

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF CANNONSBURG)	Case. No.
WATER DISTRICT FOR A RATE ADJUSTMENT)	2024-00155
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

RESPONSE OF CANNONSBURG WATER DISTRICT
TO THE COMMISSION STAFF'S FOURTH REQUEST
FOR INFORMATION DATED AUGUST 23, 2024

Cannonsburg Water District
Case No. 2024-00155
Commission Staff's Fourth Request
for Information Dated August 19, 2024

Witness: Tim Webb and Mark Frost

1. Refer to the testimony of Tim Webb in Cannonsburg District's response to Commission Staff's Second Request for Information (Staff's Second Request), Items 4c, 5e, and 10c. Specifically, Cannonsburg District's statements that the expense is not capital "due to the nature of the purchases and their use" in response to Item 4c, and "Cannonsburg District would not classify maintenance and repair costs as capital expenditures" in response to Item 10c. Cannonsburg District's response to Item 5e is a classification of the purchase as an expense is proper.
 - a. For each item provide a detailed explanation for why its classification as an expense is proper pursuant to the Uniform System of Accounts.

Response: The criteria used by the Internal Revenue Service to differentiate repairs/maintenance from a capital expenditure is: An expenditure to acquire, produce, or improve a unit of property should generally be capitalized, while routine repairs and maintenance would be expensed as incurred. Examples: A capital improvement would include major work such as refurbishing the kitchen converting a room or attaching a conservatory. A repair on the other hand is general maintenance, repairing a tap, repainting surfaces, fixing the air conditioning, or maintenance on appliances.

Repairs are incurred to fix damage and are the last resort to save structures and restore them to their original condition. Maintenance is the effort to prevent the decline or damage of an asset. A capital improvement is generally an enhancement that extends the life and/or improves the value of an asset.

Therefore, after reviewing the expenditures identified by Commission Staff, Cannonsburg District is of the opinion that its original decisions to expense each expenditure was correct and proper.

- b. Provide the approximate age of the item replaced and the normal replacement cycle.

**Cannonsburg Water District
Case No. 2024-00155
Commission Staff's Fourth Request
for Information Dated August 19, 2024**

Response: Its records do not allow Cannonsburg District to provide an approximate age of each item replaced and the District is unable to predict the replacement cycle of each expenditure Commission Staff identified.

c. For each item purchased provide the expected life.

Response: Cannonsburg District is unable to give a reasonable estimate of the expected useful life of each expenditure that Commission Staff identified.

**Cannonsburg Water District
Case No. 2024-00155
Commission Staff's Fourth Request
for Information Dated August 19, 2024**

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2. Refer to Cannonsburg District's response to Staff's Second Request, Item 9b Elan Credit Card Invoice.

a. Provide a copy of each credit card invoice for calendar years 2022 and 2023.

Response: See files: 2.a_2022_Credit_Card_Statements
2.a_2023_Credit_Card_Statements

b. Provide an explanation of the business purpose of each restaurant expenditure on each of the invoices provided in item 2a.

Response: Credit card usage for restaurants are for meetings (safety, board, training), out of town travel for continuing education or training and, for guys in the field when they are on an emergency repair and cannot leave the site until the customer's water is restored.

c. State how many authorized Elan credit cards were issued to Cannonsburg District's employees during calendar years 2022 and 2023.

Response: There were no new cards issued during the 2022 and 2023 calendar years. Also, as employees have left Cannonsburg District closing those cards are not being used or replaced with other employees.

d. Provide the written policies and procedures for the employee use of the authorized Elan credit cards.

Response: Cannonsburg District does not have a written policy for the use of its credit cards. However, each employee, when given a card is instructed on how the card is to be used.

e. Refer to Cannonsburg District's responses to Staff's Second Request, Items 13 and 17, about Miscellaneous Service Revenue. Cannonsburg District's response to Item 13a states it ". . . is unable to provide an explanation of the account and will contact its Accountant and will provide an update to this response." In response to Item 17, Cannonsburg District stated "[M]iscellaneous Service

**Cannonsburg Water District
Case No. 2024-00155
Commission Staff's Fourth Request
for Information Dated August 19, 2024**

Revenue is used for all previously listed nonrecurring charges. It is also for recurring charges of Commercial sales tax. Confirm whether Cannonsburg District's response to Item 17 is correct after receiving the information from its accountant.

Response: There is confusion concerning the use of the account title "Miscellaneous Service Revenue." Cannonsburg District has an account 471-000 Miscellaneous Service Revenue that is in its 2022 General Ledger and 2022 Trial Balance. Below is the general ledger detail for the account 471-000 Miscellaneous Service Revenue.

471-000 · Miscellaneous Service Revenue				0.00
General Journal	01/31/2022	2097	Deposits In Transit	3,088.63 -3,088.63
General Journal	02/28/2022	2099	Deposits In Transit	6,685.30 -9,773.93
General Journal	03/31/2022	2101	Deposits In Transit	6,012.63 -15,786.56
General Journal	04/30/2022	2103	Deposits In Transit	3,103.24 -18,889.80
General Journal	05/31/2022	2106	Deposits In Transit	6,362.19 -25,251.99
General Journal	06/30/2022	2108	Deposits In Transit	11,821.42 -37,073.41
General Journal	07/31/2022	2112	Deposits In Transit	7,399.19 -44,472.60
General Journal	08/31/2022	2116	Deposits In Transit	7,091.07 -51,563.67
General Journal	09/30/2022	2118	Deposits In Transit	7,848.27 -59,411.94
General Journal	10/31/2022	2122	Deposits In Transit	7,025.25 -66,437.19
General Journal	11/30/2022	2125	Deposits In Transit	2,991.93 -69,429.12
General Journal	12/31/2022	2127	Deposits In Transit	3,565.72 -72,994.84
Total 471-000 · Miscellaneous Service Revenue				0.00 72,994.84 -72,994.84

Account 471-000 – Miscellaneous Service Revenue has been included in Metered Water Sales Revenue in Cannonsburg District's 2022 Annual Report. The source for the following calculation is from the File: 14_Auditor_Working_Trial_Balance_2022 that was provided in the response to Item 14 of the Commission Staff's First Request for Information.

Metered Water Sales to Residential - Unaudited	\$ 2,528,404.61
Less: To Adjust Accounts Recievable to Actual	(85,671.00)
Less: Allowance for Doubtful Accounts	(2,536.00)
Add: Funds in Transit (Lending Agencies)	502,148.00
Metered Water Sales to Residential - Audited	2,942,345.61
Add: Miscellaneous Service Revenue	73,179.00
Metered Water Sales Revenue - 2022 Annual Report	\$ 3,015,524.61

The collection of sales taxes should not be reported as a source of revenue to Cannonsburg Water District.

**Cannonsburg Water District
Case No. 2024-00155
Commission Staff's Fourth Request
for Information Dated August 19, 2024**

- f. If Cannonsburg District is still awaiting information from the accountant referred to in Item 13, provide the date Cannonsburg District expects to receive that information.

Response: See Cannonsburg District's response to Item 2.g above.

**Cannonsburg Water District
Case No. 2024-00155
Commission Staff's Fourth Request
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3. Refer to Cannonsburg District's Application, Attachment 4, Schedule of Adjusted Operations (SAO), References, Reference A. Also refer to Cannonsburg District's 2022 Audited Financial Statements.

a. The total revenues reported in the test year of in the SAO and the total revenues reported in the audited financial statements for 2022 were both reported as \$3,087,027. Explain why Cannonsburg District's Audited Financial Statements do not reflect the reduced revenue amount, made in Reference A, if there is a recording error in the test year amount.

Response: The explanation for Adjustment A in 4_SAO_With_Attachments of the application wrongly stated that Cannonsburg District "incorrectly recorded payments in transit from the lending agencies as revenue from water sales." The referenced funds from the lending agencies were originally recorded in a separate account, but Cannonsburg District's Auditor misclassified the payments in transit as revenues from water sales in the 2022 audited financial statements. In preparing Cannonsburg District's application the classification error was discovered. See Cannonsburg District's response to Item 2.g above.

b. Explain why the cash flow statement at page 5 of the Audited Financial Statements do not reflect the incurrence of debt while Note 4d on page 18 reflects debt issued of \$523,510 in the summary of changes in long-term obligations for the year.

Response: The KIA loan proceeds were received by Cannonsburg District in prior fiscal years, but Cannonsburg District's Auditor was not aware of the KIA loans until the 2022 audit. The KIA Loan activity was posted to the financial statements as a prior period adjustment; refer to note 12.

Footnote 12 - Prior Period Adjustment:

KIA Loan	B18-011	\$	(57,271)
KIA Loan	C20-001	\$	(622,000)
KIA Loan	B18-011	\$	4,882
KIA Loan	C290-001	\$	150,889