, and (3) unrestricted access to persons within the Organization from whom I determine it is necessary to obtain audit evidence. At the conclusion of my audit, I will require certain written representations from you about your responsibilities for the financial statements; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by GAAS and *Government Auditing Standards*.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to me in the management representation letter that the effects of any uncorrected misstatements aggregated by me during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

To the Board of Directors
January 30, 2024
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You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing me about all known or suspected fraud affecting the Organization involving (1) management, (2) employees who have significant roles in internal control and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing me of your knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators or others. In addition, you are responsible for identifying and ensuring that the Organization complies with applicable laws, regulations, contracts, agreements and grants and for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements that I report.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Scope and Objectives section of this letter. This responsibility includes relaying to me corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits or other engagements or studies. The Organization is also responsible for providing management's views on my current findings, conclusions, and recommendations, as well as your planned corrective actions for the report, and for the timing and format for providing that information.

Engagement Administration, Fees, and Other

I understand that your employees will prepare all cash, accounts receivable and other confirmations I request and will locate any documents selected by us for testing.

I will provide copies of my reports to the Organization; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of my reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Randall D. Turpin, CPA, PLLC and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to oversight organizations or their designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings or to carry out oversight responsibilities. I will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Randall D. Turpin, CPA, PLLC personnel. Furthermore, upon request, I may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

To the Board of Directors
January 30, 2024
Page 6

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the oversight organization. If I am aware that a federal awarding agency or auditee is contesting an audit finding, I will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

Randall D. Turpin, CPA is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them. I expect to begin my audit on approximately April 16, 2024 and to issue my report no later than May 31, 2024.

My fees for services will be based on the actual time spent at my standard billing rate, except I agree that the total fee will not exceed \$16,500. The fee estimate is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, I will discuss it with you and arrive at a new fee estimate before I incur the additional costs. My invoices for these fees will be rendered at the end of the engagement and are payable on presentation.

You have requested that I provide you with a copy of my most recent external peer review report and any subsequent reports received during the contract period. Accordingly, my 2020 peer review report accompanies this letter.

Reporting

I will issue a written report upon completion of my audit of Southeastern Water Association, Inc.'s financial statements. My report will be addressed to the Board of Directors of Southeastern Water Association, Inc. Circumstances may arise in which my report may differ from its expected form and content based on the results of my audit. Depending on the nature of these circumstances, it may be necessary for me to modify my opinion, add a separate section, or add an emphasis-of-matter or other-matter paragraph to my auditor's report, or if necessary, withdraw from this engagement. If my opinion is other than unmodified, I will discuss the reasons with you in advance. If, for any reason, I am unable to complete the audit or am unable to form or have not formed an opinion, I may decline to express an opinion or issue reports, or I may withdraw from this engagement.

To the Board of Directors
January 30, 2024
Page 7

I will also provide a report (which does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and on compliance and other matters will state that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The report will also state that the report is not suitable for any other purpose. If during my audit I become aware that Southeastern Water Association, Inc. is subject to an audit requirement that is not encompassed in the terms of this engagement, I will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual agreements.

I appreciate the opportunity to be of service to Southeastern Water Association, Inc. and believe this letter accurately summarizes the significant terms of my engagement. If you have any questions, please let me know. If you agree with the terms of my engagement as described in this letter, please sign the enclosed copy and return it to me.

Very truly yours.

Robert J. Yi, CPA, PLLC

RESPONSE:

This letter correctly sets forth the understanding of Southeastern Water Association, Inc.:

Management Signature: *M. G. R.*

Title: *M. G. R.*

Governance Signature: *Joe S. [Signature]*

Title: *President*