STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: January 11, 2013
AT (OFFICE): NHPUC

FROM: Karen Moran, Chief Auditor
Robyn Descoteau, Examiner

SUBJECT: Hampstead Area Water Company Inc.
DW 12-170 Rate Adjustment Filing
FINAL Audit Report

TO: Mark Naylor, Director, Gas/Water Division
Jayson Laflamme, Analyst, Gas/Water Division

Introduction

Hampstead Area Water Company, Inc., (HAWC, Company) provides water service to approximately 3,039 customers in twelve southern NH towns. On July 25, 2012, HAWC filed a petition with the Public Utilities Commission (PUC) for a rate increase of 6.99%, representing an increase in permanent rates and a step increase relating to SRF funded improvements to various systems. The filing request was based on the calendar year 2011, and our audit was conducted for the period ended December 31, 2011.

Management Agreements

Agreement between HAWC and Lewis Builders Development, Inc.

The Management/Service/Rental Agreement (Agreement) on file with the Commission during the test-year was effective as of January 1, 2009 between Hampstead Area Water Company, Inc (HAWC) and Lewis Builders Development, Inc (Lewis); both of 54 Sawyer Ave, Atkinson, NH. The agreement was signed by Christine Lewis Morse, Vice President of HAWC and President of Lewis. The agreement was filed with the Commission as part of DW 09-112 on November 2, 2009. The Company has submitted a current version of this agreement as part of this rate case. It was received on October 12, 2012.

The Agreement details what services will be provided by Lewis. The rental space agreement for HAWC's office, storage and warehousing needs is detailed. Office supplies are provided by Lewis at Lewis' cost, plus overhead. For all services provided by Lewis, a labor burden then overhead is added. An exhibit of costs used to calculate the labor burden and overhead is attached to the Agreement. Per the agreement, the rates are to be recalculated on or before April 1 of the following year as of December 31 of the previous year. The rates used during this agreement period are shown below:

	Labor Burden	Overhead
2009	63%	20%
2010	60%	27%
2011	71%	42%

Audit requested detail from the Company for the calculation of labor burden and overhead rates for 2009, 2010, and 2011. Audit's concentration was spent on the analysis of 2011 versus 2010. Overall, 2010 labor expenses were higher than those of 2009, yet total direct labor was lower, causing a higher labor burden percentage; 71% vs. 60%. The four highest expense increases were: 401K expense; $14k, Equipment Expense: Fuel; $36k, Workers' Compensation Insurance; $17k, Real Estate Taxes; $15k. A similar situation occurred with the calculation of overhead: 2010 expenses remained fairly consistent to those of 2009, yet 2010 revenues were $2.884 million less than 2009, causing a higher overhead percentage; 42% vs. 27%.

Agreement between HAWC and ARCC

The latest Agreement between HAWC and Atkinson Concessions, Inc. d/b/a Atkinson Resort & Country Club (ARCC), located at 85 Country Club Drive, Atkinson, was made as of January 1, 2009. The agreement was signed by Christine Lewis Morse, VP of HAWC and President of Atkinson Concessions, Inc. The agreement was filed with the Commission as part of DW 09-112 on November 2, 2009.

The Agreement between HAWC and ARCC details what services will be provided by ARCC and what fees will be assessed. ARCC provides telephone answering services as well as other clerical and administrative services for HAWC. Telephone services are billed by ARCC on a monthly basis and other services are billed on an hourly rate. For all services provided, a labor burden then overhead is added using the rates detailed above within the agreement between HAWC and Lewis.

Agreement between HAWC and AAWW and Lewis

The latest Management/Service/Rental Agreement between HAWC, Atkinson Area Waste Water Recycling Inc. (AAWW) and Lewis, all of 54 Sawyer Ave, Atkinson, NH was made as of January 1, 2011. The agreement was signed by Christine Lewis Morse, VP of all three companies. The agreement was filed with the Commission as part of DW 09-112 on November 2, 2009.

The Management/Service/Rental Agreement between HAWC and AAWW and Lewis details what services will be provided by HAWC and Lewis. Services include: accounting, legal advice, legal secretary, truck repair and maintenance, payroll services, real estate services, tax service, mailing costs, maintenance and repair costs, billing services, management services. For all services provided, a labor burden then overhead is added using the rates detailed above in the agreement between HAWC and Lewis.

Receivables

Accounts Receivable - #141.00 - $62,976

Audit verified the accounts receivable "Open Balance Report" at year-end to the general ledger account 141.00 without exception. The year-end balance of $62,976 also agreed with the 2011 NHPUC annual report. A detailed listing of aged receivables was provided. The breakdown of receivables was reflected as:

Current:	$39,680 or 63%
Intercompany:	$ 1,293 or 2%
31-60 days:	$10,161 or 16%
61-90 days:	$ 5,100 or 8%
91-120 days:	$ 1,371 or 2%
Over 120 days:	$ 5,371 or 9%

NHDES Grant Receivable – Kent Farm System Interconnection Grant - #142.01 - $66,313

The Department of Environmental Services (DES) granted HAWC a New Hampshire Water System Interconnection Grant (SIG) in the amount of 90,885, 25% of the final interconnection cost of $363,541. The Company recorded the NHDES Grant as a receivable on its books in 2009 as Kent Farm SIG for $90,885. Two credits were received in the test-year for Kent Farm: one on 2/9/2011 and one on 8/11/2011 for $4,095 each.

NHDES Grant Receivable – Atkinson/Hampstead Interconnection - #142.02 - $257,641

The DES granted HAWC a New Hampshire Water System Interconnection Grant in the amount of 264,587, 25% of the final project cost of $1,058,347. The grant was approved by the Governor and Executive Council on December 11, 2007. As discussed in DW 08-088, "[t]he grant is intended to assist HAWC with making its loan payments to the SRF program…" The Company recorded the NHDES Grant as a receivable on its books in 2009 as the Atkinson/Hampstead Interconnection, $264,587. One credit was received for the test-year on 8/11/2011 in the amount of $6,946.

Deferred Debits #186 and Amortization Expense – Other, #407.00

Audit verified the reported balance on NHPUC Schedule F-28, Miscellaneous Deferred Debits, to the test-year general ledger. The year-end balance in account 186 was comprised of two accounts, Deferred Rate Case Expenses and Other Deferred Debits, totaling $50,596. The balance related to the following:

Description	Docket	Description	Remaining Yrs of Amort	12/31/11 Balance	Acct #407	Acct #181
Black Rocks Village	DW 07-134	System acquisition	No amort yet	$3,859	$0	$0
Dearborn Ridge Well	DW 08-065	Costs of unproductive well	17.5 yrs	19,278	1,096	0
2008 Ice Storm	DW 08-065	2008 December Ice Storm	6 mos	4,448	7,625	0
Bryant Woods Well	DW 08-065	Costs of unproductive well	17.5 yrs	7,486	426	0
Settlers Ridge	DW 10-241	System acquisition/Finance*	None	0	679	2,082
Fairfield	DW 11-218	System acquisition	No amort yet	1,791	0	0
2012 Rate Case	DW 12-170	Rate Case Expenses	No amort yet	341	0	0
Rainbow Ridge	DW 12-170	Unproductive Main Ext.	No amort yet	13,393	0	0
				$50,596	$9,826	$2,082

Of the $11,908 credits in account #186 reported during the year, $9,826 related to docketed items from DW 08-065 and DW 10-241, all of which were debited to account 407.00, Amortization Expense-Other.

The remaining $2,082 credit to #186 related to DW 10-241 and was reclassified to account 181.00, Unamortized Debt Discount. Refer to the Long Term Debt portion of this report.

Rainbow Ridge costs relate to expenses incurred by the Company to extend the main at Rainbow Ridge to service customers at the Beede Superfund Site. The Beede Group eventually decided on alternative water source. The Company is requesting to amortize these costs over a 3 year period beginning with this case. See the pro-forma adjustments within the filing.

For those systems identified as "No Amortization yet", the Company has not yet petitioned the Commission for recovery of these deferred costs. Commission approval for the amortization of the costs reflected with "years remaining" was verified to the stipulation agreement signed by the parties on May 27, 2009. The approved amortization of deferrals relates to $21,927 spread over 20 years for the unproductive Dearborn Ridge well, $22,877 spread over three years for the ice storm, and $8,515 spread over 20 years for the unproductive Bryant Woods well.

Plant in Service

The Company converted its continuing property records from Excel spreadsheets to Sage Fixed Assets during 2010. The new system enables the Company to compute depreciation for book, tax, state and CIAC depreciation without entering information into four separate workbooks as was done in the past Excel versions. The Sage system enables the Company to scan invoices and attach them to the property records. With the Sage system, and attested for the test-year, individual address information was entered as meters were changed out, an improvement from prior years where only the total count was recorded. The full test-year continuing property records were completed on Sage Fixed Assets.

Audit verified the total plant in service at December 31, 2011, $13,345,420 per the annual report schedule F8, to the corresponding general ledger accounts without exception.

Bid Process

The Company indicated that it does not have a formal bidding process. Lewis performs most of the subcontracted work for HAWC. When an item is needed in the $20,000-30,000 or higher range, the Project Manager for Lewis calls around for prices and quotes. He keeps notes and proposals, if received, for his records. On large jobs, such as the Atkinson/Hampstead Interconnection and Kent Farm SIG, which were over $1M, formal bids were issued.

Additions to Plant 2008

Plant additions for 2008 were reported in the NHPUC report as $95,510. SCADA additions in Cranberry Meadows and a total of seven pumps added to the Bricketts Mill, Bryant Woods, Jameson Ridge and Settlers Ridge Developments were booked to account 311, Pumping Equipment; $18,324. A filter was installed in the Rainbow Ridge development and booked to account 320, Water Treatment Equipment; $14,448. Sampling stations added to thirteen developments in the core system, the Atkinson systems and the satellite systems, and a pressure reducing station added to the Walnut Ridge pumping station were booked to account 331, Transmission and Distribution Mains; $28,476.

During the Step Adjustment associated with DW 08-065, Audit reviewed invoices and labor records totaling $61,249 related to these additions. No exceptions were noted in the audit report dated May 29, 2009. Deferred costs associated with the 2008 Ice Storm and the Dearborn Ridge well were also part of the audit report. Those costs are discussed in detail in the Miscellaneous Deferred Debits portion of this report.

Additions to the Settlers Ridge system in 2007 and 2008 in the amount of $118,385 were reviewed by Audit, with no exceptions noted in the report dated November 23, 2010. The Company recorded the total in account #307, Wells and Springs, and placed the amount "in-service" 2/18/2011, the date of Commission Order #25,195 authorizing the assets and financing.

Additions to Plant 2009

Plant additions reported in the 2009 NHPUC totaled $1,466,760. This amount tied to the Excel spreadsheet of 2009 Additions provided by the Company. Audit observed that some of the "in service" dates listed for the assets were prior to 2009. A random testing of the assets showed that the assets were posted to the Sage Fixed Asset system with these incorrect (prior to 2009) dates. **Audit Issue #1**

Account #302 – Franchise Fees - $9,380
Represents costs relating to Coopers Grove and Sargent Woods

Account #304 – Structures and Improvements - $65,597
Relating to lighting fixtures at Walnut Ridge and pump houses at Coopers Grove and Sargent Woods

Account #307 – Wells and Springs - $40,931
Represents costs relating to two wells at Coopers Grove, three wells at Sargent Woods and well repairs at Walnut Ridge and Village Green

Account #309 – Supply Mains - $1,243
Represents costs relating to repair work at Coopers Grove

Account #311 - Pumping Equipment - $91,537
Represents costs relating to two pumps and a pump meter at Walnut Ridge, a drive pump at Angle Pond, a pump at Colby Pond, a booster pump at Oak Hill, a pump at Rainbow Ridge, a pump at Lancaster Farm, two well pumps at Coopers Grove and three well pumps at Sargent Woods.

Account #320 - Water Treatment - $18,530
Represents costs relating to green sand filters at Sargent Woods and an LMI pump at Coopers Grove.

Account #330 - Distribution Reservoirs & Standpipes - $39,927
Represents costs relating to tank reconditioning and repainting at Coopers Grove and a 30,000 gallon atmospheric tank at Sargent Woods.

Account #331 – Transmission and Distribution Mains - $1,095,410
Represents costs relating to the Walnut Ridge interconnection $693,175, Hampstead interconnection $304,442, and Coopers Grove piping $42,145, among other minor items.

Account #333 – Services - $17,106
Represents costs associated with repairing and installing service lines at Walnut Ridge, Hampstead core, Bricketts Mill, Kent Farm, Lancaster Farm and Sargent Woods.

Account #334 – Meters - $55,678
Costs associated with the meters added during 2009 were for new customer meters at Walnut Ridge, Hampstead core, Cricket Hill, Lancaster Farm, Waterford Village, Angle Pond, and Coopers Grove.

Account #335 – Hydrants - $30,000
The hydrants added due to the Walnut Ridge Interconnection represent $20,000 and the Hampstead Interconnection hydrants represent $10,000.

Account #340 – Vehicles and Other - $1,420
This asset is a bill folding machine.

Additions to Plant 2010

Plant additions during 2010 totaled $521,261. This amount tied to the Excel spreadsheet of 2010 Additions provided by the Company. Franchise fees for Oak Hill were booked to account #302, $1,157. Costs to deepen the well at Village Green were booked to account #307,

$23,462. SCADA installed at Walnut Ridge and pumping equipment installed at Village Green, Kent Farm and Walnut Ridge totaled $27,302 and was booked to account #311. An iron filter at Camelot Court, booked to account #320, totaled $3,531. The Company booked a total of $19,376 to account #331, for repairs at Walnut Ridge and for the Hog Hill culvert in Hampstead. The total amount booked to account #333, was $31,528; one new service in Hampstead was noted, the remaining amount was for repairs. The total amount booked to account #334, Meters, was $72,200; company records detail 53 new meters and 197 meter change-outs. Hydrology costs totaling $303,311 were booked to account #339. The Company purchased a 2010 GMC 2500 for $33,169 and booked it to account #341. A computer server was purchased for $6,225 and booked to account #347.

Test-year Additions

Additions to plant in service during 2011 totaled $792,914. All additions were verified to the Sage Fixed Asset system as well as to the general ledger accounts indicated.

Account	Description	Amount
304	Structures & Improvements	$164,014
307	Wells & Springs	167,179
309	Supply Mains	16,413
311	Pumping Equipment	97,823
320	Water Treatment Equipment	91,592
330	Distribution Reservoirs & Standpipes	65,772
331	T & D Mains	110,810
333	Services	16,764
334	Meters and Meter Installations	47,175
335	Hydrants	8,500
347	Computer Equipment	6,872
	Total	$792,914

Account #304 - Structures and Improvements - $164,014

Settlers Ridge, Pope Road Pump Station; 143,442, Credit from Unitil for Pope Rd; ($5,222), Lancaster Farm Well House Addition; 20,830. All previous records were entered with a depreciation rate of 2.50%. Smith Mountain generator; $4,964 was entered with a depreciation rate of 10%. **Audit Issue #2**

Audit requested and received documentation to support $143,442. A detailed depreciation schedule, listing assets by account number, was provided, along with detailed invoices from Lewis Builders, Beacon Electric, RE Prescott, Schauer Environmental, among others of minimal invoice totals. Audit reviewed and recalculated invoices, and for those from Lewis, recalculated labor and overhead burdens without exception.

The ½ year depreciation convention was noted, and the depreciation rate of 2.5% was noted, in conformity with the Small Water Company booklet.

Account #307, Wells and Springs - $167,179

Settlers Ridge, Pope Road wells; $124,476, Lancaster Farm well; $27,703, Black Rocks Village, 3 wells; $15,000. All records were entered with a depreciation rate of 3.33%.

Audit requested and was provided with supporting documentation for the $124,476. $118,385 of the total had been audited as part of docket DW10-241. The audit report was issued on 11/23/2010. The $118,385 was approved by Commission Order #25,195, issued on 2/18/2011. That date was the noted "in-service" date. The remaining $6,091 was verified to invoices from Lewis Builders, Beacon Electrical Sales, RJ Prescott, and Fondriest Environmental, without exception. Labor burdens applied to the Lewis invoices were recalculated without exception.

Account #309 - Supply Mains - $16,413

Settlers Ridge, Pope Road; $15,978, Lancaster Farm; $435. All records were entered with a depreciation rate of 2.00%.

Invoices from Lewis Builders, Vellano Brothers, Ti-Sales, East Coast Lumber, Beacon Electrical Sales, and GSG Supply were reviewed without exception. Those invoices sum to$15,978.

Account #311 - Pumping Equipment - $97,823

Settlers Ridge, Pope Road; $65,963, Lancaster Farm RAD well pump; $18,285, Colby Pond Pump; $5,645, Hampstead Core, Transducer; 1,805, Walnut Ridge, 2-AC DRC240 from Horizon Solutions; $4,601, Walnut Ridge, Midpoint Pump End; $1,524. All records were entered with a depreciation rate of 10.00%.

Audit requested documentation to support $65,963. Invoices from RE Prescott, Youngblood Electric, GSG Supply, Samson Fastener, Esteem Electronic Systems, totaling 12,208 were reviewed without exception. Additional invoices from Ti-Sales, Mazzei Injector Co, RE Prescott, US Bluebook, GSG Supply, Vellano Brothers, Samson Fasteners, along with timesheets to support HAWC labor, sum to $51,109. There were no exceptions noted.

Account #320 - Water Treatment Equipment - $91,592

Hampstead Core, Village Green filters; $44,486, Settlers Ridge Pope Road (2) Marlo MGA-72-3 SGL filters; $41,226, Lancaster Farm various invoices; $65. All previous records were entered with a depreciation rate of 3.57%. Waterford Village, neutralizing filter, $5,813, was entered with a depreciation rate of 12.50%, due to the anticipated life due to the life expectancy of the filter, per discussion with the Company.

Audit requested documentation to support $44,486 and was provided with invoices from Marlo Incorporated totaling $37,300 for two iron removal filters, used to reduce iron, manganese, and hydrogen sulfide using greensand filter media.

Lewis invoices supported the remaining $$7,187. Audit reviewed all Lewis invoices for timesheets, labor and overhead burden calculations, and identification of jobs. Labor relating to removal and replacement of the roof at the Village Green Pump House, in the amount of $1,921, should be booked to account #304, Structures and Improvements, not to account #320, Water Treatment. **Refer to Audit Issue #12.**

Audit was also provided with the invoices from Marlo, detailing filters purchased for Settlers Ridge and installed by Lewis Builders. The total invoice support was $41,226 without exception. Burdens on the Lewis invoices were recalculated without exception.

<u>Account #330 - Distribution Reservoirs and Standpipes - $65,772</u>

Settlers Ridge, Pope Road, 20,000 gallon Wildco storage tank; $65,762, Hampstead Core, Samson Fastener; $10. All records were entered with a depreciation rate of 2.22%.

Audit requested documentation to support $65,762 and was provided with invoices from Lewis Equipment, Lewis Builders, Precision Crane, and Wildco Petroleum Equipment. The invoice from Wildco in the amount of $47,375 was for a 20,000 gallon tank for the Settlers Ridge water system. All of the invoices were reviewed for accuracy and the labor burden and overhead burden noted on the Lewis invoices were recalculated without exception.

<u>Account #331 - Transmission and Distribution Mains - $110,810</u>

Walnut Ridge, Hovey Meadow repairs $42,713; Walnut Ridge, Providence Hill main repair $1,951, Walnut Ridge, install shut-offs on Summit and 4" gate valve on Sunset $7,524; Walnut Ridge, Old Coach Pressure Station, remove PRV and install 3" Gate Valve $1,726; Kent Farm main repairs $22,092; Settlers Ridge, Pope Road mains $23,685; Hampstead Core, Oakhill water leak $6,757; Hampstead Core, Emerson Village main leak $2,486; and Hampstead Core across from 57 Scott Dr leak repair $1,876. All records were entered with a depreciation rate of 2.22%. **Audit Issue #3**

Audit requested documentation to support $42,713 and $23,685. The Hovey Meadows total was verified to Lewis invoices and related timesheets and inventory forms, and GSG Supply invoices. The total of the invoices was $42,713. Audit reviewed overhead calculations for the Lewis invoices, without exception.

Support for the Settlers Ridge $23,685 was provided. Included in the costs were Lewis Equipment, Lewis Labor, Lewis inventory, USA Bluebook items, GSG Supply items, Grainger and Northeast Pump and Instruments. Audit reviewed all invoices, and for Lewis related costs, recalculated the overheads applied. There were no exceptions noted.

<u>Account #333 – Services - $16,764</u>

Hampstead Core service repairs: 4 services on Oakhill Dr; $5,568, 2 services on Parklane Rd; $1,990, and 1 service at 8 Hollis Dr; $1,217. Walnut Ridge service repairs: 8 Merrill Dr;

$1,044, 55 Walker Rd; $2,403, 7 Old Coach Rd; $2,113, 15 Oak Hill Cr; $1,378 and a service was capped at 60 Sawyer Ave; $1,051. All records were entered with a depreciation rate of 2.50%.

Account #334 - Meters and Meter Installations - $47,175

The addition total was detailed by location as 141 meter change-outs totaling $38,775 and 24 new services totaling 8,400. All records were entered with a depreciation rate of 10.00%. The depreciation rate of 10.00% is new for 2011. The Company has changed the rate as a result of a conservation plan the Company was required to develop with the NH Department of Environmental Services (NHDES) which requires the Company to change out meters every 10 years.

Account 335, Hydrants, $8,500

Two new hydrants were installed in Hampstead Core; noted as Animal Hospital, $5,000 and Pasta Loft, $3,500. Both records were entered with a depreciation rate of 1.89%.

Audit requested, and was provided with documentation to support both line items. Specifically, a contract between Lewis Builders (as an authorized contractor for the HAWC) and HAH Realty, LLC dated 7/20/2011 outlined the scope of work that would be done to extend the existing 8" water main some 1,000 feet, tap the main to the proposed building, install a curb box, and install a hydrant. The total proposed contract was $64,035. A specific line item cost distinction was not provided.

The documentation relating to the Pasta Loft was also a contract between Lewis and the Pasta Loft, dated 8/23/2011. The scope of service was described as installation of 6" water service for fire protection, installation of a fate valve, and any other necessary equipment. The service line connection was quoted to be $12,045 with $7,000 received from the customer and a promissory note signed by them and Lewis for the $5,045 difference. The additional cost of $3,500 was incurred as the hydrant was installed at the time the water line construction took place.

Account 347, Computer Equipment, $6,872

The Computer Equipment addition was verified as a Neptune Handheld Computer (meter gun) purchased in April 2011. It was entered with a depreciation rate of 10.00%.

Audit requested documentation to support the one item and was provided with an invoice from Ti-Sales for the handheld device and related ethernet cradle. The invoice was dated 4/1/2011 in the amount of $6,872.

Retirements

2008 Retirements

Retirements, as reported in the NHPUC 2008 Annual Report, totaled $8,470. This amount tied to Excel spreadsheets maintained by the Company. During the Step Adjustment associated with DW 08-065, Audit reviewed the paperwork associated with seven pumps, totaling $8,047, which had been retired from account #311, Pumping Equipment. The remaining $423 related to service work in Hampstead and was retired from account #333, Services.

2009 Retirements

Retirements, as reported in the NHPUC 2009 Annual Report, totaled $9,500. This amount tied to Excel spreadsheets maintained by the Company. Lighting fixtures at Walnut Ridge were retired from account #304, Structures and Improvements; $500. Five pumps, a drive and a pump meter were retired from account #311, Pumping Equipment; $4,537. A total of 84 Lancaster Farms customer meters were retired from account #334, Metering Equipment; $4,463.

2010 Retirements

Retirements, as reported in the NHPUC 2010 Annual Report, totaled $38,209. This amount tied to Excel spreadsheets maintained by the Company. Bricketts Mill pump house costs of $2,173 were retired from account #304, Structures and Improvements. Bricketts Mill well costs of $4,260 were retired from account #307, Wells and Springs. Various Bricketts Mills pumping equipment totaling $19,239 was retired from account #311, Pumping Equipment; additionally, $3,613 related to Kent Farm, Village Green and Walnut Ridge was retired from account #311. A total of 150 meters were retired from account #334, Metering Equipment; $8,924.

Test-year Retirements

A total of $35,142 was reported as retired during the test year. Audit reviewed each and noted that the plant account in which the asset had been reflected was properly credited with the full original cost and offset to accumulated depreciation.

Account	Description	Amount
311	Pumping Equipment	$4,335
334	Meters and Meter Installations	11,577
341	Transportation Equipment	11,675
347	Computer Equipment	7,555

The Pumping Equipment retirement of $4,335 was done in December as a debit to Accumulated Depreciation, Account 108 and a credit to Pumping Equipment, Account 311. The equipment was fully depreciated.

The Meters and Meter Installations retirements of $11,577 were done as one entry in December as a debit to Accumulated Depreciation, Account 108 and a credit to Meters, Account 334. The meters had accumulated depreciation of $10,759.

The Transportation Equipment retirement related to a 2001 van that was sold during the test year. The full $11,675 was debited to Accumulated Depreciation account 108 and credited to account 341 without exception. The truck however was sold with $750 posting to cash and offset to other revenue, account 474. The debit to cash was proper; the credit should have been posted to Accumulated Depreciation. **REPEAT Audit Issue #4**

The Computer Equipment retirement of $7,555 was related to the retirement of a meter gun purchased in 2003. The retirement entry was recorded in April 2011 as a debit to Accumulated Depreciation, Account 108 and a credit to Computer Equipment, Account 347. The meter gun had accumulated depreciation of $5,859.

Audit's review of the 2011 additions indicates that the Village Green Pump House roof was replaced. However, there was no indication of the retirement in 2011. **Audit Issue #20**

Accumulated Depreciation - #108 and Depreciation Expense, #403

Depreciation – 2008

Accumulated depreciation for year-end December 31, 2008, as reported in the 2008 NHPUC report, was $2,799,768 for plant in service of $10,647,336. Depreciation Expense was $343,666. Book cost of plant retired was $8,470. Audit successfully traced these amounts to the Company's Excel spreadsheet detail records. No exceptions were noted.

Depreciation – 2009

Accumulated depreciation for year-end December 31, 2009, as reported in the 2009 NHPUC report, was $3,149,891 for plant in service of $12,104,596. Depreciation Expense was $359,624. Book cost of plant retired was $9,500. Audit successfully traced these amounts to the Company's Excel spreadsheet detail records. No exceptions were noted.

Depreciation – 2010

Accumulated depreciation for year-end December 31, 2010, as reported in the 2010 NHPUC report, was $3,508,268 for plant in service of $12,587,647. Depreciation Expense was $385,341. Book cost of plant retired was $38,209. Depreciation Expense for the Hydrology Study was $11,246. Audit successfully traced these amounts to the Company's Excel spreadsheet detail records. No exceptions were noted.

Test Year – 2011

Accumulated depreciation, account #108, at year-end 2011 was $3,892,154 for plant in service of $13,345,420. Depreciation Expense, account #403, for 2011 was $419,029.

Audit reviewed the Depreciation Expense Report and determined that the total Acquired Value in the Sage Fixed Asset System equaled the Plant in Service balance as of December 31, 2011. The Current Accumulated Depreciation in the Sage Fixed Asset System equaled Accumulated Depreciation, account #108. Current YTD Depreciation in Sage equaled Depreciation Expense, account #403.

During Audit's review of the Depreciation Expense Report as of December 31, 2011, it was observed that the majority of the Company's property records were set up in the Sage Fixed Asset System to depreciate assets using the Straight-line Mid-Month method. Only a small percentage of property records were set up to use the Straight-line Half-Year method. Per the Company, this was due to the conversion to the new system. During conversion, the accumulated depreciation balances calculated using the Company's excel spreadsheets were entered into the Sage Fixed Asset System and properly reconciled, however, the incorrect depreciation method was selected. Property records set up during the test-year were done correctly with the Straight-line Half-Year method. The HAWC Controller will correct this keying error prior to the close of 2012. **Audit Issue #5**

All of the property records added during the test year were reviewed for compliance with the half-year convention requirement. There were no exceptions.

The Depreciation Expense Report listed several assets as retired or abandoned. The Acquired Value and the Accumulated Depreciation for these assets were negative values. The HAWC Controller explained that because NHPUC regulation allows loss on depreciation to be booked to Accumulation Depreciation, account 108, the negative value must be entered into the Sage Fixed Asset system in order to reconcile Accumulated Depreciation.

The Depreciation Expense Report listed several assets as "no depreciation". The Acquired Value and the Accumulated Depreciation for these assets were positive values. The HAWC Controller explained that because NHPUC regulation allows undepreciated amounts to remain on the books, the estimated life of undepreciated amounts associated with retired and/or abandoned property is changed to "NoDep" and no further depreciation is calculated on the asset.

Hampstead depreciated five items in Land and Land Rights, account #303. This was found to be consistent with prior audits conducted by the Commission and had been approved by the Commission during the following dockets and DW 05-112:

Docket DW 04-132 Smith Mountain Tank Lease value $54,014 depreciating at 2.5%
Docket DW 02-198 Bartlett Brook legal fees relative to the franchise easement $21,715 at 2.5%
Docket DW 05-063 Millwoods miscellaneous legal fees $456 (3 assets) depreciating at 2.5%

Construction Work in Process (CWIP) - #105 - $171,830

The CWIP balance, reported on the 2011 NHPUC annual report schedule F-10 as $171,830, was verified to the Company's test-year general ledger without exception. The estimated additional cost to complete the projects was reported as $283,400.

Inventory flows through CWIP. **Audit Issue #6** All inventory purchases were debited to CWIP, and credited from CWIP as the inventory was used. At year-end, a physical inventory was conducted and reconciliation entries were made. The inventory balance at year-end was $22,437, noted as "Other Projects" on the PUC annual report schedule F-10.

The Black Rocks Water System costs reported in the CWIP balance was $13,558 actual as of 12/31/2011 and an estimated additional cost of $275,000. Copies of invoices supporting the $13,558 were reviewed. Because at the end of 2011 the plant assets associated with the Black Rocks Water System remained in the CWIP account, the Company should have included pro-formas to reflect the assets that were used and useful during the test year.

Audit also reviewed copies of invoice detail totaling $130,190 not yet invoiced by Lewis Builders to HAWC. CIAC associated with the $130,190 is $130,190 less hookup fees paid by HAWC (113,000) equaling $17,190. The Company expects another $40,000 in additional Lewis Builder Development costs beyond the amounts detailed. The Black Rock assets remain in the CWIP account, but the Company proposes posting the Black Rocks Water System to the following accounts:

Acct	Name	Explanation	Book Cost	CIAC
302	Franchise	Easements/Tax stamps	$140	$0
320	Water Treatment	Remove/Clean Tank/Landscape	13,418	0
			$13,558	$0
304	Structs & Improv	Design/site work/framing/wiring	$30,211	$3,989
307	Wells & Springs	Wire & set 2 pumps in wells	2,626	347
309	Supply Mains	Lines from well to well house	3,188	421
311	Pumping Equip	Gaskets/flanges/valves/transmitters	23,692	3,128
320	Water Treatment	Labor & Equipment	1,142	151
330	Dist Resev/Stanp	Labor & Equipment	3,292	435
331	T&D Mains	Mains & site work	61,842	8,165
333	Services	Services to house	4,169	554
			$130,190	**$17,190**

The Company supplied support showing that the Black Rocks Water System was used and useful during 2011. There were a total of eleven customers at year-end: eight homes had been sold, two were still owned by Lewis Builders, and there was a club house.

Contributions in Aid of Construction - #271.00 and Accumulated Amortization of CIAC, #272.00, Amortization of CIAC Expense #405.00

CIAC – 2008

The Contributions in Aid of Construction (CIAC) balance at December 31, 2008, per the NHPUC annual report, was $6,336,258. The related Accumulated Amortization of CIAC was $1,826,206. Amortization of CIAC expense for the test-year was $168,552. There were no additions to CIAC and $950 CIAC retired.

CIAC – 2009

The Contributions in Aid of Construction (CIAC) balance at December 31, 2009, per the NHPUC annual report, was $6,969,799. The related Accumulated Amortization of CIAC was $2,004,080. Amortization of CIAC expense for the test-year was $179,196. Additions to CIAC totaled $634,863 and related to a cash contribution for hydrants in Atkinson, property contributions in Sargent Woods and Coopers Grove, and Accounts Receivable contribution of cash from the State of NH Interconnection Loans. CIAC related retirements were $1,322.

CIAC – 2010

The Contributions in Aid of Construction (CIAC) balance at December 31, 2010, per the NHPUC annual report, was $6,966,458. The related Accumulated Amortization of CIAC was $2,187,154. Amortization of CIAC expense for the test-year was $186,415. There were no additions to CIAC and retirements were $3,341

Test Year – 2011

The Contributions in Aid of Construction (CIAC) balance at December 31, 2011 was $6,981,120. The related Accumulated Amortization of CIAC was $2,361,039. Amortization of CIAC expense for the test-year was $182,723. Additions to CIAC were $23,500.

Audit reviewed the Fixed Asset Summary Report for CIAC and determined that the total ending value in the Sage Fixed Asset System agreed with the CIAC balance in the general ledger account #271, as of December 31, 2011. The total accumulated depreciation in the Sage Fixed Asset System equaled Accumulated Amortization of CIAC, account #272. Current year-to-date expense in Sage equaled Amortization of CIAC Expense, account #405. A random sampling of prior year CIAC was done on depreciation rates and amortization rates to review them for consistency and to ensure that CIAC was a mirror image of the Plant contributed. There were no exceptions.

Additions to CIAC during the test-year consisted of cash relating to three well additions in Black Rocks Village totaling $15,000 and two hydrant additions in Hampstead totaling $8,500.

Long Term Debt

Within the PUC annual report and filing was a listing of all notes and loans. Account #232, Notes Payable, per the Uniform System of Accounts, is a current liability which "shall include the face value of all notes, drafts, acceptances, or other similar evidences of indebtedness payable on demand or within a time not exceeding one year from date of issue". Account #234, Notes Payable to Associated Companies "shall include amounts owing to associated companies on notes, drafts, acceptance, or other similar evidences of indebtedness, payable on demand or within a time *not exceeding one year* from date of issue or creation."

The Company identified three notes in account #232 and four notes in account #234, all payable to Lewis Builders Development, Inc. In September 2011, all balances were reduced to zero through a refinancing with TD Bank. The refinancing was approved by Commission Order #25,272. Specific notes payable (principal balances) to LBDI which were paid through the TD Bank refinancing on September 12, 2011 were:

Account #		Principal	Interest	PUC Order
232.04	Waterford Village	$25,800	$1,093	#24,545
232.07	Jameson Ridge	24,300	891	#24,592
232.12	Sargent Woods	21,839	913	#24,884
234.18	Hydrology Study	292,203	12,284	#25,159
234.20	2008 Capital Additions	88,757	3,710	#24,999
234.21	2009 Capital Additions	110,288	4,606	#25,113
234.22	2010 Capital Additions	174,112	7,270	#25,113
	Subtotal	$737,299	30,767	
234.14	Settlers Ridge	291,842	0	#25,195
	Total Lewis refinanced	$1,029,141	$30,767	

Settlers Ridge was noted in the Accounts Payable account #231.00 and reclassified to Notes Payable #234.14 in July 2011. The total was then part of the refinancing of the debt with TD Bank. At year-end 2011, all of the above accounts reflected a zero balance.

Audit reviewed Exhibit 1 of the petition in docket DW11-162. That docket refinanced existing debt of $750,000 and incur new debt of $450,000. All of the loans outlined above were noted on the Exhibit. The reference in the Exhibit to the Settlers Ridge indicated it was "new financing". Approval of prior debt for Settlers Ridge had been granted as part of docket DW10-241, Order 25,195 issued 1/29/2011, which authorized the acquisition of four wells at Settlers Ridge and construction of a pump house and "other equipment". The acquisition and system improvements were approved for financing from Lewis Builders in the amount of $551,285.

There was no reference to financing costs or amortization of them. Amortization of $679 posted to account #407 as discussed in Deferred Debit account #186 portion of this report. The $679 was comprised of twelve monthly entries in the amount of $57 debited to account #407 and credited to account #181. The amount relates to $10,189 of costs associated with DW10-134, Hydrology Study. **Audit Issue #7**

Interest was recalculated by Audit with no exception. Interest posted to account #1-10-427.01, Interest on Debt to Associated Companies.

The remaining long term debt, which was also noted on the PUC annual report and filing, was comprised of the following:

GL #	Lender	Order #	12/2011	Rate	2011 Int.
232.01	Ruma (Brown Olsen Wilson)	19,717*	$35,985	9.50%	$3,315
232.02	Picadilly Development	24,560	6,900	5.50%	506
232.03	Edgeworth Development	24,575	6,600	5.50%	484
232.05	Skipper Land Development	24,544	11,050	5.50%	817
232.06	NH DES SRF	24,437	1,130,231	3.352	38,837
232.08	Aquarius Properties, LLC	24,608	20,902	5.50%	1,076
232.09	Ford Motor Credit (pd 5/11)	24,728*	0	1.90%	0
232.10	TD Bank	25,254	1,354,685	4.14%	77,761
232.11	NH DES SRF	24,937	1,042,877	2.864	38,043
232.13	Shribco Realty Two, LLC	24,831	18,000	5.50%	1
232.14	GMAC	25,113*	24,101	5.99%	1,532
232.15	TD Bank	25,272	1,187,320	4.14%	23,687
Amort	Included with interest		0		6,506
	TOTAL Year End 2011		$4,838,649		$192,565

The Commission approved an addition loan from the NH DES State Revolving Loan Fund in the amount of $180,000. The proceeds of the loan will be used to replace 100 service lines within the town of Atkinson. The approval is detailed in docket DW11-226, Order #25,299 issued on 12/8/2011. At the end of the test year, there had been no advance made, thus the general ledger did not reflect a loan balance.

Note: * indicates that the Order referenced is incorrect. Refer to the discussion for the specific note and general ledger (GL) account number.

Total principal balances were verified to the general ledger account noted, and to amortization schedules included within the loan folders on file at Hampstead Area Water.

Loans noted in accounts 232.2 232.3, 232.5, and 232.8 reflect a variable rate of prime plus 2.25%, which at year-end 2011 calculated to 5.50% without exception.

Loans #232.01 and 232.08 reflect eleven months of principal and interest payments, rather than twelve. **Audit Issue #8**

Loans #232.06, 232.10, 232.11, and 232.15 had activity verified to individual statement invoices from DES and TD Bank as appropriate. There were no exceptions noted.

Audit reviewed the copies of the notes and verified the terms of the debt listed above to each document, with the exception of the Shribco note (refer below to account #232.13).

#232.01 The 2011 beginning balance of the note owed to Ruma, (Brown, Olsen and Wilson) $39,691, was verified to the amortization schedule included in the documentation reviewed. The ending balance of $35,985 was also verified to the schedule. However, the activity which results in the ending balance reflects only eleven months of principal and interest payments. **Audit Issue #8** The reference to Commission approval in Order 19,717 is in error. That Order denied without prejudice the franchise of the entire town of Hampstead and approved the discontinuance of Squire Ridge, Bricketts Mill, Kent Farm, and Woodland Pond water companies and the consolidation of the four under the name of Hampstead Area Water (which already owned and controlled them). **Audit Issue #9**

#232.02 The Picadilly Development note, with an initial balance of $23,000 was verified to the amortization schedule within the loan documentation. The loan funded the purchase of the assets related to Eastwood Place. The balance at year-end 2011 was $6,900. Activity during the year was one loan reduction, in the amount of $2,300, paid to Dean Howard Construction. The Company indicated Commission approval via Order #24,560 in docket DW05-051. The Order and the promissory note both indicate repayment in 1/10th installment payments annually at a rate of prime plus 2.25%.

#232.03 The note payable to Edgeworth Development with an original amount of $22,000 was verified to a year-end balance on the general ledger of $6,600. The loan represents the cost of Putnam Place, and the terms of the note indicated one annual payment of 1/10th of the note, plus interest at prime plus 2.25%. The general ledger activity reflected the one payment of $2,200 with the payment made to Dean Howard Construction. Commission approval of the debt was noted in Order #24,575 in docket DW05-053.

#232.05 Note payable to Skipper Land Development in the amount of $38,000 dated 10/25/2004 with an annual repayment of 1/10th of the principal and interest at prime plus 2.25%. The year-end balance of $11,050 was verified to the amortization schedule and the activity in the account was noted to be $3,800 payment to Dean Howard Construction. Authorization for the debt was verified to Commission Order 24,544 issued 11/18/2005 as part of docket DW05-063. The financing was used to purchase the assets of Mill Woods.

#232.06 Note payable is the State Revolving Fund payable to the NH DES. The year- end principal balance of $1,130,231 was properly reflected in the general ledger. The original loan document was in the amount of $1,383,887 dated September 2005. The allonge represents the actual amount of advances made by NH DES to HAWC for construction of the Smith Mountain Tank. The financing was approved by Commission Order 24,386 in docket DW04-132. Financing costs were approved via Order 24,720 in docket DW04-132. Audit reviewed the monthly invoices received from NH DES and noted that the interest and administrative fee amounts were accurately calculated and reflected on the invoices. The combined interest and administrative fees were posted to the interest expense account 427.03.

#232.08 Note payable to Aquarius (for the Autumn Hills development) was assigned in 2009 to "Randall L. Bennett, Trustee of April – May Realty Trust", was originally booked at $24,000, with principal reductions over 20 years and interest calculated at prime plus 2.25%. The balance at year end 2011 was $20,902. Authorization of the financing was noted in docket DW06-106, Order 24,608. The beginning and ending balances for the test year were verified to the amortization schedule, however the activity reflects only eleven months of activity. **Audit Issue #8**

#232.09 Notes payable to Ford Motor Credit were paid in full during the test year, according to the amortization schedule. Refer to Order 24,728 in which the Commission authorized the financing of, among other items, three vehicles. The financing was to come from LBDI, not Ford Motor Credit. **Audit Issue #10**

#232.10 TD Bank loan in the original amount of $1,369,153 with a year-end balance of $1,354,685 represents re-financing of long term debt owed to TD Bank. The current debt noted in this account was approved by Commission Order 25,254 in docket DW11-143. The original approval was noted via Order 24,999 in docket DW09-112 which had refinanced fifteen affiliate loans with a more traditional bank note.

#232.11 Note payable is the State Revolving Fund payable to the NH DES in the original amount of $1,058,347 with a year-end balance of $1,042,877. The Commission approved the financing via Order 24,937 in docket DW08-088. The SRF was approved for the interconnection of Hampstead's two core systems in Hampstead and Atkinson.

#232.13 The Shribco Realty Two, LLC loan in account #232.13 had no activity during the test year. Commission approval of the $18,000 financing was documented via Order 24,831 in docket DW07-133. The principal balance of $18,000 was renegotiated in 2012. The revised note, dated June 26, 2012 reduced the principal amount from $18,000 to $12,000 and changed the interest from prime plus 2.25% to no interest. The repayment terms were outlined to be installments of $750 for each of the remaining 16 units to be sold in the Cooper's Grove development, upon water service hookup." **Audit Issue # loan #11**

#232.14 GMAC The note payable to GMAC with the Order reference of 25,113 is in error. As noted in the reference to account #232.09, the external vehicle financing was not authorized by the Commission. The Company requested and was granted authority to borrow funds in the amount of $451,465 from Lewis Builders Development, Inc. for construction of a replacement well, installation of new water treatment filters, various station upgrades, additional meter and pump replacements, and the purchase of a new vehicle. **Audit Issue #10**

#232.15 TD Bank Approval of the financing was noted in Commission Order 25,272, docket DW11-162. The loan proceeds were used to refinance the intercompany debt held in accounts #232.04, #232.07, #232.12, #234.18, #234.20, #234.21, and #232.22 outlined on a previous page. Included with the TD Bank financing was a request for "new financing" for Settlers Ridge, although Audit did note prior Commission approval in docket DW10-241 via Order 25,195 issued on 1/29/2011.

Interest Expense – Accounts #427.01 and #427.03 - $224,786

Interest expense per the general ledger account #427.01, Interest on Debt to Associated Companies, reflected a year-end balance of $32,221. Audit reviewed the calculations for both the principal and interest portions of the payments for all loans without exception. However, $1,453 of the interest expense is the amortization of deferred financing costs.

The incorrect posting of amortization expenses to the interest expense account #427.01 is comprised of the following:

Docket Number	Docket Description	Lender	Annual Debit to #427.01 Credit to #181
DW02-198	unknown	unknown	$ 219
DW04-184	Cricket Hill	Lewis	$ 198
DW04-215	2004 additions	Lewis	$ 313
DW07-130	Sargent Woods	Sargent Woods LLC	$ 330
DW08-033	2008 additions	Lewis	$ 165
DW10-111	2010 additions	Lewis	$ 228
			$1,453

Audit Issue #7 Amortization of Deferred Debt Expenses should post to account 1-10-428.00, not an interest expense account. The entire $1,453 was noted as a pro-forma in the filing to reflect -0- since the loans were paid in full during the test year. However, all of the remaining unamortized balances were rolled into the TD Bank financing related to DW11-143, and will continue to be amortized.

Interest on Long Term Debt, expense account #427.03, reflected a year-end balance of $192,565. This account is used to reflect interest payments made to non-affiliated lenders. $6,506 of the reported interest relates to the amortization of deferred financing costs. **Audit Issue #7**

The incorrect posting of amortization expenses to the interest expense account #427.03 is comprised of the following:

Docket Number	Docket Description	Lender	Annual Debit to #427.03 Credit to #181
DW07-133	Coopers Grove	Shribco	$ 137
DW08-088	interconnection	NH DES	$1,074
DW05-051	Eastwood Place	Picadilly	$ 199
DW05-053	Putnam Place	Edgeworth	$ 91
DW09-112	2009 additions	Lewis	$ 828
			$2,329
Adjusting journal entry #48 debited #427.30, credited #181 with notation to "record amortization per schedule"			$4,176
			$6,505

Unamortized Debt Discount and Expense - #181 - $89,120

At year-end 2011, the balance reflected on the general had increased from $78,826 due primarily to a reclassification of $22,031 which was credited to Deferred Debits account #186. Eleven existing loans and the related unamortized balances were realigned to be associated with the financing costs and amortization in docket DW 11-143, the TD Bank refinancing. The financing costs of two State Revolving Loan Fund loans and one developer loan (Shribco) comprise the total in account #181 at year-end 2011. Amortization of the balances was noted in accounts #407.00, Amortization Expense-Other; #427.01, Interest on Debt to Associated Companies; #427.03, Interest on Long Term Debt; and #428.00, Amortization of Debt Discounts and Expenses.

Audit requested clarification of the Commission approval for the amortization of deferred costs and was told that only one of the deferred financing costs was approved by Commission Order for amortization. Specifically in docket DW08-065, Order 25,077 the Company was authorized to amortize $21,890 over twenty years. Other amortization expenses were not approved by the Commission. **Audit Issue #7**

Accrued Interest – Account #237 - $-0-

The general ledger reflects a year-end balance of $-0- in account #237. The activity noted during the test year was one debit monthly, offsetting the prior month's credit activity. Total activity reflected the following:

Beginning Balance	($334)
Debits	4,581
Credits	(4,247)
Ending Balance	0

Eight monthly entries of credits $325 and $111 were noted as credits. Audit verified the offsetting entries for the $111 to account #427.01, Interest on Debt to Associated Companies. The affiliated debt was refinanced in September 2011, with a loan from TD Bank.

Amortization of Debt Expense – Account #428 - $3,098

Audit reviewed the entries relating to the amortization and verified the offsetting credit to the Deferred Debt 181 account. **Refer to Audit Issue #7**

Included in the expenses posted to account #428 are related to the SRF for the Smith Mountain Tank, annual amortization $443 and expenses relating to a loan from TD Bank (several years ago), annual amortization of $2,656.

Revenue

Total revenue reported in the filing and the 2011 NHPUC annual report, schedule F-47, \$1,561,311, was verified to the following general ledger accounts:

1-10-461.01	Metered Sales to Residential	\$1,455,951
1-10-462.00	Fire Protection Revenue	36,223
1-10-471.04	Late Fees	46,912
1-10-474.00	Other Water Revenue	10,755
1-10-474.99	Rate Recovery Fees	508
1-99-474.00	Other Water Revenues	10,962
	Total Revenue per GL for 2011	\$1,561,311

Metered Sales to Residential - #1-10-461.01 - \$1,455,951

Metered Sales to General Customers was verified to the general ledger without exception. The billing system, CUSI, rolls all information that is assessed to the customer onto the customer's invoice. The billing system is not interfaced with the general ledger. The revenue on the general ledger is the actual cash received during the year, as opposed to the accounts receivable booked as invoiced. The Company records revenue as cash is received and adjusts the billings to the accrual method monthly. The Controller maintains manual spreadsheets to separate revenue types (fire protection, rate case, fees) and to calculate unbilled revenue on a monthly basis.

A billing test of June 2011 was conducted by randomly selecting one customer from each of the twenty-one systems; exceptions being two systems not tested due to having less than five customers and one system having extra selections due to the variety of rate codes. A total of fifteen residential accounts were tested, two school accounts, one commercial account, one municipal, one public fire account, and one campground account. Per authority of Commission Order 25,159 dated November 8, 2010, effective November 24, 2010, the monthly rate for water varied by meter size, 5/8" was \$10, ¾" was \$20, 1" was \$30, 1 ½" was \$60, 2" was \$100, and all consumption was charged \$4.74 per 100 cubic foot. Audit reviewed the tariff on file with the Commission for compliance with the Order, without exception.

Fire Protection Revenue - #1-10-462.00 - \$36,223

Annually, in July, the towns of Atkinson and Hampstead are invoiced for Municipal Fire Protection based on the number of hydrants multiplied by \$200 and an availability charge of \$2,000 each. See tariff reference above. The total Municipal Fire Protection charge for 2011 was \$21,800; billed in July 2010, but recorded monthly during 2011 through a recurring entry that debited Miscellaneous Current Accrued Liabilities, account #241 and credited Fire Protection Revenue, account #462 for \$1,817.

General Fire Protection was billed on the customer's water bill based on rates described in the tariff referenced above. ½" pipe was \$100, 2" pipe was \$200, 3" pipe was \$400, 4" pipe was $600, 6" pipe was $1,500. The revenue is reclassified on a monthly basis from 'Metered Sales to Residential Customers' as total amount calculated by the billing system.

Late Fees - #1-10-471.04 - $46,912

The total revenue collected from Late Fees during the test-year was $46,912. Per the tariff noted above, "All accounts more than twenty five (25) days past due will be assessed a late fee of Ten Dollars ($10) per month at the discretion of the Company." The fees are reclassified on a monthly basis from 'Metered Sales to Residential Customers' as total amount calculated by the billing system. The lowest monthly revenue amount was in August 2011 with $2,354. The highest monthly revenue amount was in February 2011 with $4,958.

Other Water Revenues - #1-10-474.00 - $10,755

Reflected in the "Other Water Revenue" account was the receipt of $5,000 for a Water service connection fee for a Camp in Hampstead, $4,800 for a Water Assessment at the Stonehill Building, and $205 for an MTBE refund from State of NH.

$750 represents the sale of the 2001 van. This figure should have been posted as a credit to Accumulated Depreciation. **Refer to Repeat Audit Issue #4**

Other Water Revenues - #1-99-474.00 - $10,962

This account contains revenue for services provided by HAWC employees to Lewis Builders. The total revenue for 2011 was $10,962. Audit reviewed the four invoices from April 2011 noting the employee hourly rate, overhead and burden calculations and found no exceptions. The invoices reflected services provided at Settlers Ridge (13 hours), Lancaster Farm RAD (27 hours), Hadleigh Woods (5 hours) and Atkinson Waste Water (1 hour). Refer to expense account #920.

Non-Utility Income - #421.00

The Non-utility Income balance was zero on a monthly basis, however, there was activity within the account. Since Atkinson Area Waste Water (AAWW) only has one customer, HAWC handles the sewer billing process for AAWW. The one customer is the Atkinson Country Club. HAWC invoices the sewer usage on a separate bill the same time they bill for the water usage. The sewer portion is entered into HAWC A/P, charged to account 421. HAWC then creates a Journal Entry which credits Non-Utility Income and debits account 461 Metered Sales.

Unbilled Revenue - #173 - $103,408

Unbilled, or Accrued Utility Revenue, is calculated monthly based upon the number of days from the prior meter read date to the end of the quarter. The Unbilled Revenue figure is debited to account #173, Accrued Utility Revenue. At the same time, the outstanding accounts receivable is posted to Accounts Receivable, #141 and the sum of these two debits is credited to the Revenue account #461.01. The Company posts cash receipts from customers with a debit to

Cash, #131.02, and a credit to Revenue, #461.01 during the month. At the end of the month, the Company reverses the initial debits to accounts #173, #141 and credit to #461.01. The result in the Revenue account is actual cash received throughout the year and anticipated receivable booked in the fourth quarter.

Uncollectible Accounts - #904 - $2,110

Because of the cash accounting method used to post revenue, when the Uncollectible accounts are determined and debited to account 904, Uncollectible Expense, the Revenue that would have posted and stayed in the Revenue account, but is reversed out monthly, has to be credited back. While the method is unorthodox, it does correctly reflect the net accounting treatment of Revenue, Receivables and Uncollectible Expense.

The total expensed for the year was $2,110. Audit reviewed the activity within the general ledger and saw that there was one entry made in December. The credit offset was noted in the Metered Sales to Residential Customers, account 461. While the offset is atypical, because of the posting and reversal of receivables and revenue, the treatment of the uncollectible is correct.

Customer Deposits - #235 - $1,580

Audit requested and received the detailed list of customer deposits. The Company began requiring deposits in June 2011 for those customers who had had multiple disconnect notices sent to them in the past year. The list detailed eleven individual customers. None had related interest credited, due to the timing of the deposits (all less than one year). The Company is reminded of Puc 1203.03(l) which requires that deposits shall accrue simple annual interest from the date of deposit to the date of termination, interest shall accrue at a rate equal to the prime rate, and when a deposit has been held longer than one year, interest shall be paid to the customer or credited to the customer's bill not less than annually.

Expense Accounts

Direct Payroll Charges

There are four employees of HAWC. These employees consist of a Water System Coordinator, a Chief Water Operator, a Water Operator, and a Water Technician. Audit conducted a payroll test which followed each employee's timesheet to the payroll register. The payroll was then followed to the Company's general ledger report. Payroll costs were distributed among several general ledger accounts and verified to monthly Labor Costs by Account and Job report. No exceptions were noted.

Account #1-10-603.00 - Well-Miscellaneous Expense - $350

Audit reviewed the one invoice comprising the entire $350 balance in the account. Ti Sales reflected 1" Neptune T10 and 1" FIP x 1" meter nut ball valve, ordered 8/10/2011.

Account #1-10-611.00 – Well Maintenance of Structures and Improvements - $604

Invoices from Lewis Builders and supporting time records for labor charges were reviewed. Detailed inventory costs are maintained within the system, and as parts are used, the costs, without markup, are billed from Lewis to HAWC. Once all inventory is reflected on the invoice, both materials and labor are assessed an overhead. The overhead, as discussed in the affiliate agreements portion of this report, outlined the annual rates and how they are determined.

Account #1-10-614.00 – Maintenance of Wells and Springs - $8,152

Audit reviewed one invoice from GSG Supply for lengths of galvanized piping and couplings. The invoice total was $5,730 or 70% of the entire account balance.

Account #1-10-623.00 - Power Purchased for Pumping - $159,273

Audit reviewed every invoice for the 42 pump stations for the month of January 2011. Hampstead operates in the jurisdiction of Public Service of New Hampshire, Unitil, and New Hampshire Electric Cooperative.

Account #1-10-624.00 Pumping Labor and Expenses – $20,512

Labor costs spread among a variety of expense accounts were verified to time records and the Labor Costs by Account and Job report. The report for September 2011 was reviewed in detail with no exception noted.

Account #1-10-626.00 and # 626.01 – Pumping Expenses – 3,451

Labor costs were noted in account #626.00 in the amount of $1,928. Supplies were noted in account #626.01 in the amount of $1,526. Audit reviewed the Labor Costs by Account and Job report as well as an invoice from Fondriest Environmental in the amount of $607. No exceptions were noted.

Account #1-10-631.00 - Pumps Maintenance of Structures and Improvements - $13,178

Audit reviewed four invoices from Lewis Builders. Rates for labor and equipment were reviewed without exception. One invoice in the amount of $3,208 was for plowing all well house roads January 2011. A February invoice in the amount of $4,100 was for plowing the well house roads. A January invoice in the amount of $1,109 represented costs and materials for repair to the floor drain at the Cogswell Farm pump house. Lastly, one invoice in the amount of $2,263 represented labor and materials to install a metal roof on the Village Green pump house in the amount of $2,111 and engineering fees in the amount of $152. **Audit Issue #12**

Account #1-10-633.00 - Maintenance of Pumping Equipment - $14,159

Audit reviewed two invoices. One from Ti Sales reflected 8 flange kits, 6 Neptune T10 meters, one T-10 register, ball valves, couplings. The invoice total of $2,420 should have posted to an inventory account. **Audit Issue #13**

One invoice from RE Prescott in the amount of $1,252 was for one power flex 400 fan and pump drive. **Audit Issue #12**

Account #1-10-641.00 – Chemicals - $9,193

Audit reviewed one invoice from Harcros for sodium hypochlorite in the amount of $496. The general ledger activity reflected fourteen deliveries at this cost, 3 deliveries at $424 and one at $439.

Accounts #1-10-642.00 and #1-99-642.00 - Treatment Operation and Labor Expenses - $77,123

Activity in these accounts is reflective of the time split noted on the Labor Costs by Account and Job report and invoices from Nelson Analytical Labs. Audit reviewed one invoice from Nelson Analytical Lab in the amount of $3,400. Seven specific inorganic contaminants (IOC) compliance tests and one synthetic organic compound (SOC) test were noted on the invoice dated 1/8/2011 for testing conducted on 12/14/2010 and 12/15/2010. **Audit Issue #14** The IOC tests are required for groundwater systems every three years. IOC testing is required annually for surface water systems.

Audit requested and received three additional Nelson invoices. One dated 7/12/2011 in the amount of $4,965 included IOC, SOC, volatile organic compounds (VOC), arsenic testing, total trihalomethanes (THM) radon testing, and radiological testing for a variety of sites. An invoice dated 10/4/2011 in the amount of $2,180 summarized IOC and VOC for several systems. An invoice dated 10/20/2011 in the amount of $5,010 summarized SOC and IOC testing, along with radiological tests and THM for a variety of systems.

Account #1-10-652.00 – Maintenance of Water Treatment Equipment - $4,214

Two invoices were reviewed. One from USABlueBook in the amount of $790 was for flange gaskets, ball valves, etc. The second, also from USABlueBook in the amount of $789 was for 4 butterfly valves. These two invoices represent 37% of the total account activity.

Account #1-10-662.00 – Transmission and Distribution Lines Expenses - $4,672

Activity in this account is reflective of the time split noted on the Labor Costs by Account and Job report.

Account #1-10-663.00 – Meter Expenses - $25,198

Refer to the discussion in account #1-10-633.00 that this Meter Expense account should be increased by $2,420. Audit selected five specific entries from the general ledger to review. The five represent 53% of the total account.

Audit reviewed a Lewis Builders invoice to Hampstead for time and materials relating to meter replacements at Kent Farm. Attached to the $1,222 invoice were time sheets, materials transfer records, and inventory posting journals.

Audit reviewed an invoice from Ti Sales in the amount of $2,940 for 52 meter nut Ford angle ball valves purchased in June 2011. One Ti Sales invoice in the amount of $3,698 reflected the purchase of 50 meter angle ball valves and stiffeners for polyethylene tubing. One Ti Sales invoice in the amount of $4,005 reflected 20 Neptune T-10 meter integrated E-Coders.

One invoice from Mid America Meter Inc reflected the cost for 26 Neptune meters to be rebuilt, 21 Neptune registers, and the related shipping charge. The total cost was $1,563.

The total of the Ti-Sales invoices and the Mid America invoice, $12,204 should be reclassified to an Inventory account. **Audit Issue #13**

Account #1-10-664.00 – Customer Installations Expenses - $2,037

Activity in this account is reflective of the time split noted on the Labor Costs by Account and Job report. An adjusting entry at year end in the amount of $340 reflected a debit to adjust the inventory to the physical count. The offsetting credit posted to the CWIP account.

Account #1-10-672.00 - Maintenance of Distribution Reservoirs and Standpipes - $271

Activity in this account is reflective of the time split noted on the Labor Costs by Account and Job report.

Account #1-10-673.00 - Maintenance of Transmission and Distribution Mains - $12,967

Audit reviewed three Lewis invoices. One in the amount of $943 reflected labor, materials, heavy equipment related to repairing of a water main break. Overhead rates were reviewed without exception. Invoice #10507 in the amount of $1,190 indicated labor, backhoe use, and materials to flush and sample stations at Stoneford, Lamplighter and Bricketts Mill. The Lewis identifying job number is 11-1863. The identical support was provided for Lewis invoice #10545 in the amount of $1,190. Both entries posted to the general ledger 12/31/2011. It appears that one entry is a duplicate, thus overstating the account by $1,190. **Audit Issue #15**

Account #1-10-675.00 – Maintenance of Services - $11,602

Activity in this account is reflective of the time split noted on the Labor Costs by Account and Job report, and invoices from Lewis Builders.

Audit reviewed invoice #10508, dated 12/31/2011 from Lewis, which outlined repairs to a service line on 12/7/2011. Materials plus 42% overhead, equipment (backhoe and dump truck) at flat hourly rates and labor plus burden and overhead were noted. Detailed support reflected the job, materials used, labor, date of work, and job cost journals. Total invoice was $926.

Audit also reviewed Lewis invoice #10230, dated 8/31/2011. The invoice and related support reflect materials plus 42% overhead, labor and use of a backhoe to install a curb stop Ford ball valve in an existing service line, and the time spent looking for water lines at the Atkinson apartments. Total invoice was $1,379.

Account #1-10-676.00 – Maintenance of Meters - $2,955

Activity in this account is reflective of the time split noted on the Labor Costs by Account and Job report, and invoices from Vellano Brothers, Inc. and Ti Sales. Two invoices from Vellano Brothers were for master meters at Kent Farm. One invoice total was $623, the other $1,527. The one invoice from Ti Sales was for two 3" Neptune pro-read wheels, in the amount of $900. This cost should post to an Inventory account, not the expense account. **Audit Issue #13**

Account #1-10-677.00 – Maintenance of Hydrants - $420

Minimal activity noted within the test year expenses were primarily reflective of the time split noted on the Labor Costs by Account and Job report.

Account 1-10-902.00 – Meter Reading Expenses - $4,814

Expense activity throughout the year related to the time allocations per the Labor Costs by Account and Job report.

Account #1-10-903.00 - Customer Records and Collection Expenses - $50,737
and Account #1-10-903.01 – Credit Card Fees - $8,749
for combined total of $59,486

Direct charges by Lewis employees were posted monthly as incurred. Time records were verified and the labor burden and overhead were recalculated. Employees reviewed were the Controller, Human Resources, and Clerical. Charges were verified to the Lewis invoice for December in the amount of $1,434.

Fees charged by the Atkinson Resort and Country Club were reviewed for compliance with the affiliate agreement (refer to that portion of this report). Invoices reflect a flat fee (which posts to account 1-10-921.00) for the off-hours answering service off-hours, and administrative costs associated with employees of the Country Club stuffing billing envelopes, etc.

The majority of costs in account 1-10-903.00 relate to the Labor Costs by Account and Job reports during the test year.

Costs in account 1-10-903.01, Credit Card Fees, represent the fees charged to HAWC by various credit card companies which do the processing for those customers who pay their bills with a credit card. This convenience fee should post below the line. **Audit Issue #16**

Account #920 – Administrative and General - $15,168

The total Administrative and General shown on the PUC annual report, schedule F-48 line #95 indicates account #920. The dollars shown in that account were verified to account #1-10-998.00 $10,072 and 1-99-998.00 $5,096 for total $15,168. The amount represents HAWC labor costs that were billed to Lewis Builders. Refer to the Other Water Revenues discussion, account #1-99-474.00, $10,962.

Audit requested clarification of the amount charged to these accounts compared with the Other Water Revenue discussed above. The Company provided supporting documentation which detailed that $9,048 should have posted to the following accounts:

Relating to Sargent Woods:			
633.00	Maintenance of Pump Equipment	$4,455	
642.00	Treatment Operation Labor and Expense	372	
675.00	Maintenance of Services	159	
676.00	Maintenance of Meters	60	
927.00	Franchise Requirements	50	
Relating to Kent Farm			
334.00	New Meter Installation	$3,802	**Audit Issue #19**
675.00	Maintenance of Services	89	
676.00	Maintenance of Meters	61	
Total miscoded to the #998 accounts:		$9,048	

Therefore, the revised total listed on the PUC Annual report for account #920 (HAWC accounts #998) should be $6,120.

Account #1-10-921.00 – Office Supplies and Other Expenses - $36,841

As noted in account 1-10-903.00, the flat $200 monthly fee paid to Atkinson Resort was posted to this account. Postal expenses were verified to check copies paid to the Postmaster-Atkinson NH for prepaid postage. Audit also reviewed Hampstead Print and Copy invoices for customer invoice documents and envelopes.

Audit reviewed a variety of credit card invoices which reflected charges at gas stations in the area, primarily Exxon Mobile.

Account #1-10-920.00 - Administrative and General Salaries – and Account #1-10-923.xx - Outside Services

The following general ledger accounts were combined and reflected in total on the PUC annual report schedule F-48 line #98 for Outside Services:

1-10-920.00 – Administrative and General Salaries		$18,325
1-10-923.01 – Outside Services – Engineering -		64,612
1-10-923.02 – Outside Services – Management Fees -		110,000
1-10-923.03 – Outside Services – Accounting -		33,921
1-10-923.04 – Outside Services- Legal -		19,686
		$246,544

The Administrative and General Salaries account reflects the Labor Costs by Account and Job reports during the test year.

The Engineering account represents costs incurred monthly from Lewis for the engineer's time. Specific job records and direct hours spent reviewing the issues were properly documented. The engineer's payroll is increased by the labor burden and overhead discussed earlier in this report.

Management Fees total of $110,000 is invoiced monthly and agrees with the affiliate agreement discussed in the affiliate agreement section of this audit report.

Accounting Fees and Legal Fees were both noted on monthly Lewis Builders invoices to HAWC. Time directly charged by the Controller and the Legal staff was reviewed by Audit without exception.

Account #1-10-925.00 – Injuries and Damages - $25,554

This account represents expenses incurred for workers' compensation and general liability, as provided by Peerless Insurance.

Account #1-10-926.00 – Employee Pensions and Benefits - $54,450

Audit reviewed the monthly invoices from Delta Dental, Harvard Pilgrim Health, and The Standard. Hampstead provides dental coverage for employees who pay 100% of the premiums. The cost for 2011 was $2,674. Medical insurance provided through Hampstead is paid 80% by HAWC and 20% by the employees. Total invoices for the year were $28,334 of which $5,667 was deducted from employees' payroll throughout the year. The Standard represents life insurance and short term disability insurance. The life insurance is paid 100% by HAWC while the short term disability insurance if paid 100% by the employees who elect this benefit. The total invoices paid to The Standard during the test year were $1,493 of which $1,000 was deducted from participating employees' payrolls throughout the year.

Effective January 1, 2012 Harvard Pilgrim was replaced by the New Hampshire Motor Transport Association's Employee Benefit Trust, processed through Cigna. The monthly savings of $124 (from each monthly invoice) amount to $1,489 per year, of which 80% or $1,191 should be noted as a pro forma adjustment in the rate filing.

In May 2011 a $50 expense posted to this account representing the renewal certification for a wastewater treatment facility operator. The application states that the applicant is currently employed by the Atkinson Area Waste Water. The applicant is an employee of HAWC, but it appears that this expense should have posted to the financial records of the Atkinson Area Waste Water utility. **Audit Issue #17**

In May 2011 a $100 expense was incurred for the same HAWC employee discussed above, for a 2011-2012 Water Well Contractor and/or Pump Installer license renewal. The license is in place for the state fiscal year July 1, 2011 through June 30, 2012. The license is granted through the NH DES.

In June 2011, an expense in the amount of $165 was incurred for the same employee for renewing a plumbing license through the NH Department of Safety, Division of Fire Safety. The license is annual and expires on the last day of the holder's birth month, in this case, June.

In June 2011 an expense of $50 was paid to the same employee. The only documentation was a copy of a check with a description as "reimbursement for plumbing seminar".

In July an expense of $180 was paid to the Granite State Rural Water Association for three HAWC employees to attend an operator field day and exhibit. An additional employee registered for the field day in August at a cost of $60.

Also included in account 926 was the cost to register one HAWC employee for the 2011 backflow prevention device inspector/tester training session provided by the New England Water Works Association in July 2011. The cost for the training was $660

In October, one HAWC employee attended the NH Water Works Association meeting at a cost of $45.

Three employees' Drinking Water Operator certification renewal applications (from the NH DES) were processed in the amount of $300 total. The certification is for the years beginning January 1, 2012 through December 31, 2013. **Audit Issue #14**

An invoice from the NH Water Works Association in the amount of $298 should be excluded from the rate case as the invoice is for membership from November 1, 2011 through October 31, 2012 ($75) and Legislative Membership ($223) for the same period. **Audit Issue #14**

<u>Account #1-10-927.00 – Franchise Requirements - $3,270</u>

Audit reviewed all invoices from the NH DES relating to the following systems. Although the period of the annual franchise cost follows the state fiscal year, the costs do not typically change year to year and thus an issue of prepayments vs. expenses will not be made.

System	Amount	
Dearborn Ridge	$100	
Oak Hill	300	
Colby Pond	300	
Maple Vale and Cricket Hill	300	
Black Rocks Village	100	refer to Plant in Service section
Hampstead Area Water	300	
Walnut Ridge/Bryant Woods/Lamplighter	300	
Camelot Court	190	
Rainbow Ridge	150	
Lancaster Farms	300	
Stoneford	300	
Cornerstone Estates	300	
Little Mill Woods	170	
Waterford Village Estates	120	
Autumn Hills	40	
Total franchise costs	$3,270	

Account #1-10-928.00 – Regulatory Commission Expense - $5,171

Audit verified the total noted in account #928 to the PUC Business Office assessment books for the appropriate periods, without exception.

Account #1-10-930.xx – Miscellaneous Expenses - $22,506

The total is comprised of three accounts:

1-10-930.00	($250)
1-10-930.50	22,765
1-99-930.00	(9)
	$22,506 which agrees with the annual report and filing.

Activity within account #1-10-930.00, Miscellaneous General Expenses, reflected reclassifications of various minimal dollar entries. Further review was not conducted.

Account #1-10-930.50, Miscellaneous Vehicle Expenses, reflected vehicle registrations for three trucks and one SUV. Audit verified that the vehicles for which the registrations were paid are listed on the Continuing Property Records of HAWC. Also included in this account were fuel charges which were verified to credit card statements without exception. In addition, routine maintenance to vehicles posted to this account. Audit reviewed three difference invoices from Lewis relating to maintenance. Each invoice reflected materials and 42% overhead, and labor plus labor burden and overhead.

Finally, account #1-99-930.00, Miscellaneous General Expenses, also reflected very little activity for very small dollar reversals. Further review was not conducted.

Account #1-10-931.00 – General Rents - $16,900

The affiliate rental agreement (refer to that section of this report) outlines the per-foot cost and total annual rental of warehouse space from Lewis Builders. The total in the account agrees with the document. The cost is invoiced monthly. Audit sampled the invoices and found no exception.

Taxes

Account #928 - Regulatory Commission Expense - $5,172

Audit reviewed the PUC Assessment books for the fiscal years ending 6/30/2011 and 6/30/2012. Audit then compared the quarterly invoices to the general ledger. The activity noted within the general ledger agrees with the PUC Assessments and the total for the year, $5,172, as reflected in the filing.

Fiscal Year 2011 (Revised) Assessment

08/10/2010	$ 672	
10/15/2010	1,040	
01/15/2011	1,390	verified to general ledger 1-10-928.00
04/15/2011	1,390	verified to general ledger 1-10-928.00
	$4,492	fiscal year ending 6/30/2011

Fiscal Year 2012 Assessment

08/10/2011	$ 843	verified to general ledger 1-10-928.00
10/15/2011	1,548	verified to general ledger 1-10-928.00
01/15/2012	1,548	
04/15/2012	1,548	
	$5,487	fiscal year ending 6/30/2012

The assessment figures for August and October 2010 were properly not reflected in the test year general ledger expense account. The January and April 2012 assessments were also properly not reflected in the test year expense account.

Municipal Property Taxes – Account #1-10-408.11 - $187,875

Audit reviewed the second issue municipal property tax invoices from December 2010, and both issuances of the 2011 municipal property taxes. The total reported expense for the year, $187,875, per schedule F50 of the annual report, was verified to the general ledger 1-00-408.11, and includes the state utility property tax expense.

Two parcels of land were merged into a third in the town of Hampstead after the first issuance of the 2011 tax bills. The Company received refunds for the two parcels' first issue tax bills, in the amount of $5,151. Audit reviewed the refund letters and check photocopies from the town of Hampstead. The refund (credit) is not included in the property tax expense account at 12/31/2011. **Audit Issue #18**

A credit to the general ledger in the amount of $4,690 reflected a reduction to the statewide property tax due for 2011. Total estimated property taxes for the year were based on the 2010 figure and thus overstated.

New Hampshire Business Enterprise Tax and Federal Income Tax

Audit requested copies of the HAWC state of NH tax returns for years 2010 and 2011, and was informed by the Company that *HAWC does not file separate returns, rather, is included as part of Lewis Builders, a subchapter S corporation.*

Audit noted that the year end balances noted on the PUC annual report schedule F-38 reflect $4,063 in account 236, Taxes Accrued and $41,718 in account #163, Prepaid Taxes. The Accrued figure was verified to two general ledger accounts: 1-00-236.01, Accrued Taxes Utility Operating Income Tax $3,234 and 1-00-236.11, Accrued Taxes, Other than Income $829. The $829 represents payroll taxes, while the $3,234 represents HAWC's portion of the overall State Business Tax.

Other Taxes and Licenses – Account #408.13 - $816 reflects quarterly payments of the NH Unemployment tax.

State Income Tax – Account #1-10-409.11 reflects one entry in the amount of $3,049, with the credit offset posted to #1-00-236.11. Audit requested and was provided with the detail calculations which resulted in the entry. The information provided was:

Compensation and Wages	$181,787
Interest Paid or Accrued	$224,786
Total Enterprise Value Tax Base	$406,573
BET .0075 =	$ 3,049

However, because the interest figure used in the calculation includes the amortization costs $7,959 improperly included as interest, the resulting calculation should be $2,990 rather than $3,049. Refer to Audit Issue #7

Provision for Deferred Income Taxes – Account #1-10-410.00 - $5,500 reflects monthly recurring entries, in the amount of $108, related to the Hampstead core, Kent Farm, and Walnut Ridge systems. Recurring offsetting entries were noted in account #1-00-190.00, Deferred Income Taxes, which ended the year with a balance of $21,055. In December, adjusting entry #50 debited account #410.00 and credited account #282.00 in the amount of $4,207. Audit requested and was provided with the calculation of the entry:

Accumulated State Tax Depreciation 12/31/2011	$3,992,408
Accumulated Book Depreciation 12/31/2011	$3,892,154
Book/Tax Difference	$ 100,254
Tax Rate	8.50%
Deferred Tax Liability at 12/31/10	$ 8,522
Deferred Tax Liability at 12/31/09	$ 4,315
2010 Deferred Tax Expense	$ 4,207

However, refer to Audit Issue #4 relating to a credit which should have posted to the Accumulated Depreciation account. The balance in the calculation used above is understated by $750, causing the final deferred tax figure of $4,207 to be overstated. The resulting calculation should be $4,143.

Account #1-00-282.00, Accumulated Deferred Income Tax-Liberalized Depreciation As indicated above, an adjusting entry (credit) in the amount of $4,207 increased the balance from ($4,315) at year end 2011 to ($8,522).

Audit Issue #1

Incorrect In-Service Dates Used

Background

Audit observed that some of the "in service" dates listed for the assets were prior to the year booked and depreciation begun. For example, an asset had an "in service" date of 10/24/07, yet a half-year depreciation was taken in 2009. A random testing of the assets showed that the assets were entered into the Sage Fixed Asset system with these incorrect dates.

Issue

Assets are being put into the Sage Fixed Asset system with incorrect "in service" dates. Complications arise when the assets approach the end of their. When the asset is at the end of its life in the system, the system will want to take the remaining half-year, but more than a half-year remains and depreciation should continue.

Recommendation

The in-service dates of all newly acquired systems should be reviewed for incorrect entry of in-service dates. These dates should be changed to the year acquired.

Going forward, the in-service dates for all newly built systems need to be recorded with dates of the year the system is placed on the books. If a system is purchased from another utility and the selling utility has accumulated depreciation associated with the acquired system, the dates, costs and accumulated depreciation are recorded consistent with the records of the selling utility. Those assets purchased from a developer must have the in-service dates recorded as the date of acquisition.

Company Response

The Company understands the concern of the Auditors. On the other hand since some of these water systems were built over a 1 or 2 year (or more) period it can be useful to know when the assets was actually installed in the system. Going forward the Company will use the in-service date as the date of acquisition.

Audit Comment

Audit concurs with the Company and appreciates the Company's concern regarding knowing when the asset was actually installed and suggested using a notes field for this purpose, if offered by Sage.Audit concurs with the Company regarding the life applied to the asset.

Audit Issue #2

Incorrect Fixed Asset Account

Background

Smith Mountain generator; $4,964 was posted to account #304, Structures and Improvements. It was entered with a depreciation rate of 10% instead of 2.50%.

Issue

The generator should be posted to account #345, Power Operated Equipment rather than to account #304, Structures and Improvements.

Recommendation

The Company should reclassify $4,964 from account #304 to account #345.

Company Response

The generator powers the pumping equipment in the event of an outage. The Company views the generator as auxiliary equipment for the pumping equipment. The generator does not have a 40 year life. The estimated life is approximately 10 years. As such, the Company applies a 10% depreciation rate.

Audit Comment

Audit concurs with the Company regarding the depreciation life of the generator, but the restates the reclassification of the asset.

Audit Issue #3

Depreciation Expense

Background

The Company is depreciating Transmission and Distribution Mains, Account #331, at 2.22% instead of 2.00% as specified in the Small Company booklet.

Issue

The incorrect depreciation rate is being applied to Mains. The Small Company booklet states that Transmission and Distribution Mains should be depreciated at 2.00% (50 years), not 2.22% (45 years), which is currently being used by the Company.

Recommendation

The Company should immediately discontinue the use of the 2.22%, should correct the deprecation rate for those assets which are incorrectly stated and adjust the depreciation accordingly.

Any depreciation expense adjustment should be noted for the filing.

Company Response

See Company response to Staff Data Request – Set 1 # 1-13 (f). In summary this is the depreciation rate proposed by the Company and agreed to by the Staff and Commission in the last 7 satellite systems acquired by the Company.

Audit Comment

Audit encourages the Company and Staff to distinctly identify the depreciation rates to be used for the HAWC assets.

REPEAT Audit Issue #4

Truck Sale

Background

The Company sold a 2001 van during the test year for $750. The van was fully depreciated and the retirement entries were done correctly. However, the sale was posted as a debit to Cash, account #131, with an offsetting credit to Miscellaneous Revenue, account #474.

Issue

The credit posting of the $750 was made to the Miscellaneous Revenue, account #474, rather than to the Accumulated Depreciation, account #108.

Recommendation

It is recommended that the Miscellaneous Revenue, account #474, be debited and the Accumulated Depreciation, account #108, be credited $750.

As identified in Audit Issue #7 in the audit report dated 3/25/2009 in docket DW08-065, a pickup truck was sold with the proceeds of the sale posting to the Miscellaneous Revenue account #474 rather than to the Accumulated Depreciation account #108. The same recommendation was made, to which the Company agreed.

Company Response

The Company agrees with the recommendation.

Audit Comment

Audit concurs with the Company comment.

Audit Issue #5

Depreciation Expense

Background

When the Company's property records were established in the Sage Fixed Asset System, many of the records were established to depreciate assets using the Straight-line Mid-Month method, rather than the Straight-line Half-Year method required by the NHPUC.

Issue

Due to the use of the mid-month vs. half-year method, the depreciation expense in the year of acquisition could be over or understated depending on when the asset was placed in service.

Recommendation

The Commission has typically relied on the half-year convention, using the straight line depreciation method outlined in 610.01(e)(17) of the PUC Chart of Accounts. The Company should immediately review and correct any depreciation method errors found within the Sage Fixed Asset System.

Company Response

Agreed – the methods will be corrected in the 2012 period. Please note that all depreciation amounts in 2011 were correctly calculated and no adjustments need to be made in the 2011 data.

Audit Comment

Audit concurs with the Company.

Audit Issue #6

Inventory Account

Background

Hampstead Area Water Company reflects the inventory on hand as "Other Project" within the Construction Work in Process account #105.

Issue

Inventory items should be booked to account #151 Materials and Supplies

Recommendation

The Company should establish the Materials and Supplies account #151 in accordance with the PUC Chart of Accounts.

Company Response

Agreed – the account was set up in 2012.

Audit Comment

Audit concurs with the Company comment.

Repeat Audit Issue #7
Amortization of Financing Costs

Background

The Company is amortizing financing costs held in both accounts #181.00, Unamortized Debt Discount/Expense and #186.01, Deferred Rate Case Expenses.

Issue

The Company has Commission authority to amortize deferred financing costs related to only one loan.

In addition, amortization expenses are posting to the Amortization Other #407, Interest Expense accounts #427.01 and 427.03 as well as to the proper account Amortization of Debt Expense #428.

Finally, the interest expense totals on the annual report and within the filing include amortization costs and thus overstate the interest expense by $7,959.

Recommendation

Amortization of any approved deferral should be debited to account #428 as required by the PUC Chart of Accounts, and credited to account #181.

Company Response

The Company is amortizing financing costs in account 181. All of the financing costs have been approved by the PUC as part of the PUC's approval of the financings. The financing costs are being charged to account 428 and credited to 181.

The Company is accumulating rate case expenditures in account 186.01. The approval of the recovery of the rate case expenditures are or will be sought as part of DW 12-170.

The Company has accumulated expenditures associated with Dearborn Well, Ice Storm & Bryant Woods Well in account 186.02. The Company is amortizing such expenditures over time by charging 407 and crediting 186.02. Also, the Company has accumulated expenditures associated with Rainbow Ridge Extension. The recovery of such expenditures is being sought as part of DW12-170.

Audit Comment

The Company is reminded that amortization expenses should never be rolled into interest expense accounts. Audit concurs that the use of account #428 to write down deferred financing costs is appropriate.

Audit Issue #8

Monthly Entries

Background

Loan activity relating to accounts #232.01 and #232.08 were reviewed for accuracy.

Issue

Each amortization schedule reflected the beginning and ending balances noted on the general ledger, but due to what appears to be a timing issue, the activity on the general ledger, which was verified to the amortization schedules of both loans, reflected eleven monthly entries rather than twelve.

Recommendation

Because the activity on the general ledger reflects eleven months rather than twelve, the test year interest expense is understated by $417. This total represents what should have been included as the January 2011 interest costs.

Company Response

Agreed. There were 13 payments recorded in 2010 and 11 in 2011.

Audit Comment

Audit concurs with the Company response.

Audit Issue #9

Commission Approval for Long Term Debt

Background

Commission authorization is required for all long term debt.

Issue

The reference to Order #19,717 regarding the approval for the Ruma loan noted in account #232.01 is incorrect. That Order denied without prejudice the franchise of the entire town of Hampstead and approved the discontinuance of Squire Ridge, Bricketts Mill, Kent Farm, and Woodland Pond water companies and the consolidation of the four under the name of Hampstead Area Water (which already owned and controlled them).

Recommendation

Audit understands that the financing has been on the books for many years. If there is a more current approval of the debt, that reference should be provided.

Company Response

This Order number was showing on the books for years. We never realized it was incorrect. The correct Order # is 18,560.

Audit Comment

Audit appreciates the research done by the Company.

Audit Issue #10

Long Term Debt not Used for Intended Purpose

Background

Commission authorization was sought for approval of debt from Lewis Builders, for a variety of purposes. Commission approval was granted as requested.

Issue

Order #24,728 approved affiliated debt in the amount of $267,299 from Lewis for the purpose of conducting a hydrology study at the request of the NHDES, purchasing new billing software, and purchasing three new vehicles. A note was then obtained from Ford Motor Credit in the amount of $50,401.

Order #25,113 approved affiliated debt in the amount of $451,465 from Lewis for the construction of a replacement well, installation of new water treatment filters, various station upgrades, additional meter and pump replacements, and the purchase of a new vehicle. A note was then obtained from GMAC in the amount of $29,808.

The full amount of each affiliate loan was noted on the books of the Company, and the vehicles which were to be financed through the affiliate loan were financed through outside sources. The proceeds of the affiliate loans were used for purposes other than that approved by the Commission.

Recommendation

Petitions for financing and subsequent Commission approval of debt must be used for the intended stated purpose.

Company Response

We agree that the Company financed the vehicle loans with outside lenders but we disagree that "*The proceeds of the affiliate loans were used for purposes other than that approved by the Commission.*" All proceeds from the affiliate loans were used for purposes approved by the Commission. The only thing the Company did without PUC approval was to replace the affiliate loan with outside lenders. The Company did this because the terms of the loan from the outside lenders were better than the terms from the affiliate. The Company has done this in previous finance filings with the PUC.

Order # 25,113 approved new debt in the amount up to $451,465. The total amount borrowed was $323,047. $114,065 and $179,174 from LBD and $29,808 from GMAC.

Also Order #24,728 shown above was amended by Order # 25,159 which increased the amount of the financing.

Audit Comment

Audit appreciates that the terms of the vehicle loans were more favorable, but reminds the Company that long term debt, as proposed by the Company and approved by the Commission represents the manner in which the funding should take place. Audit encoruages the Company to consider language which may allow for outside lending for items such as vehicles, if more favorable lending terms can be obtained.

Audit Issue #11

Change of Terms

Background

Approval for financing via docket DW07-133 was requested and granted in Order 24,831 to borrow $18,000 from Shribco Realty Two, LLC.

Issue

The Company informed Audit that the principal balance of $18,000 was renegotiated in 2012. The revised note, dated June 26, 2012 reduced the principal amount from $18,000 to $12,000 and changed the interest from prime plus 2.25% to no interest. The repayment terms were outlined to be installments of $750 for each of the remaining 16 units to be sold in the Cooper's Grove development, upon water service hookup."

The general ledger (as of November 2012) has not been adjusted to reflect the reduction in the loan, nor has the filing.

Recommendation

The Company is commended for negotiating much more favorable terms relative to the debt. It is recommended that the note in account #232.13 be reduced by $6,000 to agree with the renegotiated debt, and the offset should be booked to the Contribution in Aid of Construction account.

In addition, the filing should be adjusted to reflect the renegotiated terms and accounting treatment of the reduction of the debt.

Company Response

Agreed

Audit Comment

Audit concurs with the Company response.

Audit Issue #12
Incorrect Account Number

Background

Audit reviewed expense activity for the test year, and selected several invoices for detailed review. Audit also reviewed supporting documentation related to the plant additions during the test year.

Issue

One invoice in the amount of $2,263 which was posted to account #631 represented labor and materials to install a metal roof on the Village Green pump house in the amount of $2,111 and engineering fees in the amount of $152.

One invoice from RE Prescott in the amount of $1,252 was for one power flex 400 fan and pump drive and posted to account #633.

Labor relating to removal and replacement of the roof at the Village Green Pump House, in the amount of $1,921, was included with addition to plant in service account #320, Water Treatment. As noted above, the roof costs should be booked to account #304, Structures and Improvements.

Recommendation

Audit recommends that the installation of the roof should have been capitalized and booked to account #304, Structures and Improvements, rather than to account #631. Calculation of ½ year depreciation resulting from the reclassification would be an immaterial increase in depreciation expense of $28.

Audit recommends that the power flex 400 should have been capitalized and posted to account #311 rather than to account #633. The anticipated ½ year depreciation results in an immaterial increase in depreciation expense of $63.

Audit recommends that the roofing portion of the work done at the Village Green Pump house, which posted to Water Treatment, account #320 be reclassified to Structures and Improvements, account #304. The depreciation rates are the same for both accounts, thus there is no need for a revision to the filing.

Company Response

The Company agrees that the installation of the roof should be capitalized. Also, the Company agrees that the roofing portion of the work done which was posted to 320 should be reclassified. The Company disagrees with the capitalization of the power flex 400. The power flex 400 is a component of the pump.

Audit Comment

Audit concurs with the Company response.

Audit Issue #13
Expensed Items vs. Inventory

Background

As part of the expense account review, Audit selected a variety of invoices for detailed review.

Issue

<u>Account #633.00</u>
Audit reviewed the following invoices from Ti Sales:
8 flange kits, 6 Neptune T10 meters, one T-10 register, ball valves, couplings $2,420

<u>Account #663.00</u>
Invoice from Ti Sales for 52 meter nut Ford angle ball valves $2,940
Invoice from Ti Sales 50 meter angle ball valves and stiffeners for polyethylene tubing $3,698
Invoice from Ti Sales 20 Neptune T-10 meter integrated E-Coders $4,005
And one invoice from Mid America 26 Neptune meters to be rebuilt, 21 Neptune registers, and the related shipping charge. The total cost was $1,563.

<u>Account #676.00</u>
One invoice from Ti Sales for two 3" Neptune pro-read wheels $900.

Recommendation

The total of the Ti-Sales invoices and the Mid America invoice, $14,626 should be reclassified out of account #633 to Inventory account #151.

The $900 posted to account #676 should be reclassified to Inventory account #151.

Company Response

In effect that is what happened when the inventory account (in CWIP) was adjusted by the physical count at 12/31/11. No further adjustment is necessary. Inventory is correct at 12/31/11.

Audit Comment

Audit reviewed the general ledger expense accounts noted above and did not see an adjusting entry in account #633, saw a correction of $3,805 out of #663 and into CWIP as a result of the inventory count, and $1,659 reclassified out of account #676 identified as meter change outs.

Audit Issue #14
Expenses Outside of Test Year

Background

Expense accounts reviewed reflected activity which should have been expensed in either 2010 or 2012.

Issue

Account #642-Audit reviewed one invoice from Nelson Analytical Lab in the amount of $3,400. Seven specific inorganic contaminants (IOC) compliance tests and one synthetic organic compound (SOC) test were noted on the invoice dated 1/8/2011 for testing conducted on 12/14/2010 and 12/15/2010.

Account #926-Three employees' Drinking Water Operator certification renewal applications (from the NH DES) were processed in the amount of $300 total. The certification is for the years beginning January 1, 2012 through December 31, 2013.

Account #926-An invoice from the NH Water Works Association in the amount of $298 should be excluded from the rate case as the invoice is for membership from November 1, 2011 through October 31, 2012 ($75) and Legislative Membership ($223) for the same period.

Recommendation

Expenses outside of the test year, either those which should have posted in 2010, $3,400, or those which should have posted to pre-paids rather than expense accounts, $375, should be adjusted out of the filing.

The $223 legislative membership with the NH Water Works Association should have posted to a prepaid and then in 2012 been posted to an account below the line.

Company Response

Generally, expenses outside of the test year should not be reflected in the test year. The Company disagrees with charging the legislative membership below the line. The Company involvement is more from a monitoring perspective and a need to be aware of laws and regulation that effect its operations.

If the Company removes the expenses suggested by the Auditors they would need to be replaced by those same items which were expensed in the previous year but relate to 2011. So the net effect to the test year is -0-.

Audit Comment

Lobbying has not been allowed for ratemaking purposes in accounts above the line. Audit agrees with the Company in theory that recurring annual expenses would net to zero. However, the certification noted in account #926 was listed as covering the period January 2012 through December 2013.

Audit Issue #15

Double Posting of Expense Item

Background

Audit reviewed supporting documentation for expense items posted to account 1-10-673.00, Maintenance of Transmission and Distribution Mains.

Issue

One Lewis Builders invoice #10507 in the amount of $1,190 indicated labor, backhoe use, and materials to flush and sample stations at Stoneford, Lamplighter and Bricketts Mill. The Lewis identifying job number is 11-1863. The identical support was provided for Lewis invoice #10545 in the amount of $1,190. Both entries posted to the general ledger 12/31/2011. It appears that one entry is a duplicate, thus overstating the account by $1,190.

Recommendation

The Company should reverse the double posted amount, and the filing should be adjusted.

Company Response

Agreed

Audit Comment

Audit concurs with the Company comment.

Audit Issue #16

Expense Item Should be Below the Line

Background

Costs in account 1-10-903.01, Credit Card Fees, represent the fees charged to HAWC by various credit card companies which do the processing for those customers who pay their bills with a credit card.

Issue

This convenience fee should post below the line.

Recommendation

Account #903 should be credited by the total $8,749 with the offsetting debit posting to an account below the line.

Company Response

The Company disagrees with the recommendation. The Company has provided more options for customers to pay their bill. The Company is taking advantage of the technology that is available to do so. The credit card fees are just a cost of doing business in today's environment. The Company and its customers benefit from less processing time by Company personnel, improved cash flow and reduced delinquent accounts.

Audit Comment

Audit understands the convenience of credit card processing, and restates the issue. The Company and Staff are encouraged to review the issue.

Audit Issue #17
Atkinson Sewer Expense

Background

A charge noted in account #926 appears to have been posted to the incorrect affiliated company.

Issue

In May 2011 a $50 expense posted to account #926 representing the renewal certification for a wastewater treatment facility operator. The application states that the applicant is currently employed by the Atkinson Area Waste Water.

Recommendation

The applicant is an employee of HAWC, but it appears that this expense should have posted to the financial records of the Atkinson Area Waste Water utility. Audit understands that the dollar amount is immaterial, but encourages the Company to be more cautious as expenses associated with the Sewer Company are incurred and posted.

Company Response

The application was incorrect in stating that the applicant is currently employed by Atkinson Area Waste Water (AAWWR). AAWWR has no employees. The applicant is an employee of HAWC.

This is a benefit and cost of doing business for HAWC. HAWC has a contract with AAWWR to manage the sewer system. To perform this contract the Company's (HAWC's) employees must have the proper certification and licensing.

Audit Comment

Audit understands that HAWC provides service to the AAWWR. If AAWWR has provided revenue to HAWC, thus mitigating the effect of this type of entry, Audit acknowledges that the benefit may reside with HAWC. However, generally, a wastewater treatment facility operator certification is not required for HAWC, thus not a necessary component of operations and maintenance expenses included for ratemaking purposes of the water utility.

Audit Issue #18

Municipal Property Tax

Background

Municipal property taxes were noted in account #1-10-408.11 for a total test year expense of $187,875.

Issue

Two parcels of land were merged into a third in the town of Hampstead after the first issuance of the 2011 tax bills. The Company received refunds for the two parcels' first issue tax bills, in the amount of $5,151. Audit reviewed the refund letters and check photocopies from the town of Hampstead. The refund (credit) is not included in the property tax expense account at 12/31/2011.

Recommendation

Due to the timing of the checks received, the posting of the credit to account #408.11 may not have occurred during 2011. However, the filing should have included the credit which it did not. Therefore, the expense for the year should be $5,150 less than the stated $187,875.

Company Comment

Agreed. However the total of the 2 bills ($5,150) was not all in the expense account. $1,288 is in prepaid taxes ($958.50 + $329.25). Therefor the total reduction in expense should be $3,862 ($5,150 - $1,288).

Audit Comment

Audit concurs with the Company comment.

Audit Issue #19
Expense vs. Capital

Background

Labor expenses incurred by HAWC employees who do work for Lewis Builders are booked to accounts 1-10-998 and 1-99-998. The total for the test year was reported to be $15,168.

Issue

Labor expenses associated with Sargent Woods and Kent Farm overstated the #998 expense accounts and understated related expense accounts, with no impact on the income statement or balance sheet.

Support for New Meter Installations at Kent Farms indicates that $3,802 of the expensed figure should have posted to Plant in Service, Meters, account #334.

Recommendation

It is recommended that the filing and company records be adjusted to reflect the reduction of expense and increase to plant in service in the amount of $3,802.

Company Comment

Agreed on Labor Expenses for Sargent Woods and Kent Farm

Regarding New Meters for Kent Farm – Disagree – There were 90 meter changeouts at Kent Farm during 2011. The Company records meter changeouts at a standard cost of $275 per meter. This includes material and labor. As the Company receives invoices for these costs it debits the expense account or CWIP. When the meters are installed it debits the Plant Account and credits the expense account (or CWIP) for the standard cost of $275 per meter. All of these meters at Kent Farm were properly recorded in the plant account (see attachment). The $3,802 should be reclassed to the meter expense account – not the plant account.

Audit Comment

Audit was provided with a detailed list of the changeouts and concurs that the $3,802 should remain in the expense account.

Audit Issue #20
2011 Retirements

Background

A review of the 2011 plant additions indicated a replacement of a roof at the Village Green pump house.

Issue

The original roof was not noted in the retirements of 2011.

Recommendation

Any replacement of an asset in service must result in a retirement of the asset. Audit is unaware of the original cost of the roof which was replaced during 2011.

Company Comment

The Company did not record a retirement because the cost of the roof was reflected in the total costs of the pump house and was not broken out into the various line items (roof, concrete, sitework, electric, etc.). The original cost on the books was about $3,200. The roof portion of the costs would be immaterial.

Audit Comment

Audit understands the Company comment and agrees that the cost would be immaterial.