DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
REVENUE REQUIREMENT

Rate Base (Schedule 2; Column 6)		$ 2,568,890
Rate of Return (Schedule 1a; Column 12)	x	8.01%
Operating Income Requirement (See Schedule 3; Column 8)		205,841
Less: Proforma Test Year Operating Income (Schedule 3; Column 6)		(291,608)
Revenue Deficiency / (Surplus) Before Taxes (See Schedule 3; Column 7)		(85,767)
Tax Factor (Schedule 1b)	÷	60.39%
Revenue Deficiency / (Surplus) (See Schedule 3; Column 7)		(142,022)
Add: Annual Water Revenues from General Customers Proposed by Company (Schedule 3; Column 3)		1,264,630
Annual Water Revenues from General Customers Proposed by Staff (See Schedule 3; Column 8)		1,122,608
Less: Test Year Water Revenues from General Customers (Schedule 3; Column 1)		(1,043,143)
Proposed Increase in Annual Water Revenues from General Customers		$ 79,465
Percent Increase in Annual Water Revenues from General Customers		7.62%

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
WEIGHTED AVERAGE COST OF CAPITAL

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
			Capital Structure					Cost of Debt				Weighted
	Balance 12/31/14	Co Pro-forma Adjustments	Staff Pro-forma Adjustments	Adjusted Balance	Percent	Annual Interest	Annual Debt Expense	Co Pro-forma Adjustments	Staff Pro-forma Adjustments	Total Annual Cost of Debt	Cost Rate	Average Cost
Long-term Debt:												
Total Long-term Debt (Schedule 1ai)	$ 919,678	$ (31,000)	$ -	$ 888,678	33.33%	$ 38,913	$ 1,837	$ 120	$ 2,123	$ 42,993	4.84%	1.61%
Common Equity:												
Common Stock	10,000	-	-	10,000	0.38%							
Additional Paid-in Capital	1,227,180	-	(62,954) (a)	1,164,226	43.66%							
Capital Stock Expense	(7,360)	-	-	(7,360)	-0.28%							
Retained Earnings	610,827	-	-	610,827	22.91%							
Total Common Equity	1,840,647	-	(62,954)	1,777,693	66.67%						9.60%	6.40%
Total Capitalization	$ 2,760,325	$ (31,000)	$ (62,954)	$ 2,666,371	100.00%							8.01%

(a) To reduce additional paid-in capital by $55,820 for AFUDC recorded on Mt Roberts equipment (Staff Adj # 2; Sch 2a) and decrease Mt. Roberts well costs by $7,134 per Staff Audit Issue # 12 (Staff Adj # 3; Sch 2a).

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
CALCULATION OF COST OF DEBT

Description	Date of Issue	Date of Maturity	Interest Rate	(1) Balance 12/31/14	(2) Co's Pro-forma Adj's	(3) Pro-forma Balance Per Co	(4) Staff Pro-forma Adj's	(5) Pro-forma Balance Per Staff
Operating Loans:								
TD Bank - 5 (refinance)	01/13/04	01/13/14	6.09%	$ -	$ -	$ -	$ -	$ -
TD Bank - 6 (construction)	01/13/04	01/13/14	7.47%	-	-	-	-	-
TD Bank - 7 (system purchase)	12/29/04	12/29/14	6.29%	-	-	-	-	-
CoBank (5 Year)	06/24/14	06/30/19	3.45%	288,483	-	288,483	-	288,483
CoBank (15 Year - refinance)	06/24/14	06/30/29	5.25%	461,341	-	461,341	-	461,341
CoBank (line of credit)	06/24/14	06/30/15	2.17%	31,000	(31,000)	-	-	-
CoBank (Indian Mound project)			5.50%	-	-	-	-	-
CoBank (Mt Roberts purchase)			5.50%	-	-	-	-	-
Total Operating Loans				780,824	(31,000)	749,824	-	749,824
Equipment Loans:								
GEHL Finance (Mustang Excavator)	11/13/09	11/13/14	0.00%	-	-	-	-	-
Ford Motor Credit - 2011 Ford F350XL	09/13/10	09/13/15	7.89%	5,430	-	5,430	-	5,430
Ford Motor Credit - 2011 Ford F150XL	07/21/11	07/21/16	7.89%	11,707	-	11,707	-	11,707
Ford Motor Credit - 2013 Ford F250 Super	08/16/13	08/15/18	5.95%	28,120	-	28,120	-	28,120
Ford Motor Credit - 2013 Ford F250 Super	08/26/13	08/26/18	5.95%	20,210	-	20,210	-	20,210
Ford Motor Credit - 2014 Ford F150	06/06/14	06/06/19	6.24%	29,947	-	29,947	-	29,947
Cat Financial - 2014 Excavator	03/27/14	04/05/19	0.71%	43,440	-	43,440	-	43,440
Total Equipment Loans				138,854	-	138,854	-	138,854
Total Long-Term Debt				$ 919,678	$ (31,000)	$ 888,678	$ -	$ 888,678

Description	(6) Interest Expense	(7) Debt Expense	(8) Total Debt Cost	(9) Co's Pro-forma Adj's	(10) Pro-forma Balance Per Co	(11) Staff Pro-forma Adj's	(12) Pro-forma Balance Per Staff	(13) Total Cost Rate
Operating Loans:								
TD Bank - 5 (refinance)	$ 6,491	$ 227	$ 6,718	$ (6,718)	$ -	$ -	$ -	0.00%
TD Bank - 6 (construction)	4,761	502	5,263	(5,263)	-	-	-	0.00%
TD Bank - 7 (system purchase)	2,252	908	3,160	(3,160)	-	-	-	0.00%
CoBank (5 Year)	5,571	-	5,571	4,382	9,953	1,499 (b)	11,452	3.97%
CoBank (15 Year - refinance)	13,007	200	13,207	11,413	24,620	624 (b)	25,244	5.47%
CoBank (line of credit)	325	-	325	(325)	-	-	-	0.00%
CoBank (Indian Mound project)	-	-	-	-	-	-	-	0.00%
CoBank (Mt Roberts purchase)	-	-	-	-	-	-	-	0.00%
Total Operating Loans	32,407	1,837	34,244	329	34,573	2,123	36,696	4.89%
Equipment Loans:								
GEHL Finance (Mustang Excavator)	-	-	-	-	-	-	-	0.00%
Ford Motor Credit - 2011 Ford F350XL	740	-	740	(419)	321	-	321	5.91%
Ford Motor Credit - 2011 Ford F150XL	1,239	-	1,239	(315)	924	-	924	7.89%
Ford Motor Credit - 2013 Ford F250 Super	1,963	-	1,963	(290)	1,673	-	1,673	5.95%
Ford Motor Credit - 2013 Ford F250 Super	1,442	-	1,442	(240)	1,202	-	1,202	5.95%
Ford Motor Credit - 2014 Ford F150	778	-	778	1,091	1,869	-	1,869	6.24%
Cat Financial - 2014 Excavator	344	-	344	(36)	308	-	308	0.71%
Total Equipment Loans	6,506	-	6,506	(209)	6,297	-	6,297	4.53%
Total Long-Term Debt	$ 38,913	$ 1,837	$ 40,750	$ 120	$ 40,870	$ 2,123	$ 42,993	4.84%

(b) To reflect amortization of CoBank financing costs in cost of debt (See Staff Adj # 22; Sch 3a):

	Legal Costs		Loan Term		Ann'l Amort
CoBank financing legal costs reclassified from general legal expenses:	$ 16,860				
Portion attributable to CoBank (5 Year) ($400,000 / $900,000)	$ 7,493	÷	5	=	$ 1,499
Portion attributable to CoBank (15 Year - refinance) ($500,000 / $900,000)	9,367	÷	15	=	624
Total	$ 16,860				$ 2,123

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
EFFECTIVE TAX FACTOR

Taxable Income	100.00%
Less: NH Business Profits Tax	8.50%
Federal Taxable Income	91.50%
Federal Income Tax Rate	34.00%
Effective Federal Income Tax Rate	31.11%
Add: NH Business Profits Tax	8.50%
Effective Tax Rate	39.61%
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	39.61%
Percent Used as a Divisor in Determining the Revenue Requirement	60.39%
Tax Multiplier	0.65590

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
RATE BASE

	(1) Test Year Average Per Company Filing	(2) Company Adjustments	(3) Per Company Filing	(4) Staff Proforma Adjustments (Sch 2a)	(5) Staff Adjustment # (Sch 2a)	(6) Proforma Rate Base
Plant In Rate Base						
Utility Plant in Service	$ 4,797,651	$ 237,058	$ 5,034,709	$ (278,277)	1 - 4	$ 4,756,432
Less: Accumulated Depreciation	(1,515,498)	(84,799)	(1,600,297)	77,007	5 - 9	(1,523,290)
Net Plant in Service	3,282,153	152,259	3,434,412	(201,270)		3,233,142
Less: Acquisition Adjustment	(254,025)	-	(254,025)	-		(254,025)
Add: Accumulated Amortization of Acquisition Adjustment	167,828	4,228	172,056	(4,228)	10	167,828
Net Acquisition Adjustment	(86,197)	4,228	(81,969)	(4,228)		(86,197)
Less: Contributions in Aid of Construction (CIAC)	(862,501)	(8,377)	(870,878)	8,377	11	(862,501)
Add: Accumulated Amortization of CIAC	240,635	8,886	249,521	(8,777)	12 - 13	240,744
Net Contributions in Aid of Construction (CIAC)	(621,866)	509	(621,357)	(400)		(621,757)
Net Plant in Rate Base	2,574,090	156,996	2,731,086	(205,898)		2,525,188
Working Capital						
Cash Working Capital	176,047	(5,424)	170,623	(19,297)	14	151,326
Materials and Supplies	14,397	(9,680)	4,717	9,680	15	14,397
Prepaid Other	33,751	3,494	37,245	(3,494)	16	33,751
Prepaid Property Taxes	11,779	(52)	11,727	52	17	11,779
Deferred Debits	-	-	-	5,184	18	5,184
Customer Deposits	-	-	-	-		-
Deferred Taxes	(172,734)	(17,336)	(190,070)	17,336	19	(172,734)
Total Working Capital	63,240	(28,998)	34,242	9,461		43,703
Total Rate Base	$ 2,637,330	$ 127,998	$ 2,765,328	$ (196,438)		$ 2,568,890

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
PRO-FORMA ADJUSTMENTS TO RATE BASE PER STAFF

Adj#

Proforma Adjustments to Plant in Service:

Utility Plant in Service

1	To reverse Co's rate base adj # 1 to reflect overall Plant in Service at test year average.			$ (237,058)
2	To remove test year average of AFUDC on Mt Roberts equipment from plant in service (See Staff Adj #'s 7, 36, 40, 41):			
	AFUDC on Mt Roberts equipment recorded on 04/01/14		$ (55,820)	
	Portion of 13-month average refleected in test year rate base (9 mos ÷ 13 mos)	x	69.23%	(38,645)
3	To adjust costs of certain 2014 fixed asset additions at Paradise Shores per Staff Audit Issue # 12 (See Staff Adj #'s 8, 28, 37, 42):			
	Structures:		$ 9,834	
	Wells:		(7,134)	
	Mains:		(2,389)	
	Total adjustments		311	
	Portion of 13-month average to be reflected in test year rate base (9 mos ÷ 13 mos)	x	69.23%	215
4	To reduce cost of Paradise Shore pumps per Staff Audit Issue # 18 (See Staff Adj #'s 9, 29, 38, 43):			
	Pumps:		$ (4,030)	
	Portion of 13-month average reflected in test year rate base (9 mos ÷ 13 mos)	x	69.23%	(2,790)
	Total Adjustments - Utility Plant in Service			$ (278,277)

Accumulated Depreciation

5	To reverse Co's rate base adj # 4 to reflect overall accumulated depreciation at test year average.			$ 66,520
6	To modify Co's rate base adj # 5 in order to reflect a test year average:			
	Co's rate base adj # 5 to reflect an additional half-year of depreciation for 2014 additions		$ 18,279	
	To adjust to test year average	÷	2	9,140

7 To remove test year average of accumulated depreciation related to AFUDC on Mt Roberts equipment (See Staff Adj #'s 2, 36, 40, 41):

	AFUDC		Depr %		Acc Depr		Avg (9 ÷ 13)			
Wells:	$ 44,231	x	2.50%	=	$ 1,106	x	0.6923	=	$ 766	
Pumps:	2,817	x	10.00%	=	282	x	0.6923	=	195	
Mains:	8,772	x	2.00%	=	175	x	0.6923	=	121	1,082
	$ 55,820				$ 1,563					

8 To adjust accumulated depreciation of certain 2014 fixed asset adjustments at Paradise Shores (Staff Audit Issue # 12) (See Staff Adj #'s 3, 28, 37, 42):

	Cost		Depr %		Acc Depr		Avg (9 ÷ 13)			
Structures:	$ 9,834	x	2.50%	=	$ (246)	x	0.6923	=	$ (170)	
Wells:	(7,134)	x	2.50%	=	178	x	0.6923	=	123	
Mains:	(2,389)	x	2.00%	=	48	x	0.6923	=	33	(14)
	$ 311				$ (20)					

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
PRO-FORMA ADJUSTMENTS TO RATE BASE PER STAFF

Adj#

9 To adjust accumulated depreciation relative to Paradise Shores pump cost adjustment (Staff Audit Issue # 18) (See Staff Adj #'s 4, 29, 38, 43):

	Cost		Depr %		Acc Depr		Avg (9 + 13)		
Pumps:	$ (4,030)	x	10.00%	=	$ 403	x	0.6923	=	279

Total Adjustments - Accumulated Depreciation — $ 77,007

Accumulated Amortization of Acquisition Adjustment

10 To reverse Co's rate base adj # 8 to reflect accumulated amortization of acquisition adjustment at test year average. — $ (4,228)

Total Adjustments - Accumulated Amortization of Acquisition Adjustment — $ (4,228)

Contributions in Aid of Construction (CIAC)

11 To reverse Co's rate base adj # 13 to reflect CIAC at test year average. — $ 8,377

Total Adjustments - Contributions in Aid of Construction (CIAC) — $ 8,377

Accumulated Amortization of CIAC

12 To reverse Co's rate base adj # 14 to reflect accumulated amortization of CIAC at test year average. — $ (8,668)

13 To modify Co's rate base adj # 15 in order to reflect a test year average:

Co's rate base adj # 15 to reflect an additional half-year of CIAC amortizaton for 2014 additions	$	(218)	
To adjust to test year average	÷	2	(109)

Total Adjustments - Accumulated Amortization of CIAC — $ (8,777)

Proforma Adjustments to Working Capital:

Cash Working Capital

14 To adjust cash working capital component of rate base:

Staff O & M expense adj's from Sch 3; Col 4:	$ (107,594)		
Portion of O & M expenses attributable to customers paying in arrears (1,566 / 1,667):	93.34%	(100,430)	
Portion of O & M expenses attributable to customers paying in advance (101 / 1,667):	-6.06%	6,519	
Net O & M expenses subject to cash working capital %		(93,911)	
Cash Working Capital % (75 days / 365 days)		20.55%	$ (19,297)

Total Adjustments - Cash Working Capital — $ (19,297)

Materials and Supplies

15 To reverse Co's rate base adj # 9 to reflect materials and supplies at test year average. — $ 9,680

Total Adjustments - Materials and Supplies — $ 9,680

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
PRO-FORMA ADJUSTMENTS TO RATE BASE PER STAFF

Adj#			
	Prepaid Other		
16	To reverse Co's rate base adj # 10 to reflect prepaid other at test year average.		$ (3,494)
	Total Adjustments - Prepaid Other		$ (3,494)
	Prepaid Property Taxes		
17	To reverse Co's rate base adj # 11 to reflect prepaid property taxes at test year average.		$ 52
	Total Adjustments - Prepaid Property Taxes		$ 52
	Deferred Debits		
18	To record 'No Lead Rule' deferred debit (Staff Audit Issue # 25):		
	Total 'No Lead Rule' expense recorded during the test year (Per Staff Adj # 31)	$ 12,959	
	Test year amortization expense (Per Staff Adj # 39)	(2,592)	
	Net deferred debit	$ 10,367	
	To adjust to test year average	÷ 2	5,184
	Total Adjustments - Deferred Debits		$ 5,184
	Deferred Taxes		
19	To reverse Co's rate base adj # 12 to reflect deferred taxes at test year average.		$ 17,336
	Total Adjustments - Deferred Taxes		$ 17,336
	NET RATE BASE ADJUSTMENTS PER STAFF		**$ (196,438)**

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
OPERATING INCOME STATEMENT

	(1) Per Actual Test Year	(2) Company Adjustments	(3) Per Company Filing	(4) Staff Pro-forma Adjustments (Sch 3a)	(5) Staff Adjustment # (Sch 3a)	(6) Pro-forma Test Year	(7) Revenue Deficiency / (Surplus) (Sch 1)	(8) Net Operating Income Requirement
Operating Revenues								
Sales of Water to General Customers	$ 1,043,143	$ 221,487	$ 1,264,630	$ -		$ 1,264,630	$ (142,022)	$ 1,122,608
Sales of Water - Special Contract	136,526	65,754	202,280	-		202,280		202,280
Other Operating Revenues	136,341	(77,283)	59,058	200	20	59,258		59,258
Total Operating Revenues	1,316,010	209,958	1,525,968	200		1,526,168	(142,022)	1,384,146
Operating Expenses								
Operation & Maintenance Expenses	974,896	(30,034)	944,862	(107,594)	21 - 35	837,268		837,268
Depreciation Expense	164,383	18,279	182,662	(1,946)	36 - 38	180,716		180,716
Amortization of CIAC	(17,129)	(218)	(17,347)	-		(17,347)		(17,347)
Amortization of Acquisition Adjustment	(5,708)	-	(5,708)	-		(5,708)		(5,708)
Amortization Expense - Other	-	-	-	2,592	39	2,592		2,592
Other Tax Expense	74,833	8,796	83,629	(1,145)	40 - 45	82,484		82,484
Total Operating Expenses	1,191,275	(3,177)	1,188,098	(108,093)		1,080,005	-	1,080,005
Gain (Loss) from Disposition of Utility Property	30,795	(30,795)	-	-		-		-
Net Operating Income (Loss) before Income Taxes	155,530	182,340	337,870	108,293		446,163	(142,022)	304,141
Income Taxes	28,807	88,621	117,428	37,127	Sch 3b	154,555	(56,255)	98,300
Net Operating Income (Loss)	$ 126,723	$ 93,719	$ 220,442	$ 71,166		$ 291,608	$ (85,767)	$ 205,841

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
PRO-FORMA ADJUSTMENTS TO OPERATING INCOME PER STAFF

Adj #			
	Proforma Adjustments to Operating Revenues:		
	Other Operating Revenues		
20	To record unbilled test year service revenues from LRW Water Services per Staff Audit Issue # 31.		$ 200
	Total Adjustments - Other Operating Revenues		$ 200
	Proforma Adjustments to Operating Expenses:		
	Operation & Maintenance Expenses		
21	To reverse Co's O & M expense adj # 7 to reflect actual test year general legal expenses.		$ 13,317
22	To remove financing costs and rate case costs from test year general legal expenses based on Co's response to Tech 1-6a:		
	CoBank financing legal costs	$ (16,860)	
	Mt Roberts legal costs	(2,403)	(19,263)
23	To reverse Co's O & M expense adj # 9 per Commission Order # 25,454 (01/17/13).		(9,980)
24	To record anticipated decrease in annual health and business insurance premiums per Co's response to Staff DR 1-40.		(28,000)
25	To reduce test year computer support expense by amount paid to Logics per Co's response to Tech 1-1(b).		(1,776)
26	To record anticipated annual savings in computer support expense under the Logics license per Co's response to Tech 1-1(e).		(2,666)
27	To reduce test year regulatory commission expense by amount of write-off's of prior commission cases based on Co's response to Tech 1-8(g) and Pg 47 of Staff Audit Report.		(16,943)
28	To reduce test year O & M expenses by structure costs that should have been capitalized per Staff Audit Issue # 17 (See Staff Adj #'s 3, 8, 37, 42).		(15,000)
29	To increase test year materials expense per Co's comment relative to Staff Audit Issue # 18 (See Staff Adj #'s 4, 9, 38, 43).		4,030
30	To reduce test year O & M expenses relative to unsupported 2014 bad debt write-offs per Staff Audit Issue # 23.		(9,000)
31	To reduce 'No Lead Rule' test year expense in order to reflect a 5-year amortization per Staff Audit Issue # 25 (See Staff Adj #'s 18, 39).		(12,959)

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
PRO-FORMA ADJUSTMENTS TO OPERATING INCOME PER STAFF

Adj #								
32	To reduce O & M expenses by non-recurring expenses incurred during the test year per Staff Audit Issue # 25:							
	Office Rennovation						$ (1,546)	
	Loan Prepayment Fee						(3,908)	(5,454)
33	To reduce O & M exp's by accounting / software charges that should have been deferred per Staff Audit Issue # 26.							(2,145)
34	To reduce O & M expenses by 2013 medical reimbursement paid during the test year per Staff Audit Issue # 27							(285)
35	To reduce O & M expenses by 2015 wages included in test year expense per Staff Audit Issue # 33 (See Staff Adj # 45).							(1,470)
	Total Adjustments - Operation & Maintenance Expenses							$ (107,594)
	Depreciation Expense							
36	To reduce test year operating expenses by amount of depreciation related to AFUDC on Mt Roberts equipment (See Staff Adj #'s 2, 7, 40, 41):							
		AFUDC		Depr %			Depr Exp	
	Wells:	#######	x	2.50%	=		$ (1,106)	
	Pumps:	(2,817)	x	10.00%	=		(282)	
	Mains:	(8,772)	x	2.00%	=		(175)	$ (1,563)
		#######						
37	To adjust depreciation expense of certain 2014 fixed asset additions at Paradise Shores (Staff Audit Issue # 12) (See Staff Adj #'s 3, 8, 28, 42):							
		Cost		Depr %			Depr Exp	
	Structures:	$ 9,834	x	2.50%	=		$ 246	
	Wells:	(7,134)	x	2.50%	=		(178)	
	Mains:	(2,389)	x	2.00%	=		(48)	20
		$ 311						
38	To adjust depreciation expense relative to pump cost adjustment at Paradise Shores (Staff Audit Issue # 18) (See Staff Adj #'s 4, 9, 29, 43):							
		Cost		Depr %				
	Pumps:	$ (4,030)	x	10.00%	=			(403)
	Total Adjustments - Depreciation Expense							$ (1,946)
	Amortization Expense - Other							
39	To record 5-year amortization of 'No Lead Rule' expense per Staff Audit Issue # 25 ($12,959 ÷ 5 years) (See Staff Adj #'s 18, 31):							2,592
	Total Adjustments - Amortization Expense - Other							$ 2,592

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
PRO-FORMA ADJUSTMENTS TO OPERATING INCOME PER STAFF

Adj #				
	Other Tax Expense			
40	To reduce Co's operating expense adj # 14 to reflect elimination of AFUDC on Mt Roberts equipment (See Staff Adj #'s 2, 7, 36, 41):			
	AFUDC on Mt Roberts equipment		$ (55,820)	
	State utility property tax mill rate	x	0.00660	$ (368)
41	To reduce Co's operating expense adj # 16 to reflect elimination of AFUDC on Mt Roberts equipment (See Staff Adj #'s 2, 7, 36, 40):			
	AFUDC on Mt Roberts equipment		$ (55,820)	
	Municipal property tax mill rate	x	0.00633	(353)
42	To adjust property taxes for Paradise Shores 2014 fixed asset adjustment (Staff Audit Issue # 12) (See Staff Adj #'s 3, 8, 28, 37):			
	Adjustment to Paradise Shores 2014 fixed asset adjustments		$ 311	
	Combined state and municipal mill tax rate ($0.00660 + $0.00633)	x	0.01293	4
43	To adjust property taxes for Paradise Shores pump cost adjustment (Staff Audit Issue # 18) (See Staff Adj #'s 4, 9, 29, 38):			
	Adjustment to Paradise Shores pump cost		$ (4,030)	
	Combined state and municipal mill tax rate ($0.00660 + $0.00633)	x	0.01293	(52)
44	To reduce property tax expense for taxes paid on property sold during the test year per Staff Audit Issue # 25.			(263)
45	To reduce other tax expense by payroll taxes on 2015 wages recorded during the test year (Staff Audit Issue # 33):			
	2015 wages recorded during the test year per Staff Adj # 35		$ (1,470)	
	Payroll tax percentage		7.65%	(112)
	Total Adjustments - Other Tax Expense			$ (1,145)
	NET OPERATING INCOME ADJUSTMENTS BEFORE INCOME TAXES PER STAFF			**$ 108,293**

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
PROFORMA ADJUSTMENTS TO INCOME TAXES

INCOME TAXES
To reflect the income tax effect of proforma adjustments to revenue and expenses

Total pro-forma adjustments to Water Revenues - General Customers	$ -
Total pro-forma adjustments to Water Revenues - Special Contract	-
Total pro-forma adjustments to Other Operating Revenues	200
Total pro-forma adjustments to Operation & Maintenance Expenses	107,594
Total pro-forma adjustments to Depreciation Expense	1,946
Total pro-forma adjustments to Amortization of CIAC	-
Total pro-forma adjustments to Amortization of Acquisition Adjustment	-
Total pro-forma adjustments to Amortization Expense - Other	(2,592)
Total pro-forma adjustments to Other Tax Expense	1,145
Total pro-forma adjustments to Gain (Loss) from Disposition of Utility Property	-
Net Increase (Decrease) in Net Operating Income subject to State Income Tax	108,293
New Hampshire Business Profits Tax @ 8.50%	**(9,205)**
Decrease in test year state income tax expense per Staff Audit Issue # 34	**2,966**
Net Increase (Decrease) in Net Operating Income subject to Federal Income Tax	102,055
Federal Income Tax @ 34.00%	**(34,699)**
Decrease in test year federal income tax expense per Staff Audit Issue # 34	**3,810**
PROFORMÁ ADJUSTMENTS TO OPERATING INCOME NET OF INCOME TAX PER STAFF	**$ 71,166**

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
COMPUTATION OF RATES

Proposed Annual Water Revenue from General Customers		$ 1,122,608
Less: Annual Operating Revenue - WVG Community Pool		
Current Authorized Rate Per Tariff	$ 1,452.76	
1 + Percentage Increase in Revenue Requirement	x 1.0762	(1,563.43)
Less: Annual Operating Revenue - Non-metered Customers		
Annual Water Revenue from General Customers less Annual Revenue - WVG Pool	$ 1,121,044	
Total Consolidated Rate Customers	+ 1,665	
Annual Revenue Requirement per Customer	$ 673.30	
Total Non-metered Customers	x 591	$ (397,920)
Annual Revenue Requirement Collected through Minimum Charge and Consumption Charge		$ 723,124

Calculation of Average Metered Rate per Customer:
$ 529.59 (Minimum Charge) + $ 5.15 (Metered Charge) x (29,952 ccf + 1,074 metered customers)
= **$ 673.30** average charge per metered customer

(X = Minimum Charge; Y = Consumption Charge)

<u>Calculation of Proportion of Present Minimum Charge to Present Consumption Charge:</u>

Present Annual Minimum Charge Per Tariff: (X)	$ 494.32
Present Annual Consumption Charge Per Tariff (per 100 cu ft): (Y)	+ $ 4.81
Proportion of Present Minimum Charge to Present Consumption Charge: (X + Y)	102.8

<u>Calculation of Consumption Charge:</u>

X	+	Y	*	29,952	+	1,074	=	$ 673.30					
Y	*	102.8	+	Y	*	27.9	=	$ 673.30					
				Y	*	130.7	=	$ 673.30					
						Y	=	$ 5.15	*	29,952	=	$ (154,350)	

Annual Revenue Requirement Collected through Minimum Charge	$ 568,774

<u>Calculation of Annual Minimum Charge:</u>

X	+	Y	*	29,952	+	1,074	=	$ 673.30				
		X	+	$ 5.15	*	27.9	=	$ 673.30				
				X	+	$ 143.71	=	$ 673.30				
						X	=	$ 529.59	*	1,074	=	$ (568,774)

Remainder of Annual Water Revenue from General Customers	**$ -**

a <u>**Conversion of Metered Consumption from Gallons to CCF:**</u>

2014 Total Consumption by Metered Customers (Gallons)	34,474,000	Gallons
Less: 2014 Suissevale Metered Consumption (Gallons)	(12,068,000)	Gallons
2014 Consumption by Metered Customers (Gallons)	22,406,000	Gallons
Conversion Factor from Gallons to CCF (1 CCF = 748.051948 Gallons)	+ 748.05	Gallons
2014 Consumption by Metered Customers (CCF)	29,952	CCF

DW 15-209
LAKES REGION WATER COMPANY, INC.
TEMPORARY RATES
REPORT OF PROPOSED RATE CHANGES

Revenues:	**Number of Customers**	**Present Revenues**	**Proposed Revenues**	**Proposed $ Change**	**Proposed % Change**
WVG Pool	1	$ 1,448	$ 1,563	$ 115	7.97%
Unmetered General Customers	591	367,707	397,920	30,213	8.22%
Metered General Customers	1,074	673,988	723,124	49,136	7.29%
Total Unmetered and Metered General Customers	1,666	1,043,143	1,122,608	79,465	7.62%
Suissevale Special Contract	1	136,526	202,280	65,754	48.16%
Total Water Sales	1,667	1,179,669	1,324,888	145,219	12.31%
Other Operating Revenues	N/A	136,341	59,058	(77,283)	-56.68%
Total Operating Revenues	1,667	$ 1,316,010	$ 1,383,946	$ 67,936	5.16%

Rates:	**Number of Customers**	**Present Rates**	**Proposed Revenues**	**Proposed $ Change**	**Proposed % Change**
WVG Pool - Annual	1	$ 1,452.76	$ 1,563.43	$ 110.67	7.62%
Unmetered General Customers - Annual	591	$ 625.56	$ 673.30	$ 47.74	7.63%
Metered General Customers:					
Customer Charge - Annual	1,074	$ 494.32	$ 529.59	$ 35.27	7.13%
Meter Charge - per ccf	1,074	$ 4.81	$ 5.15	$ 0.34	7.13%

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: November 13, 2015
AT (OFFICE): NHPUC

FROM: Karen Moran, Chief Auditor
Bridget Nelson, Examiner
Michael Brown, Examiner

SUBJECT: Lakes Region Water Company, Inc.
DW 15-209
FINAL Audit Report

TO: Mark Naylor, Director of Water and Gas Division
Jayson Laflamme, Utility Analyst III

Introduction

Lakes Region Water Company, Inc., (LRWC, Company) is a regulated public utility that provides water service to approximately 1,615 customers. On June 1, 2015, LRWC filed a notice of intent to increase its rates. The Company filed its rate schedules as well as materials supporting its proposed permanent rate increase, by letter to the Commission dated July 31, 2015, and received by the Commission on August 5, 2015.

The PUC Audit Staff has reviewed the books and records of the Lakes Region Water Company, Inc. for the test year 2014.

Audit appreciates the assistance provided to us by Tom Mason, President; Tim Fontaine, Utility Finance Manager; Ashley Manning, Assistant Finance Manager, and Norm Roberge, external accountant.

Allocations

In response to an audit questionnaire regarding the allocation factors, the Company provided the following: "*Non direct revenues and expenditures are allocated to each of the LRWC 17 operating divisions on a percentage basis of customers in each of the 17 divisions.*" The 12/31/2013, the allocation factors to be used in 2014, and the 12/31/2014 factors to be used in 2015 were:

Lakes Region Water Co., Inc.
Average Customer Count - Percent Distribution
December 31, 2013

System	#	Customer Count	Distribution Percent
FEH	1	85	5.15%
PS	**2**	**392**	**23.74%**
WP	3	41	2.48%
WVG	**4**	**85**	**5.15%**
HV	5	119	7.21%
WC	6	55	3.33%
PC	7	71	4.30%
DR	8	59	3.57%
WG	9	74	4.48%
ELW	10	44	2.67%
BH	11	47	2.85%
TWW	12	101	6.12%
175E	13	44	2.67%
DC	14	51	3.09%
LOV	**15**	**229**	**13.87%**
IM	**16**	**100**	**6.06%**
GG	17	54	3.27%
ADM	50	0	0.00%
Total Company		1651	100.00%

Lakes Region Water Co., Inc.
Average Customer Count - Percent Distribution
December 31, 2014

System	#	Customer Count	Distribution Percent
FEH	1	85	5.13%
PS	**2**	**393**	**23.70%**
WP	3	41	2.47%
WVG	**4**	**84**	**5.07%**
HV	5	119	7.18%
WC	6	55	3.32%
PC	7	71	4.28%
DR	8	59	3.56%
WG	9	74	4.46%
ELW	10	44	2.65%
BH	11	47	2.83%
TWW	12	101	6.09%
175E	13	44	2.65%
DC	14	51	3.08%
LOV	**15**	**230**	**13.87%**
IM	**16**	**106**	**6.39%**
GG	17	54	3.26%
ADM	50	0	0.00%
Total Company		1658	100.00%

The Company considers the Property Owners Association of Suissevale (POASI) as one customer within the Paradise Shore division. POASI is a residential community of approximately 350 homeowners.

The Company also noted that the "*distribution is used to allocate Administrative common assets and for allocation of common income and expense items*". **REPEAT Audit Issue #1**

Board of Directors

As detailed in the Company's PUC annual report, the board is comprised of Thomas (Albert) Mason, Barbara Mason, Susan Mason, Amy Mason, Fred Malatesta, and Gary Odoraroi. The sole shareholder is Barbara Mason. The Company indicated that minutes are not documented. In Commission Order #25,391 issued on 7/13/2012 in dockets DW07-105, DW10-043, DW10-141, and DW11-021, the Commission required the Company to appoint two non-family members to the board and to apprise the Commission Staff of the names and qualifications of those appointees. Mr. Malatesta and Mr. Odoraroi are those board members.

BALANCE SHEET ASSETS

Cash

For the test year ending 12/31/2014, Schedule F-1 of the PUC annual report and the filing Schedule 2 reflect a balance of $10,152. Audit verified the reported 12/31/2014 balance to the following NDS general ledger accounts and related activity:

50-110-131-2	TD Bank - Savings Account	$ 630
50-110-131-3	BNH- Checking	$ 470
50-110-131-4	TD Bank – Checking	$ 2,157
50-110-131-5	BNH – Medical Savings	$ 6,895
50-110-131-9	Deposit Clearing	$ -0-
	Total Cash	$10,152

Lakes Region uses two bank accounts; Bank of New Hampshire and TD Bank. The Bank of NH account is used for physical transactions such as writing a check for payroll and accounts payables. Also, any customer payments that come through the post office are deposited into this account.

The TD Bank account is used for electronic transactions. All payments made online, customer payments received electronically and all POASI payments go through this bank account.

Audit reviewed the December bank statements, reconciliations, check registers and general ledger activity for both bank accounts. Adjustment were made at the end of the year to the general ledger and check registers to correct entries made to the wrong bank account. No exceptions were noted.

Accounts Receivable

For the test year ending 12/31/2014, the annual report and filing Schedule 2 reflect Accounts Receivable from Associated Companies $26,110 and Accounts and Notes Receivable $137,762. Audit verified the figures to the following general ledger accounts:

50-121-145-0 Accounts Receivable Affiliate T/J $26,110

The total Accounts and Notes Receivable figure $137,762 was verified to the Accounts Receivable XX-120-141-0 account in each of the seventeen systems. Refer to Audit Issue #1.

An Accounts Receivable Aging report was received from Lakes Region for all customers of all divisions. 73% of receivables are current and 14% are 31-60 days outstanding. Only .5% of receivables are 181 days or over.

Bad debts are written off at the end of the year. Bad debts are only written off after the Company had tried and failed to collect from the customer.

Prior to writing off bad debt, an aged trial balance report is run and LRWC manually reviews all accounts over 150 days. Accounts are reviewed for notes of any existing payment plans, bankruptcy or foreclosure, final billings and valid contact information. Only after determining the account is inactive, will the outstanding amount be written off. See Account 904 Uncollectible below for additional information and refer to the Revenue portion of this report for additional details.

Inventory – Materials and Supplies

For the test year ending 12/31/2014, Schedule F-22 of the PUC annual report, shows a balance of $4,717, a decrease from the 2013 balance of $9,579. The 2014 amount agrees with the filing, Schedule 2, submitted by the Company. Audit verified the total$4,717, to the NDS general ledger account XX-130-151-0 in each of the seventeen divisions and the Administrative division. Refer to Audit Issue #1.

The Company indicated that it does not conduct physical inventories, as materials are charged directly to the work order. **REPEAT Audit Issue #2.**

Prepayments

For the test year ending 12/31/2014, Schedule F-23 of the PUC annual report, shows a Prepayments balance of $37,245. The amount agrees with the filing, Schedule 2, submitted by the Company. Audit also verified the total to the NDS general ledger account 50-140-162-1 without exception. For detail regarding the expenses associated with the prepayments, refer to the Operations and Maintenance section of this report.

The prepaid-other account is used for system monitoring services, and insurance. At the end of the year, adjustments were made to the prepaid account.

- A $10,401 insurance adjustment credit was made because the monthly step-downs were less than the actual insurance payment. The adjustment was made to true-up the expenses.
- There was a credit adjustment for monitoring services for $1,260.
- There were also two adjustments for propane (credit) and for the outgoing call service (debit). Audit questioned these adjustments as they did not appear to be prepaid. LRWC noted that propane is paid by the delivery **Audit Issue #3**

The Company noted that "*the outgoing call service is not an answering service but is an automated outgoing message service used mostly to notify customers of water system shut downs during repairs. The Company purchases one call services in 10,000 call blocks. The prepaid amount represents the number of unused calls.*"

Pre-paid Taxes

The PUC annual report and filing Schedule 2 reflect a prepaid tax total of $11,727. The total was verified to the NDS general ledger account 50-140-163-1. Refer to the Property Tax portion of this report for additional information.

Unamortized Debt Discount and Expense

The annual report and filing Schedule 2 reflect Unamortized Debt Discount and Expense of $11,261. Audit verified the year end figure to two general ledger accounts:

50-155-181-1 Unamortized Debt Expense-Bank of NH	$ -0-
50-155-181-2 Unamortized Debt Expense-Bank of NH	$11,261

The annual report income statement reflects Amortization of the Debt Expense, for 2014 of $1,837. The total agrees with the filing Schedule 2. Audit verified that the sum of the seventeen divisions, and the Administrative division general ledger accounts xx-730-428-0 agree with the reported $1,837.

Miscellaneous Deferred Debits

The PUC annual report F-28 reflects a beginning balance of $228,245, with reductions to each of the four line items summing to $172,874. The reduction is the sum of the NDS debits and credits below. The ending balance of $55,371 was verified to the NDS general ledger accounts within the Administrative division. This account is not spread among the divisions.

Account Number and Description		Beg. Balance	Debits	Credits	End Balance
50-153-186-1	Deferred Rate Case Expenses	$ -	$ 104,774	$ (104,774)	$ -
50-153-186-2	Def Rate Exp DW10-141	$ 77,389	$ 6,242	$ (83,631)	$ -
50-153-186-3	Def Rate Exp DW07-105	$ 81,921	$ 37,509	$ (69,528)	$ 49,902
50-153-186-4	Def Rate Exp Mt Roberts	$ 9,434	$ 5,469	$ (9,434)	$ 5,469
50-153-186-5	Def Rate Exp DW13-041	$ 59,501	$ 518	$ (60,019)	$ -
50-153-186-6	Def Rate Exp DW Open	$ -	$ -	$ -	$ -
		$ 228,245	$ 154,512	$ (327,386)	$ 55,371

Audit reviewed the activity in the 186-1 account and sent a list of questions to the Company on 10/1/2015. **Audit Issue #4**

The net activity in the 186-2 account brought the balance to zero. The offset was noted in the "Other Revenue" accounts XX-450-474-1 by division. Refer to the Revenue portion of this report.

Regarding the balance and net activity in account 186-3, the Company indicated in proforma #9 (of Mr. St. Cyr's testimony) that the Commission approved the deferral of $81,921 related to docket DW07-105 in DW10-141. The $81,921 was authorized to be amortized over five years beginning after the final Order in the next rate case, which is the instant docket. However, the proforma indicated a negotiated reduction to the deferred amount, and thus the related amortization would be reduced. The reduction of $32,019 identified in the proforma is the net of the debit total and net credit total identified in the line for 50-153-186-3. The testimony of Mr. St. Cyr indicates that the $32,019 represents a further reduction of accounting and legal service providers' expenses.

The debit total of $37,509 was traced to a year-end entry LRWYE14-389:

	Debit	Credit
50-153-186-3	$37,509.18	
50-153-186-4	$ 5,468.75	
50-665-928-8		$42,977.93 **Audit Issue #4**

Audit reviewed year-end entry LRWYE14-357 which identified the credit totals for both 186-3 and most of 186-4:

	Credit 50-153-**186-3**	Credit 50-153-**186-4**	Debit 50-490-**421**-0	
Shaheen	$27,689.23	$3,605.00	$31,294.23	
St. Cyr	$ 6,916.56	$ 288.75	$ 7,205.31	
Roberge	$ 7,210.00	$ 360.00	$ 7,570.00	
Upton	$27,712.62	$4,760.00	$32,472.62	
Total	$69,528.41	$9,013.75	$78,542.16	**Audit Issue #4**

The activity in the 186-4 account was reviewed. Credit entries in the amount of $9,014 were offset to 50-490421-0, Non-utility Income. One credit entry in the amount of $420 was offset to 50-665-928-8. The one debit entry of $5,469 was identified as a final adjustment to vendor credits. See the journal entry above.

The activity in the 186-5 account was reviewed. The beginning balance of $59,501.11 was increased in February 2014 by an Upton & Hatfield entry of $517.50. That entry was reversed on March 3, 2015, with a notation that it reversed a 2013 manual accounts payable entry. A final credit in the amount of $59,501.11, LRWYE14-358 offset the initial balance to 50-665-928-8. The debit is non-recurring. See **Audit Issue #4**

Audit reviewed the detailed general ledger and there was no activity in the 186-6 account.

BALANCE SHEET EQUITY CAPITAL and LIABILITIES
Common Stock

The balance in account #50-310-201-0, Common Stock, at 12/31/2014 was $10,000. There was no activity during the test year. Barbara Mason is the sole shareholder and is a director of the Company. The figure agrees with the PUC annual report and with the filing Schedule 2.

Other Paid in Capital

The balance in the Other Paid in Capital account noted on the annual report increased by $271,932 from the prior year-end balance to the 12/31/2014 balance of $1,227,180. The increase is the result of posting costs associated with the Mt. Roberts land and wells, as well as calculation of an allowance for funds used during construction. Audit verified the reported balance to the NDS general ledger account 50-320-207-0, Additional Paid in Capital.

Refer to the Unfinished Construction and AFUDC portions of this report for additional information.

Capital Stock Expense

Capital Stock Expense noted on the annual report and filing Schedule 2 reflects a debit balance of $(7,360) as of 12/31/2014. The figure was verified to the NDS general ledger account 50-330-213-0.

In 2009, the Company reclassified $18,405 from Regulatory Expense, account 665-928 to Capital Stock Expense, account 330-213. These costs represent the remaining half of costs related to expenses incurred during PUC Docket DW 08-070 that were financed by an equity infusion by Thomas A. Mason and Barbara G. Mason (DW 08-070, Order #24,954).

The balance in Capital Stock Expense is being amortized over a ten year period (beginning in 2009) using account 50-675-426-9, Amortization Expense-Capital Stock. The total amount booked to amortization expense for 2014 was $1,841. The amortization was verified to the filing Schedule 1.

Retained Earnings

For the year ended 12/31/2014, the retained earnings figure shown on the annual report and the filing Schedule 2 is $610,827, which incorporates net income for the year of $59,157.

Audit reviewed the balances in the accounts used for retained earnings, with the following result:

Division Number	Division Identifier	inter-div profit distribution xx-380-217-1	Interdivision offset xx-395-999-0	NET
1	FEH	$ (31,128)	$ 60,894	$ 29,766
2	PS	$ 902,126	$ 551,250	$ 1,453,375
3	WP	$ (78,885)	$ 44,578	$ (34,307)
4	WV	$ 32,349	$ 65,621	$ 97,970
5	HV	$ (293,492)	$ 180,353	$ (113,139)
6	WC	$ 10,537	$ 57,301	$ 67,837
7	PC	$ 37,808	$ 47,407	$ 85,215
8	DR	$ (21,547)	$ 42,623	$ 21,075
9	WG	$ 35,763	$ 77,607	$ 113,370
10	ELW	$ (5,292)	$ 32,173	$ 26,881
11	BH	$ 20,509	$ 33,084	$ 53,593
12	TWW	$ (24,563)	$ 220,673	$ 196,110
13	175 Estates	$ (46,280)	$ 30,726	$ (15,554)
14	DC	$ (11,678)	$ 11,636	$ (42)
15	LOV	$ 1,004	$ 144,106	$ 145,110
16	IM	$ (112,356)	$ 36,436	$ (75,920)
17	GG	$ (74,536)	$ -	$ (74,536)
50	Admin	$ (309,099)	$ (1,208,708)	$ (1,517,808)
	Sub-total	$ 31,239	$ 427,757	$ 458,997
50-380-217-0 Ret Earn				$ 91,485
	TOTAL			$ 550,481
	plus 2014 earnings per annual report			$ 59,157
				$ 609,638
	Retained Earnings per Annual Report			$ 610,827
	Variance gl vs. annual report			$ (1,189)

In response to an inquiry regarding the variance of $1,188.94, the Company phoned the Audit division indicating that the NDS should basically agree with the annual report. The Company then noted that the difference "*is the second of two uncorrected database entries. This has been an error correction from NDS balances since 2011. This was caused by some computer glitch at the time...*" The other account which does not agree between the Excel sheets and the NDS is account # 17-180-105-0, Gunstock Glen, Unfinished Construction. Refer to that portion of this report for further information. **Audit Issue #5**

Audit requested clarification of the Inter-division Profit Distribution and the Inter-division Offset accounts, as well as how the earnings are allocated. **Audit Issue #5**

Debt

Long-Term Debt

The Company trial balance reports the remaining balance on CoBank long-term debt of $780,824 on 12/31/2014. This amount ties with the rate filing schedule 4A. The total is split among three loans with CoBank. All three loans with CoBank were approved by the Commission in DW 13-335, Order No. 25,655 dated April 29, 2014. A CoBank statement for period ending 01/30/2015 was provided by the Company confirming the terms set by the Commission in DW 13-335. While the statement is outside of the test year, the Company indicated that the terms had not changed.

The first CoBank loan is a 5.25% 15 year note for $474,567 and is due to mature in June 2029. The loan was approved for refinancing three TD Banknorth loans. The 2014 year-end balance of the 15 year loan is $461,341.

The second CoBank loan is a 3.45% 5 year note for $318,810 and is due to mature in June 2019. The loan was approved for payments to reduce the accounts payable outstanding balance. The 2014 year-end balance of the 5 year note is $288,483.

The third loan of $50,000 is a 1 year revolving line of credit with a current accruing rate of 2.17%. The loan was approved for "as-needed basis". The line of credit balance at the end of the year is $31,000.

The long-term balances tied to the Company NDS general ledger account 50-260-226 and 50-260-266. The above loans are incorrectly recorded and should be recorded in account #224, Other Long-term Debt. Account 226 and 266 are not found in the PUC chart of accounts. **Audit Issue #6**

Other Long Term Debt Note Payable

A review of the test year shows that there were seven other long term notes payable. One of the loans matured during the year. The remaining six loans were reported on schedule 4A of the filing with a reported balance at the end of the year of $138,854. The other long-term balances tied to the Company NDS general ledger account 50-260-225 and 50-260-226. The above loans are incorrectly recorded and should be recorded in account #224, other long-term debt. Account 225 and 226 are not found in the PUC chart of accounts. **Audit Issue #6**

During the review of the long term notes payable Audit noted that two vehicle loans did not have PUC approval prior to purchase. The first is a $31,301 loan for a 2011 Ford F350XL pickup. The loan was issued in September 2010 and will mature in September 2015. The second is a $32,509 loan for a 2011 Ford F150 XL pickup and will mature in July 2016. See DW 14-285, Order No. 25,753 granting LRWC after-the-fact approval to purchase four 2013-2014 vehicles. **Audit Issue #7**

Interest/Long-Term Debt and Notes Payable

The overall total interest reflected on the annual report schedule F-35, $63,513 was verified to the seventeen divisions' interest expense NDS general ledger accounts xx-730-427-0.

Long-term Debt	$32,407
Notes Payable	$ 6,506
Vendor Interest	$24,600
	$63,513

Audit reviewed the terms of each of the loans and recalculated and tied interest for the Long Term Bank loans, $32,407 to accounts xx-730-427 as follows:

	Reported Interest
TD Banknorth- 5 (Refin)	$ 6,491
TD Banknorth- 6 (Construction)	$ 4,761
TD Banknorth- 7 (syst purch)	$ 2,252
CoBank- (5 year note)	$ 5,571
CoBank- (15 year note)	$13,007
CoBank- (line of credit)	$ 325
Total Long-Term Debt Interest	$32,407

The interest expense for the test year for Other Long Term Notes Payable totals $6,506. This agrees with the Company NDS general ledger accounts XX-730-427-0 and the 2014 PUC Annual Report. Audit reviewed the purchase and sales documents for the Notes payable listed below. The excavator and the 2013/2014 trucks listed below were part of Docket DW 14-285, Order No. 25,753 which granted post purchase approval to LRWC and listed the terms of the purchases in the docket.

	Reported Interest
Cat Financial – Cat Excavator	$ 344
Ford Motor Credit- 2011 Ford F350XL	$ 740
Ford Motor Credit- 2011 Ford F150XL	$1,239
Ford Motor Credit- 2013 Ford F250 Super	$1,963
Ford Motor Credit- 2013 Ford F250 Super	$1,442
Ford Motor Credit- 2014 Ford F150	$ 778
Total Other Long-Term Debt Interest	$6,506

Interest Expense /Other

Audit verified the total $24,600 to general ledger accounts #XX-730-427-0. There were a total of 31 vendors, municipalities, insurance companies, credit card companies, finance companies, utilities, as well as the State of New Hampshire $14,795 and payroll taxes $4,608 included in the listing. **Audit Issue #8**

Audit requested backup of the State of NH interest amount of $14,795. The response received from LRWC was that the figure represented interest for the State Utility Property tax for 2011, 2012 and 2013. When Audit reviewed the Utility Property Tax for the test year it was confirmed that the tax and interest for all years was paid in full in September 2015. On 10/1/2015, Audit requested clarification from the company regarding where the credit was booked for those interest expenses identified as paid, but not actually paid until September 2015. **Audit Issue #8**

Audit also requested clarification regarding the Payroll Tax interest. **Audit Issue #8**

Accrued Interest

Accrued Interest, account 50-238-237-0 reflected $3,371 on the general ledger at year-end 2014. This amount agrees with annual report and filing Schedule 2. Audit chose a random sampling of the Company's accrued interest and requested backup of the calculations. Audit verified the accrued interest calculations on three CoBank loans totaling $3,016 or 90% of the total accrued interest reported on Schedule F-35.

CoBank 15 year loan	$2,091
CoBank 5 year loan	$ 868
CoBank line of credit loan	$ 57
Accrued interest verified	$3,016

Accounts Payable

For the test year ending 12/31/2014, Schedule F-1 of the PUC annual report, reflects a year-end balance of $196,553, a reduction from the prior year of $377,129. These amounts agreed with the rate filing, Schedule 2, submitted by the Company. The balance was carried on the LRWC ledger in four separate accounts:

Accounts Payable	50-210-231-1	$202,025
Accounts Payable – Manual	50-210-231-5	$ (5,472)
Accounts Payable – Restruct. Pmt.	50-210-231-7	$ -0-
Accounts Payable – LRW Water Service	50-210-231-9	$ -0-
		$196,553

Lakes Region has two Accounts payable aging reports. One report is electronic in Excel and contains the majority of the transactions. The transactions associated with this report are booked in account 50-210-231-1. This report was tied back to the general ledger and annual report without exceptions.

The second accounts payable aging report is booked to account 50-210-231-5 and is for manual transactions. This report was also tied back to the general ledger and annual report without exceptions.

Audit reviewed both aging reports in detail. Two vendors, LRW Water Services ($73,309) and State of New Hampshire's ($31,750) accounts payable represent 53% of the total payables due. LRW Services total due ranges from current to 366-730 days past due. The State of NH total is current to 91-120 days past due.

Of the $196,533 Accounts Payable due 45% of that total is current. 23% is 31-60 days outstanding and 6% of the total is 366-730 days outstanding. The remaining 26% is in the 61-365 days outstanding categories.

Account 50-210-231-7 had a zero balance at the end of the year. Debits and credits throughout the year both equal $96,142. This account is used when LRWC makes a partial payment on an invoice. They credit the initial balance of the account and then debit the invoice total into individual payments. This helps keep the regular AP account clean as it does not allow for partial payments.

Account 50-210-231-9 did not have any activity during 2014.

<u>Customer Deposits</u>

The Customer Deposit balance in account 50-220-235-0 was $1,956 at the end of 2014.

Audit requested a listing of all customer deposits including, the date the deposit was taken, the original deposit amount, and interest earned.

Lakes Region provided a history transaction, bank deposit ticket, and signed deposit agreement for one customer. Audit reviewed the transaction history and discovered there was no interest being applied to the account for the deposit received. Audit then requested additional information including how interest is calculated on customer accounts and all deposits collected totaling the account balance of $1,956.

Lakes Region provided history transactions for all customers who have paid a deposit and a copy of the miscellaneous charge list that LRWC keeps. Also included was the following note:

> *"From the lack of clarity on the regulation, customers were not reimbursed deposits. The error has now been recognized and corrections to reimburse customers have been made. Moving forward, strict adherence to the regulation will be followed."*

> PUC rule 1203.3 (l) (2) notes:
> "All deposits shall accrue simple interest from the date of the deposit to the date of termination"

Audit reviewed all of the history transaction reports for all customers who have paid a deposit back to 2009. At no time was interest paid on any of the deposits received. **Audit Issue #9**

The history transaction reports showed that in 2010 and 2011, when a customer was final billed for service, the deposit amount was used to offset the final billing. The general ledger shows that any remaining deposit, after the final bill was paid, was refunded back to the customer.

From 2011 to present, deposits were billed on the customer's account and once paid reduced their balance to zero. Several of the customers were final billed and a balance due was left on their account. After approximately one year from the final billing, the balances due were written off as bad debt. The deposit amount, plus interest, was never given back to the customer or used to offset the bad debt. **Audit Issue #9**

The history transaction report also showed that LRWC was applying a finance charge to the outstanding deposit amount. Audit verified with the PUC's Consumer Affairs department, who stated that deposit should not accrue finance charges as customers are allowed to pay them in installments (usually 3 months). **Audit Issue #9**

Puc rule 1203.03 (l) (5) notes that "The entire deposit plus interest accrued shall be refunded when all bills have been paid without arrearage for 12 consecutive months for a residential customer and 24 consecutive months for non-residential customer". When LRWC did return deposits back to the customer, it was not until after a final billing was completed.

Lakes Region, as noted above, is in the process of correcting their error. They have submitted supporting documentation to Audit showing the customer's original deposit amount, deposit total including accumulated interest, less any bad debt. LRWC is attempting to return all remaining deposit amounts back to the appropriate customers. Approximately $1,200 is to be returned to customers.

The customer deposits general ledger account shows two deposits for the year. A third deposit was received in 2014, however it was billed in 2013 and booked to the GL then.

Unfinished Construction (Construction Work in Progress – CWIP)

Audit reviewed the activity in each of the eighteen divisions' detailed general ledgers. (17 divisions plus Administrative) Eight were identified as having a balance and/or activity within the 2014 test year. All of the other divisions' detailed general ledgers reflected a zero balance and no activity, and are thus not included in the table below.

Unfinished Construction Account

		Beginning Balance	Debits	Credits	Ending Balance
Far Echo Harbor	01-180-	$ 2,500.02	$ -	$ -	$ 2,500.02
Paradise Shores	02-180-	$ 72,463.48	$304,432.92	$ (340,890.71)	$ 36,005.69
West Point	03-180-	$ 16,580.86	$ -	$ -	$ 16,580.86
Tamworth	12-180-	$ 5,629.36	$ -	$ -	$ 5,629.36
175 Estates	13-180-	$ 1,072.50	$ -	$ (1,072.50)	$ -
Indian Mound	16-180-	$ -	$ 32,984.85	$ (18,192.80)	$ 14,792.05
Gunstock Glen	17-180-	$ 14,192.00	$ -	$ -	$ 14,192.00
Administrative	50-180-	$ -	$ 15,805.40	$ -	$ 15,805.40
		$ 112,438.22	$353,223.17	$ (360,156.01)	$ 105,505.38

The balance of $105,505 does not agree with the filing schedule 2.1, which reflects an ending balance of $102,015, or $3,490 less than the general ledger. The variance was noted in the Gunstock Glen division. A trial balance in Excel reflects a total of $10,701, and an overall total of $102,015. Audit requested clarification of the variance and per the Company's outside accountant, the "*difference goes back a number of years and has never been corrected in the NDS data base. The correction will finally be made as we convert to Logics.*" **Audit issue #10**

Paradise Shores GL #02-180-105-0

	Beginning Balance	Debits	Credits	Ending Balance
2010	$ 36,005.69	$ -	$ -	$ 36,005.69
2011	$ 36,005.69	$ -	$ -	$ 36,005.69
2012	$ 36,005.69	$ 35,221.72	$ (4,781.00)	$ 66,446.41
2013	$ 66,446.41	$ 9,037.07	$ (3,020.00)	$ 72,463.48
2014	$ 72,463.48	$304,432.92	$ (340,890.71)	$ 36,005.69

Audit also requested clarification of the $36,006 ending balance of the Paradise Shores division. The balance has been in the account since (at least) 2010. The Company indicated that it represents expenses associated with a well field evaluation adjacent to Skelley's Market on Governor Wentworth Highway. Because the test results were negative, the Company is planning to write off some or all of the balance in 2015.

Allowance for Funds Used during Construction (AFUDC)

The PUC Uniform System of Accounts, General Instructions section 610.01(e)(2)17 reflects: "Allowance for funds used during construction"(AFUDC) includes the net cost for the period of construction of borrowed funds used for construction purposes and an reasonable rate upon the utility's own funds when so used. No allowance for funds used during construction shall be included in these (utility plant) accounts upon expenditures for construction projects which have been abandoned.

- Note:-a. AFUDC, if charged, shall be charged each month upon the balance at the beginning of the month in Unfinished Construction. The period for which interest charges may be capitalized shall be limited to the duration of the construction work and shall not extend beyond the time when the property becomes ready for service. In case construction work is suspended, interest charges may not be capitalized for more than six months thereafter, except under order of the Commission.
- b.-When only part of a plant or project is placed in operation or is completed and ready for service but the construction as a whole is incomplete, that part of the cost of the property placed in operation, or ready for service, shall be treated as "Utility Plant in Service" and the allowance for funds used during construction thereon as a charge to construction shall cease. Allowance for funds used during construction on that part of the cost of the plant which is incomplete may be continued as a charge to construction until such time as it is placed in operation or is ready for service, except as limited in item 17 above."

Debits for monthly calculations should be booked to the Unfinished Construction account, and credits should be reflected in account 420, Allowance for Funds Used during Construction. As described in the USoA, account 420: "This account shall include concurrent credits for allowance for funds used during construction based upon the net cost of funds used for construction purposes and a reasonable rate upon other funds when so used. Appropriate regulatory approval shall be obtained for a "reasonable rate". (See General Instructions 610.01(e)(2)."

AFUDC calculations included in the additions relative to Paradise Shores/Mount Roberts purchase and improvements, do not have Commission approval. The rates used, 8% and 7.5%, were selected by the Company's external accountant as a balance between the allowed rate of return, which he thought would be too high, and the actual cost of debt, which he thought would be too low. There was not an explanation provided for the use of the 8% on one sheet and 7.5% on the other. **Audit Issue #11**

Account #420 was not used to reflect the calculated AFUDC credit entries, rather, the funds were posted to Additional Paid in Capital, account 50-320-207-0. **Audit Issue #11**

Audit reviewed the Unfinished Construction (CWIP) account for Paradise Shores, general ledger account number 02-180-105-0 for the years 2010 through 2014, the period since the prior audit. For this division, the years since the prior audit are summarized as follows:

Year	Beginning Balance	Debits	Credits	Ending Balance
2010	$36,006	$ -0-	$ -0-	$36,006
2011	$36,006	$ -0-	$ -0-	$36,006
2012	$36,006	$ 35,222	$ (4,781)	$66,446
2013	$66,446	$ 9,037	$ (3,020)	$72,463
2014	$72,463	$304,433	$(340,891)	$36,006

The Exhibit #6 of Tom Mason's testimony indicates that the Paradise Shores Mt. Roberts assets were added to Unfinished Construction over the course of the years 2006 through July 2012, during which time, AFUDC was applied to each individual asset. However, the Exhibit #6 does not agree with the general ledger Unfinished Construction balances, either with or without the AFUDC added to the invoiced costs. Audit summed the Exhibit #6 by year for the noted Mt. Roberts detail as follows:

Year	Account	Cost	AFUDC	Total
2006	Wells	$ 27,338	$12,254	$ 39,592
2007	Wells	$ 44,393	$17,460	$ 61,852
2007	Pumps	$ 6,604	$ 2,615	$ 9,220
2007	Mains	$ 350	$ 131	$ 481
2008	Wells	$ 29,744	$ 9,085	$ 38,828
2008	Mains	$ 4,800	$ 1,557	$ 6,357
2009	Wells	$ 11,064	$ 2,943	$ 14,007
2009	Pumps	$ 764	$ 202	$ 966
2009	Mains	$ 2,076	$ 503	$ 2,579
2010	Wells	$ 19,312	$ 2,489	$ 21,801
2011	Mains	$ 69,668	$ 6,581	$ 76,249
TOTAL		$216,113	$55,820	$271,933

Based on the total reported costs, the Company calculated AFUDC on costs not incurred by the Company and not reflected in the Unfinished Construction account 02-180-105-0. The costs were paid by the shareholders. The spreadsheet reflecting the calculated AFUDC reflects when the individual invoice cost was incurred, and continued through July 5, 2012. **Audit Issue #11**

Of the costs for assets (associated with the AFUDC calculations) which were reported to be in service 7/6/2012, $216,113, none was posted to plant in service in 2012. Rather, the reported costs were booked in January and February 2015 for closing 2014. Audit verified the following Plant in Service debits with offsets to the Unfinished Construction account, each referencing "reclassification of Mt. Roberts":

The entries below allocate the total noted "Mt. Roberts" costs of $271,933, which reflects the cost and AFUDC calculations.

02-160-307-2	Wells	$134,421.01	
02-160-311-2	Pumps	$ 8,637.65	
02-160-331-4	Mains	$ 71,744.00	
50-320-207-0	Additional Paid in Capital		$214,802.66

02-160-307-2	Wells	$44,230.48	
02-160-311-2	Pumps	$ 2,817.55	
02-160-331-4	Mains	$ 8,771.71	
50-320-207-0	Additional Paid in Capital		$55,819.74

02-160-331-4	Mains	$ 5,150.00	
02-160-307-2	Wells		$2,570.51
02-160-311-2	Pumps		$1,269.59
50-320-207-0	Additional Paid in Capital		$1,309.90

Overall "Mt. Roberts" plant booked to the asset accounts (in 2014), including AFUDC, sums to $396,205. Of that figure, $124,273 was incurred after the July 5, 2012 date, and thus not included in the AFUDC calculation detailed above. The entry below is not included in the total reported in Tom Mason's testimony, because it was not financed by the shareholder. Rather, these Mt. Roberts related costs were incurred during 2014 and funded through the normal course of business, which is why the offset was noted in Unfinished Construction.

02-160-304-2	Structures	$69,796.32	
02-160-307-2	Wells	$15,691.96	
02-160-311-2	Pumps	$32,302.12	
02-160-331-4	Mains	$ 2,389.05	
02-160-334-4	Meters	$ 4,093.53	
02-180-105-0	Unfinished Construction		$124,272.98

Of the reported AFUDC on Exhibit #6, $55,819.74, none was noted within the Unfinished Construction account. The Excel calculation in total was verified to one entry booked on 2/18/2015 for closing 2014.

An additional entry includes an additional $1,309.54 in Additional Paid in Capital. See the entry above. Audit requested clarification of the Additional Paid in Capital, and was provided with a journal entry which stated that an adjustment was made after "additional information" was obtained. The Finance Manager could not provide further information. **Audit Issue #11**

Refer to the <u>Additions to Plant 2014</u> portion of this report for audit results of Mt. Roberts asset review.

Audit reviewed the testimony of Tom Mason which discusses the DES approval of the Mt. Roberts well as a small production well on July 7, 2012. Certain conditions, such as permanent ownership of the land, were included with the DES approval. As of the date of this audit report, the ownership has not been conveyed to Lakes Region Water, rather, remains the property of the Thomas A. & Barbara C. Mason 1994 Trusts. According to the Carroll County Registry of Deeds, in September 2006, Mr. and Mrs. Mason purchased the property from N. Montague for $200,000. In October 2006, the Masons transferred ownership into the Thomas A. Mason 1994 Trust (at no sale price), and in April 2011, again transferred the ownership into the Thomas A. and Barbara C. Mason 1994 Trust (at no sale price). Audit did not see the $50,000 additional payment to Ms Montague, listed on Exhibit 6 of Tom Mason's testimony.

Audit reviewed the property records for the Moultonborough parcel, tax map 71, lot 6 known as 451 Governor Wentworth Highway. The parcel is 41.7 acres, with one house on it. The tax valuation details according to the town's records are:

Year	Land	Improvements	Total Valuation	Tax Rate	(Estimated) Tax
2012	$255,900	$36,300	$292,200	$8.56	$2,501
2013	$180,400	$39,300	$219,700	$8.69	$1,909
2014	$180,400	$39,300	$219,700	$8.86	$1,946
2015	$180,400	$39,300	$219,700	not set at time of report	

The taxes on the Mt. Roberts parcel were properly not paid by the Company. The data is included herein to reflect the lack of change to the improvements valuation over the course of the municipal property tax years. The detail is also included to reflect the ownership status has not changed.

Included in the plant in service figure related to Mt. Roberts is a capital cost of $2,500 in 2013 for Applied Economic Research. $3,000 had been expensed (in 2013). The total $5,500 related to a report prepared by Applied Economic Research, Inc. which was hired to update an appraisal of the Mt. Roberts lot in Moultonborough. The draft confidential report, dated 10/2013, was reviewed on site by Audit. Refer to the $69,896 2014 addition to Plant portion of this report for additional information.

Utility Plant in Service

Audit reviewed the PUC annual report details from the prior audit period (test year 2009), which are summarized as follows:

Year	Beginning Balance	Additions	Retirements	Adjustments	Ending Balance
2010	$4,268,994	$110,056	$(68,029)	$(126)	$4,310,895
2011	$4,310,895	$113,629	$(47,380)	$ (12)	4,377,132
2012	$4,377,132	$ 97,786	$(65,326)	$ 2	$4,409,594
2013	$4,409,594	$190,969	$(99,421)	$ 7	$4,501,149
2014	$4,501,149	$608,475	$(74,913)	$ (2)	$5,034,709

A selection of additions and retirements was made for each year.

Transportation Equipment and Common Assets

Audit was provided with clarification of the accounting treatment relating to Transportation equipment:

"*The Company maintains all Administrative Division #50 plant in accounts numbered 50-160-plant asset number (these are mainly plant numbered 303.5 through 347.5). The Company allocates the total of the individual Administrative plant assets to its 17 operating divisions by utilizing account numbers XX(division identifier) – 162 – plant asset number. By using accounts with 162 in the number we are able to maintain a Company-wide total for assets costs in accounts with 160 in its number and any add all accounts from all divisions with 162 in its number to verify that full allocation of Division 50 has accrued.*

As has been the practice for close to 20 years the Company retires partial assets (individual CPR record) such as mains by reducing the asset cost by the retirement amount, such as the $5,000 and reducing the Accumulated Depreciation Account by a similar amount. Since the original asset record continues to depreciate the Company depreciates a negative amount for the partial retirement which when added together have the effect of depreciating the net amount of the asset after retirement.
The retirement in 2013 of the $52,696 transportation equipment was properly retired by a credit to the asset account and a debit to the accumulated depreciation account. The asset was traded for new asset and had a trade in value of $15,000. The $15,000 was properly credited to the accumulated depreciation account with the offsetting debit being recorded as part of the cost of the new vehicle. The Company's F-8 supplemental schedules for 2013 show the activity for total Company as well as each of the divisions. For transportation equipment see line 38 of the F-8 with column (i) showing the total current year depreciation, column (j) showing the total retirement cost $53,696, column (m) showing the trade in value of the vehicle, columns (k),(l),(o) have entries in the individual divisions but total to the total page as zero since these are the columns that indicate the allocation activity for the year.
In a similar fashion the 2014 retired asset amount of $63,727 is recorded as a reduction of accumulated depreciation and shown in Schedule F-8 for 2014 on line 38 column (j) and the sale/trade $15,000 of the vehicles was recorded as an increase to accumulated depreciation and is reported in F-8 in column (m)... "

2010 Additions

Of the $110,056 identified in the 2010 PUC annual report, Audit selected $71,083 or 65% for detailed review.

Paradise Shores	02-160-331.4, Mains	$ 8,891
Paradise Shores	02-160-331.4, Mains	$12,520
West Point	03-160-307.2, Wells	$ 8,781
Wentworth Cove	06-160-311.2, Pumps	$ 3,590
Administrative	50-160-341.5, Transportation Equip.	$37,301
		$71,083

The Paradise Shore entries to 02-160-331.4, Mains were traced to continuing property records compiled by the Company.

LRW Water Service, Inc.	$7,741
LRW Water Service, Inc.	$1,420
	$8,891

$8,891 is the total cost to replace 400 feet of 2" PVC pipe on Bluebird Lane. An invoice from LRW Water Service, Inc. for work done on 8/5 and 8/6/2010 was provided to the Company on 3/30/2011, seven months after the work was performed. That $7,741 invoice outlined the equipment used, labor, and materials. A second invoice, also dated 3/30/2011 for clean-up of the site using an excavator, bulldozer, road grader, 10 wheel dump truck, and 2 loads of gravel on 8/9/2010 was provided, for a total of $1,420. Per hour costs noted for the equipment complies with the affiliate agreement dated 2/15/2010, and later approved by Order #25,578.

The second entry for Paradise Shores Mains, $12,520, was traced to continuing property records compiled by the Company

LRW Water Service, Inc.	$ 3,454
LRW Water Service, Inc.	$ 1,563
LRW Water Service, Inc. and Workorders	$ 7,505
	$12,520

The $3,454 was verified to two invoices from LRW Water Service, Inc. Both invoices were dated 3/30/2011. One invoice was for the digging of test pits, labor, and the use of an excavator on 4/26/2010 in the amount of $495. The second invoice, in the amount of $2,959 was for work done 6/21/2010 to install service lines under Paradise Drive and the corner of Meadow Lane and Glenn Ave. The invoice included costs for labor, use of a front-end loader, curb stop assemblies, and saddles.

$1,563 was verified to one invoice dated 3/30/2011 for work done 8/23/2010. The CPR indicated that a main was lowered at the junction of Paradise and Fawn. The invoice consisted only of the use of an excavator for 12.5 hours (at a cost of $125 per hour). There were no LRW Water Service labor costs included.

$7,505 CPR indicated the work was done to replace a 6" main at the junction of Paradise and Leisure and to replace the 6" tee and ball-valve at Paradise and Hideaway. The total $7,505 consisted of three individual LRW Water Service and seven workorders. The LRW Water invoices were for work done 9/22/2010, 9/23/2010, and 9/29/2010. Again, each was dated 3/30/2011. One invoice for $575 was for the use of an excavator to dig test pits. Another in the amount of $1,210 was for the use of two excavators used to change the ball-valve and tee at the corner of Hideaway Lane. The third LRW Water invoice, in the amount of $1,125, was for changing the 6" line across Paradise Drive to Leisure Drive. The workorders represented time incurred by three Company employees' payroll plus 29.2% calculated benefits, plus any materials. The Company employees worked on the identified project 9/21/2010 9/22/2010, 9/23/2010, and 9/29/2010. One additional workorder entry in the amount of $219 was for installation of a new 2" pvc on Blackbird Lane on 8/5/2010. While this workorder does not support the specified CPR, the asset appears to accurately be noted in account 02-160-311-2, Mains.

Audit verified the mains to the "2014 LRW detail depr workbook", which is an Excel based compilation of every asset, by division, by utility plant account. The sheet details the book cost, depreciation rate, expenses by year, and rolling accumulated depreciation. The mains were noted at the book cost summarized above, and were property depreciated, using the ½ year convention in 2010, over the 50 year life recommended in the Small Water Booklet.

The West Point 03-160-307.2, Wells $8,781 was verified to a continuing property record identifying the costs as the clean out of blue well #3 to 500 feet. There were no retirements associated with this capital cost. The CPR identified the costs from 6/18/2010 through 8/9/2010. An invoice from Skillings, in the amount of $4,550 was for the transport and use of a drilling rig. Workorders from three Company employees specified work related to the well improvements, installation of valves and blow-offs, controls, paperwork related to the inactive well. Each employee workorder indicated the hours, job, division, labor and benefit total. Three invoices from LRW Water Service, all dated 3/30/2011 were also reviewed. One, dated 6/28/2010 in the amount of $300 was for assisting with setting the pump in the drilled out well. One, dated 6/29/2010 in the amount of $400 was for assisting with the start-up of the new well. One, dated 8/9/2010 in the amount of $300 was for the installation of a new well pump and motor at the pump station.

The well figures for West Point were verified to the "2014 LRW detail depr workbook", to be depreciated over 50 years. In the year 2010, the rate was noted to be 1%, and 2% thereafter.

The Wentworth Cove addition of a well pump in the amount of $3,590 was verified to the Company's continuing property record. The work began in May 2010 and was completed in August 2010. The addition of the well pump equipment was verified to the NDS general ledger account 06-160-311-2. The total is comprised of:

Water Industries Invoice	$1,715
East Coast Crane Service Invoice	$ 600
LRW Water Services Inc.	$ 300
East Coast Crane Service Invoice	$ 975
Total Additions to Pumps	$3,590

The pump figure for Wentworth Cove was verified to the "2014 LRW detail depr workbook", to be depreciated over 10 years. In the year 2010, the rate was noted to be 5%, and 10% thereafter.

The Administrative addition of a Ford F-350 dump truck in the amount of $37,301 was verified to the Company's continuing property record. The truck was purchased in September 2010. Audit reviewed the dealer invoice without exception. The Company traded a 2003 GMC dump truck and received $6,000 trade in allowance for this purchase. The addition of the transportation equipment was verified to the NDS general ledger account 50-160-341-5. The total is comprised of:

Granite Ford Invoice	$37,301
2003 GMC trade in value	$ 6,000 (see retirement below)
Net paid for Ford F-350	$31,301

The transportation figure of $37,301 was verified to the "2014 LRW detail depr workbook", to be depreciated over 7 years. In the year 2010, the rate was noted to be 7.14%, and 14.29% thereafter.

2010 Retirements

Of the $68,029 identified in the 2010 PUC annual report, Audit selected $41,890 or 62% for detailed review.

Paradise Shores	02-160-331.4, Mains	$ 5,000
Wentworth Cove	06-160-311.2, Pumps	$ 3,271
Administrative	50-160-341.5, Transportation Equip.	$33,619
		$41,890

The CPR for the Paradise Shores pipe main retirement indicated that the $5,000 was the original cost for 1000 feet of 4" pipe purchased in 1973. The retirement posted to the following accounts, according to the CPR summary sheet:

02-165-108-0, Accum Dep.	$5000	
02-160-331-4, Mains		$5,000

Audit reviewed the "2014 LRW detail depr workbook" Excel spreadsheet and noted that a retirement of $5,000 was booked in 2010, but because the overall cost of the main was $130,618. In 1990 $11,600 was retired. The specific line on which the accumulated depreciation is listed for this 2010 retirement reflects a credit balance of $(4,835). The worksheet did not reflect the ½ year expense that should have been related to this asset. However, Audit cannot conclude what depreciation expense was booked for the remaining 1973 plant, as the accumulated depreciation for both the 1990 retirement and the 2010 retirement are reflected as credit balances of $(7,770) and $(4,835). Refer to the section above entitled Transportation Equipment and Common Assets

The Wentworth Cove $3,271 represents the sum of three specific pumps. The CPR indicated that one centrifugal pump was purchased in 1987 at a cost of $858. Another indicated that a 5HP pump was purchased in 1979 for $2,250. The final CPR indicated that $163 was for the original cost for a pump purchased in 1988. The sum of the three retirements posted to the following accounts:

06-165-108-0, Accum Dep.	$3,271	
06-160-311.2, Pumps		$ 858 - 1987 pump
06-160-311.2, Pumps		$2,250 - 1997 pump
06-160-311.2, Pumps		$ 163 - 1988 pump

Audit reviewed the "2014 LRW detail depr workbook" Excel spreadsheet, and noted the original cost of the 1979 pump to be $2,550. At the time the pump was retired, $2,250 was keyed into the spreadsheet, rather than using the formula within the sheet. The $300 error has not been addressed. **Audit Issue #13**

The CPR for the Administrative transportation equipment retirement indicated that the $33,619 was for the original cost for the GMC dump truck purchased in 2003. That book cost was verified to the "2014 LRW detail depr workbook", to be depreciated over 7 years. In the year 2010, the rate was noted to be 7.14%, and 14.29% thereafter. The ½ year convention for the expense was noted in the 2010 column. The spreadsheet reflected the the retirement figure of $27,619, rather than the full book cost. The journal entries reflected the credit of the full

$33,619 to plant and debit to accumulated depreciation. The $6,000 trade-in was booked as a credit to Accumulated Depreciation and debit to plant.

2011 Plant Additions

Of the $113,629 identified in the 2011 PUC annual report, Audit selected $67,799 or 60% for detailed review.

Far Echo Harbor	01-160-331.4, Mains	$27,981
Administrative	50-160-341.5, Transportation Equip.	$ 5,750
Administrative	50-160-341.5, Transportation Equip.	$34,068
		$67,799

The Far Echo Harbor addition to mains in the amount of $27,981 was verified to a continuing property record related to Crest Lane. The work began in April 2011 and was completed in June 2011. The total is comprised of:

Workorders three Company employees April	$ 1,636
Workorders three Company employees May	$ 3,663
Workorders three Company employees June	$ 373
Buckey Blasting May	$10,350
LRW Water Service May	$11,959
Total addition to mains	$27,981

Audit reviewed the workorder documentation for April and noted one expense of $97 was incurred for moving screened sand which had been hauled and dropped to the wrong street. This cost should have been expensed rather than capitalized, but due to the immateriality of it, Audit does not recommend moving the $97.

Audit also noted that the invoice from LRW Water Service was issued 5/17/2011 for work done between 5/18/2011 and 5/24/2011. The details on the invoice for excavating, moving blast mats, installing the main, cleaning of the area, costs for screened sand, and gravel were reviewed for reasonableness with no issues, although the timing of this invoice appears to have been prior to the specific work being done.

Audit verified the mains to the "2014 LRW detail depr workbook", which reflected the $27,981 book cost, being depreciated using the ½ year convention in 2010, over the 50 year life recommended in the Small Water Booklet.

The Administrative addition to transportation equipment in the amount of $5,750 was verified to a continuing property record and the Rochester Truck invoice. The trailer was purchased in October 2011. The addition of the transportation equipment was verified to NDS general ledger account 50-160-341-5.

The Administrative addition to transportation equipment in the amount of $34,068 was verified to a continuing property record. The 2011 Ford F-150 was purchased in July 2011. The addition of the transportation equipment was verified to NDS general ledger account 50-160-341-5. The total is comprised of:

Granite Ford Invoice	$33,469
Truck Trends Invoice- Bed liner	$ 559
Total additions to transportation equipment	$34,068

Audit verified that both the trailer and truck were identified on the "2014 LRW detail depr workbook", with a 7 year asset life. The ½ year convention was noted in 2010.

2011 Plant Retirements

Of the $47,380 identified in the 2011 PUC annual report, Audit selected $3,463 or 7% for detailed review.

Far Echo Harbor	01-160-331.4, Mains	$2,263
Administrative	50-160-341.5, Transportation Equip.	$1,200
		$3,463

The CPR for the Far Echo Harbor main retirement indicated that the $2,263 was the original cost for 900 feet of 4" pipe purchased in 1973. The retirement posted to the following accounts, according to the CPR summary sheet:

01-165-108-0, Accum Dep.	$2,263	
01-160-331-4, Mains		$2,263

Audit verified that the mains were identified on the "2014 LRW detail depr workbook", with a 50 year asset life. The ½ year convention was not noted in 2011. **Audit Issue #14**

The CPR for the Administrative transportation equipment retirement indicated that the $1,200 was the original cost for a 2000 excavator trailer. The retirement posted to the following accounts, according to the CPR summary sheet:

50-165-108-0, Accum Dep.	$1,200	
50-160-341-5, transp. equip		$1,200

Audit verified that the trailer was identified on the "2014 LRW detail depr workbook", with a 7 year asset life. The ½ year convention was not noted in 2007, when the trailer would have been fully depreciated. **Audit Issue #14**

2012 Plant Additions

Of the $97,786 identified in the 2012 PUC annual report, Audit selected $67,815 or 69% for detailed review.

The Woodland Grove pump house structure addition in the amount of $67,815 was verified to a continuing property record. The project was started in February 2012 and was completed in December 2012. The addition of the structure was verified to NDS general ledger account 09-160-304-2. The total is comprised of:

February invoices	$ 4,584
February work orders	$ 1,303
LRW Water Service March	$ 6,481
March invoices	$18,147
March work orders	$ 5,231
April invoices	$ 23,820
April work orders	$ 3,994
May invoices	$(17)
May work order	$ 121
June invoices	$ 892
June work orders	$ 1,546
July invoice	$ 508
August invoice	$ 149
September invoice	$ 254
LRW Water Service December	$ 800
Rounding	$ 2
Total additions to pump structure:	$ 67,815

Audit verified that the total was identified on the "2014 LRW detail depr workbook", with a 40 year asset life. The ½ year convention was noted in 2012, at 1.25%, and 2.50% thereafter.

Additional Information 2012 Addition

There were a total of $6,105 assets posted to Paradise Shore in 2012. None was selected for testwork. The support provided in the current filing, Tom Mason, Exhibit #6, indicates that the Mt. Roberts assets with $216,113 costs and $55,820 AFUDC were placed in service on 7/5/2012. The filing and the 2012 annual report do not agree. Refer above to the Unfinished Construction and AFUDC sections for further information. Those reported Mt. Roberts additions (in the Paradise Shore division) were added to Plant in 2014 through manual entries in 2015.

2012 Plant Retirements

Of the $65,326 identified in the 2012 PUC annual report, Audit selected $40,932 or 63% for detailed review.

Woodland Grove	09-160-304.2, Structures	$17,944
Administrative	50-160-341.5, Transportation	$22,988
		$40,932

The CPR for the Woodland Grove structure retirement indicated that the $17,944 was the original cost of the Woodland Grove pump house constructed in 1991 and additional work in 1992 and 2004. The retirement posted to 09-165-108-0, Accum Dep (Debit) and 09-160-304-2, Mains (Credit).

The total is comprised of the following:

Original CPR	1991	$15,463
WO #92026	1992	$ 929
WO #92034	1992	$ 75
WO #92061	1992	$ 68 = $1,093
WO #92190	2004	$ 21
WO #40674	2004	$ 354
WO #40734	2004	$ 1,034 = $1,388

Audit verified that the each of the three individual plant figures was identified on the "2014 LRW detail depr workbook", with a 50 year asset life. The total represents $17,944.

Structures should be depreciated over 40 years. In addition, in 2012, when the plant was retired, there was no depreciation expense taken. **Audit Issue #14 and Audit Issue #15**

The Administrative transportation retirement of $22,988 was verified to the continuing property records for a 2007 GMC Sierra, purchased in July 2007, and a cap for the truck purchased in 2008. The total book value of the two assets, $22,988, was credited to the Transportation account 50-160-341.5 and debited to Accumulated Depreciation 50-165-108.0. Each entry was then allocated across the seventeen systems. The truck was sold (private sale) for $4,800 with the proper accounting of a debit to Cash and credit to Accumulated Depreciation identified.

Audit verified that the total was identified on the "2014 LRW detail depr workbook", with a 3 year asset life, rather than the Small Water Booklet recommendation of 7 years. The ½ year convention was not noted in the year of retirement. **Audit Issue #14 and Audit Issue #15**

2013 Plant Additions

Of the $190,969 identified in the 2011 PUC annual report, Audit selected $147,567 or 77% for detailed review.

Paradise Shores	02-160-331.4, Mains	$ 39,692
Paradise Shores	02-160-334.4, Meters	$ 9,631
Pendleton Cove	07-160-311.2, Pumps	$ 7,837
Administrative	50-160-341.5, Transportation	$ 90,137
		$147,297

The Paradise Shores addition to Mains in the amount of $39,692 was verified to a continuing property record related to Paradise Drive. The work began and was completed in October 2013. The addition of the mains was verified to NDS general ledger account 02-160-331-4. The total is comprised of:

Water Industries Invoice- 111087	$ 1,328
Water Industries Invoice- 111118	$ 58
Water Industries Invoice- 111159	$ 298
Water Industries Invoice- 111194	$ 353
LRW Water Service Invoice #100439	$26,272
Workorders two Company employees October	$11,383
Total addition to Mains	$39,692

Audit verified that the total was identified on the "2014 LRW detail depr workbook", with a 50 year asset life. The ½ year convention was noted in 2013, at 1.00%, and 2.00% thereafter.

The Paradise Shore Meters addition of $9,631 was verified to thirty-one individual continuing property records and supporting documentation. Nine of the continuing property records did not agree specifically with the supporting documentation, although eight of the variances were less than $1. One CPR, for meter number 758, was overstated by $95. Specifically, the CPR summary reflected:

Misc. Inventory	$ 853
EJ Prescott	$ 825
EJ Prescott	$ 729
Subtotal Materials	$2,407
Labor	$ 66
Total CPR support	$2,473
Total on CPR sheet	$2,569 overstated by $95 **Audit Issue #16**

Audit verified that the total was identified on the "2014 LRW detail depr workbook", with a 20 year asset life. The ½ year convention was noted in 2013, at 2.50%, and 5.00% thereafter.

The Pendleton Cove Pumps addition of $7,837 was verified to the sum of four continuing property records. Three of the four reflected the accurate total of the invoices from Water Industries, and the fourth reflected the accurate total of an invoice from EJ Prescott. The invoices were for assets such as a 5 hp 3 phase pump, heavy duty pressure switch, 2 hp 20 gpm pump, control box, check valve, adapter, and torque arrestor. Three of the four also included Company employee labor and benefit costs, which were traced to work order support without exception.

Audit verified that the total was identified on the "2014 LRW detail depr workbook", with a 10 year asset life. The ½ year convention was noted in 2013, at 5.00%, and 10.00% thereafter.

The Administrative additions to transportation equipment in the amount of $90,137 were verified to the continuing property records. The $90,137 consisted of the purchase of two Ford F-250 pickups and a small work trailer. The additions of the transportation equipment were verified to NDS general ledger account 50-160-341-5. The total is comprised of:

2013 Ford Pickup purchased August 2013	$31,536	depreciate over 4 years
2012 Work Trailer purchased May 2013	$ 6,150	depreciate over 7 years
2013 Ford Pickup purchased August 2013	$46,918	depreciate over 4 years
Cap and accessories for F-250 pickup above	$ 5,533	depreciate over 4 years
Total addition to transportation equipment	$90,137	

Audit verified that the total was identified on the "2014 LRW detail depr workbook", with the asset life indicated. The ½ year convention was noted in 2013. **Audit Issue #15**

2013 Plant Retirements

Of the $99,421 identified in the 2013 PUC annual report, Audit selected $73,355 or 74% for detailed review.

Paradise Shores	02-160-331.4, Mains	$12,599
Paradise Shores	02-160-334.4, Meters	$ 1,933
Pendleton Cove	07-160-311.2, Pumps	$ 6,127
Administrative	50-160-341.5, Transportation	$52,696
		$73,355

The CPR for the Paradise Shores, Mains retirement indicated that the $12,599 was the original cost of the main on Paradise Drive installed in 1988, and was listed on the "2014 LRW detail depr workbook" on two separate line items: a 1987 entry $10,823 and a 1988 entry $2,076 which sum to $12,899. A $300 adjusting line was also noted, thus reflecting the $12,599. The retirement posted to the following accounts:

02-165-108-0, Accum Dep.	$12,599	
02-160-331-4, Mains		$12,599

Audit verified that the total was identified on the "2014 LRW detail depr workbook", with a 50 year asset life. The ½ year convention was not noted in the year of retirement. **Audit Issue #14**

The CPR for the Paradise Shores, Meter retirements indicated that the $1,933 was the original cost of the meters (27) in Paradise Shores from 1983 to 1986. The retirements posted to the following accounts:

02-165-108-0, Accum Dep.	$1,933	
02-160-334-4, Meters		$1,933

Audit verified that the total was identified on the "2014 LRW detail depr workbook", with a 20 year asset life, in compliance with the Small Water Booklet. The meters were fully depreciated by the time the assets were retired.

The CPR for the Pendleton Cove pump equipment retirement indicated that the $6,127 was the original cost of the pump equipment. Audit verified that the total was identified on the "2014 LRW detail depr workbook", one three individual lines, each with a 10 year asset life.

CPR #21102-07,1988 pump equip	$2,336	1988 addition
WO #93218, 1993 pump	$ 311	
WO #93226, 1993 pump	$ 665	
WO #93233, 1993 pump	$ 162	total $2,227 1993 additions
Invoice Allard Elec, 1993 pump	$ 349	
WO #93448, 1993 pump	$ 65	
Invoice Northeast Sec, 1993 pump	$ 675	
WO #2538, 2009 pump	$1,564	2009 addition

The retirements posted to the following accounts:

07-165-108-0, Accum Dep.	$6,127	
07-160-311-2, Pumps		$6,127

The CPR for the Administrative transportation equipment retirements indicate that the $52,696 was the original cost of the transportation equipment. The retirements posted to the following accounts:

02-165-108-0, Accum Dep.	$52,696	
50-160-341-5, Trans Equip CPR #31		$18,026 2008 Chev Colorado
50-160-341-5. Trans Equip CPR #30		$34,670 2007 Chev Silverado
Total retirement		$52,696

Audit verified that the total was identified on the "2014 LRW detail depr workbook", with a 3 year asset life, rather than the Small Water Booklet recommendation of 7 years. The ½ year convention was not noted in the year of retirement. **Audit Issue #14 and Audit Issue #15**

Audit was unable to determine the accuracy of the calculated Accumulated Depreciation on the "2014 LRW detail depr workbook", as lines for each vehicle were identified, but the total retirement summed to $(37,686). Audit noted two manual adjustments of $52,696 and $(15,000). As a result, for account 50-162-341 the total 2013 retirements sum to zero. Refer to the section of this report entitled Transportation Equipment and Common Assets.

2014 Plant Additions

Of the $608,475 identified in the 2014 PUC annual report, Audit selected $574,299 or 94% for detailed review.

Paradise Shores	02-160-304.2, Structures	$ 69,896
Paradise Shores	02-160-307.2, Wells	$187,837
Paradise Shores	02-160-311.2, Pumps	$ 47,249
Paradise Shores	02-160-331.4, Mains	$ 88,055
Paradise Shores	02-160-334.4, Meters	$ 11,764
Hidden Valley	05-160-339.2, Misc. Equip.	$ 6,239
Lake Ossipee Village	15-160-331.4, Mains	$ 15,139
Indian Mound	16-160-331.4, Mains	$ 42,517
Administrative	50-160-341.5, Transportation	$105,603

Paradise Shores, 02-160-304-2, Structures addition of $69,896 was verified to 14 manual adjusting entries which were posted on January 10, 2015. Each had been included in the Unfinished Construction account 02-180-105-0. The total represents placing assets related to the Mt. Roberts project in the respective plant in service account. These assets are not included in the adjustments to plant which include AFUDC.

Audit reviewed the continuing property records for the $69,896. The lead sheet, prepared for the on-site audit, indicates the unit description as "PS Structures put in service 4/1/14 All from dates ranging 2012 – 2014". 44 invoices from a variety of vendors and work orders were reviewed.

- 16 work orders, summing to $2,666, "cannot be located at time of analysis" **Audit Issue #12**
- $2,500 of a $5,500 appraisal invoice paid to Applied Economic Research was included in the Structures account. $3,000 was expensed in 2013. The appraisal was an update from a prior report and should not be included in the capital cost. The utility did not own the property at the time of the report, and does not own the property as of the date of this audit report. **Audit Issue #12**
- A "progress payment" paid to Michael Quinn Builder in the amount of $5,000 in January 2014 was booked to expense account 02-630-603-1 but should have been included as a capital cost to the structure account 02-160-304-2. Therefore the expense account is overstated and the plant account understated by $5,000. **Audit Issue #12 and Audit Issue #17**
- Audit reviewed an estimated (dated 5/17/2014) from Tim Christian Electric which reflected $26,000 for the installation of 730' of underground 480 volt secondary power from the last electrical pole to the pump station, and for all necessary electrical connections to accommodate two 20 HP pumps (includes all labor and materials. $10,000 was accurately booked to 02-180-105-0, CWIP in October 2014, but the other $10,000 was booked when the negotiation was made, and posted to expense account 02-630-603-1 in May 2014. Therefore the expense account is overstated and the plant account understated by $10,000. **Audit Issue #12 and Audit Issue #17**

Therefore, Audit recommends that the reported 2014 Structures addition total of $69,896 be adjusted as follows:

Total Structures addition per LRWC	$69,896
Reduce by unsupported work orders	$ (2,666)
Reduce by AES capitalized report	$ (2,500)
Increase by Michael Quinn	$10,000
Increase by Tim Christian Electric	$ 5,000
Total Adjusted Structure addition	**$79,730**

Audit verified that the total $69,896 was identified on the "2014 LRW detail depr workbook", with a 40 year asset life. ½ year convention was noted for 2014.

The Paradise Shores, 02-160-307-2, Wells addition of $187,837

Audit reviewed the summarized continuing property records for this Mt Roberts related addition. One record reflects $131,850, one reflects $44,230 AFUDC. Both were supported with a spreadsheet listing 42 individual lines with the vendor name, cost, calculated AFUDC, etc. Of the total costs reported, $131,850 (and thus related AFUDC), the following was noted:

- Invoices were reviewed for all cost line items listed. However, there was no supporting invoice for A&L Labs $310, LRW Water invoice 98098 for $885 listed twice, LRW Water invoice 98287 $592, Tamworth Sand & Gravel $600, and one Hydrosource invoice 2298 lists a payment of $2,000 as an additional invoice rather than simply the invoice total of $2,171, and one Hydrosource invoice 2378 $1,964 could not be located. One work order in the amount of $343 could not be supported. Therefore, a total of $6,351 is on the summary which could not be supported. The related calculated AFUDC sums to $2,236. **Audit Issue #12**
- Audit reviewed an invoice for $440 for crane truck rent, labor to pull pump on 2" galvanized pipe which was "delivered to" Well #1 Solar Village Ladd Hill, Belmont. NH. Paradise Shores is in Moultonborough. **Audit Issue #12**

Therefore, Audit recommends that the reported 2014 Wells addition total of $187,837 be adjusted as follows:

Reported by LRWC	$187,837
Lack of Support A&L Labs	$ (310)
LRW Water Service #98098	$ (885)
LRW Water Service #98287	$ (592)
Tamworth Sand & Gravel	$ (600)
Hydrosource #2298	$ (2,000)
Hydrosource #2378	$ (1,964)
Workorder	$ (343)
Well #1 Belmont	$ (440)
AFUDC related to above	$ (2,236)
Adjusted Wells total	**$178,467**

Refer to the AFUDC portion of this report for detailed description and related Audit Issues.

Audit verified that the $131,850 and $44,230 totals were identified on the "2014 LRW detail depr workbook", with a 40 year asset life. Audit noted that the ½ year convention was applied in 2014. Wells should be depreciated over 30 years per the Small Water Booklet. **Audit Issue #15**

The Paradise Shores, 02-160-311-2, Pumps addition of $47,249

Audit verified the total addition to the sum of seven continuing property records, two of which identified as Mt. Roberts. Six reflect costs relating to stainless steel pumps and related parts, and the work orders for time spent on installation. One CPR simply reflects the calculated AFUDC of $2,817. Audit noted that a pump cost and related supplies in the amount of $4,030 was included twice on CPR #39. The CPR #39 is not part of the Mt. Roberts project, thus there is no related AFUDC calculation. Therefore, the total 2014 should reflect:

Original LRW addition	$47,249
Duplicated pump cost	$ (4,030)
Adjusted Pump cost	**$43,219**

Refer to the AFUDC portion of this report for detailed description and related Audit Issues.

Audit verified that each CPR was identified on the "2014 LRW detail depr workbook", with a ten year asset life, with ½ year convention noted. There should have been a pump replaced, although the spreadsheet did not reflect a retirement. **Audit Issue #18**

The Paradise Shores, 02-160-331-4, Mains addition of $88,055

The figure of $88,055 was noted on the 2014 annual report listing of asset additions for the year. However, Audit was unable to verify the complete amount, as one invoice from RE Prescott in the amount of $2,389 could not be located. **Audit Issue #12**

The remainder of the asset addition, $85,666 was verified to continuing property sheets compiled for the audit.

One CPR in the amount of $76,894 was tied to four LRW Water Service invoices. The CPR relates to the Mt. Roberts project and related AFUDC calculations. Audit cannot determine what invoices were paid, or by whom. The dates on each do not coincide with the work. For example:

- the largest, which outlines specific tasks for the Mt. Roberts project such as installing 1,102 feet of 6" HDPE pipe, sand, gravel for access road, labor, and equipment rentals, indicates that the work was done (or started) on 5/1/2011. The invoice, #100519 is dated 4/9/2014 in the amount of $69,368. There is no evidence that the invoice was paid.
- One invoice in the amount of $2,076 for 300 feet of DR11 HDPE pipe was dated 6/26/2009, and date stamped "paid" on 5/14/2010 (although unsure paid by whom)
- One invoice, for work done 6/16/2008 installing 800 feet of temporary HDPE, in the amount of $4,800 was dated 4/9/2014. There is no evidence the invoice was paid.
- The final invoice dated 11/6/2007 in the amount of $2,220 included one line item on 9/13/2007 in the amount of $350 for installation of a new sleeve under the brook for Paradise Shores. The invoice is date stamped "paid 9/23/2008".

Included in the supported total was the calculation spreadsheet for AFUDC, in the amount of $8,771. Refer to the AFUDC portion of this report for detailed description and related Audit Issues.

Overall, the **total reported in the annual report, $88,055 should be reduced by $2,389.** Further, Audit cannot determine that each of the above LRW Water invoices was paid. **Audit Issue #12**

Audit verified that the total $88,055 was identified on the "2014 LRW detail depr workbook", with a 50 year asset life, and ½ year convention was noted.

The Paradise Shores, 02-160-334-4, Meters addition of $11,764

Audit reviewed thirty eight CPR summaries and supporting documentation. Eighteen of the thirty eight summaries did not agree with the underlying supporting invoice and/or work orders. The overall error is an understatement of the additions of $234, which would bring the total plant addition to $11,998. **Audit Issue #16**

The individual meters were booked at an estimated $130 per instruction of John Dawson. There were two commercial sized meters, invoiced and booked at $2,046 each.

Audit verified that the total $11,764 was identified on the "2014 LRW detail depr workbook", each with a 20 year asset life, and ½ year depreciation in 2014.

The Hidden Valley, 05-160-339.2, Misc. Equip. addition of $6,239 was verified to the general ledger net debits and credits during 2014. The additions were also verified to the "2014 LRWC-detail depr workbook". The depreciation sheet identified the assets and reflected use of the ½ year convention. The controls, panels, control boxes, etc. are being depreciated over a 10 year period, conforming to the Small Water Company Information Booklet. Audit reviewed four individual CPR and related invoices without exception.

The Lake Ossipee addition to Mains in the amount of $15,139 was verified to a continuing property record related to Bennett Road. The work began and was completed in September 2014. The additions of the mains were verified to NDS general ledger account 15-160-331-4. The total is comprised of:

Water Industries invoice 114137	$ 998
EJP invoices September invoices	$ 7,754
FW Webb September invoice	$ 150
Workorders two Company employees September	$ 963
LRW Water Service September	$ 5,274
Total addition to mains	$15,139

Audit verified that the total was identified on the "2014 LRW detail depr workbook", with a 50 year asset life. Use of the ½ year convention was documented for 2014.

The Indian Mound addition to Mains in the amount of $42,517 was verified to a continuing property record related to 1600 feet on Ossipee Lake Drive. The work began in September 2014 and was completed in December 2014. The additions of the mains were verified to NDS general ledger account 02-160-331-4. The total is comprised of:

Workorders three company employees September	$ 1,818
Workorders three company employees October	$ 2,100
Workorders three company employees November	$ 3,697
Workorders one company employee	$ 933
Water Industries invoices	$ 2,965
Evans invoices	$ 200
Prescott invoice	$ 96
FW Webb invoices	$ 379
LRW Water Service September	$ 7,343
LRW Water Service October	$ 7,607
LRW Water Service November	$14,838
Green Oak invoice	$ 541
Total addition to mains	$42,517

Audit verified that the total was identified on the "2014 LRW detail depr workbook", with a 50 year asset life. The ½ year convention was noted.

The Administrative Transportation Equipment additions in the amount of $105,603 were verified to the continuing property records as well as the invoices listed below. The additions of transportation equipment were verified to NDS general ledger account 50-160-341-5. CPR #40 was a purchase of a Ford F150 pickup and the retirement of CPR #33, a 2008 Chevrolet Colorado pickup (see below). CPR #43 was the purchase of a Caterpillar excavator and the retirement of CPR #32 a Mustang excavator (see below). The total is comprised of:

CPR #40 Granite Ford invoice for 2014 F150	$ 32,271	4 year depreciation
CPR #41 Truck Trends invoice truck tools	$ 2,532	4 year depreciation
CPR #42 Alton Motorsports invoice, Fisher plow	$ 5,550	7 year depreciation
CPR #43 Milton Cat invoice, Excavator	$ 65,250	7 year depreciation
Total additions to transportation equipment	$105,603	

Audit verified that the total was identified on the "2014 LRW detail depr workbook",. Two of the four additions were set to depreciate over seven years, in compliance with the Small Water Booklet. Two other additions, the pickup truck and tools, were set to depreciate over four year. **Audit Issue #15**

The ½ year convention was noted for all Transportation additions, whether or not the proper depreciation life was in place.

2014 Plant Retirements

Of the $74,913 identified in the 2014 PUC annual report, Audit selected $67,081 or 90% for detailed review.

Paradise Shores	02-160-311.2, Pumps	$ 478
Paradise Shores	02-160-334.4, Meters	$ 2,876
Administrative	50-160-341.5, Transportation	$63,727
		$67,081

The CPR for the Paradise Shore pump equipment retirement indicated that the $478 was the original cost of the pump equipment installed in May 1998. The asset had been depreciated over a 10 year life, and was thus fully depreciated at the time of the retirement. Audit verified that the total addition and related retirement were accurately identified on the "2014 LRW detail depr workbook". The retirements posted to the following accounts:

02-165-108-0, Accum Dep.	$478	
02-160-311-2, Pumps		$478

The CPR for the Paradise Shores meter retirements indicated that the $2,876 was the original cost of the meters. However, Audit reviewed the "2014 LRW detail depr workbook" to determine the meter book costs and to ensure the accurate figure was retired. Identified as retired in 2014 was the total of $2,812. The total was comprised of 37 meters added originally from the years 1980 through 1999. The variance of $64 is considered immaterial.
Audit verified that each meter was identified on the "2014 LRW detail depr workbook", with a 20 year asset life, in compliance with the Small Water Booklet. However, there was no depreciation expense noted in the year of retirement for those which had not been fully depreciated. **Audit Issue #14**

The CPR for the Administrative Transportation equipment retirements indicated that the $63,727 was the original cost of the transportation equipment. The total is comprised of:

CPR #26, snow plow retired by CPR #42- see additions above	$ 3,662	7 year depreciation
CPR #32,excavator retired by CPR #43- see additions above	$41,200	7 year depreciation
CPR #33, '08 Chevy Colorado retired by CPR #40- see additions	$18,865	3 year depreciation
Total of Administrative retirements:	$63,727	

Audit verified that each plant retirement had been identified on the "2014 LRW detail depr workbook". Two of the three transportation assets were properly identified as having a 7 year depreciation life. The Chevy pickup truck was identified with a 3 year depreciation life. **Audit Issue #15**

As with prior year retirements of Transportation equipment, Audit noted the following in the "2014 LRW detail depr workbook":

Acct Number	CPR Number	Purchase Date	Book Cost	Retired Date	Retired Amount	Deprec. Method	2014 Dep. Expense	2014 Retire to Acc Dep	2014 End Accum Dep
50-160-341-5	26	3/8/2005	$ 3,662	2014	$ (3,662)	SL/7	$ -	$ (3,662)	$ -
50-160-341-5	32	11/13/2009	$ 41,200	2014	$ 41,200	SL/7	$ -	$ (26,200)	$ (1,676)
50-160-341-5	33	5/1/2009	$ 18,865	2014	$ (18,865)	SL/3	$ -	$ (18,865)	$ -
			$ 63,727					$ (48,727)	
50-160-341-5	U			7/1/2013		manual		$ (15,000)	
50-160-341-5	0X			7/1/2014		manual		$ 63,727	
								$ 48,727	

CPR#26, for a snow plow, was properly depreciated over seven years. There was no expense to be incurred in 2014.

CPR#32 for an excavator, was properly depreciated over seve years. There should have been 1/2 year convention booked in 2014. Also, the retired amount does not agree with the book cost. Finally, the reflected ending Accumulated Depreciation figure of $(1,676) does not sum. The variance between the book and the Accumulated Depreciation retirement cost of $26,200 is $15,000.

CPR #33 for a Chevy Colorado, was improperly depreciated over three years. As a result, there was no expense to be incurred in 2014.

Because of the manner in which Transportation equipment is booked, that is, originally to the Administrative division #50, then allocated across all other divisions, Audit reviewed the division #50 "2014 LRW detail depr workbook" to ensure that the total book cost was properly debited to Accumulated Depreciation. With the manual adjustment U $(15,000), identified above, it appears that the total book cost was spread among the other divisions. Refer to the Transportation Equipment and Common Assets portion of this report.

Contributions in Aid of Construction, and Amortization of Contributions in Aid of Construction

For the test year ending 12/31/2014, Schedule F-46 of the PUC Annual Report, reflected a CIAC balance at the beginning of the year of $849,099 and a year-end balance of $870,878. The reported Accumulated Amortization of CIAC balance at the beginning of the year was $232,174 and the year-end balance was $249,303. These amounts agree with the rate filing, Schedule 2, submitted by the Company. The annual report and filing amounts were also verified to the trial balance. The following is a summary of the CIAC property by class and rate with corresponding amortization:

Property Class	Rate	CIAC Amount	Accumulated Amortization Amount
Tanks	2.22%	$210,000	$ 30,335
Mains	2.00%	$607,813	$199,298
Mains	2.50%	$10,943	$(1,820)
Services	3.33%	$27,337	$16,775
Services	2.00%	$2,316	$1,976
Hydrants	2.00%	$8,974	$1,164
Meters	5.00%	$3,495	$1,575
		$870,878	$249,303

Audit traced the test year monthly amortization entries between Accumulated Amortization of CIAC, account XX-350-272-0 and Amortization of CIAC, account XX-701-405-0. The monthly amortization entries were traced without exception. Total amortization expense for the test year, account XX-701-405-0, was $17,129 per the filing, the PUC Annual Report and the Company's trial balance report.

While reviewing Schedule F-46 in the test year Audit noted a grant received from NH Department of Environmental Services in the amount of $21,779. Audit requested and received a copy of the application submitted by LRWC on March 15, 2014. The application was for the construction assistance of the Gunstock Glen and Brake Hill interconnection project. The total cost of the project was $87,118.33. Audit verified the receipt of the grant money in the Company NDS general ledger accounts, 11-350-271-0 and 17-350-271-0.

Accumulated Depreciation and Depreciation Expense

For the test year ending 12/31/2014, Schedule F-11 of the PUC annual report summarized Accumulated Depreciation of Utility Plant in Service:

Beginning of the year	$1,476,345
2014 Expense	$ 164,383
Book cost of plant retired	$ (73,708)
Salvage credit of	$ 15,000
rounding adjustment	$ (2)
Year-end balance	$1,582,018.

The beginning and year-end balances agree with the amounts submitted by LRWC on Schedules 2 and 3 of the filing.

Audit also verified the Accumulated Depreciation totals and activity to the "2014 LRWC-detail depr workbookSummary2014" spreadsheet. The activity was then verified to the NDS general ledger accounts, for the 17 divisions, xx-165-108-0 Accumulated Depreciation and xx-166-108-x, Accumulated Depreciation (Allocated) and Depreciation Expense account xx-700-403-x within each division. The book cost of retired plant was noted within each applicable plant general ledger account, without exception.

The Company depreciates its assets using the straight-line depreciation method. Audit verified that most, but not all, of the depreciation calculations reflect accurate rates, in accordance with the PUC Small Water booklet. Refer to the Plant Additions and Retirements sections of this report for additional detailed testing.

Audit compared the PUC depreciation expense of $164,383 with the liberalized depreciation expenses noted on the federal tax return and the NH Business Enterprise tax return. The depreciation expense on the federal return was $241,985. The depreciation expense on the NH tax return was $10,559.

Acquisition Adjustment and Accumulated Amortization net $(81,969)

Audit verified the reported Utility Plant Acquisition Adjustment, noted on the annual report schedule F-7 to the following general ledger accounts without exception:

Utility Plant Acquisition Adjustment

Division	GL #	12/31/2014
Hidden Valley	05-160-114	$ (172)
Pendleton Cove	07-160-114	$ (36,693)
Deer Run	08-160-114	$ 1,786
Woodland Grove	09-160-114	$ (65,232)
Echo Lake Woods	10-160-114	$ (56,866)
Tamworth	12-160-114	$ (38,156)
175 Estates	13-160-114	$ (1,427)
Deer Cove	14-160-114	$ 85
LOV Water	15-160-114	$ (39,492)
Indian Mound	16-160-114	$ 3,913
Gunstock Glen	17-160-114	$ (21,771)
		$ (254,025)

No adjustments were made during the test-year to Asset Adjustment – Intangible, account xx-160-114. The beginning and year-end balances agree with the amounts submitted by LRWC on Schedule 2.2 of the Permanent Rates Filing.

The Accumulated Amortization of the Utility Plant Acquisition Adjustments, $172,056, was verified to the following general ledger accounts. Each was offset to the respective divisional expense account XX-702-406, without exception.

Accumulated Amortization

12/31/2013	Amortization	12/31/2014	GL #
$ 111	$ 9	$ 120	05-165-115
$ 28,258	$ 723	$ 28,981	07-165-115
$ (797)	$ (36)	$ (833)	08-165-115
$ 46,203	$ 1,305	$ 47,508	09-165-115
$ 43,575	$ 1,137	$ 44,712	10-165-115
$ 12,965	$ 763	$ 13,728	12-165-115
$ 837	$ 71	$ 908	13-165-115
$ (24)	$ (4)	$ (28)	14-165-115
$ 27,940	$ 847	$ 28,787	15-165-115
$ (1,666)	$ (196)	$ (1,862)	16-165-115
$ 8,946	$ 1,089	$ 10,035	17-165-115
$ 166,348	$ 5,708	$ 172,056	

REVENUE

Total operating revenues of $1,316,010 consist of metered sales, unmetered sales, miscellaneous services revenues and other water revenues. Audit verified the total to the divisions' general ledger accounts as follows:

xx-410-460-0 Unmetered	$ 369,154	
xx-410-461-0 Metered	$ 810,514	
xx-470-419-0 Forfeited Discount	$ 6,438	
xx-450-474-1 Rate Case Surcharge	$ 77,283	
xx-460-415-0 Sales to Contractors	$ 26,729	
xx-470-419-2 Bad Check Charge	$ 100	
xx-430-471-1 Disconnect/Reconnect	$ 10,998	
xx-430-471-2 House Transfer	$ 3,613	
xx-430-471-3 Payment Pickup	$ 138	
xx-430-471-5 Meter Maintenance	$ 2,159	
xx-430-471-7 Maint. on Cust. Property	$ 8,885	
Total Reported Revenue	$1,316,010	Agrees with the PUC annual report.
xx-490-421-0 Non-utility Income	$ 39,178	
Non-utility understated by $78,542	$ 78,542	
Total GL income	$1,433,731	Refer to Non-utility discussion below

Unmetered $369,154 and Metered $810,514

The LRWC metered systems are Far Echo Harbor (FEH), Paradise Shores (PS), West Point (WP), Waterville Valley Gateway (WVG), Hidden Valley (HV), Wentworth Cove (WG), Pendleton Cove (PC), Deer Run (DR), Woodland Grove (WG), Echo Lake Woods (EHW) and Brake Hill (BH). These customer meters are read with the use of STARS (Sensus Technologies Auto-read System). The hand held computer is then downloaded to the in-house computer system.

The non-metered systems of Tamworth Water Works (TWW), 175 Estates (175), Deer Cove (DC), Lake Ossipee Village (LOV), Indian Mound (IM) and Gunstock Glen (GG) are billed the quarterly non-metered fixed tariff rate.

Audit noted that LRWC billings to customers are for services rendered quarterly and that the Company staggers the billings so that cash comes in each month of the year. As an example, Paradise Shore customers are billed in March, June, September and December (cycle 1) while Waterville Valley Gateway customers are billed February, May, August, November (cycle 3) and Hidden Valley customers are billed January, April, July and October (cycle 2).

Audit tied each system's monthly revenue reported on the LRWC trial balance, to the LRWC GL Activity Report, and then to the LRWC Billing Analysis report. The LRWC Billing Analysis report was created by Norman Roberge. The report shows each system's billing date, customer charge, volume charge, usage, amount billed and rate case expense surcharges. Audit also tied each system's reported customer charge and volume charge listed on the Accountant's LRWC Billing Analysis report to tariffs on file at the Commission.

Audit noted that the Paradise Shores sales included income from a special contract with Property Owners Association at Suissevale, Inc. (POASI) in the amount of $136,527 for the year. The special contract has two major elements; (1) a volume charge which accounted for $174,348 of income and offset by item (2) a fixed component dealing with the CIAC contribution and other miscellaneous administrative expenses, this portion of the contract provided a net credit to POASI in the amount of ($37,821) for the test year. POASI is an association of home owners located in Moultonborough, NH which owns and operates its own water distribution system. The NH Department of Environmental Services determined that POASI is not a public water system. On 9/22/2006, a water supply agreement was entered between LRWC and POASI. This agreement lists as recital #6, a separate agreement under which POASI shares financial contributions to help defray the cost to LRWC of constructing a water storage facility which will be used to serve POASI and other customers of LRWC's Paradise Shores System.

Division 4, Waterville Valley Gateway, is a metered system. Their total revenues for the year were $55,835. $54,387 was booked to the metered sales account and $1,448 was booked to unmetered. The unmetered fee of $362.11 per quarter is for the Pool which has a separate rate. Per the tariff 5th Revised Page 11, the minimum charge per quarter is $363.19. **Audit Issue #19**

Forfeited Discounts - $6,438

Lakes Region's annual report F-47 shows $6,438 in forfeited discounts for the year. When Audit reconciled F-47 to the company's general ledger and trial balance, the amount tied to account 419, Interest Income. All seventeen operating divisions show water billing interest income in account XX-470-419-0.

Other Water Revenues - $77,283

The total Other Water Revenues of $77,283 were for rate case expense surcharges. The PUC annual report reflects the total in account 474. Audit verified that the NDS does reflect account XX-450-474-1, Rate Case Expense Surcharge. Refer to the Operations and Maintenance discussion below regarding account xx-632-928-8, which reflects the offset to this revenue account. The revenue and related expense were proformed out of the current rate case filing.

Miscellaneous Service Revenues $52,622

The total miscellaneous service revenue for 2014 was $52,620. Activity in account 471 was for disconnect/reconnect fees, house transfers, maintenance on customer's property, meter maintenance and payment pickup fees. Also included in this total is account 415, Revenues from Merchandising, Jobbing and Contract Work and account 419, Interest and Dividend Income.

LRWC's revenue from account 415 of $26,729, was for services provided to LRW Water Services. The $100 revenue in account 419 was for customer bad check charges. Both were listed in the summary for account 471. **Audit Issue #20**

xx-460-415-0 Sales to Contractors	$26,729	**Audit Issue #20**
xx-470-419-2 Bad Check Charge	$ 100	**Audit Issue #20**
xx-430-471-1 Disconnect/Reconnect	$10,998	
xx-430-471-2 House Transfer	$ 3,613	
xx-430-471-3 Payment Pickup	$ 138	
xx-430-471-5 Meter Maintenance	$ 2,159	
xx-430-471-7 Maint. on Cust. Property	$ 8,885	
	$52,622	

Audit requested clarification of the tariff page in which charges such as House Transfers, Payment Pickups, Meter Maintenance and Maintenance on Customer Property are authorized. In response to the Draft Audit report, the Company referred to the tariff Original Page 8 for House Transfer, Original Page 7 for Meter Maintenance. Maintenance on Customer Property represents non-tariffed charges for work done by the Company which could be contracted to a different vendor if the customer chose to do that. The Company noted that by including the expenses related to Maintenance on Customer Property above in the Operations and Maintenance, the related revenue should also be included above the line.

The Payment Pickup account is used to record revenue collected at a customer's premise at the time the Company was at the premise to disconnect service for lack of payment.

Billing Test

Audit selected ten customers, each from different operating divisions, to perform a billing test on. Fourth quarter, 2014 invoices were requested by Audit and provided by LRWC.

All ten customers were billed per the quarterly schedule provided from LRWC. The base rate fee and metered rate fee were all billed according to the tariffed rates for each division. Also included in all division bills was a rate case surcharge of $11.64. This was approved by the PUC on Order 25,454 date January 17, 2013. The Order allowed recoupment over eight consecutive quarters, which would make the fourth quarter of 2014 the final recoupment period.

All invoices reviewed noted that an 18% annual finance charge would be issued on all accounts over 30 days, which is approved in the tariff. The invoice reviewed for Division One, Far Echo, contained a balance forward of $101.72. The invoice did not show a finance change so Audit requested additional information.

LRWC noted that the 18% annual rate is calculated at 1.5% per month. LRWC provided a history transaction report for the account in question which showed all quarterly invoice charges, payment made by the customer, and any finance charges accrued.

Audit reviewed the history transactions and noted the following:

- The finance charge applied on 9/4/2014 was calculated based on the 60 day past due balance instead of the 30 day past due balance. The customer was charged $.85 when it should have been $2.95. **Audit Issue #21**

- Finance charges applied to the account do not accrue finance changes until a bill is issued to the customer or a payment is received from the customer. At that point the next finance charge is calculated based on the account balance at the specific date.

Section 1203.06 Bill Forms, of the Administrative Rules states specific requirements for water utility bills. The LRWC bills comply with most of the requirements except the following:

(c) Bills shall indicate at a minimum:
(4) Any applicable penalty date
(5) The approximate date of the next meter reading
(6) All factors necessary to compute the charges

The applicable penalty date needs to be stated on the invoice. The language on the bill states *"Finance changes of 18% annually charged on all accounts due over 30 days"*. The exact date that bills need to be paid by without incurring finance changes should be noted rather than "over 30 days". Another issue is that the invoice does not show an actual due date; it simply said, *"Due On Receipt"* which adds in the confusion on as to when finance charges are actually incurred. **Audit Issue #22**

The approximate date of the next meter reading should also be stated on the invoice. Even though meters are read on a quarterly basis, the date of the next reading should be present for the customers. **Audit Issue#22**

All factors necessary to compute the quarterly charges need to be noted on the bill. The current bill notes the metered rate charge, the base rate charge, and the rate case surcharge. It also notes a balance forward amount. This amount includes any unpaid portion of prior bills and finance charges. Per the above noted rule, the finance charges should be broken out into their own line item on the bill. **Audit Issue #242**

Account 421 Non-utility Income $39,178

Audit reviewed the PUC annual report which did not reflect any income in this account. The NDS general ledger account 50-490-421-0 reflects an ending balance of $39,178. This year-end balance, for reporting purposes, was included as a reduction to expense account 923. Refer to the discussion related to the Deferred accounts 186, expense account 923, and expense account 928. **Audit Issue #4 and Audit Issue #20**

Activity within the 421 account included:

Total Debits for the year	$(78,542)
Total Credits for the year	$117,513
Net Credit balance	$ 39,178

The activity in 421 included the following manual entries:

9/5/2014	LRW14-060	credit	$ 60,019	Offset to Deferred 50-153-186-1
9/5/2014	LRW14-060	credit	$ 6,209	Offset to Deferred 50-153-186-1
9/5/2014	LRW14-061	credit	$ 48,900	Offset to 50-631-923-8 and 50-634-923-8
			$115,128	

Audit obtained the journal entries and notes that LRW14-060 debited Deferred Rate Case Expense account 50-153-186-1. The four items that comprise the debits represent discounts on balances owed to Norm Roberge, Steve St. Cyr, Upton & Hatfield, and Shaheen Gordon. The handwritten journal entry indicated that the $60,019 should have been credited to 50-153-186-5. Audit reviewed that account and noted that $60,019 was the total credits posted for the year.

The journal entry LRW14-061 $48,900 credit was offset to debits to Accounting expense account 50-631-923-8 in the amount of $38,843, and to General Law 50-634-923-8 in the amount of $10,057. These are non-recurring expenses in the Operations and Maintenance discussion that follows.

As discussed in the Deferred Debits section of this report, a total of $78,542 was debited to the Non-utility account. Refer to **Audit Issue #4, 20, and 23.**

OPERATIONS AND MAINTENANCE EXPENSES

Total reported Operations and Maintenance expenses on the PUC annual report for the test year were $974,896 which represents an increase over the same period in 2013 of 21%. Audit verified that the information on the F-2 Income Statement, as well as schedule F-48 agreed with the filing and the general ledger.

601	Operation Labor and Expense	$ 22,646
602	Purchased Water	1,250
603	Miscellaneous Expenses	34,373
604	Rents	1,250
623	Fuel or Power Purchased for Pumping	75,546
642	Operation Labor and Expenses	6,214
643	Miscellaneous Expenses	23,544
662	Transmission and Distribution Lines Expenses	164,664
902	Meter Reading Expenses	25,919
904	Uncollectible Accounts	18,076
905	Miscellaneous Customer Accounts Expenses	5,062
920	Administrative and General Salaries	254,192
923	Outside Services Employed	45,900
924	Property Insurance	55,594
926	Employee Pensions and Benefits	56,852
928	Regulatory Commission Expenses	98,374
930	Miscellaneous General Expenses	85,441
		$ 974,896

Audit reviewed all of the O&M expense accounts in detail. During Audit's review it was noted that the account number on the NDS Trial Balance was not necessarily the same as the account number used on the Annual Report . For example, the $1,250 Rent expense was placed in account 604, Source of Supply-Operations-Rents on the Annual Report; however, on the trial balance account 931 (General Rents) was used. Another example would be Purchased Power; on the trial balance the $75,546 expenses is booked to account 662. **Audit Issue #20**

Accounts 662, 923, 924, 926, 930 had all of their expenses booked to the Administrative division, 50. All of the monthly expenses were allocated to the seventeen divisions based on customer count. Audit randomly selected step-down entries to review and no exceptions were noted.

Account 603 Miscellaneous Expenses - $34,373

Audit reviewed four invoices. Two of the invoices were hydrofracking and removal of trees. The other two invoices were for capital expenses. One invoice for $5,000 for Mt. Roberts was removed from the expense account and capitalized. The second invoice was a $10,000 payment on a $26,000 electrical job, and was not capitalized. **Audit Issue #17**

Account 604 Rents - $1,250

There were two invoices that sum to the amount reflected on account 604 on the annual report. Audit requested to review both. The first invoice was for $250 for the rental of an excavator. The second invoice was for $1,000 payable to David Sands. LRWC could not provide the second invoice, until issuance of the Draft report and the Company's response. Both of these invoices were booked to the general ledger as account 931. **Audit Issue #20 and Audit Issue #23**

Account 643 Miscellaneous Expenses - $23,544

The majority of the transactions in Account 643 were for Eastern Analytical. Audit review on invoice for water testing and no exceptions were noted.

Account 662 Transmission and Distribution Lines Expenses - $164,664

Audit reviewed the NDS general ledger and verified the total reported on the annual report to the following:

8 accounts xx-630-662-5 Contracted Services	$ 5,104
18 accounts xx-620-662-5 Materials	$ 37,343
17 accounts xx-685-662-5 Miscellaneous	$ 176
1 account 03-680-662-5 Tel-Step	$ 377
18 accounts xx-651-662-5 Vehicle Fuel	$ 49,196
16 accounts xx-652-662-5 Vehicle Maintenance	$ 19,034
17 accounts xx-653-662-5 Vehicle Registrations	$ 2,946
18 accounts xx-601-662-5 Wages Employees	$ 50,489
Total of 113 accounts xx-xxx-662-x	$164,664

Audit selected twelve journal entries to review documentation for. Documentation was provided for reclassifying inventory and work in process to materials, registration fees, gas charge account, paving project, plowing contract and a bill from LRW Water Services.

Audit also reviewed an $844 invoice from Truck Trends for truck rims. Audit researched the "Ultra Wheel Phantom" and noted them to be extravagant. This expense should be considered non-recurring. **Audit Issue #25**

Two transactions reviewed should be classified as non-recurring. LRWC paid $1,400 to have the 2011 Ford F350 dump body and chassis descaled. **Audit Issue #25**

The second non-recurring item is a $12,959 expense of inventory due to no lead rules. The Reduction of Lead in Drinking Water Act was enacted on January 4, 2011. The effective date of the Act was January 4, 2014, providing a three year timeframe for the transition to the new requirement. On January 8, 2015 LRWC reduced their inventory from account 151 (Plant Material and Supplies) and expensed it. The account total before the reduction was $19,846. Balance at the beginning of 2014 was only $6,031. **Audit Issue #2 and #25**

Audit also requested three electrical invoices. One from PSNH and two from NHEC were not provided by LRWC, until issuance of the Draft audit report, and the Company's response. **Audit Issue #23**

Account 904 Uncollectible Accounts - $18,076

Audit review the transactions in Uncollectible Accounts and requested the support and journal entries for the bad debt entries. LRWC did not provide these for review until issuance of the Draft audit report and the resulting response. **Audit Issue #23**

Account 923 Outside Services - $45,900

Account 923 Outside Services is comprised of three sub accounts, spread among all divisions:

Accounting XX-631-923-8	$ 43,206
Computer Support XX-633-923-8	$ 12,855
General Law XX-634-923-8	$ 29,017
	$ 85,077
Nonutility Income 50-490-421-0	$(39,177)
Net Reported Outside Services	$ 45,900

The $39,177 represents the balance in the nonutility income account at year end. **Audit Issue #20**

In 2013 LRWC petitioned the Commission for approval to refinance existing debt. In Docket DW 13-335, Order 25,655 it was noted: *"Lakes Region stated that it negotiated substantial reductions with its vendors ranging from 20 to 50%".* A portion of those negotiated reductions were with Accounting and General Law services for a total of $48,900. The following reductions were credited on 9/5/2014 to Non-Utility Income 50-490-421-0, offset as debits to the 923 expense accounts identified:

	Discount
Norman Roberge	$34,886 Accounting 50-631-923-8
Stephen St. Cyr	$ 3,957 Accounting 50-631-923-8
Shaheen & Gordon, P.A.	$ 1,102 Legal 50-634-923-8
Upton & Hatfield LLP	$ 8,955 Legal 50-634-923-8
	$48,900

However, credits in the same amounts were noted in the 923 accounts on 7/31/2014, coded as "Disc". Audit requested where the offsets posted and was not received a response. **Audit Issue #25**

Of the total $43,206, in the Accounting account, $42,686 was noted as debits to 50-631-923-8. Those entries were spread among the 17 divisions.

Leone McDonnell & Roberts	$ 9,828 expenses incurred	
Norm Roberge	$28,000 expenses incurred, less prior owed	$(34,886)
Steve St. Cyr	$ 4,858 expenses incurred, less prior owed	$ (3,957)
	$42,686	$(38,843)

Leone McDonnell & Roberts prepared the Financial Statements for the years ended December 31 2014 and 2013 and provided the Independent Accountant's Review Report. The Independent Accountants' Review Report summarized that the firm reviewed the balance sheets and related statements of income, retained earnings, and cash flows. The AICPA standards require that the firm "perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. The firm concluded that they were not aware of any material modifications that should be made, based on their review. The Report states that the review is substantially less in scope than an audit. The firm also prepared the federal and state tax returns.

Order 25,655 also stated: *"Staff stated that in Lakes Region's last rate case, the Commission authorized Lakes Region to recover certain rate case expenses from customers. Some of those expenses were for vendors with whom Lakes Region has now negotiated write-offs. Staff opined that the write-offs should, in some manner, be reflected as a reduction in the amounts recovered from customers. Staff stated that this issue cannon be resolved until Lakes Region's next general rate case..."*

Audit requested all invoices received from Norman Roberge and Stephen St.Cyr during 2014 and Lakes Region provided a total of 24 invoices.

The seven invoices were received from Steve St.Cyr. Each invoice broke down the charges to the appropriate account (i.e. Account 923, 181 or 186). The July and August invoices, had charges for all three accounts; however, the entire invoice was charged to 923. **Audit Issue #26**

The July invoice total was $1,207.50 in which the whole amount was charged to Account 923, Outside Services. The invoice breaks down the expenses as follows:

- $603.75 Account 923,Ouside Services
- $172.50 for the CoBank Financing charged to Account 181, Unamortized Debt Expense **Audit Issue #26**

- $431.25 for the 2014 Rate Case charged to Account 186, Miscellaneous Deferred Debits **Audit Issue #26**

The August invoice total was $991.88 and the full amount was charged to Outside Services. The invoice total should have been broken down as follows:

- $ 71.88 to Account 923
- $661.25 to Account 181 **Audit Issue #26**
- $258.75 to Account 186 **Audit Issue #26**

The September invoice was not charged wholly to Outside Services; however, the Rate Case expense of $28.75 was erroneously charged to Account 923. **Audit Issue #26**

Norman Roberge submitted seventeen invoices to be paid during 2014. The invoices for January through May were submitted on a monthly basis and just note the hours worked for each day. Beginning with the August invoice (there were no invoices for June and July) detail for all work completed was noted. Invoices were no longer submitted on a monthly basis; they were submitted more frequently.

Audit reviewed five invoices from Outside Services for legal fees, computer service, and for the new computer system that will be coming online.

One of the legal invoices reviewed was in the amount of $1,767.50 for services associated with the current rate case. These expenses should be deferred. **Audit Issue #26**

One invoice reviewed was for Logics, the new computer system that LRWC will be using. This invoice was for the November monthly hosting fee of $592. Audit questioned the charges as the computer system was not up and running in November. LRWC response was the hosting fees paid were credited to their account by Logics. A statement provided by Logics does show the $592 payment as a credit on their account. On September 17, 2015, LRWC reversed the monthly charges in their invoice transaction journal for invoices received. **Audit Issue #26**

<u>Account 926 Employee Pensions and Benefits - $56,852</u>

Audit reviewed the December 2014 invoices from Anthem Blue Cross and Blue Shield, Delta Dental and United Health Care. No exceptions were noted.

Audit also requested information regarding medical reimbursements made to LRWC employees on March 2, 2015. LRWC noted that employees can receive a reimbursement of up to $600 for out of pocket medical expenses. Employees must provide receipts to the company and a reimbursement is paid at the end of the calendar year. None of the reimbursements made were for more than $600; however, one reimbursement for $285 was noted as being for 2013. **Audit Issue #27**

<u>Account 928 Regulatory Commission Expenses - $98,374</u>

Audit verified the reported total $98,374 to 36 individual general ledger accounts. Refer to Audit Issue #1. Specifically, each division reflected two accounts:

XX-632-928-8 Rate Case Expense	$77,389
XX-665-928-8 Regulatory Commission Expense	$20,985
Total Account 928	$98,374

Audit verified that the $77,389 was pro-formed out of the expense summary of the current rate case, and concurs with the removal of these costs. See proforma #8.

Within the XX-665-928-8 Regulatory Commission Expense, Audit verified that the PUC assessment total of $4,042 was reflected (across all divisions) without exception.

Also noted within the XX-665-928-8 account were three year end entries, reflected below, which increased the Regulatory Commission expense by a net $16,943. **Audit Issue #4**

The first entry, a year end adjustment, reflected a reduction to the Deferred accounts, and a debit to the Administrative division Regulatory Commission account:

50-665-928-8	lrwye14-358	$ 420.00	
50-665-928-8	lrwye14-358	$59,501.11	
50-153-186-4	lrwye14-358		$ (420.00)
50-153-186-5	lrwye14-358		$(59,501.11)
		$59,921.11	$(59,921.11)

The second entry then reclassified the $59,921 out of the Administrative account and spread it among the seventeen divisions:

XX-665-928-8	lrwye14-371	$59,921.00	
50-665-928-8	lrwye14-371		$(59,921.00)
		$59,921.00	$(59,921.00)

The final year end entry reduced the Administrative Regulatory Commission Expense account and increased the Deferred Accounts:

50-153-186-3	lrwye14-389	$37,509.18	
50-153-186-4	lrwye14-389	$ 5,468.75	
50-665-928-8	lrwye14-389		$(42,977.93)
		$42,977.93	$(42,977.93)

Account 930 Miscellaneous General Expenses - $85,441

Audit reviewed seven invoices from the Miscellaneous General Expenses. Invoices reviewed were for credit card payments, landscaping services at the office, call answering service, and permit to operate fee.

Audit also requested supporting documentation for a bank service charge. The transaction was for a non-sufficient fund charge received for a bounced check from a Paradise Shores customer. This $20 fee was the only entry for the month and a step-down was performed to allocate the cost to all 17 divisions. Audit questioned why it is allocated to all operating divisions and not just expensed to Paradise Shores. LRWC stated that step downs are performed on certain expense accounts no matter what the monthly activity in the account was. **Audit Issue #1.**

One invoice reviewed by Audit was from Canoe Restaurant. The $220 invoice was for the staff Christmas party. This expense should be below the line. **Audit Issue #24**

A $1,546 invoice from XJL Property Services was reviewed. This expense was for the removal of the tub and shower from the bathroom in the office. This is a non-recurring expense. **Audit Issue #25**

During 2014, Lakes Region paid off three TD Bank loans (See section Long Term Debt above). Part of the payoff amount was a $3,908 pre-payment fee. This fee was charged to account 930 as a bank service charge. This expense is non-recurring. **Audit Issue #25**

Travel & Expense Reimbursement

Travel & Expense reimbursements are made to employees who purchase fuel for the company vehicles, purchase materials and supplies while out on the road, and office supplies.

The employee must submit proof of purchase in order to be reimbursed for the expense. The President and Manager are aware of this practice and will periodically review the purchases.

Audit reviewed five travel and expense reimbursements. The reimbursements were for materials and supplies, trailer registration, thermostat, computer monitor and for Wolfeboro Oil Company. All receipts were detailed and noted the items purchased except the receipt for the Oil Company. This was just a credit card receipt that noted the amount paid. No exceptions were noted.

Account 924 Insurance - $55,594

Lakes Region has five insurance policies that run from May 15, 2014 through May 15, 2015.

- The first policy covers commercial property, crime, contractor equipment, and electronic data processing equipment. The cost for the year was $13,549.
- The second policy is for auto coverage and cost $6,199 for the year. Audit reviewed an insurance audit that was performed and it noted that "spouses or children are allowed access to corporate owned vehicles".
- The third policy is for worker's comp and was $7,908 for the year. After the insurance audit was performed, the insurance company issued another invoice in the amount of $1,111 for the workers comp policy. The policy total for the year was $9,019.
- A fourth policy cost $9,584 and was for the commercial umbrella policy.
- The fifth is the commercial general liability policy and the cost for the year was $17,581.

Lakes Region's health insurance is paid on a monthly basis. See Account 926 above.

During conversation with LRWC, it was noted that their premiums in 2015 went down approximately $10,000 for insurance and $8,000 for health insurance.

PAYROLL

There are three Excel spreadsheets that are used during the payroll process. The first spreadsheet titled *"(1) payroll entries 2014"* is manually entered from a QuickBooks payroll printout. There are tabs for each of the 53 weekly payrolls that shows the hours worked, type of pay (regular, Overtime, Christmas Bonus, Benefit Substitute, etc.), deductions (insurance, taxes, etc.) and the net pay. The spreadsheet also shows the employer taxes and contributions. The spreadsheet breaks down the payroll expenses into the division 50 accounts.

The second spreadsheet used, is titled *"(2) 2014-work order payroll worksheet"*. This spreadsheet contains a tab for each week and breaks down the weekly hours worked of two employees by work order (work orders or divisions are not listed. Hours for one day may be noted as 1.0, 1.0, 2.0, 5.0 as the employee worked on four different divisions on that particular day). The spreadsheet notes if the hours worked were for Lakes Region Water Company or LRW Water Services. Hours worked for LRW Water Services are billed on a monthly basis. See LRW Water Service Billing below. The hours entered in this spreadsheet are verified to QuickBooks. Columns A-I (date, week, hours, company, etc.) are copied from this spreadsheet and pasted into the third spreadsheet used.

The third spreadsheet titled, *"(3) 2014A workorder wrksheet for JE entry"*, is used to run formulas to prepare journal entries. The copied information from spreadsheet 2 is pasted into the tab titled *"work orders"*. The inventory amount, division number and work activities code are manually entered into the work order tab. Columns A-BR (information copied from spreadsheet 2, plus the breakdown of the hours work for each division) are copied and pasted into a tab titled *"New Journal Entries"*. Columns A-CP (the full spreadsheet) from the journal entries tab are copied and pasted into another spreadsheet titled *"2014* (year) *Jan* (month) *WO INV"*. The data from the new journal entries' spreadsheet is pasted four times into the WO INV spreadsheet. The first paste brings the information over from the JE tab. The second is used for payroll/benefit allocation to the divisions, the third allocates the materials to the division and the fourth paste is used to allocate property and equipment to each division. Once all the data is in the WO INV tab and the numbers zero out at the bottom of the Excel spreadsheet, the information is printed and used to post the journal entry in NDS.

The Field Supervisor's hours are allocated based on the hours the two field workers worked for each division. Rows BX1037-BX1528 are copied from the WO INV spreadsheet and pasted into a tab titled *"Jake Alloc – Jan* (month) *2014* (year)". This amount is posted to the GL for the field technicians.

All payroll is charged to division 50 accounts 601-920-8, 602-920-8 and 603-920-8 and allocated (step-down) to the 17 operating divisions. Audit was unable to tie the 17 division general ledger accounts to the division 50 accounts without the assistance of LRWC.

All payroll is booked to the division 50 accounts on a weekly basis. After the payroll is booked, the work order amounts need to be removed and expensed to the appropriate divisions, and the remaining balance is allocated to the 17 divisions based on customer count. The allocation to the divisions for the work orders and the payroll expense is not performed on a timely basis. **Audit Issue #28**

Audit reviewed account 50-601-920-8 in detail. The payroll for the months of January through July was allocated to the 17 divisions on August 5. The allocation was performed prior to the work orders being removed. In November and December, the work orders for the field employees and for the field supervisor were removed, resulting in a negative balance in the division 50 GL accounts. The administrative expenses associated with the work orders are transferred back into the division 50 accounts and another allocation to the 17 divisions was performed reducing the original allocation amount.

In the month of August, the payroll was allocated to the divisions on the 17th of September. In December the work order expenses were removed, the administrative expenses were put back in, and then another allocation to the 17 divisions was performed.

For the months of September through December the work orders were removed prior to any allocation resulting on one less journal entry. The payroll for the months was entered, the field employees and field supervisors work order expenses were removed, and the administrative expenses were put back into division 50. The remaining balance in the account at the time was then allocated to the 17 divisions.

Audit reconciled the work order expenses from the third payroll spreadsheet to the general ledger for the field employees and field supervisor. A few exceptions were noted.

- 02-160-334-4, January GL total was $101.34 and the payroll spreadsheet noted $97.00. As the supervisor's hours are a percentage, $4.34 was added to the account to balance the entry.
- 50-601-920-8, December GL was $1,044.67 and the payroll spreadsheet noted $1,050. The difference is also due to the hours being a percentage and needing to balance the entry.
- 01-601-601-1, February GL shows $81.07 but the spreadsheet did not. The division should have been 11 but was entered incorrectly. No adjusting entry was made. **Audit Issue #29**
- 12-601-902-7, December GL does not show any dollar amount but the payroll spreadsheet shows $96.72. This was erroneously entered into account 12-601-642-3. No correcting entry was done. **Audit Issue #29**
- In October, a computer glitch happened while entering the field employee's work order journal entry. Work orders were entered into the appropriate accounts and while LRWC was trying to reverse some entries they accidentally entered them again into the account. A reversing entry for both amounts (they correctly entered amount and the erroneously entered amount) were removed and put back into the division 50 account. A step down entry was created which allocated the expenses to the 17 divisions based on customer count. **Audit Issue #29**

Audit selected the step down allocation entry for September and reviewed it in detail. The total step down amount (payroll amount less the field employees and field supervisor's work order amount) was allocated to the 17 operating divisions based on the allocation distribution percentages from December 31, 2013. No exceptions were noted.

Audit verified payroll spreadsheet 1 to the W-3, and the NDS general ledger entries for weekly payroll. However, Audit was unable to tie the W-3 to the Excel trial balance. The W-3 wage total was $379,136. This matched the payroll spreadsheet 1 total and the NDS total. The Excel trial balance salary total, for the 17 divisions, is $254,191.56. Audit added back in the work order total from the payroll work order journal entry spreadsheet, as those numbers were removed before the step down to the 17 divisions, and the total came to $405,669. Audit requested several times a reconciliation between the Excel trial balance and the W-3 and did not receive one. **Audit Issue #30**

Payroll Timesheets

Lakes Region Water Company employed a total of ten people during the 2014 year. Seven of the employees are on hourly wages and two employees are paid a salary. One employee (Field Supervisor) was paid hourly until the fourth quarter and then moved to salary. The hourly employees are required to submit timesheets on a weekly basis, except the Field supervisor.

There were two full time field employees and one summer time field employee during 2014. Hours worked by these employees are allocated to the divisions based on actual work performed. There was one field supervisor employed during 2014. The supervisor's hours are allocated to the divisions based on the percentage of time the field employees worked at each division. Payroll for the other seven employees is allocated based on the customer count percentage.

Pay periods run Friday through Thursday and employees are paid the Friday following the close to the period. Audit selected five pay weeks ending, 1/2/2014, 3/27/2014, 6/26/14, 9/25/14, and 12/25/14 to review time sheets for. All hourly employees' time sheets for the periods selected were received and reviewed.

Audit selected the pay period ending 1/2/14 to review in detail. All hours presented on the time sheets were reconciled to the *"(1) payroll entries 2014"* spreadsheet. The two field employees time sheets were reconciled to the *"(2) 2014-work order payroll worksheet"* spreadsheet. All employees' pay stubs for hours, taxes, and other deductions, were reconciled to the payroll entries spreadsheet.

The following exceptions regarding the charging of work orders to the appropriate divisions were noted. **Audit Issue #29 and Audit Issue #1**

- 12/31/2013, 4.0 hours of Holiday Time was charged to Indian Mound per the work order spreadsheet.
- 1/2/2014, 6.0 hours was charged to Pendleton Cove on the work order spreadsheet but the employee's timesheet notes Brake Hill.

- 1/2/2014, 3.0 hours was charged to Brake Hill on the work order spreadsheet but the employee's timesheet notes Pendleton Cove.

Affiliate Agreement

On November 5, 2013 the PUC received a letter from Lakes Region's attorney, Upton & Hatfield, dated November 4, 2013. This letter was regarding Docket DW 13,041 and states;

"Please note that Order No. 25,578 required that the Agreement be revised to provide that LRW Water Services pay Lakes Region Water Company ($50 per hour) for services it purchases, which is the same rate that LRW Water Services charged its customers in 2009. However, the $50 per hour rate is a retail rate which would require LRW Water Services to re-sell the services it purchases at no gain or a marginal loss. As a result, LRW Water Services has discontinued purchasing services from Lakes Region Water Company under the Affiliate Agreement and has no plans to do so going forward. This decision was made by LRW Water Services solely for financial reasons."

During Audit's review of the payroll activity, some of the work orders noted that the work performed was for water services. Audit questioned the work being completed for the service company as the attorney's letter states that LRWC was no longer going to be hired.

LRWC's response was that they did not follow through with the Attorney's letter and have continued performing work for water services.

LRW Water Service Billing

Audit requested the December billing for worked performed by LRWC for LRW Water Services. LRWC provided the December and November invoices and journal entries.

The December invoice was verified to the *(2) 2014-work order payroll worksheet* and all hours worked for Services were billed. The hourly rate billed to Services was per the Affiliate Agreement.

The journal entry for the December bill was entered on January 6, 2015, the same day as the November bill was journalized for the incorrect amounts. The journal entries were based on a spreadsheet titled *"LRWS 2014 workorder worksheet for invoice creation work orders"* and erroneously listed 6 hours worked in December under the month of November.

LRWC provided the November billing to show that the total of the December and November invoices combined, equals the November and December journal entries.

Audit began to reconcile the November invoice to the *(2) 2014-work order payroll worksheet* and found what appeared to be 13.5 unbilled hours. Audit questioned why the hours did not appear on the invoices. LRWC researched the supporting detail and found that four hours from November 14 and 15 should have been billed. The remaining 9.5 hours were erroneously marked as Service work performed on the spreadsheet. LRWC provided the work orders for the 9.5 hours to Audit, which showed the work was actually performed for LRWC.

Lakes Region will invoice Services for the 4 November hours not billed. The additional revenue from the billing will be $200. **Audit Issue #31**

Employee Benefits

LRWC offers health and dental insurance to their employees. Health insurance for the employee is covered 100% by the company. If the employee wishes to carry their spouse on the insurance, the employee is responsible for the cost.

One employee receives health insurance through their spouse's employer and receives a "benefit substitute" on their weekly paycheck. The benefit substitute is the amount (approximately $400 a month or $100 a week) the company would pay the insurance company to cover the employee. Even though the employee is not covered by LRWC insurance they are still eligible for the fully covered health care costs. A total of $298 was paid to the employee during 2014 for the benefit substitute, as they didn't begin employment with Lakes Region until August.

Fringe Benefits

During Audit's review of the insurance policies, it was noted on an insurance audit that was performed that spouses and children have access to company vehicles. Per the IRS fringe benefit rule [Publication 15-B (2014)], employees use of company vehicles shall be taxed and noted on the employee's W-2. Audit could not verify that LRWC employees were taxed for the benefit. **Audit Issue #32**

Christmas Bonus

The payroll for week 51, with the ending date of 12/18/2014, included $3,736 in Christmas bonuses. **Audit Issue #24**

Payroll Accrual

Lakes Region did not accrue any payroll or vacation time in 2014. Payroll accruals were not needed due to December 31 landing on Wednesday and the final pay period of the year ending on Thursday, January 1. Vacation time was also not accrued due to earned time not being carried forward into the next year. It needs to be used in the calendar year it was earned.

53 Pay Periods

Lakes Region's payroll had 53 weeks due to the pay periods closing at the very beginning of the calendar year and at the very end. Week 1 pay period was for 12/27/2013 through 1/2/2014. The payroll expense for week one was $7,076. Week 53 pay period was for 12/26/2014 through 1/1/2015 and the payroll expense was $7,351. **Audit Issue #33**

General

Audit was informed that all employees (at the time of the audit fieldwork) have a minimum license to operate a water utility, including the office staff who are certified as basic water inspectors and meter readers. Three field personnel are licensed at a basic level and also authorized for sampling, pump house inspection, and meter reading. Two field personnel are certified at all levels and are authorized to cross train. One field person has moved from seasonal to full time and is currently taking a course to obtain his water operator's license.

TAXES

Federal Income Taxes

Audit verified that the Accumulated Deferred income tax figure noted on the annual report schedule F-45 of $190,070 agrees with the NDS general ledger account 50-280-283-0, Deferred Income Tax-Other.

Audit verified that the deferred income tax expense figure on the annual report schedule F-45 of $18,781 agrees with the NDS general ledger accounts:

50-850-410-1, Federal deferred	$14,634
50-852-410-1, State deferred	$ 4,147
Account total:	$18,781

Audit reviewed the Federal income tax return and noted no tax due on the return. The Federal income tax return was signed and dated May 29, 2015. There were no late filing assessments noted, either on the forms or on the general ledger. The zero balance due agrees with the NDS general ledger account 50-235-236-1, Accrued Federal Income Taxes, as summarized on the annual report schedule F-38.

1/1/14 beginning balance:	$(2,190)
Federal Taxes charged during the year	$(3,810)
Federal Taxes paid during the year	$ 6,000
Ending Balance of account 50-235-236-1	$ -0-

The $3,810 was expensed in account 50-850-409-1 (offset to the Accrued tax account above) with a notation that it cleared an under-accrual related to 2013. The entry was booked in March 2015. **Audit Issue #34**

State Income Taxes

Audit reviewed the New Hampshire State Business Enterprise/Profits tax form for the test year. The Return combines the Business Enterprise Tax (BET) and Business Profits tax (BPT) and the following is a breakdown of the tax calculations:

Tax calculation- BET	$ 7,699
Tax calculation- BPT	$ 3,186
Total tax Due for 12/31/2014:	**$10,885**
Less: Payment W/Ext	$ (3,250)
Less: BET Credit	$ (3,186)
Plus: Penalty, Interest	$ 47
Plus: Penalty, Failure to Pay	$ 445
Plus: Penalty, UPE	$ 208
Balance of NH Tax (paid in 6/2015)	**$ 5,149**

Audit verified the 2014 NH Business taxes to NDS general ledger account 50-235-236-2, Accrued NHBPT, as summarized on the annual report schedule F-38.

1/1/14 beginning balance:	$(9,167)
State taxes charged during the year:	$(6,216)
State taxes paid during the year:	$22,256
Ending Balance of account 50-235-236-2	$ 6,873

The $6,216 was expensed in account 50-852-409-1 (offset to the Accrued tax account above) with a notation that it cleared an under-accrual related to 2013. The actual amount paid to the state during the test year, according to the return above, was $3,250 plus $700 in penalties. Therefore, the expense for the year, $6,216 is overstated by $2,966 (excluding the penalty). Of the $2966, $2,883 was related to tax year 2013. The entry was booked in March 2015. **Audit Issue #34**

The actual tax calculation on the NH tax return is different from the NDS general ledger because the GL accounts are compiled (estimated) before the NH tax is due (actual). The NH State Return was signed and dated May 31, 2015. The balance of tax including all penalties was paid June 1, 2015.

Municipal Property Taxes

The property tax expense for the test year noted in the filing included $18,793 for the State Utility Property tax and $28,722 for municipal property taxes for a total of $47,515. This sum was noted on schedule F-38, Accrued and Prepaid Taxes in the annual report as the amount of taxes charged during 2014. The prepayment beginning balance $11,783 on F-38 tied to the 2013 end of year balance in the prepaid tax account. All totals agree with F-38 and the filing actuals. All figures noted were verified to the general ledger accounts of all divisions, XX-683-408-8 without exception.

Audit verified that the expense total represented prepayments from the prior tax period, the full first issue 2014, and the second issue total tax year figure municipal invoices. In addition, it was noted that none of the municipal property tax invoices included the statewide portion of the municipal tax.

Audit noted during the test year review that two parcels in Tuftonboro NH were sold by Lakes Region Water. The Company petitioned the Commission on October 28, 2013 for permission to sell the properties. The Commission approved the sale by Order 25,619 in docket DW 13-308 on January 9, 2014.

The two properties were identified as Lot F-17 and Lot F-16 which contains an inactive well that was taken out of service due to low yield and high turbidity. The Company retained the easement on lot F-16 to use the well if it is needed in the future.

The request was approved by the Commission on January 9, 2014 and both properties were sold on 2/14/2014 for the approved sale price of $32,000. Property taxes paid in 2014 for both properties totaled $263. The sales information from the Settlement Statement (HUD) was verified to the general ledger account 05-480-414-0. The $263 is a non-recurring expense, and the income from the sale, $32,000 is a non-recurring revenue source. **Audit Issue #25**

Utility Property Tax Return

Audit verified that the expensed portion of the Utility Property tax for tax year 2014 represented 3 months of the 2013 assessment and nine months of the 2014 assessment, in accordance with RSA 83-F.

In accordance with RSA 83-F, the Company calculated the utility property tax for tax year 2014 to be $18,793. The form outlined an additional $250 Financial Statement Penalty which is owed to the State of New Hampshire for tax year 2013. Audit was informed that the tax return was completed and filed on January 15, 2015. The total amount due included the penalty, and amounted to $19,043. The penalty portion of the return was not included in the calculation of the property tax expense for the test year. The Utility Property tax due, $18,793 was verified to the general ledger XX-683-408-8. The 2013 Filing penalty of $250 was included in general ledger account- XX-730-427-0.

Audit was informed that the $19,043 was not paid by the due date of 1/15/2015 but was paid in September 2015. Two payments were made on 9/11/2015 totaling $11,605.86 and another payment was paid on 9/15/2015 of $12,135.46. The total payments $23,741.32 include the $19,043 and additional estimated payments for 2015. Audit asked LRWC why the payment was not sent by the due date of 1/15/2015 and the Company response was it was an oversight by the office manager.

Prepaid Property Taxes

The PUC annual report and filing Schedule 2 reflect a prepaid tax total of $11,727. The total was verified to the NDS general ledger account 50-140-163-1. As noted previously, the prepayment represents one half of the final 2014 property tax bills.

Payroll Taxes

Audit reconciled the Federal Income Tax withheld, Social Security Tax withheld, and the Medicare Tax withheld on the W-3 to the *"(1) payroll entries 2014"* Excel spreadsheet. The total payroll taxes of $69,356 also ties to the individual journal entries in general ledger account 50-230-236-0.

Audit noted that a payroll tax late interest payment was included in the Interest to vendors (discussed in the Debt portion of this report). A total of $4,608 was identified as interest on payroll taxes due.

REPEAT AUDIT ISSUE #1

Allocation Percentages

Background

The books and records of LRWC have been set up by Norman Roberge to include one administrative division and seventeen operating divisions. Generally, costs that should not be direct charged are posted to Division 50 (Administrative), and then at a later time allocated. For the test year LRWC accounting allocated to 17 divisions. The allocations are based on average customer count.

Issue

As in the previous audit (for test year 2009), Audit questioned why the books and records consisted of 17 separate operating divisions.

It is understood that Paradise Shores must maintain books and records as a stand-alone system, due to the POASI special contract.

It is also understood that for continuing property record details of plant in service, specific site location details are required.

However, in docket DW 05-137 and then DW 08-070, consolidated tariff rates were approved, eliminating the need for maintaining every system as a separate division.

Audit Recommendation

The Company must comply with Commission Orders which required centralization of the accounting function through the consolidation of rates.

Audit suggests that during this rate case proceeding LRWC accounting and management discuss with Commission Staff and other parties the desire to simplify their record keeping. The time spent by the Company staff, to follow the spreadsheets created for the allocations, is not a prudent use of ratepayer funds.

In response to Audit Issue #1 in the 2009 rate case audit, the Company responded (in part):

The Company has over the years conducted many internal management reviews of its accounting processes on the view of simplification and has found it very difficult to "simplify" in the face of the Company's need for internal management data for individual systems and the need to provide the Commission with data when the Company applies for any rate relief.

The Company has found over the last 20 years that it is easier to maintain separate divisions as the Company moved from 7 divisions with 4 rates to 13 divisions with 7 rates then to 13 divisions with 2 rates then to 17 divisions with 5 rates then to the 17 divisions with 2 rates.

Currently the Company must maintain divisional information on Paradise Shores due to the special contract with POASI... The Company finds it easier to accumulate the operating divisions into a single total by expense than it is to separate a total into its various operating divisions as it would likely be required to do by some data request in some proceeding.

Company Comment

The Company maintains divisional accounting for management purposes. The separation of divisions allows management to compare division expenses year over year and also compare within the year to similar divisions. This is required for prudent management of the separate systems.

Audit Response

Audit appreciates the Company's response, but reminds the Company that the consolidation of rates eliminated the need to maintain each system on an individual stand-alone basis. Consolidation should have resulted in a cost savings to the company.

Repeat Audit Issue #2

Lack of Physical Inventory

Background

For the test year ending 12/31/2014, Schedule F-22 of the PUC annual report, shows a balance of $4,717, a decrease from the 2013 balance of $9,579. The 2014 amount agrees with the filing, Schedule 2, submitted by the Company.

Issue

Despite the inventory balance noted on the balance sheet changing during the test year, the Company indicated that it does not conduct physical inventories.

Recommendation

As was noted in the DW 10-141 audit issue #7 of the prior audit, *"[t]he Company accepts Audit Recommendation for Audit Issue #7. The Company is striving to have physical inventories on an annual basis."*

The Company must comply with the chart of accounts and ensure that the reported balance sheet account for inventory accurately reflects the value of the inventory on hand.

Company Response

The Company will complete a physical inventory for the year ending 12/31/15 and every year thereafter.

Audit Response

Audit again agrees with the Company's response. However, the issue has been identified in each of the last four rate case audits, beginning with DW 02-156 for test year 2001. Audit requests that the Company conduct the inventory by the end of January 2016 and provide a copy of the inventory and results, along with any journal entries, to Audit within two weeks of completion of the inventory.

AUDIT ISSUE #3

Prepaid Accounts

Background

Lakes Region used the Prepaid-Other account for items such as system monitoring services, and insurance.

Issue

At the end of 2014 adjustments were made to the prepaid account for propane. Propane is paid by the delivery.

Audit Recommendation

The adjustments for propane should not appear in the prepaid account as they are not prepaid expenses.

Company Comment

The propane account had been set up due to previous suggestions by Audit. However, the Company is in agreement to fully expense propane at the time of purchase.

Audit Response

Audit reviewed the prior four rate case audit reports and was unable to locate references to propane, expenses or prepayments. Audit does concur with the Company that expensing the purchase of propane is appropriate if the purchase is based on the actual fuel delivery. If the decision is made to pre-buy the propane for any extended period of time, the pre-purchased portion should be booked as a prepaid expense.

AUDIT ISSUE #4

Deferrals and Related Offsetting Accounts

Background

Negotiated reductions to amounts owed to Legal and Accounting service providers were recorded in the Company's general ledger.

As discussed in the testimony of Mr. St. Cyr, $32,019 represents the negotiated reduction to the $81,921 deferral related to DW07-105. The balance and activity was noted in account 186-3. Total debits of $37,509 and total credits of $69,528 net to the stated reduction of $32,019.

Issue

The debit total of $37,509 was traced to a year-end entry LRWYE14-389, which increased the two deferred accounts and reduced the Regulatory Commission expense account. The one debit entry to account 186-4 of $5,469 was identified as a final adjustment to vendor credits.

Debit 50-153-**186**-3	Debit50-153-**186**-4	Credit 50-665-**928**-8
$37,509.18	$ 5,468.75	$42,977.93

Audit also reviewed year-end entry LRWYE14-357 which identified the credit totals for both 186-3 and most of 186-4, which were offset to Non-utility Income, reducing that account by $78,542:

	Credit 50-153-**186-3**	Credit 50-153-**186-4**	Debit 50-490-**421**-0
Shaheen	$27,689.23	$3,605.00	$31,294.23
St. Cyr	$ 6,916.56	$ 288.75	$ 7,205.31
Roberge	$ 7,210.00	$ 360.00	$ 7,570.00
Upton	$27,712.62	$4,760.00	$32,472.62
Total	$69,528.41	$9,013.75	$78,542.16

The activity in the **186-5** account was reviewed. The beginning balance of $59,501.11 was credited by year-end entry LRWYE14-358. The debit posted to Regulatory Commission Expense 50-665-928-8, but was not included in the proforma reduction to that account.

Finally, activity within account **186-1**, which reflected both debits and credits in the amount of $104,774 reflected zero at year end. Audit requested clarification of offsetting entries. Subsequent requests for clarification were made as to why certain entries were booked and to what offsetting accounts, but were not adequately answered.

Audit Recommendation

The Regulatory Commission Expense account 50-665-928-8 should have reflected a proforma reduction of $16,523, which is the net of the $59,501 debit and $42,977 credit.

The $78,542 negotiated reductions should not have reduced the Non-utility Income, rather should have reduced the Accounts Payable balance. A request for the reasoning behind the credit to Non-utility Income has not been answered as of the date of this report.

Finally, the $104,774 activity noted in the Deferred account 186-1 could not be traced to offsetting accounts. On November 9, 2015 the Company provided the response below.

The Company must be able to support and explain the entries made to the books and records. Further, the activity within all accounts must comply with applicable USoA standards.

Company Comment

Since the last rate case DW 10-141 the Company has had several deferred rate items on its books. In previous years the Company maintained all of its deferred rate expenses in one general ledger account 50-153-186-1, at the beginning of 2014 the Company reclassified the deferred rate expenses from 50-153-186-1 to accounts 50-153-186-2 , -3, -4, and -5.

50-153-186-2 was for DW 10-141 and ended the year with a zero balance after the final transfer to rate case expenses that matched the authorized revenue from the rate case surcharge for DW 10-141.

50-153-186-3 held the NHPUC reviewed rate case expenses for case DW 07-105 and had a balance at 01/01/14 of $81,921.

50-153-186-4 held rate case expenses that were associated with Mt. Roberts and were expected to be reviewed for potential surcharge at some time during the purchase process of Mt. Roberts.

50-153-186-5 held rate case expenses associated with DW 13-041 Petition for Emergency Rates with a balance of $59,501 at 01/01/14

During the year the Company was successful in acquiring a loan from CoBank with NHPUC approval that would fully pay 4 professionals that had combined outstanding balances of $433,938. The 4 vendors agreed as part of the full payment to discount their outstanding balances by a combined $115,128. As such the Company made the net payments to the 4 professionals in the amount of $318,810 and distributed the discount received to the following accounts:

Shaheen-Gordon $31,294 total discount which accounted for reductions of $27,689 in deferred rate case expense DW 07-105 (acct 50-153-186-3) and $3,605 deferred expenses -Mt Roberts (acct 50-153-186-4)

St Cyr $14,875 total discount which accounted for reductions of $7,205 in deferred rate case expense DW 13-041 (acct 50-153-186-5) and $7,670 reduction in operating expense account number 50-631-623-8 accounting.

Roberge $36,486 total discount which accounted for reductions of $4,330 in deferred rate case expense DW 07-105 (acct 50-153-186-3), $2,880 in deferred rate case expense DW 13-041 (acct 50-153-186-5), $360 in deferred expense Mt Roberts (acct 50-153-186-4) and the balance of $28,916 to operating expense account 50-631-623-8 accounting.

Upton Hatfield $32,473 total discount which was fully applied as a reduction of DW 13-041 (acct 50-153-186-5)

Prior to finalizing its 2014 annual report the Company determined that a portion of its deferred rate case expenses would not be approved by NHPUC. This caused the Company to reduce its deferred rate case expenses for DW 13-041 (acct 50-153-186-5) to zero by a transfer to operating expense – regulatory expense (acct 50-665-928-8) in the amount of $16,943

Audit Response

Audit appreciates the Company summarizing each of the deferred accounts. However, the indication that "*in previous years the Company maintained all of its deferred rate expenses in one general ledger account 50-153-186-1, at the beginning of 2014 the Company reclassified the deferred rate expenses from 50-153-186-1 to accounts 50-153-186-2 , -3, -4, and -5*" is incorrect. Audit requested and was provided with the NDS activity for the six deferred rate case expense accounts. The following summarizes each year-end balance since 2010:

		12/2010	12/2011	12/2012	12/2013	12/2014
50-153-186-1	Deferred Rate Case Expenses	$ 79,114	$ 188,587	$ 420	$ -	$ -
50-153-186-2	Def Rate Exp DW10-141	$ -	$ -	$ 152,966	$ 77,389	$ -
50-153-186-3	Def Rate Exp DW07-105	$ -	$ -	$ 81,921	$ 81,921	$ 49,902
50-153-186-4	Def Rate Exp Mt Roberts	$ -	$ -	$ 9,014	$ 9,434	$ 5,469
50-153-186-5	Def Rate Exp DW13-041	$ -	$ -	$ 7,678	$ 59,501	$ -
50-153-186-6	Def Rate Exp DW Open	$ -	$ -	$ -	$ -	$ -
	Year-end Totals	$ 79,114	$ 188,587	$ 251,998	$ 228,245	$ 55,371

Audit also reviewed seventeen divisions plus the administrative division detailed general ledger accounts relating to all deferred accounts, accounting expense accounts, and general law expense accounts.

Regarding the vendor discounts:

Shaheen	$ 31,294.23
Upton & Hatfield	$ 32,472.62
Roberge	$ 36,486.00
St. Cyr	$ 14,874.67
Total Discount	$115,127.52

Original entries (summarized) booked in July 2014:

Debit Accounts Payable total #50-210-231-1	$115,127.52	
Credit Deferred Rate Expense #50-153-186-1		$(66,227.15)
Credit 923 Accounting #50-631-923-8		$(38,842.98)
Credit 923 General Law #50-634-923-8		$(10,057.39)

Entries (summarized) booked in September 2014:

Debit Deferred Rate Expense #50-153-186-1	$66,227.15	
Debit 923 Accounting #50-631-923-8	$38,842.98	
Debit 923 General Law #50-634-923-8	$10,057.39	
Credit Non-utility Income #50-490-421-0		$(115,127.52)

Entries (summarized) booked in March 3, 2015:

Debit Non-utility Income #50-490-421-0	$78,542.16	
Credit Deferred DW07-105 #50-153-186-3		$(69,528.41)
Credit Deferred Mt Roberts #50-153-186-4		$ (9,013.75)

Entries (summarized) booked in March 9, 2015:

Debit Deferred DW07-105 #50-153-186-3	$37,509.18	
Debit Deferred Mt Roberts #50-153-186-4	$ 5,468.75	
Credit Reg. Commission Expense #50-665-928-8		$(42,977.93)
Debit Reg. Commission Expense #50-665-928-8	$59,921.11	
Debit Deferred Mt Roberts #50-153-186-4		$ (420.00)
Debit Deferred DW 13- #50-153-186-5		$(59,501.11)

The request for clarification of the reason for the various entries has not been addressed.

Regarding account 50-153-186-2, Audit reviewed all activity within seventeen divisional xx-632-928-8, Rate Case Expense accounts and verified that the total $77,389.25 was offset to 50-153-186-2, Deferred Rate Expense DW10-141. There were a total of twenty six entries, the majority of which were manual adjusting entries at year-end. The expense account impact was pro-formed out of the rate case.

AUDIT ISSUE #5

Annual Report, Filing, and Excel Sheets

Background

Lakes Region relies on Microsoft Excel spreadsheets for support of the seventeen divisions and the Administrative division. The Company also relies on the NDS computer system to provide the general ledger detail and trial balances for all divisions.

Issue

Audit was unable to verify the Unfinished Construction account, which within the annual report showed $102,015 but the NDS summed to $105,505, a variance of $3,490.

Audit was also unable to verify the reported Retained Earnings total per the annual report, filing, and Excel sheets to the NDS. The unreconciled difference was $1,189 more on the annual report than the NDS.

In addition, the Company allocated account XX-380-217-1, Inter-division Profit Distribution, and XX-395-999-0, Inter-division Offset, among all seventeen divisions. Audit requested clarification of the two accounts and how the earnings are allocated.

Audit Recommendation

As noted in Audit Issue #1, the ongoing recordkeeping of seventeen different divisions, in addition to the Administrative division, as well as the Excel worksheets and the NDS general ledger system has resulted in variances between the books which have not been reconciled.,

The number of entries booked relating to the Retained Earnings accounts, at least 36, is symptomatic of the complexity of maintaining individual systems.

Company Comment

Issues (a) and (b) – The variances noted by Audit in (a) Unfinished Construction is a variance in Gunstock Glen account #17-180-105-0 of $3,490. This variance was due to an error in NDS software in year 2009. The Company has accounted for this variance in every year since in its excel financial workbooks which is the source for the Annual Reports, financials and tax returns. This variance was present during audit for the DW 10-141 rate proceeding.

Variance (b) $1,189 in Administrative division-account #50-395-999-0 Interdivision Offset is a similar NDS software error in 2009 which was present at the time of the audit for DW 10-141 and is being accounted for in a similar manner as issue (a).

Issue (c) Earnings are closed annually into the retained earnings account for each division. The Inter-division account should when added together (divisions 1-18) balance out to zero. Each division has an inter-division account to indicate its share (positive or negative) of the common assets and liabilities such as cash and accounts payable.

The new accounting system will require the Company to balance its inter-division accounts.

Audit Response

Audit appreciates that the Company recognized the out of balance CWIP and the Inter-division Offset. The Company informed Audit on 11/2/2015 at the exit conference, that the NDS system representative initially had said that the master file of the NDS could not be updated, but the NDS journals were accurate. Audit understood the discussion to be that the Company contacted NDS about adjusting the master file and was initially told that one-side corrections could not be made, but at a later date was informed that the file could be corrected, but the correction was not done.

Audit understands that the earnings should post in the manner outlined, but the out of balance between the 36 divisional accounts and the Excel file was not addressed.

Audit encourages the Company to use the Logics computer system to the fullest and ensure that any issues encountered are addressed in a timely manner.

Audit Issue #6

Improper Long Term Debt Accounts

Background

For the test year ending 12/31/2014, Schedule F-35 of the PUC annual report shows an outstanding balance of $780,824. The 2014 amount agrees with the NDS general ledger accounts 50-260-225, 50-260-226 and 50-260-266.

Issue

The long term debt accounts are not listed in the PUC uniform system of accounts for water utilities.

Recommendation

The Company should use account XX-260-224 when accounting for Long Term Debt, as found in the PUC uniform system of accounts for water utilities.

Company Comment

The company will transfer balances to the 224 account in January 2016 when the new accounting system is fully implemented.

Audit Response

Audit concurs with the Company comment.

Audit Issue #7

Commission Approval for Long Term Debt

Background

For the test year ending 12/31/2014, Schedule F-35 (other long term debt) of the PUC annual report, shows an outstanding balance of $138,854. The 2014 amount agrees with the NDS general ledger account.

Issue

While verifying the reported balance for the Other Long term accounts (Schedule F-35) to the Company NDS general ledger Audit noted two vehicles that were purchased in 2011 without Commission approval. The vehicles are both 2011 Ford pickups and are assigned to Administrative division (50). Docket DW 14-285, Order No. 25,753 dated January 13, 2015 states that the Company must seek prior approval for long-term debt.

Recommendation

The Company must seek approval from the Commission prior to incurring Long-term debt, as noted in Order #25,753.

Company Comment

The Company concurs with this recommendation as noted in Order No 25,753.

Audit Response

The Company did not provide Audit with a reason that the 2011 vehicles had not been part of the retroactive Commission docket noted above which, among other items, addressed and ultimately approved, the purchase of 2013 and 2014 vehicles which had been purchased with long-term debt prior to Commission approval.

AUDIT ISSUE #8

Vendor Interest

Background

Audit verified the total $24,600 to general ledger accounts #XX-730-427-0. There were a total of 31 vendors, municipalities, insurance companies, credit card companies, finance companies, utilities, as well as the State of New Hampshire $14,795 and payroll taxes $4,608 included in the listing.

Issue

The $14,795 State of NH interest relates to past due State Utility Property taxes for 2011, 2012 and 2013. Audit understands that the State Utility Property Taxes were paid in full in September 2015. On 10/1/2015, Audit requested clarification from the company regarding where the credit was booked for those interest expenses identified as paid, but not actually paid until September 2015. On October 30, 2015 the Company indicated that the offset posted to account 50-210-231-5, Accounts Payable-Manual.

Audit requested clarification on 10/1/2015 regarding the Payroll Tax interest incurred of $4,608. The Company provided the response in the Comment section below, on 10/30/2015.

29 other vendors of all types were included in the listing of "Other Interest".

Audit Recommendation

The Company must focus more effort on timely and accurate cash management.

Company Comment

Issue (a) Interest Expense was Debited to Account 50-730-4270 and Accounts Payable was credited 50-210-231-5.

Issue (b) Company has submitted to Audit documentation requested in audit request #41. The following is a listing of the items included in documentation:

Notice Date	Tax Period	Amount	Date Paid
04/07/14	12/31/13	$1,031	04/04/15
06/30/14	03/31/14	$ 865	06/25/15
10/06/15	06/30/14	$ 945	12/04/15
12/29/15	09/30/14	$1,767	01/26/15
	Total	$4,608	

The Company concurs that cash management is important. The Company has considerably improved its Cash Management capabilities as a result of its last rate case and refinancing. The Company expects that further improvements will be realized going forward as a result of operational, management and other improvements that have been completed.

Audit Response

Audit reviewed account 50-210-231-5 and was unable to verify that the $14,795 owed to the State was included in the balance. At year-end 12/31/2014, the balance was a debit of $5,472.

Audit asked if the employees' payroll tax payments to the IRS are current as of the date of the exit conference 11/2/2015, and was told yes, all payroll taxes are current.

AUDIT ISSUE #9

Customer Deposits and Interest Accrual

Background

Per the PUC 1200 rules, companies may collect deposits from customers for new residential service.

Issue

Lakes Region collected deposits but failed to accrue simple interest on the deposit per PUC rule 1203.3.

Deposits were not returned to the customer or applied to any bad debt written off.

The Company assessed finance charges on outstanding deposit amounts.

Audit Recommendation

Audit notes that Lakes Region is in the process of reviewing the deposits and applying interest, returning deposits to customers and using deposits to reduce bad debt, as authorized by the 1200 rules.

Audit recommends that Lakes Region continue the process they just began and continue to follow the PUC 1200 rules regarding deposits.

Company Comment

The Company concurs with this recommendation.

Audit Response

Audit agrees with the Company comment.

AUDIT ISSUE #10

Construction Work in Progress (Unfinished Construction)

Background

The filing Schedule 2.1 reflects a total Unfinished Construction balance of $102,015.

Issue

The NDS general ledger system reflects a total (of the seventeen divisions' individual Unfinished Construction accounts) of $105,505. The NDS and the reported Unfinished Construction total vary by $3,490. Audit traced the variance to the Gunstock Glen division which on the Excel spreadsheets shows $14,192 but NDS shows $10,701.

The Company indicated that the variance has existed for several years and has not been adjusted. They hope to correct the NDS with the introduction of Logics, the new computer system.

Audit Recommendation

Audit recommends that if the Company continues to maintain records in both Excel and NDS (or Logics) a reconciliation be accomplished on a regular basis, and errors cleared as identified.

Company Comment

The Company concurs with this recommendation.

The Company did find and maintained a reconciliation of the variance since its occurrence. The Company does periodically reconcile its Property, Plant, & Equipment accounts which include the aforementioned unfinished construction balance. See also the Company's comment in response to Audit Issue 5 (a).

Audit Response

Audit appreciates the Company comment, and agrees that the Company was aware of the variance. With the Logics system implementation, the Company is encouraged to clear any variances that they identify.

AUDIT ISSUE #11

Mt. Roberts AFUDC

Background

The Company calculated Allowance for Funds Used during Construction on costs associated with the Mt. Roberts plant additions to the Paradise Shores division 02.

The Company proposed, and booked to the NDS general ledger system, a total of $55,820 on costs related to the plant additions for the Mt. Roberts well in the Paradise Shores division. As proposed, and booked to the Company's NDS general ledger system, the calculated AFUDC figures were booked to Additional Paid in Capital, account 50-320-207-0. One entry in the amount of $1,309, increased the Additional Paid in Capital (to the reported $55,820).

Issue

The rates used in the spreadsheets were 8% on one sheet and 7.5% on another sheet. Neither rate represents the Company's allowed Rate of Return or the actual cost of debt. The Company's accountant determined the rates as a blend of the two, as he considered the rate of return to be too high and the cost of debt to be too low.

Audit requested clarification of the additional credit of $1,309 to Additional Paid in Capital, and was told that the adjustment was made after additional information was obtained. A request for further explanation resulted in the Utility Manager indicating that further information was not available

The Company has posted the AFUDC income to the incorrect account, Additional Paid in Capital, rather than to AFUDC Income account #420.

The reported book costs of $216,113 were not booked to the Company's general ledger at the time the costs were incurred. All of the costs (reported incurred from 2006 through 2012) were booked to the plant accounts and offset to the Additional Paid in Capital account via adjusting entries in January and February 2015 for postings in 2014. None of the $216,113 was posted to the Unfinished Construction account.

Audit Recommendation

If the Company finances construction projects, the allowed AFUDC rate must be approved by the Commission. The Company's Utility Manager must be able to provide support for costs posted to the Company's accounting system. AFUDC costs must be offset to the appropriate income account, not the equity account. AFUDC cannot be calculated on costs not booked to the Unfinished Construction account at the time the cost is incurred, nor on costs not incurred by the Company itself.

Company Comment

Issue a)The interest rates for AFUDC are below the Company's authorized rate of return on equity of 9.75% as well as below the Company's authorized rate of return of 8.39%. *See Order No. 25,391*, Page 16.

Issue b) After the Company recorded assets listed in middle of page 15 of this report totaling $214,802.66 the Company found 3 invoices that had been overlooked totaling $1,309.90 (A&L Labs $310, Tamworth Sand & Gravel $600, Rick Taylor $400 less a $0.10 error), during the same review the Company corrected previous entries made to Wells and Pumps and reclassified the same to Mains. We have attached the Journal entry LRW14-324 that records this transaction.

Issue c) All of the funds noted above to develop the Mt. Roberts project for the benefit of the Company's customers were in fact equity because the Company's Stockholders funded the improvements and calculated AFUDC on these improvements from the date of purchase until July 05, 2012 the date that the Company received NHDES approval for Mt Roberts in a non-emergency basis. The Company had on-going communications with staff concerning its intention to include AFUDC as a component of construction cost and seek approval as part of this rate case.

Issue d) The costs were not booked by the Company as they occurred because the Stockholder incurred the cost and not the Company during the time period of 2006 – 2012.

Audit Recommendation - The Company did provide spreadsheets which detailed transactions supporting the costs proposed as Additional Paid in Capital. This was made available to Audit as was supporting documentation when requested. Because the Company Stockholders funded the improvements and calculated the AFUDC on these improvements from date of purchase until July 5, 2012 when the Company received NHDES to use the wells in a non-emergency manner. Since this was not a loan and no interest expense was recorded, then there is not AFUDC income in the transaction but is fully recognized as paid in capital.

Audit Response

The Company is reminded that according to the PUC Chart of Accounts, AFUDC represents financing costs incurred by the Company, not the shareholder.

AUDIT ISSUE #12

Accuracy of Reported Mt. Roberts Asset Costs

Background

Audit reviewed the 2014 additions to the Mt. Roberts well site in division 02, Paradise Shores.

Issue

Structures $69,896 should be increased by $9,834 for a total of $79,730. The assets were in addition to those included on Mr. Mason's testimony. These assets were booked to Unfinished Construction, and because of the 2014 timing of the addition, were not reflected on the AFUDC calculation worksheets.

Wells $187,837 should be reduced by $7,134 and the related AFUDC $2,236 for a total of $178,467.

Mains $88,055 should be reduced by $2,389 due to lack of supporting documentation. Review of the remaining $85,666 documentation reflected poor recordkeeping, payment details, and inability to determine if the invoice was paid and by whom.

Audit Recommendation

Audit recommends that only the supported book cost of the asset additions be included in the plant in service. Calculation of AFUDC was discussed in Audit Issue #11.

Audit is also unsure of the actual "in-service" date of the Mt. Roberts plant, as assets were added after the reported July 2012 in service date.

Company Comment

Mt. Roberts assets (non-land items) are derived from 2 sources, 1) Stockholder expenditures from 10/29/2006 through 05/01/11 and 2) Company expenditures beginning in 2012 and continuing through 2014. The Stockholder expenditures of $216,112 and the related AFUDC of $55,819 were recorded on the Company's books as of 04/01/14 with offsetting entry to Additional Paid in Capital. The Company's expenditures from 2012 – 2013 were recorded and reported in Work-in-Process in those years and distributed to the appropriate plant accounts in 2014 with the 2014 expenditures by the Company. It is important to note that AFUDC is limited to expenditures by the Stockholders.

Mt. Roberts in service date was April 2014. The company believes its support is accurate and documented. There were two instances on spreadsheets used for analysis and recording purposes that transactions were entered twice (not paid twice). However the company is not aware of documentation not being made available to Audit at their request. The company will conduct further review based on this Audit Issue and Recommendation noted above.

Audit Response

Audit concurs with the Company that a further review of the reported costs be conducted. Audit also suggests that the costs identified in this issue be excluded from plant in service unless and until the underlying support can be provided.

Lastly, Audit verified that the net activity of the Unfinished Construction account for Paradise Shores, 02-180-105-0 was $24,441 in 2012 and $6,017 in 2013.

AUDIT ISSUE #13

Original Cost vs. Retirement Cost

Background

In 2010, pumps were retired in the amount of $2,250. Also retired was a piece of Transportation Equipment in the amount of $33,619.

Issue

A 5HP pump was purchased in 1979 for $2,550. The "2014 LRW detail depr workbook" Excel spreadsheet reflected the retirement in the amount of $2,250, leaving a balance of $300 in the Plant account as well as the Accumulated Depreciation account.

Audit Recommendation

The Company is reminded that plant retired must be offset to the Accumulated Depreciation at the book cost of the asset.

Company Comment

In researching the retirement of the 5HP pump in Division 6 – Wentworth Cove in year 2010, it was found that the original paperwork for the retirement which included the manual entry was recorded as $2,250 and was then carried throughout the retirement process to include detail depreciation schedules, general ledger accounts both cost and accumulated depreciation and F-8 reports in the annual 2010 Annual Report.

Audit Response

As was discussed at the exit conference on 11/2/2015, Audit recommends that the Company credit the plant account for the $300 and debit accumulated depreciation to clear the keying error.

AUDIT ISSUE #14

Use of the ½ Year Convention

Background

The detailed worksheets maintained by asset by division reflect additions, retirements, annual depreciation rates, expenses, and accumulated depreciation. The spreadsheet provided to Audit included all activity from 2006 through 2014.

Issue

2011, 2012, and 2013 retirements did not reflect the ½ year convention in the year of retirement.

Audit Recommendation

The Company should record the ½ year depreciation expense for those assets retired before they are fully depreciated.

Company Comment

The company concurs with Audit's recommendation.

Audit Response

Audit agrees with the Company comment. The value of the error was not calculated for purposes of this audit.

AUDIT ISSUE #15

Incorrect Depreciation Rates

Background

The detailed worksheets maintained by asset by division reflect additions, retirements, annual depreciation rates, expenses, and accumulated depreciation. The spreadsheet provided to Audit included all activity from 2006 through 2014.

Issue

Audit noted that the depreciation rates were incorrect for additions to structures in 2012 which are being depreciated over 50 years, rather than 40.

Transportation assets, pickup trucks, purchased in 2012 are being depreciated over 3 years, and pickup trucks purchased in 2013 are being depreciated over 4 years. The small water booklet requires transportation equipment to be depreciated over 7 years.

Wells added in 2014 are being depreciated over 40 years, rather than 30.

Transportation assets, pickup truck and related tools, added in 2014, are being depreciated over 4 years, rather than 7.

Audit Recommendation

The Company must comply with the depreciation schedule, or provide documentation regarding the different, accelerated depreciation for vehicles. The Company must also ensure that mileage and wear and tear is not increased due to personal (and family) use of Company vehicles.

Company Comment

Depreciation rates - The Company will make sure that beginning in 2015 that all its new assets are depreciated based on the rates listed in Appendix B of the Uniform System of Accounts unless it is able to document with CPR the reason for a different rate.

Transportation assets - The Company's use of a 4 year life for a pickup truck instead of the recommended 7 years is due to the company's expansive service area (approximate 25 mile radius) which subjects the vehicles to high mileage, including rugged road surfaces during winter and early spring months which in turn shortens the vehicles useful life.

The use of Company vehicles is exclusively for business purposes. To that end, the Company felt it an unnecessary expense to maintain a use/miles driver log. There are four vehicles are issued to employees that are on call 24/7 and are required to secure the vehicle while in their use. This improves response times. Under this arrangement the vehicle is more secure than being located in the Company's unprotected parking lot which is not fenced or staffed after normal business hours.

Audit Response

Audit requests that any variance from the 1991 Small Water Booklet suggested depreciation rates be discussed and documented in the context of this DW 15-209 rate case and any resulting agreement or Order.

In addition, if the Company determines that employees are using the vehicles for personal purposes, recording that mileage usage can be recorded in a notebook, at minimal expense.

AUDIT ISSUE # 16

Incorrect Meter Addition Total

Background

2013 additions to the Paradise Shores system, meters, were reported to be $9,631. Thirty-one individual CPR were provided to support the addition.

2014 additions to the Paradise Shores system, meters, were reported to be $11,764. Thirty-eight individual CPR were provided to support the addition.

Issue

For the 2013 addition, nine Continuing Property Records did not properly reflect the support provided. Eight of the variances were less than $1. CPR #758 total of $2,568 is overstated by $95.

For the 2014 addition, 38 Continuing Property Records were reviewed. 18 of the CPR summary pages did not agree with the supporting documentation. The overall error was an understatement of $234.

Audit Recommendation

2013 Meter addition to division 02, Paradise Shores, is overstated by $95.
2014 Meter addition to division 02, Paradise Shores, is understated by $234.

Company Comment

2013. The total posted to Paradise Shores Division #2 meters account General Ledger A/C # 02-160-334-4 for new meters $9,630.55 which is supported by meter CPR's #753-783. The Company believes that it has not overstated its 2013 property records. In addressing the specific issue above about CPR #758 the company has attached supporting material that totals $2,523.93 and with further research the Company would find the additional $55 of support for this CPR valued at $2,569.

2014 Company concurs.

Audit Response

Audit reviewed the CPR #758 information provided. The supporting documents reflect:

Inventory Value $2,407.50 for Work Order total of $2,473.93. The inventory was comprised of:

Miscellaneous Inventory	$ 853.41
RE Prescott	$ 729.09
RE Prescott	$ 825.00
Inventory	$2,407.50

The $825 invoice was reflected on the CPR summary sheet as $875.

Labor		$ 30.46
Benefits		$ 8.89
Supervisor Labor		$ 27.08
Total Labor		$ 66.43
	TOTAL CPR #758	$2,473.93
	Handwritten total	$2,568.93
	Variance	$ (95.00)

AUDIT ISSUE #17

Expense vs. Capitalization

Background

Audit reviewed a selection of additions to plant as well as randomly selected Operations & Maintenance expenses for accurate and complete documentation and proper accounting.

Issue

Paradise Shores addition to Structures in the amount of $69,896 (part of the Mt. Roberts and related AFUDC) was understated by:

Progress Payment to Michael Quinn $5,000 booked to 02-630-603-1 January 2014
Payment to Tim Christian Electric $10,000 booked to 02-630-603-1 May 2014

Both costs were booked to expense account 02-630-603-1, Miscellaneous, rather than to the Plant Structures account 02-160-304-2.

Audit Recommendation

Structures account 02-160-304-2 should be increased by $15,000 and the Expense account should be decreased by $15,000.

Company Comment

The Company agrees with this recommendation. The Company has recently initiated a multi-level review process of transactions (invoices etc.) to eliminate or reduce errors of this nature in the future.

Audit Response

Audit concurs with the review process and requests that the adjusting entries relating to this issue be provided to Audit once they are booked. The filing should also be adjusted to reflect the increase in plant balances and the decrease in expenses.

AUDIT ISSUE #18

Pumps

Background

In 2014, a total of $47,249 was added to account 02-160-311-2. Two continuing property records related to the Mt. Roberts property. Five others did not.

Issue

Audit noted that a pump cost and related supplies in the amount of $4,030 was included twice on CPR #39. The CPR #39 is not part of the Mt. Roberts project, thus there is no related AFUDC calculation. Therefore, the total 2014 should reflect:

Original LRW addition	$47,249
Duplicated pump cost	$ (4,030)
Adjusted Pump cost	$43,219

Audit verified that each CPR was identified on the "2014 LRW detail depr workbook", with a ten year asset life, with ½ year convention noted. There should have been a pump replaced, although the spreadsheet did not reflect a retirement.

Audit Recommendation

The plant total for the 2014 pump additions is overstated by $4,030. Also, The CPR indicates that the installed pump replaced a pump, but there was no retirement noted. The value of the pump which should have been retired is unknown.

The Company must adjust the plant values by both the double accounting of the pump and the book cost of the pump that should have been retired.

Company Comment

Recommendation a) The Company will reduce its pump assets in Paradise Shores by ($4,030) and increase its material expense by the same amount. The Company will also make corrections to CPR#39 and depreciation schedules.

Recommendation b) The Company will retire a Division 2 Pump CPR # 12 with a cost of $2,046 placed in service in 1991 and has been fully depreciated since 2012.

Audit Response

Audit concurs with the Company comments and requests that copies of the entries be provided. The filing should also be adjusted by the overstatement and lack of retirement.

AUDIT ISSUE #19

Tariff Rates

Background

A portion of revenues from operating division 4, Waterville Valley Gateway, were booked to unmetered sales for Division 4 which is a metered system. The pool is charged a flat rate quarterly.

Issue

Audit reviewed the Company's tariff and noted that the pool had a minimum rate of $363.19 per quarter, or $1,452.76 annual charge. The sales revenue booked on the quarterly basis was in the amount of $362.11. Lakes Region is charging less than the tariffed rate.

Audit Recommendation

While the lost revenue of $1.08 per quarter is immaterial, Audit recommends that the Company charge $363.19 per quarter to be in compliance with the tariff.

Company Comment

The Company acknowledges the error. The Company recommends that it continue to use the rate indicated above until the Commission order in its rate case.

Audit Response

Audit understands that the figures are small, but the only customer on this tariffed rate is being assessed at the incorrect rate. Audit also understands that this rate is under review as part of this docket, and encourages the Company to ensure the accuracy of any rate adjustment once the rate case is concluded. The Company should discuss the quarterly charge with the PUC Water division prior to the conclusion of this rate case, regarding whether or not the rate in place should be adjusted to reflect the current tariff.

AUDIT ISSUE #20

Incorrect Presentation of Account Numbers

Background

Audit compared the PUC annual report to the NDS general ledger accounting system to ensure accounts and totals agree.

Issue

The total miscellaneous service revenue account #471 for 2014 was $52,620 according to the PUC annual report. Included in that total was $26,729 booked to account #415 Revenues from Merchandising, Jobbing and Contract Work and $100 booked to account 419 Interest and Dividend Income

Account 604, $1,250 Source of Supply-Operations-Rents on the Annual Report was verified to account 931, General Rents in the NDS general ledger.

Account 623, $ 75,546 Fuel or Power Purchased for Pumping on the Annual Report was verified to account 662, Purchased Power.

The PUC Annual Report did not reflect a balance in account #421, Non-utility Income. The NDS general ledger account 421 Non-utility Income reflected $39,178 (refer to Audit Issue #4). The $39,178 reduced the reported amount on the Annual Report expense account 923.

Outside Services account 923 on the Annual Report reflects $45,900, while the NDS reflects $85,077. As noted above, the variance of $39,178 is caused by the misrepresentation of the Non-utility Income within the 923 balance.

Audit Recommendation

The Company must present the financials of the Company, as they appear on the general ledger. Misrepresentation of accounts can lead to erroneous conclusions by regulators and others.

Company Comment

The company agrees with the recommendation made by Audit.

Audit Response

Audit encourages the clear presentation of all accounts at all times, as noted in the recommendation, to ensure that the user of the annual report has a clear understanding of what the account balances represent.

AUDIT ISSUE #21

Finance Charges

Background

Lakes Region is approved to charge 18% annually (1.5% monthly) on balances over 30 days past due.

Issue

The 9/4/2014 finance charge was calculated based on the 60 days past due balance and not the 30 day balance. The customer was charged $.85 when it should have been $2.95

Audit Recommendation

Lakes Region need to make sure they are calculating all finance charges on the 30 day past due balance.

Company Comment

The company accepts the audit recommendation

Audit Response

Audit concurs with the Company comment.

AUDIT ISSUE #22

1200 Rules

Background

Audit conducted a billing test to ensure that customer invoices comply with the PUC 1200 rules. Specifically, PUC rule 1203.06 notes the following:

(c) Bills shall indicate at a minimum:
- (4) Any applicable penalty date
- (5) The approximate date of the next meter reading
- (6) All factors necessary to compute the charges.

Issue

The applicable penalty date was not noted on the invoices and the due date is "on receipt".

The approximate next reading date is not stated on the invoice.

The factors necessary to compute the charges are not shown. For example, the finance charge should be broken out into a separate line item and not included in the past due amount.

Audit Recommendation

Audit recommends the Company comply with the 1200 rules and add the missing information to their customer bills.

Company Comment

The company accepts the audit recommendation. The new billing system will allow the company to be in full compliance with the 1200 rules noted above. We anticipate that by the first quarter 2016 we will be fully implemented.

Audit Response

Audit concurs with the Company and acknowledges that a rolling review of the invoices being ordered is being conducted by the Company to ensure compliance.

AUDIT ISSUE #253

Lack of Supporting Documentation

Background

Audit reviewed a selection of additions to plant as well as randomly selected Operations & Maintenance expenses for accurate and complete documentation and proper accounting.

Issue

The Company was unable to provide supporting documentation for the following:

- 16 workorders included in the $69,896 addition to Structures (Mt. Roberts) totaling $2,666 were identified on the CPR summary as "unable to locate at time of analysis".
- Eight specific invoices were not provided for the Mt. Roberts related wells addition of $187,837. The unsupported invoice line items sum to $7,134. There was also $2,236 AFUDC calculated on the $7,134.
- David Sands $1,000.00 in LRW account #931, on annual report account 604
- PSNH $ 298.78 account 662
- NHEC $ 526.90 account 662
- NHEC $ 231.63 account 662
- Supporting documentation for bad debt write offs $18,076 in account 904
- Offsetting support for the 7/31/2014 credit entries to accounts 50-631-923-8 and 50-634-923-8 which sum to $48,900

Audit Recommendation

Lakes Region needs to maintain all supporting documentation for transactions for which they seek ratepayer recovery.

Company Comment

The company concurs. The Company will make every effort to provide the supporting documentation noted.
Attached is support for the $1,000 David Sands Expense. Also attached are PSNH invoice for the $298.78. The 2 NHEC invoices listed above should have been identified as PSNH, both invoices are attached and the proper vendor, PSNH, was paid, the proper divisions charged for the expenditure.

Audit Response

The Company provided Audit with an invoice related to Deer Cove North Corporation, which represents the $1,000 noted as paid to David Sands. Mr. Sands owns the land on which the well is situated. LRW pays an annual rental fee of $1,000 for water pumped from the Deer Cove well.

The $298.78 PSNH invoice related to an accident at Bennett Rd in Freedom, NH. The invoice indicates that it should be presented to the insurance company for prompt settlement.

The Company stated on 11/2/2015 that it had not sought recovery from the insurance company for the $298.78

Both of the NHEC invoices, so identified on the general ledger, were actually PSNH invoices, both of which were provided.

The items relating to Mt Roberts, and the bad debt remain unsupported. Refer to Audit Issue #4 for information relating to the $48,900.

AUDIT ISSUE #24

Below the Line

Background

Audit randomly selected Operations & Maintenance expenses to review supporting documentation for compliance with the Chart of Accounts.

Issue

The following expenses should have been booked below the line

- Canoe Restaurant $ 220 Miscellaneous Expense account 930
- Christmas Bonuses $3,736 Payroll expensed

Audit Recommendation

The total of $3,956 should have been posted below the line.

Company Comment

The Company does not agree that items listed in the Issue section above should not be recognized as "Below the line".

We believe the modest amount spent for the Holiday lunch that brings the entire office and field personnel together is good for the morale and inter communication between departments and is to the benefit of the customer.

Company strongly disagrees with the reclassification of the Holiday Bonus as management considers this as part of employee compensation, a terrific morale booster and compensation that has never been questioned in any previous audits.

Audit Response

Audit understands that employee morale is a consideration. However, the ratepayers should not be asked to pay for these expenses.

AUDIT ISSUE #25

Non-Recurring

Background

Audit reviewed the expense activity for the year, to ensure the expenses are regular recurring.

Issue

The following items were deemed non-recurring:

O&M Expenses

Account 662 Transmission & Distribution Lines Expenses

- $ 1,400 Chassis descaled
- $ 844 Truck Trends for winter rims
- $12,959 No lead rule

Account 930 Miscellaneous General Expenses

- $ 1,546 Office renovation
- $ 3,908 Loan prepayment fee

Municipal Property Tax

- $32,000 property sale income
- $263 Property taxes paid on sold property

Audit Recommendation

Audit recommends that the Company reflect proformas in the current rate case filing.

Company Comment

O&M Expenses

(A) $1,400 chassis descaler, this is periodic sand blasting of the dump truck to remove hardened debris, caused by wet sand & rocks. Company considers this expense recurring.

(B) Purchase of truck rims from an aftermarket vendor "Truck Trends" is less expensive than purchasing a set from a Ford dealer. The additional set of rims are used to mount and set winter tires for the vehicle in order to eliminate the need to go to the tire shop to have tires changed. This is a normal expenditure. A quote from a Ford dealer for 1 rim assembly cost $651 while Motor Trends invoice of $844 was for 4 rims (cost of one $211)

(C) $12,959 no lead rule - Company agrees that this is non-recurring, but would be open to amortization of the amount in Rate Case over a 3-5 year period.

(D) $1,546 Company concurs

(E) $3,908 Company concurs

(F) \$32,000 Property Sale – Company concurs – this has been removed from Rate Filing, see Sch. 1E and Sch. 1 line 13 Col (E)
(G) \$263 Company concurs

Audit Response

Audit reiterates the non-recurring nature of the expenses identified. A question of how frequently the descaling takes place was not answered. The swapping of winter and summer truck rims is a prudent action to take. However, as discussed at the exit conference on 11/2/2015, with each new truck purchase, a new set of second rims should not be necessary.

Audit concurs that the sale proceeds of \$32,000 were removed from the rate filing.

Lastly, amortization of the \$12,959 should be discussed and documented in the context of this rate case.

AUDIT ISSUE #26
Expense Account Overstated

Background

Rate Case related expenses should be deferred and then amortized over a certain period, as approved by the Commission.

Issue

Upton & Hatfield for $1,767.50 posted to xx-631-923-8, should have posted to 186.1, Deferred Rate Case Expenses

An invoice from Mr. St. Cyr in the amount off the $1,207.50 posted to xx-631x-923-8.
$431.25 should have been booked to account 186, Miscellaneous Deferred Debit.
$172.50 should have been booked to account 181, Unamortized Debt Expense.

An invoice from Mr. St. Cyr in the amount of $991.88 posted to xx-631-923-8.
$258.75 should have been booked to account 186, Miscellaneous Deferred Debit.
$661.25 should have been booked to account 181, Unamortized Debt Expense.

A September invoice from Mr. St. Cyr was erroneously posted to xx-623-923-8 in the amount of $28.75. The amount should have been booked to account 186, Miscellaneous Deferred Debit.

An invoice from Logics, in the amount of $592 for the monthly hosting fee in November 2014 was reversed in September 2015, as the Company had not yet begun to use Logics (as of 8/15).

Audit Recommendation

Audit recommends that LRWC transfer the expense to the appropriate account, and reduce the test year expenses by a total of $3,912.

Company Comment

Issue a) The Company has reviewed the invoice for $1,767.50 and believes that the posting to legal expense account xx-631-923-8 was proper based both on the described services and the designation by the vendor that the services were General Advise. This vendor is very specific as to identifying services that are rate case related.

The Company concurs with issues b), c),d),and e), thereby agreeing to a reduction in test year expenses of $3912.00 less ($1,767.50) for a net of $2,144.50.

Audit Response

Audit reviewed the legal invoice in question and believes that it should be deferred. Audit concurs with the remainder of the Company comment.

AUDIT ISSUE #27

Prior Year Expense

Background

Employees receive a medical reimbursement, of up to $600, at the end of the calendar year for any out of pocket health expenses they incurred.

Issue

A medical reimbursement for $285, paid in 2014, was noted as being for 2013

Audit Recommendation

Although it is a small amount, Audit recommends removing the expense from the test year.

Company Comment

The Company concurs with this recommendation

Audit Response

Audit agrees with the Company comment and understands that $285 medical expense will be removed from the filing.

AUDIT ISSUE #28

Timeliness

Background

Audit reviewed all general ledger payroll transactions in detail.

Issue

The payroll journal entries are not being performed in a timely manner. The weekly payroll is journalized on a weekly basis; however, work order allocation and step downs are not.

In payroll account 50-601-920-8, the January through July payroll was entered weekly. The first step down was performed on August 5. In November and December the work orders for these months were allocated to the specific division and the administrative costs were put back into this account. In January of 2015, the final step down was performed. For the January 2014 payroll, the final step down was performed one year later.

Audit Recommendation

Audit recommends journalizing the payroll on a weekly basis and allocating the work orders and step downs on a monthly basis. The work orders should be allocated prior to the step down to prevent any excess journal entries.

Company Comment

The Company concurs.

Audit Response

Audit appreciates the Company's efforts to streamline the payroll process, and encourages those efforts. Such clarity should result in more efficient payroll processing and posting of work orders.

AUDIT ISSUE #29

Payroll Allocation

Background

All payroll entries are recorded to the administrative account and then a step-down is performed to allocate the costs to the seventeen operating divisions.

Issue

While allocating expenses to the corresponding divisions, they were allocated to the incorrect ones.

Also, due to a computer glitch in October work order entries were taken out of the operating divisions and placed back into the administrative account. They were then stepped down to the seventeen divisions based on customer count, even though work orders are allocated based on the work performed.

Work Orders were also being charged to different divisions than what the work order stated.

Audit Recommendation

Audit recommends eliminating the need for maintaining every system as a separate division. See Audit Issue #1.

If LRWC continues to keep records for all seventeen divisions, they must be accurate, and all allocations must be made to the appropriate divisions.

Company Comment

Management fully agrees with the Audit Recommendation for the need of maintaining accurate record keeping. See also Response to Audit Issue #1.

Audit Response

Audit reminds the Company that Audit Issue #1 relates to the excessive accounting work resulting from the continual maintenance of 17 systems as individual, non-consolidated entities.

AUDIT ISSUE #30

Trial Balance to W-3 Reconciliation

Background

Audit was able to reconcile the payroll spreadsheet 1 to the W-3 and to the NDS general ledger.

Issue

Audit was not able to tie the W-3 back to the Excel trial balance of the seventeen divisions. Audit requested for a reconciliation of the W-3 to the trial balance, several times, and did not receive one.

Audit Recommendation

Audit recommends keeping simplified records that will help with the reconciliation of these two reports.

Company Comment

The Company agrees that by simplifying its record keeping procedures will facilitate the reconciliation noted in the recommendation.

Audit Response

Audit was not provided with specifics regarding how the process will be simplified.

AUDIT ISSUE #31

Service Billing

Background

Lakes Region Water Company and LRW Water Services have an affiliate agreement. In this agreement, services can be performed by either company for the other and would be charged a set rate.

Issue

The November billing from LRWC to Water Services excluded 4.0 hours of work ($200) performed.

Audit Recommendation

Audit recommends, and LRWC has already noted they will, invoice Water Services for the 4 hours.

Company Comment

Company concurs with Audit's Recommendation and will invoice Water Services the 4.0 hours.

Audit Response

Audit appreciates the Company's comment and suggests that the filing be adjusted by the $200. Audit also requests a copy of the invoice and general ledger entries of the bill, as well as the payment when received.

AUDIT ISSUE #32

Fringe Benefits

Background

LRWC field employee's assigned vehicles are required to maintain the vehicle for emergency calls and minimal personal travel.

During Audit's review of the insurance policy, an insurance company audit noted that spouses and children had access to company vehicles.

Issue

Per the IRS Fringe Benefit rule, employee's use of company vehicles shall be taxed and noted on the employee's W-2.

Audit could not verify that employees were taxed for this fringe benefit.

Audit is also concerned with the accelerated depreciation (3 years) used for pickup trucks owned by the Company. High mileage was also noted during the Plant review portion of the audit.

Audit Recommendation

The Company should not allow family members of employees to use Company vehicles. Further, those employees who are authorized to use Company vehicles must maintain a record of the mileage used for personal rather than business purposes, so that the IRS regulations can be followed.

Company Comment

The Company does not permit family members to use Company vehicles.

Audit Response

As discussed at the exit conference on 11/2/2015, Audit understands that the access to which the insurance audit referred indicates that the vehicle would be in the employee's yard, and thus vicinity, of the employee's family, not that those family members were authorized to drive the vehicle. As indicated earlier, any use of the Company vehicle for personal purposes must be recorded for compliance with IRS regulations.

AUDIT ISSUE #33

53 Pay Periods

Background

LRWC pay periods run from Friday to Thursday. Employees are paid on the Friday following the close of the pay week.

Issue

The test year payroll is overstated as it includes five days from 2013 and one day from 2015.

Audit Recommendation

Audit recommends removing $7,351 for the 53rd pay week in 2014, as this was actually paid in 2015.

Company Comment

60% of week ending 1/2/2014 (Friday 12/27, Monday 12/30, Tuesday 12/31) was accrued in 2013 and reversed in period 1 of 2014 reversing entry lrw-14-119 total $4,244 and posted as a credit expense as follows

50-601-920-8	$(1,703)
50-603-920-8	$ (734)
50-602-920-8	$(1,807)
Total	$(4,244)

Company agrees that one day, January 1, 2015, a Thursday was recorded in 2014. Total dollars $1,470. There was $2,038 of accrued 2013 vacation that was reversed in January of 2014 (Entry # 14-118)

Audit Response

Audit concurs with the accrual and reversal identified, and suggests that the filing be reduced by $1,470.

AUDIT ISSUE #34

Tax Payments Outside of the Test Year

Background

Audit reviewed the Federal and State tax forms for 2014.

Issue

$3,810 was expensed to account 50-850-409-1, Federal Income Tax, in March 2015 as a year-end adjusting entry for 2014. The notation on the entry was to clear an under-accrual related to 2013.

State Income tax expense of $6,216 is overstated by $2,966.

Audit Recommendation

Audit recommends reducing the tax expenses for the test year by $6,776.

Company Comment

The Company concurs with this recommendation.

Audit Response

Audit and the Company agree that the test year expense should be reduced by $6,776.