Abenaki Water Company
Docket N. DW 19-131
Staff Data Requests Set 1 – to ABENAKI

Date Request Received: 02/03/20 Date of Response: 02/18/20
Request No. Staff 1-1 Witness: Donald Vaughan & Steve St. Cyr

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REQUEST: The 2016 through 2018 New Hampshire Public Utilities Commission Annual Reports of Abenaki Water Company, Inc., Schedule S-10 Transmission and Distribution Mains, page 46, detail total ductile iron mains of 34,788 feet. (Attachment A) This reconciles to the final schedule reported by the prior owners of Rosebrook: the 2015 New Hampshire Public Utilities Commission Annual Report of Rosebrook Water Company, Inc. (Attachment B)
Please provide a copy of the Abenaki Water Company, Inc. property records detailing ductile iron main footages by size and location.

RESPONSE:
See Attachment 1-1-property records.

See also Abenaki's response to Staff 1-20.

Prior to its purchase of the Rosebrook Water Company, Abenaki relied heavily on, among other sources, PUC's Chief Auditor's report dated, May 14, 2013. In that report the audit noted, "…no backup is available for assets placed in service before 2005". Further in the report, mention was made that Rosebrook was unable to provide any backup data for Plant before 2005 and virtually all retirements. Further, audit requested the continuing property records (CPR's) from the Company for all plant assets but the Company was unable to provide them. Also, "Rosebrook's lack of adequate records was addressed by the Commission in DW 06-19….". The Audit Report can be found at https://www.puc.nh.gov/Regulatory/Docketbk/2012/12-306/TRANSCRIPTS-%20OFFICIAL%20EXHIBITS-%20CLERK%20REPORT/12-306%202013-09-17%20EXH%204%20STAFF%20FINAL%20AUDIT%20REPORT.PDF.

Through a search and review of the former Rosebrook Water Company's annual reports, Abenaki tabulated the following:

Year	T&D Mains in Service (ft)
2008	35,988 cast iron
2009	35,988 cast iron
2010	35,988 cast iron
2011	35,988 cast iron
2012	35,988 cast iron
2013	34,788 ductile iron
2014	34,788 ductile iron
2015	34,788 ductile iron

The Audit Report offers no explanation for the discrepancy of 1,200 feet of main between 2012 and 2013, nor are there any clues given on page 21, Utility Plant in Service, or page 23, Accumulated Depreciation of Utility Plant in Service (both of which are attached).

The conversion of mains from cast iron to ductile iron is probably attributable to a technical oversight. Noteworthy in the report, page 5, is the huge discrepancy in T&D mains in service between the Annual Report and General Ledger ($202,434 versus $135,585).

Not only the PUC auditors, but Abenaki were troubled by the lack of adequate and coherent progression of CPR's. Therefore, and unfortunately, Abenaki cannot furnish the requested main footages by size and location in full. Please see the partial listing attached.

ROSEBROOK WATER COMPANY
MAINS
ACCOUNTS 309 & 331

ASSET #	DATE PUT INTO SERVICE	NUMBER OF ITEMS	DESCRIPTION OF ITEM	LOCATION OF ITEM	INITIAL COSTS OF ITEM	DATE REMOVED FROM SERVICE	RETIREMENT AMOUNT	Adjustment	BALANCE	Asset Life in Years	Depr Rate	A/D 12/31/2014	2015 Depr Exp	Retirements	Adjustments	A/D 12/31/2015
	1973	VARIOUS	16" D.I. main from well to tank;		216,700.00				216,700.00	50	2.00%	179,861	4,334			184,195
			16" D.I.main from well to MWPlace;													
			8" D.I. mains to Fabyans and Drummonds													
		1	- 16" D.I. River Crossing													
		50 LF	- 6" Water Main													
		1250 LF	- 8" Water Main													
		4820 LF	- 16" Water Main													
		2	- 8" Gate Valve													
		5	- 16" Gate Valve													
		1	- Railroad Crossing													
	1976		4" D.I. main extension to Rosebrook Condos Phase 1													
		1	- Connect ot Existing													
		300 LF	- 4" Water Main													
		4	- 4" Gate Valve													
		1	-12" Gate Valve													
	1978		10" D.I. main extension to Rosebrook CondoS Phase 2		38,000.00				38,000.00	50	2.00%	27,740	760			28,500
		2	- Connect ot Existing System													
		400 LF	- 4" Water Main													
		400 LF	-10" Water Main													
		1	- 6" Gate Valve													
		2	-10" Gate Valve													
	1984		8" & 10" D.I. main extension to Forest Cottages		46,332.00				46,332.00	50	2.00%	20,732	927			21,659
		2	- Connect ot Existing													
		100 LF	- 6" Water Main													
		1530 LF	- 8" Water Main													
		2600 LF	-10" Water Main													
		3	- 8" Gate Valve													
		4	-10" Gate Valve													
	1985		8" D.I. main extension to MW Hotel & Bretton Arms													
		1	- Connect ot Existing													
		1300 LF	- 6" Water Main													
		4450 LF	- 8" Water Main													
		1	- 6" Gate Valve													
		- 2	- 8" Gate Valve													
	1986		2" PVC main extension to Ski Area Maintenance													
		1	- Connect ot Existing													
		880 LF	- 2" Water Main													
		1	- 2" Gate Valve													
	1987		12" main extension to Crawford Ridge													
		1	- Connect ot Existing													
		350 LF	- 4" Water Main													
		30 LF	- 6" Water Main													
		2260 LF	-12" Water Main													
		3	- 4" Gate Valve													
		3	-12" Gate Valve													
	1987		8" & 16" main extension to MW Place													
		1	- Connect ot Existing													
		100 LF	- 6" Water Main													
		1200 LF	- 8" Water Main													
		1450 LF	-16" Water Main													
		7	- 8" Gate Valve													
		2	-16" Gate Valve													
	1988		8" & 12" main extension to L-2 (MW Homes Subdivision)													
		1	- Connect ot Existing													
		1730 LF	- 8" Water Main													
		1440 LF	-12" Water Main													
		2	- 8" Gate Valve													
		1	-12" Gate Valve													
	1988		8" main extension to Riverfront Homes													
		1	- Connect ot Existing													

	10 LF	- 6" Water Main												
	810 LF	- 8" Water Main												
	1	- 8" Gate Valve												
1989		16" main extension to Fairway Village												
	2	- Connect ot Existing												
	890 LF	- 8" Water Main												
	2880 LF	-16" Water Main												
	4	- 8" Gate Valve												
	3	-16" Butterfly Valve												
1990		8" main extension to Stone Hill												
	1	- Connect ot Existing												
	15 LF	- 6" Water Main												
	300 LF	- 8" Water Main												
	2	- 8" Gate Valve												
1994		8" main extension to Stickney Circle	1,629.00				1,629.00	50	2.00%	672	33			705
	1	- Connect ot Existing												
	1030 LF	- 8" Water Main												
	4	- 6" Gate Valve												
1995		8" main extension to Dartmouth Ridge	51,529.00				51,529.00	50	2.00%	19,265	1,031			20,296
		- As built Drawings	2,164.00				2,164.00	50	2.00%	842	43			885
	1	- Connect ot Existing												
	40 LF	- 6" Water Main												
	1900 LF	- 8" Water Main												
	5	- 8" Gate Valve												
2000		8" main extension to Rosebrook Club	8,867.00				8,867.00	50	2.00%	2,571	177			2,748
	1	- Connect ot Existing												
	20 LF	- 6" Water Main												
	800 LF	- 8" Water Main												
	2	- 8" Gate Valve												
2001		8" main extension to Nordic Center												
	1	- Connect ot Existing												
	1790 LF	- 8" Water Main												
	2	- 8" Gate Valve												
2002		8" main extension to Dartmouth Ridge												
	1	- Connect ot Existing												
	20 LF	- 6" Water Main												
	550 LF	- 8" Water Main												
	2	- 8" Gate Valve												
2002		4" & 8" main extension to Mt. Madison												
	1	- Connect ot Existing												
	400 LF	- 4" Water Main												
	20 LF	- 6" Water Main												
	750 LF	- 8" Water Main												
	4	- 4" Gate Valve												
	5	- 8" Gate Valve												
2003		4" & 8" main extension to Presidential View												
	1	- Connect ot Existing												
	1000 LF	- 4" Water Main												
	20 LF	- 6" Water Main												
	950 LF	- 8" Water Main												
	2	- 4" Gate Valve												
	5	- 8" Gate Valve												
2005		8" main extension to Dartmouth Ridge												
	1	- Connect ot Existing												
	20 LF	- 6" Water Main												
	650 LF	- 8" Water Main												
	2	- 8" Gate Valve												
1996	3	T&D mains - Valves	1,800.00				1,800.00	50	2.00%	666	36			702
2001	3	T&D mains - Valves, etc.	11,924.00				11,924.00	50	2.00%	3,218	238			3,456
2004		T&D mains - Valve, 20' Pipe, 60' Cop Tube	7,735.00				7,735.00	50	2.00%	1,626	155			1,781
2005	3	T&D mains - Valves, etc.	3,223.00				3,223.00	50	2.00%	611	64			675
2009		2009 Pressure Relief Valve for Carp	1,872.00				1,872.00	50	2.00%	204	37			241
2010		10' x 10" Pipe	13,072.00				13,072.00	50	2.00%	1175	261			1,436
2010		10' x 10" Pipe	52,287.00				52,287.00	50	2.00%	4,707	1,046			5,753
TOTAL			457,134.00	0.00	0.00	0.00	457,134.00			263,890.00	9,142.68	0.00	0.00	273,032.68

Staff to Abenaki 1-1
Attachment
2/2

Annual Report of Rosebrook Water Company, Inc. **Year ended December 31, 2013**

Class C Water Utility

F-8 UTILITY PLANT IN SERVICE (Accounts 101 and 104)

(In addition to Account 101, Utility Plant in Service, this schedule includes Account 104, Utility Plant Purchased or Sold)

1. Report below the original cost of water plant in service according to prescribed accounts
2. Do not include as adjustments, corrections of additions and retirements for the current or preceding year. Such items should be included in column (c) or (d) as appropriate.
3. Credit adjustments of plant accounts should be enclosed in parentheses "( )" to indicate the negative effect of such amounts.
4. Reclassification or transfers within utility plant accounts should be shown in column (f). Also include in column (f) the addition or reductions of primary account classification arising from distribution of amounts initially recorded in Account 104, Utility Plant Purchased or Sold. In showing the clearance of Account 104, include in column (e) the amounts with respect to accumulated depreciation, acquisition adjustments, etc., and show in column (f) only the offset to the debits or credits distributed in column (f) to primary account classification.

Line #	Acct #	Account (a)	Balance at Beginning of Year (b)	Additions (c)	Retirements (d)	Adjustments (e)	Transfers (f)	Balance at End of Year (g)
1	301	Organization	$42,295					$42,295
2	302	Franchises						
3	303	Land and Land Rights						
4	304	Structures and Improvements	243,033					243,033
5	305	Collecting and Impounding Reservoirs						
6	306	Lake, River and Other Intakes						
7	307	Wells and Springs	222,547					222,547
8	308	Infiltration Galleries and Tunnels						
9	309	Supply Mains						-
10	310	Power Generation Equipment						-
11	311	Pumping Equipment	149,666					149,666
12	320	Water Treatment Equipment	26,631					26,631
13	330	Distribution Reservoirs and Standpipes						
14	331	Transmission and Distribution Mains	457,134					457,134
15	333	Services	29,041					29,041
16	334	Meters and Meter Installations	41,640	393				42,033
17	335	Hydrants	45,228					45,228
18	339	Other Plant and Miscellaneous Equipment	6,713					6,713
19	340	Office Furniture and Equipment						
20	341	Transportation Equipment	17,173					17,173
21	342	Stores Equipment						
22	343	Tools, Shop and Garage Equipment	4,003					4,003
23	344	Laboratory Equipment						
24	345	Power Operated Equipment						
25	346	Communication Equipment	48,286	1,542				49,828
26	347	Computer Equipment	696	875				1,571
27	348	Other Tangible Plant						
28		TOTAL UTILITY PLANT IN SERVICE	$1,334,086	$2,810	$0	$0	$0	$1,336,896

STAFF TO ABENAKI 1-1
ATTACHMENT PAGE 3 of 4

F-11 ACCUMULATED DEPRECIATION OF UTILITY PLANT IN SERVICE (Account 108.1)

1. Report below the information concerning accumulated provision depreciation of utility plant in service at end of year and changes during during year.
2. Explain any important adjustments during the year.
3. Explain any difference between the amount for book cost of plant retired, Line 4, column (b), and that reported in the Schedule F-8 Utility Plant In Service, column (d), exclusive of retirements of nondepreciable property.
4. The provisions of Account 108.1 of the Uniform System of Accounts state that retirements of depreciable plant be recorded when such plant is removed from service. There shall also be included in this schedule the amounts of plant retired, removal expenses, and salvage on an estimated basis if necessary with respect to any significant amount of plant actually retired from service, but, for which appropriate entries have not been made to the accumulated provision for depreciation account. The inclusion of these amounts in this schedule shall be made even though it involves a journal entry in the books of account of the end of the year recorded subsequent to closing of respondent's books.

Balances and Changes During the Year

Line #	Item (a)	In Service (Acct 108.1) (b)
1	Balance at beginning of year	$ 484,507
2	Depreciation provision for year, charged to Account 403, Depreciation Expense	$51,592
3	Net charges for plant retired	
4	Book cost of plant retired	
5	Cost of removal	
6	Salvage (credit)	
7	Net charges for plant retired	$ -
8	Other (debit) or credit items	
9	Adjustment	
10		
11		
12	Balance at end of year	$ 536,099

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: May 14, 2013
AT (OFFICE): NHPUC

ORIGINAL
N.H.P.U.C. Case No. DW 12-306
Exhibit No. #4
Witness Panel
DO NOT REMOVE FROM FILE

FROM: Karen Moran, Chief Auditor
James Schuler, Examiner
Debra Piaseczny, Examiner

SUBJECT: Rosebrook Water Company, Inc.
FINAL Audit Report - DW 12-306

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

Introduction

Rosebrook Water Company filed a notice on October 12, 2012 of intent to increase rates to its 404 customers by approximately 33%. On February 27, 2013, supplemental schedules were provided, outlining the termination of affiliate agreements and the hiring of Rosebrook employees.

The PUC Audit staff was asked to audit the books and records of the Company for the test year ending December 31, 2011.

Audit appreciates the assistance provided to us by Laurie Matthews, Accounting Clerk at Rosebrook Water Company.

Ownership

In docket DW06-149, Order 24,773 issued 7/12/2007, the Commission approved the stock transfer from the MWH Preservation Limited Partnership to the BW Land Holdings, LLC, a Delaware limited liability corporation. The PUC annual reports have reflected BW Land Holdings as the sole owner of Rosebrook Water since 2007.

As part of the review of Rosebrook's federal tax returns filed in 2009, 2010, and 2011 (refer to the Tax portion of this report), schedule G of form 1120 reflects Celebration Bretton Woods, ~~LLC~~ as 100% owner of Rosebrook Water.

Audit is aware that docket DW12-299 was opened to transfer the stock from BW Land Holdings, LLC to REDUS, a Delaware LLC which is wholly owned by REDUS Properties, Inc, which is wholly owned by Wells Fargo, a North Carolina based company.

Audit did not attempt to reconcile the reported ownership on the federal tax returns with the Commission approved ownership. **Audit Issue #1**

Affiliate Agreements

During the test year, none of the affiliate agreements had been provided to the Commission, and the MWH Construction agreement was not documented. Audit is aware that some but not all of the affiliate relationships have been documented in docket DW13-001.
There is no documentation supporting the relationship with Celebration Associates, which is ongoing.
Audit Issue #2

BW Club went out of business in mid-2011, and both BW Services and MWH Construction went out of business at the end of 2012. During 2011, Rosebrook paid the following fees as noted:

- BW Club $7,200 monthly from January through July plus $414 for workers' compensation. Total expensed during the year was $46,598. An adjusting entry in the amount of $30,302 was backdated to August 2011 to reflect the closing of the company.
- BW Services $6,700 monthly from August through December. Total expensed during the year was $33,500.
- MWH Construction $1,450 monthly for the entire year, plus additional minimal services. The total incurred expense for the year was $17,703. An adjusting entry reduced the test year expense to $771.
- Celebration Associates, LLC was paid as invoiced for the services of the General Manager and the Director of Finance. The first was invoiced at $275 per hour and the second at $150 per hour. During 2011, Celebration was paid $7,916.

All fees paid were identified on the Company's general ledger as administrative and were posted to account #923 (refer to the Operations and Maintenance portion of this report for additional information).

Audit requested clarification of the corporate organizational chart, in an effort to document the affiliate relationships. A chart, dated June 2006, reflected the following:

Mt. Washington/Bretton Woods Entity Chart

CA Partners-Bretton Woods #1, LLC 65% owner Celebration Bretton Woods, LLC
TSC Investment Company, LLC 7.5% owner Celebration Bretton Woods, LLC
BW National Resort Management LLC 25% owner Celebration Bretton Woods, LLC

Celebration Bretton Woods LLC a North Carolina LLC owns 50% of BW Land Holdings, LLC a Delaware LLC and 50% of BW Resort Management Company, LLC(*aka* the Tenant) a Delaware LLC.

The BW Resort Management Company LLC 100% owned the BW Services Company, LLC, a NH LLC.

Crosland BW Investors, LLC 100% owner of Crosland Bretton Woods, LLC

Crosland Bretton Woods, LLC, a NC LLC owns 50% of BW Land Holdings, LLC a Delaware LLC and 50% of BW Resort Management Company, LLC(*aka* the Tenant) a Delaware LLC.

The BW Land Holdings LLC 100% owned the following entities:
Rosebrook Water Co., Inc – a NH corporation
MWH Construction LLC - a NH LLC
Bretton Woods Community Television, Inc. – a NH corporation
Bretton Woods Land Co., LLC – - a NH LLC
BW Sports Complex, LLC - a NH LLC
BW Club, LLC - a NH LLC
BW Realty, LLC - a NH LLC

While onsite, the Audit staff was told that all entities owned by BW Land Holdings were out of business, with Rosebrook being the only exception. Audit reviewed the corporate status with the NH Secretary of State, and all of the entities were in Good Standing as of March 26, 2013, with the exception of BW Club which was not in Good Standing. BW Land Holdings was noted on the NH Secretary of State's website as being current and in Good Standing. Audit was unable to determine the status of the registration in Delaware. The North Carolina LLCs were verified to the NC Secretary of State's website as being in Good Standing. **Audit Issue #3**

Account # 131-Cash

The cash noted on the PUC annual report, as well as the filing, reflects $165,160. Audit verified the total to the following two general ledger accounts:

	General Ledger	Statement	Variance
#131.2A Connecticut Bank-Regular Checking	$ 82,372	$ 82,385	$(13)
#131.2C Meredith (CIAC Money Market)	$ 82,788	$ 82,788	-0-
Total Cash per the General Ledger	$165,160	$165,173	$(13)

The Company provided Audit with copies of monthly bank statements and reconciliations for the test year for the Connecticut River Bank (CRB) regular checking account and the Meredith Village Savings Bank Contributions in Aid of Construction (CIAC) money market account.

The Company indicated that the Ms Taylor the Controller, Mike Brunetti, Dave Currier, and Charles Adams were authorized to sign checks during the test year. The Company indicated that deposits are generally made daily by the Accounting Clerk.

During the test year, the Controller reconciled the bank statements. The Controller retired at the end of 2012 and the Accounting Clerk is currently reconciling the bank statements. As a result of the Controller's retirement, checks are currently printed then mailed, along with stamped and addressed envelopes, to Virginia to Mike Hahaj for signatures. The checks are then mailed from Virginia to respective vendors. This additional step has made the accounts payable process less efficient for the

Accounting Clerk, increased the amount of time from when checks are issued to when the vendors receive the payments, and increased the postal expense. **Audit Issue #4**

Audit requested clarification of Mr Hahaj's involvement with Rosebrook and was provided with the following: *"Mike Hahaj is a C.P.A. and Director of Finance for Celebration Associates, LLC. Celebration Associates were previously retained by BW Land Holdings as the manager for the investment in Bretton Woods and Mike continues to serve in a financial and operating capacity on behalf of Celebration and Crosland for Rosebrook Water. Mike has previous experience with (2) regulated utilities in North Carolina, having been involved in the initial franchising, ongoing accounting, annual reporting and rate making proceedings."*

The CRB checking account reflects the day-to-day activities of the Company and the capital improvement projects including, $130,000 transferred from the CIAC account during the test year. In May, Audit noted a return item fee of $15 was assessed against the CRB checking account for a customer's returned check. The tariff indicates that a fee of $5 or the administrative cost can be charged to the customer. Audit noted that the customer was billed for the full $15. The ending balance per CRB checking account statement as of December 31, 2011 was $82,385 and the ending balance per general ledger was $82,372. The general ledger is understated by $13. Immaterial.

A review of the CIAC money market account revealed that it earned $539 of interest during 2011 the offset of which was booked to general ledger account 419, Interest and Dividend Income rather than the CIAC general ledger account #271.

There were no deposits or credits, other than the interest, reflected in the monthly bank statements, and only two checks were processed during 2011 on September 2, 2011 and on December 29, 2011 for $50,000 and $80,000 respectively. The ending balance in the CIAC account per both the checking account statement and the general ledger as of December 31, 2011 was $82,788.

The ending balances in the general ledger accounts for both cash accounts of $82,372 and $82,788 sum to $165,160 which agrees with the annual report and the rate filing.

Account # 101 - Property, Plant and Equipment

Property, plant and equipment as reported on the schedule F-8 of the 2011 PUC annual report was $1,134,254. The amount was verified to schedule 2 of the rate filing and overall to the Company's general ledger. However individual accounts of the general ledger could not be tied out to schedule F-8 of the annual report. Specifically at 12/31/2011:

Utility Plant in Service (Accounts 101 & 104)

Acct. #	Account	Balance per Annual Report	Balance per General Ledger	Variance
301	Organization	42,295	42,294	1
302	Franchises	-		-
303	Land & Land Rights	-		-
304	Structures & Improvements	134,376	3,888	130,488
305	Collecting & Impounding	-		-
306	Lake, River & Other Lakes	-		-
307	Wells & Springs	222,547	222,547	1
308	Infiltration Galleries & Tunnels	-		-
309	Supply Mains	254,700	-	254,700
310	Power Generation Equipment	-	-	-
311	Pumping Equipment	63,242	49,043	14,199
320	Water Treatment Equipment	26,631	27,252	(621)
330	Distribution Reservoirs & Standpipes	-		-
331	Transmission & Distribution Mains	202,434	135,585	66,849
333	Services	29,041	18,977	10,064
334	Meters & Meter Installations	41,515	25,659	15,856
335	Hydrants	40,601	36,574	4,027
339	Other Plant & Miscellaneous Equipment	6,713		6,713
340	Office Furniture & Equipment	-		-
341	Transportation Equipment	17,173	17,173	(0)
342	Stores Equipment	-		-
343	Tools, Shop & Garage Equipment	4,003	4,003	1
344	Laboratory Equipment	-		-
345	Power Operated Equipment	-		-
346	Communication Equipment	48,286	48,287	(1)
347	Computer Equipment	696	696	-
348	Other Tangible Plant	-		-
101	Property Plant & Equipment - Other	-	502,274	(502,274)
		1,134,253	1,134,253	0

The Company provided a detailed general ledger back to June 2000. The June 2000 general ledger reflected a "lump" beginning balance journal entry. However, the balance does not tie to the annual report and no backup is available for assets placed in service before 2005. The Preparer provided a depreciation schedule for 2011, the basis of which tied to schedule F-8 of the annual report, including the individual accounts. It appears that the Preparer has different property, plant and equipment records than the Company. **Audit Issue #5**.

Audit attempted to verify certain selected plant additions and retirements for 2000-2011 (last rate case was 1999). The results of the documentation review are:

- The Company was unable to provide any backup for plant assets from before 2005 and virtually all retirements **Audit Issue #6**
- Of Audit's selections of additions and retirements to plant for 2005-2011:
  - the Company was able to provide support for the additions in 2011,
  - of the $104,791 of additions requested in 2010 the Company was only able to provide $38,894 of support **Audit Issue #7**
  - the Company was able to provide all but a total of $3,235 of support for selected additions requested in 2007, 2008 and 2009.

Audit requested the continuing property records (CPRs) from the Company for all plant assets but the Company was unable to provide them. **Audit Issue #8.** Because of the Company's lack of accurate property, plant and equipment records Audit was unable to adequately verify the costs associated the plant assets including the additions and retirements.

Rosebrook's lack of accurate records was addressed by the Commission in DW 06-149 and resulting settlement agreement, executed in April 2007, as a condition of the approval of the transfer of Rosebrook stock from MWH Preservation LP to BW Land Holding LLC. The settlement agreement stated in part "...Rosebrook shall reconstruct its accounting to accurately provide information related to the value of fixed plant, the CIAC account, accumulated depreciation, and accumulated CIAC amortization accounts..." **Audit Issue Plant #8**

Additions and Retirements- Plant in Service -2011

According to the PUC annual report, schedule F-8, Utility Plant in Service, the Company reported the following during the test year:

Additions		
#334	Meters and Meter Installations	$ 1,125
#346	Communication Equipment	$21,376
Retirements		
#310	Power Generation Equipment	(1,000)
#334	Meters and Meter Installations	(203)
Transfer		
#346	Communication Equipment	(696)
#347	Computer Equipment	696

The above changes to plant were verified to the rate filing and the depreciation schedule provided by the Preparer. See below for general ledger verification.

Account #310 - $1,000 Retirement of Generator

During the test year the Company retired a generator from plant account #310, Power Generation Equipment, which had been placed in service in 2007 with an original cost of $1,000 and a depreciable life of ten years. The entry to remove the asset from the Company's general ledger on September 30, 2011 was:

Account # 108 - Accumulated Depreciation	$425	
Account # 610.04b - Other Income and Deductions – Other	$575	
Account # 310 - Power Generation Equipment		$999

While the credit to plant was correct, the debit to accumulated depreciation should have been for the $999, as required under section 610.01(e)(10) of the Uniform System of Accounts for Water Utilities. The entry the Company made reduced other income by $575. **Audit Issue #9**

Schedule F-8, Utility Plant in Service, of the annual report reflects retirements of $1,203 (which includes the generator of $1,000) and schedule F-11, Accumulated Depreciation of Utility Plant in Service, reflects a debit increase to the accumulated depreciation of $1,203. However, schedule F-2, Statement of Income, from the annual report reflects interest and dividend income of $3,612 which is a netted number comprised of:

Account #419 - Interest and Dividend Income	$2,205
Account #610.04b - Other Income and Deductions – Other	$1,408
	$3,612

Account #610.04b includes the $575 reduction of other income, incorrectly posted to the general ledger as discussed above. It appears that the annual report contains conflicting information, and reflects the $575 twice. Refer to **Audit Issue #9 and Audit Issue #5.**

Account #346 - $21,376 Addition of Communication Equipment

During the test year Rosebrook placed $21,376 of plant in to service in account #346, Communication Equipment (funded with CIAC). Audit reviewed the invoices associated with the additions, which included invoices for digging a trench to the water tank (using both equipment and hand trenching), materials and labor to convert the tank to AC voltage, and to hard wire the solar collector and transmitter. This project was under taken and completed to cure a deficiency received in a DES Sanitary Survey. It was started in August 2011 and was completed and placed in service in September 2011. The addition of communication equipment was reflected in the general ledger. At year-end, the general ledger balance of $48,287 agreed with the annual report and filing.

Account #334 - $1,125 and ($203) Addition and Retirement of Meters & Meter Installations

During the test year the Company reported additions of $1,125 and retirements of $203 on the annual report and rate filing. The addition and retirement of the meters were reflected in account #334.1a of the general ledger. The ending balance of the two meter accounts:

#334 Meters/Installations-Other	$ 1,269
#334.1a Meters/Installations-Residential	$24,390
Total per the general ledger	$25,659
Total per the annual report	$41,515
Variance	$15,856 Refer to **Audit Issue #5**

Capital Improvements Plan (CIP)

On May 26, 2011 Rosebrook filed a request to use funds from the CIAC account for capital improvements to its water system (see docket DW 11-117). The improvements were estimated to cost between $200,550 and $219,450 (balance of CIAC funds $212,350 as of March 31, 2011) and were outlined in a capital improvements plan (CIP) submitted to the Commission. The CIP was submitted in lieu of an E-22 Form and anticipated that all improvements would be covered by CIAC funds.

During the on-site fieldwork, Audit became aware of an updated CIP prepared on August 9, 2011 that reflected what appears to be the same the capital improvements but with an updated total estimated cost of $289,700, with $209,200 of improvements slated for the current CIP and $80,500 of the improvements indicated as "future" improvements (balance of CIAC funds $212,554). A note on the updated CIP indicated "Potential for government grants to offset partial generator expense Mike Duffy of Horizons looking into details".

Audit compared the two CIPs to the CWIP schedule provided by the company, which identified each capital improvement project in the CWIP general ledger. The total reflected for the capital improvement projects from December 31, 2010 through November 6, 2012 was $304,595, the schedule indicates that $212,857 of CIAC funds were used and that balance of the funds, $91,738 would be from operating revenues.

The following is a summary of CIP projects and cost of completion per CWIP schedule provided by the Company:

9/30/2011 Storage Tank Power	$ 21,376
2/29/2012 Submersible Pump	$ 46,162
4/30/2012 Pump House Generator project	$ 54,000
11/6/2012 Water Storage Tank Roof	$183,057
Total Capital Improvement Projects	$304,595

Schedule 6a – 2012 Step Increase Included in Rate Filing

The Company included a 2012 Step Increase in its rate filing (see schedules 6 and 6a) that requested an increase in rates to cover the increase in property taxes due to the addition of $233,114 of plant assets. The Step reflected estimates of the three CIP/CWIP projects which were placed in service in 2012 above. Specifically, the filing Schedule 6a (dated February 22, 2013) reflects the following *estimated* information:

Additions to Plant

Project	Account	Estimated Costs
Tank Roof	304	162,354
Diesel Generator	310	42,000
Submersible Pump	311	28,760
		233,114

The filing did not reflect any retirements associated with the additions to plant. A statement indicated that the additions were funded with CIAC funds. Audit requested a copy of the 2012 general ledger from the Company which provided the following information.

Project	Account	Costs	Retirements
Tank Roof	304	183,657	(75,000)
Pumping Equip-Motor / Engine Diesel Generator / Submersible Pump	311.1	100,162	(14,366)
		283,819	(89,366)

Audit requested clarification of the estimates vs. actual costs and retirements noted on the general ledger, and the Preparer explained that the information provided in schedules 6 and 6a were estimated information only and that he had not reviewed the Company's 2012 information. **Audit Issue #10**

Account #105 - $83,024 Construction Work in Progress (CWIP)

CWIP reported on schedule F-6 of the 2011 annual report was $83,024 which was verified to the Company's general ledger and consisted of the following:

Diesel Generator	27,000
Tank Roof	27,354
Submersible Pump	28,670
	83,024

Audit noted that CWIP was (correctly) not included Schedule 2 of the rate filing.

On September 30, 2011 the general ledger reflected $21,376 of CWIP being transferred to account 346 communication equipment alarm system which agrees to the plant additions reported on schedule F-8 of the 2011 annual report.

Contracts and Agreements Related to CIP and Plant

Water Storage Tank Roof Replacement Project

MWH Construction Company LLC (MWH Construction) provided services to Rosebrook for the water storage tank roof replacement project during 2011 – 2012 which was placed in service during 2012. There was no written contract between MWH Construction and Rosebrook for this project, although it appears that MWH Construction acted as the general contractor for the project. **Audit Issue #2**

A Company generated CWIP spreadsheet indicates invoices from MWH Construction for the tank roof project totaling $145,920 through 11/6/2012 for MWHC Labor, pass-through of materials and supply expenses and outside labor. Two of the major participants in the water storage tank project were

Horizons Engineering ($41,840) and Saco Roofing ($68,990) (see below for more information). The fees associated with Saco are included in the $145,920 noted above.

Horizons Engineering Contract – Water Storage Tank Roof Replacement Project

On November 23, 2010 Horizons Engineering Inc. (Horizons) and Stewart Structural Engineering, PLLC issued an inspection report of the storage tank roof which recommended that the tank roof be replaced. On February 16, 2011 Rosebrook entered into an agreement with Horizons to provide for the final design and permitting of tank improvements and services associated with the construction of the improvements. Fees associated with the contract totaled $41,840 to be paid as tasks were completed.

Saco Roofing – Water Storage Tank Roof Replacement Project

On August 2, 2012 Rosebrook entered into an agreement with Saco Roofing (Saco) for the labor, materials and warranty for the replacement of the storage tank roof which totaled $68,990. An arrangement was made which required a deposit of $20,000 and three subsequent payments of $30,000, $10,000 and $8,990.

MWH Construction billed Rosebrook for the deposit and subsequent installments (straight pass through- no mark-up) along with its invoices for labor and materials and MWH Construction made payments to Saco. **Audit Issue #11**

MWH Construction Company LLC – Pump House Generator Project

In March 2010, the Company entered into an agreement with MWH Construction Company, LLC to install a generator at the pump house located on the west side of Route 302 approximately 600 feet from the entrance of Drummond's Mountain Shop. The installation included changing the electrical service from 600 to 200 amps, new switch gear and wiring from the existing transformer, the installation of a concrete pad and the necessary trenching, backfill and electrical conduits. The contract also stipulated the following:

- The contract price was to be cost plus 15% not to exceed an amount greater than $54,000.
- The work was to begin on or before May 1, 2010 with substantial completion expected to be on or before June 15, 2010.

Despite the fact that the above contract anticipated the completion of the project in 2010 and that the construction work in progress spreadsheet provided by the Company reflected that a deposit of $27,000 was made on December 31, 2010 the generator was not placed in service until April 30, 2012. The total cost associated with the pump house generator, according to both the 2012 general ledger and the construction work in progress spreadsheet, was $54,000. Schedule 6a of the rate filing indicated $42,000. **Audit Issue #12**

MWH Construction also provided services to Rosebrook for the water tank power connection project in 2011, pump house repairs after a water main break in 2010, and the water storage tank roof replacement 2011 – 2012. However, there were no written contracts between MWH Construction and Rosebrook for those projects. **Audit Issue #2**

Transactions with Affiliates with Regard to Plant

As noted above, Rosebrook used the services of MWH Construction, LLC in several plant projects during 2010 through 2012, in addition to the regular management services. In general, invoices to Rosebrook for labor provided by MWH Construction included a mark-up of 10%. Audit did note one invoice from BW Services invoice 11/6/2012 for $1,054 for overtime plus 20% on tank project, with a note that "…management fee does not include OT on CIP project". **Audit Issue #13**

Depreciation and Amortization

Account #108 - ($528,912) - Accumulated Depreciation
Account #403 - $36,482 - Depreciation Expense

The Company reported depreciation expense for the test year of $36,482 on schedules F-2 and F-12 of the annual report and accumulated depreciation of $528,912 on schedules F-1 and F-11 of the 2011 annual report. Both figures agreed with the general ledger, the rate filing and the depreciation schedule provided by the Preparer.

As noted above, the Company was unable to provide CPRs for the plant assets and therefore, Audit was unable to verify the accuracy of the accumulated depreciation reported. Refer to **Audit Issue #8**

Using the depreciation schedule provided by the Preparer, Audit was able to determine that the additions to plant in 2011 were depreciated at the full year rather than half-year convention. **Audit Issue #14** Specifically:

- The "Telemetry System" (the trenching and hard wiring of power to the water storage tank) was placed in service in 2011 with a cost of $21,376 and with a depreciable life of 40 years (2.50%). A full year of depreciation $534 was noted on the schedule, rather than a ½ year of $267.
- Five meters were placed in service in 2011 at cost of $1,125 and reflected a deprecation rate of 2.5% or $28. Meters are normally in service for 20 years with a 10% net salvage value, resulting in an annual depreciation rate of 4.5%.

An Audit Request was issued on 3/15/2013 requesting clarification of an adjustment noted on the worksheet and schedule F-11 in the amount of $576. **The request remains unanswered as of the date of this draft report.**

Utility Plant Acquisition Adjustment

The general ledger reflects the following:

Account #114 Utility Plant Acquisition Adjustment	$(347,259)
Account #115 Accumulated Amortization of Acquisition Adjustment	$ 312,002
Net Utility Plant Acquisition Adjustment at 12/31/2011	$ (35,257)

The balances of each account and the net figure were verified to the annual report schedule F-7.

The amortization expense for the year of $5,010 was noted as a debit to account #115 and a credit to account #406, Amortization of Utility Plant Acquisition Adjustment. The expense was verified to the filing schedule 4.

Schedule F-49 of the annual report, Amortization Expense, reflects a total cost basis of $174,139 rather than the total Utility Plant Acquisition Adjustment amount of $347,259.

Audit requested clarification of the two schedules and why the basis on F-49 would be different than the amount noted in account #114. The Company provided information relating to docket DR 89-031 and the negotiated settlement associated with that docket. There were no exceptions noted.

Contributions in Aid of Construction (CIAC)

Summary of CIAC Funds

As part of an investigation by the Commission (which began in May 1999 docket DW 99-073) into the Company's over-earnings, a stipulation was reached between the Company and Staff. Order No. 23,441 was issued on April 10, 2000 which required Rosebrook to, among other things, "...establish a separate Contributions In Aid of Construction (CIAC) account for CIAC monies received from the Town of Carroll intended for capital improvements and from the Mount Washington Hotel under the terms of Special Contract-Water No. 7 dated November 3, 1999, and shall seek Commission approval prior to using any CIAC funds." Rosebrook was required to file reports of the CIAC fund with the "...Commission in August and February specifying current balance, interest accrued, and disbursements made...".

On January 6, 2000 as part of a petition for approval to purchase the stock of Rosebrook, Order No. 23,379 was issued approving a five year special rate contract with the Mount Washington Hotel (MWH or Hotel), running from May 2000 to April 2005. The Order included a provision that the Hotel would make annual payments to Rosebrook for capital improvements that were to be accounted for in the CIAC account.

A joint petition was filed on October 24, 2006 (DW 06-149) by Rosebrook, MWH Preservation LP and BW Land Holdings, LLC requesting authority to purchase the stock of Rosebrook and to operate as a public utility. The resulting settlement agreement addressed the following issues with respect to or affecting the Company's CIAC funds:

- The Company sought approval after the fact for $86,421 of CIAC funds having been expended without prior Commission approval as required by the order establishing the CIAC account.
- Staff became aware that the MWH had not made the annual CIAC payments required as part of the approval of the five year special rate contract until March 14, 2006 at which time they made a payment for $80,000 to cover the five required payments.

- Staff became aware that the Mount Washington Hotel had continued to receive a special rate after the contract had expired in 2005 which resulted in $105,000 being under-collected. As part of a settlement agreement the MWH agreed to deposit the $105,000 into the Rosebrook CIAC account (also see 24,773).

On May 26, 2011 Rosebrook filed a request to use funds from the CIAC account for capital improvements to its water system (see docket DW 11-117) which were estimated to cost between $200,550 and $219,450 and are outlined in the capital improvements plan provided by the Company. Refer to the CIP section of this report for further information.

In June 2011, after reviewing the plan, Staff recommended that the Company be allowed to use the CIAC funds for the capital improvements only. A secretarial letter was issued on August 2, 2011 approving the Company's use of CIAC for the proposed capital improvements and also provided approval *nunc pro tunc* for the Company's purchase of a truck with CIAC funds in 2008 for $16,578, made without prior Commission approval.

During the onsite fieldwork, Audit was provided an updated CIP dated August 9, 2011. The updated plan proposed to use $209,200 of the $212,560 CIAC funds available as of that date but also reflected several pieces of equipment in a column entitled "future" totaling an additional $80,500. Refer to the CIP section of this report for further information.

Reconciliation of CIAC

Because Rosebrook has had issues in past years with its handling of CIAC and CIAC funds, and since Rosebrook requested to use/deplete the CIAC fund for its CIP (the CIAC money market bank account was closed in August 2012) Audit felt it prudent to verify and resolve all CIAC issues. Going forward, Rosebrook's records should reflect not only the correct amount of assets purchased and built using CIAC funds but also ensure that the correct CIAC amortization is calculated and accumulated. Therefore, Audit requested the following information regarding CIAC:

1. All bank statements and reconciliations for all the CIAC bank accounts since inception.
2. Detailed general ledgers for all accounts associated with CIAC since inception (i.e. CIAC, accumulated amortization of CIAC, other deferred credits, etc.).
3. A detailed schedule and explanation of all activity regarding the $209,143 CIAC charge reflected on the 2008 annual report page 28, schedule F-46, line 6 (this appears to be a change in policy, please ensure that the explanation takes into account Order No. 23,441).
4. A letter received from Rosebrook Water Company, Inc. on March 31, 2011 reported "On 01/08/2008 the Company received the $105,000 payment from the MWH and deposited it into the operating account to replace the $105,000 the Company had transferred to the CIAC fund in August 2007. The original deposit is listed on the attached CIAC report.". While the $105,000 was reflected in account 131.2c – Meredith 90-5000149 it was not reflected on either the 2007 or 2008 annual reports on schedule F-46, please explain why.
5. A detailed schedule and explanation of the $130,000 CIAC addition reflected on the 2011 annual report, page 28, schedule F-46, line 5.

Audit was provided with the 2005-2011 bank statements and reconciliations and the corresponding general ledger accounts # 131.2b and # 131.2c from June 2000 through August 2012 when the CIAC money market bank account was closed. Account # 131.2b was closed on December 31, 2001 and the balance was transferred to account # 131.2c. Audit was also provided with general ledger accounts # 271 and # 253.1 from 2000 - 2012.

In response to question #4, Audit was told that the offsetting general ledger entry to the cash deposited into the Meredith Village checking account was a credit to Other Income and Deductions, account #419, rather than to the CIAC account. **Audit Issue #15**

Items #3 and #5 have not been provided to Audit as of the date of this draft report.

Schedule of Accumulated Contributions

Audit prepared the following schedule of contributions received by Rosebrook from the best information available, which was the audit report issued in DW 99-073, the two detailed general ledgers (that went back to June 2000) and the PUC annual reports.

Year	Granite State Phoenix Co	Town of Carroll	Mount Washington Hotel	Total Contrib.	Running Balance	Interest per Bank Statement	Source of Information
1995	11,000			11,000	11,000		DW 99-073 Audit Report
1996	65,558	31,000		96,558	107,558		DW 99-073 Audit Report
1997		15,500		15,500	123,058		DW 99-073 Audit Report
1998		15,500		15,500	138,558		DW 99-073 Audit Report
1999				-	138,558		
2000		15,500		15,500	154,058	403	PUC F-46 12/2000 & GL #271
2001		15,500		15,500	169,558	549	General ledger acct. 131.2b
2002		15,500		15,500	185,058	266	General ledger acct. 131.2c
2003		15,500		15,500	200,558	39	General ledger acct. 131.2c
2004				-	200,558	12	General ledger acct. 131.2c
2005		15,500		15,500	216,058	58	General ledger acct. 131.2c
2006		15,500	80,000	95,500	311,558	540	General ledger acct. 131.2c
2007		15,500	105,000	120,500	432,058	1299	General ledger acct. 131.2c
TOTAL	76,558	170,500	185,000	432,058			
2008						2,287	
2009						1,843	
2010						902	
2011						539	
2012						68	
TOTAL	76,558	170,500	185,000			8,807	440,865 Total CIAC

Interest earned on the CIAC funds ,which totals $8,807 was noted by Audit using the general ledger accounts # 131.2b and 131.2c, beginning June 30, 2000 through August 9, 2012 when the CIAC bank account was closed. The credit offsets, however, posted incorrectly to Other Income and Deductions, account #419, rather than to the CIAC account #271. **Audit Issue #16**

The Schedule below was prepared by Audit using schedule F-46.4 of the annual reports and from the money market general ledger account # 131.2c which included information back to June 30, 2000. The columns compare the withdrawals from the CIAC money market account to additions to plant built or purchased with CIAC funds.

Year	Additions to Plant Assets Built w/CIAC (per basis schedule F-46.4 Annual Reports)	Withdrawals from CIAC acct 131.2c (per general ledger)	Difference (withdrawals - additions to CIAC plant)
Beginning Balance	138,558	138,558	-
2000	-		-
2001	(27,680)	-	27,680
2002	11,284	35,688	24,404
2003	20,533	18,331	(2,202)
2004	-	13,002	13,002
2005	17,372	2,635	(14,737)
2006	19,163	16,765	(2,398)
2007	-	-	-
2008*		16,578	16,578
2009	-	-	-
2010	-	-	-
2011	130,000	130,000	-
	309,230	371,557	62,327

*Truck purchased with CIAC not added to F-46.4 $16,578, but is included in the F-46 and GL #271.

Audit noted the following issues with regard to CIAC

All periods – While the CIAC money market bank account was earning interest, the interest was not being reflected in general ledger account #271, CIAC, or on the corresponding schedule F-46. Instead it was booked to account #419, interest and dividend income. **Audit Issue #16**

1999-2001 –At the end of 2000 the Company reflected CWIP (as a part of the CIAC total on F-46.4 of the annual report) of $15,221, unused contributions of $36,383 and plant assets of $86,924. The total was $138,558, unchanged from 1998 and 1999. During 2000 the Town of Carroll made a contribution of $15,500 which was reflected on the F-46 but not the F-46.4 as it had been in the past.

During 2000 separate bank accounts were established for CIAC, and individual general ledger accounts were established. Prior to 2000, all CIAC activity was reflected on both schedules F-46 and F-46.4 (which reflected the accumulated funds as "unused") however while schedule F-46 continued to reflect all contributions (other than interest at least through 2006) schedule F-46.4 began to reflect (or attempted to) just the assets placed in service that had been purchased/built with CIAC funds. This resulted in an irreconcilable variance of $14,131 that has carried through 2011 (see associated reconciliations below). **Audit Issue #17**

At the end of 2001, the CWIP $15,221 and unused $36,383 which total $51,604, were eliminated from the F-46.4 and assets totaling $23,924 were added. When the two items are netted this created a negative "addition" of ($27,680) reducing the total assets from $138,558 in 2000 to $110,878 in 2001.

Audit compiled the following grid reconciliations from the years 1999 (prior audit) through 2011. Each annual reconciliation includes four columns.

- The first column represents schedule F-46 of the annual reports and the corresponding CIAC general ledger account # 271. Beginning in 2008, the figure is the total of #271 and #253.1.
- The second column represents schedule F-46.4 from the PUC annual reports.
- The third column represents the money market account general ledger # 131.2c (and # 131.2b for 2001).
- The final column includes a summary of the withdrawals from the money market account and the additions to plant purchased or built with CIAC funds. A continuous accumulation of the withdrawals versus plant placed in service is reflected in the adjustments as "CWIP withdrawn bank not added". As of 2008, the balance includes the truck adjustment, discussed in further detail in the 2008 reconciliation.

The top half of each reconciliation reflects an "as filed" section representing the annual report pages, and the lower half reflects an "adjustments" section. The reconciliation assumes that once money was withdrawn from the CIAC money market bank account, the resulting assets would be added to F-46.4 either as plant, CWIP or unused funds. Using this approach, the column F-46 total general ledger accounts #271 and #253.1 represent the sum of schedule F-46.4 plus the total noted in the Cash general ledger accounts #131.2b and #131,2c.

	Schedule F-46 & GL 271	Schedule F-46.4		
As filed 12/31/99	$ 138,558	$ 138,558		
Adjustments:				
+ Interest				
- Unused				
As Adjusted 12/31/99	138,558	138,558	-	-

	Schedule F-46 & GL 271	Schedule F-46.4	Bank Account & GLs 131.2b & 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/00	$ 154,058		$ 29,447	CY Withdraws Bank
Plant		86,954		0
CWIP		15,221		CY Additions
Unused		36,383		To Plant
Adjustments:				0
				CY WD - Plant Adds Funded
+ Additional unused recd 2000		15,500		
- Unused held in bank		(29,049)		0
+ Interest	403			Accumulated Variance
As Adjusted 12/31/00	154,461	125,009	29,447	0

	Schedule F-46 & GL 271	Schedule F-46.4	Bank Account & GL 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/01	$ 169,558		$ 45,501	CY Withdraws Bank
Plant		110,878		0
CWIP				CY Additions
Unused				To Plant
Adjustments:				0
				CY WD - Plant Adds Funded
+ Unused not in bank		14,131		
+ Interest	952			0
				Accumulated Variance
As Adjusted 12/31/01	170,510	125,009	45,501	-

From 2002 -2006 the only adjustments made were for the differences between the CIAC funds withdrawn from the money market bank account and the assets placed in service on schedule F-46.4. The adjustment is cumulative, beginning in 2002 and is adjusted each year:

	Schedule F-46 & GL 271	Schedule F-46.4	Bank Account & GL 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/02	$ 185,058		$ 25,579	CY Withdraws Bank
Plant		122,162		35,688
CWIP				CY Additions
Unused				To Plant
Adjustments:				11,284
				CY WD - Plant Adds Funded
+ Interest	1,218			
+ CWIP withdrawn bank not added		**24,404**		24,404
+ Unused not in bank from 2001		14,131		Accumulated Variance
As Adjusted 12/31/02	186,276	160,697	25,579	**24,404**

	Schedule F-46 & GL 271	Schedule F-46.4	Bank Account & GL 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/03	$ 200,558		$ 22,788	CY Withdraws Bank
Plant		142,695		18,331
CWIP				CY Additions
Unused				To Plant
Adjustments:				20,533
				CY WD - Plant Adds Funded
+ Interest	1,257			
+ CWIP withdrawn bank not added		**22,202**		(2,202)
+ Unused not in bank from 2001		14,131		Accumulated Variance
As Adjusted 12/31/03	201,815	179,028	22,788	**22,202**

	Schedule F-46 & GL 271	Schedule F-46.4	Bank Account & GL 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/04	$ 200,558		$ 9,798	CY Withdraws Bank
Plant		142,695		13,003
CWIP Unused				CY Additions To Plant
Adjustments:				0
				CY WD - Plant Adds Funded
+ Interest	1,269			
+ CWIP withdrawn bank not added		**35,204**		13,003
+ Unused not in bank from 2001		14,131		Accumulated Variance
As Adjusted 12/31/04	201,827	192,030	9,798	**35,205**

	Schedule F-46 & GL 271	Schedule F-46.4	Bank Account & GL 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/05	$ 216,058		$ 22,720	CY Withdraws Bank
Plant		160,067		2,635
CWIP Unused				CY Additions To Plant
Adjustments:				17,372
				CY WD - Plant Adds Funded
+ Interest	1,327			
+ CWIP withdrawn bank not added		**20,467**		(14,737)
+ Unused not in bank from 2001		14,131		Accumulated Variance
As Adjusted 12/31/05	217,385	194,665	22,720	**20,468**

	Schedule F-46 & GL 271	Schedule F-46.4	Bank Account & GL 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/06	$ 311,558		$ 101,996	CY Withdraws Bank
Plant		179,230		16,765
CWIP Unused				CY Additions To Plant
Adjustments:				19,163
				CY WD - Plant Adds Funded
+ Interest	1,867			
+ CWIP withdrawn bank not added		**18,069**		(2,398)
+ Unused not in bank from 2001		14,131		Accumulated Variance
As Adjusted 12/31/06	313,425	211,430	101,996	**18,070**

<u>2007</u>-Audit noted $105,000, received from MWH, was deposited to the CIAC money market bank account on August 22, 2007. The Commission ordered deposit was posted to general ledger account #131.2c. The offsetting general ledger credit was posted to Miscellaneous Revenue. Audit noted a debit and credit same day to account #271. Clarification was requested, and journal entries provided reflected:

12/31/2007 Debit Accounts Receivable #141
Credit Miscellaneous Revenue #419

4/30/2008 Debit Miscellaneous Revenue #419
Credit Accounts Receivable #141

The $105,000 was not reflected on schedule F-46 of the 2007 (or any subsequent period) PUC annual report. **Audit Issue #18** Audit identified the $105,000 in the first column as "+2007 MWH".

	Schedule F-46 & GL 271	Schedule F-46.4	Bank Account & GL 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/07	$ 327,057		$ 223,795	CY Withdraws Bank
Plant		179,230		0
CWIP				CY Additions
Unused				To Plant
Adjustments:				0
				CY WD - Plant Adds
+ Interest	3,166			Funded
+ 2007 MWH	105,000			0
+ CWIP withdrawn bank not added		**18,069**		Accumulated Variance
+ Unused not in bank from 2001		14,131		**18,070**
As Adjusted 12/31/07	435,223	211,430	223,795	

2008-The Company reflected a charge of $209,144 on schedule F-46 and a debit to CIAC account #271. The annual report also reflected use account #253.1, Deferred CIAC Contributions, in the amount of $209,144. Clarification was requested and the Company responded:

> *"In 2008 the Company recorded other deferred credits of $209,144. The other deferred credits represent contributions made for construction, for which the construction has not yet taken place. In prior years, such contributions were recorded in contribution in aid of construction."*

The charge was equal to the balance of unused CIAC funds shown in account #131.2c, and the amount agreed with the money market bank account as of October 31, 2008. Neither the money market bank statement nor the corresponding general ledger account #131.2c reflected a withdrawal for $209,144. It appears that the Company was attempting to separate the used CIAC from the unused funds. The following Audit prepared reconciliations combine #271 and #253.1

A truck purchase in 2008 using CIAC money received Commission approval after the fact in the secretarial letter issued on August 2, 2011. Audit noted the following general ledger entries:

Debit CIAC #271	$16,578	
Debit Transportation #341	$16,578	
Credit Cash #131.2c		$16,578
Credit Deferred CIAC #253.1		$16,578

Based on the use of contributed funds to purchase a truck, the debit should have posted to the Deferred CIAC #253.1 rather than to #271. As a result, the schedule F-46.4 has never accurately reflected the truck as a contributed asset. **Audit Issue #19** Audit has reflected the truck as an adjustment to the F-46.4 column below.

	Schedule F-46 & GLs 271 & 253.1	Schedule F-46.4	Bank Account & GL 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/08	$ 117,914		$ 209,504	CY Withdraws Bank
Plant		179,230		16,578
CWIP				CY Additions
"Charge"				To Plant
Adjustments:				-
+ Interest	5,453			CY WD - Plant
+ 2007 MWH	105,000			Adds Funded
+ 2008 reverse "charge"	209,143			16,578
				Accumulated
+ 2008 Truck		**16,578**		Variance
+ CWIP withdrawn bank not added		**18,069**		**34,648**
+ Unused not in bank from 2001		14,131		
As Adjusted 12/31/08	437,510	228,008	209,504	

In 2009, the only change relates to the rolling interest accumulation.

	Schedule F-46 & GLs 271 & 253.1	Schedule F-46.4	Bank Account & GL 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/09	$ 117,914		$ 211,347	CY Withdraws Bank
Plant		179,230		0
CWIP				CY Additions
Unused				To Plant
Adjustments:				0
+ Interest	7,296			CY WD - Plant
+ 2007 MWH	105,000			Adds Funded
+ 2008 reverse charge	209,143			0
+ 2008 Truck		**16,578**		Accumulated Variance
+ CWIP withdrawn bank not added		**18,069**		**34,648**
+ Unused not in bank from 2001		14,131		
As Adjusted 12/31/09	439,353	228,008	211,347	

2010-A desk audit clarification of the 2010 annual report requested an explanation for the difference between the amount reported as the Deferred Credit, account # 253.1 on schedule F-1 of the PUC annual report and the CIAC bank account balance as reflected on schedule F-1. The Preparer noted that the variance was the difference between the interest accumulated in the bank account since the creation of the balance sheet account "Deferred CIAC Credit" in October 2008. Refer to Audit Issue #16.

	Schedule F-46 & GLs 271 & 253.1	Schedule F-46.4	Bank Account & GL 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/10	$ 117,914		$ 212,249	CY Withdraws Bank
Plant		179,230		-
CWIP				CY Additions
Unused				To Plant
Adjustments:				-
+ Interest	8,198			CY WD - Plant
+ 2007 MWH	105,000			Adds Funded
+ 2008 reverse charge	209,143			-
+ 2008 Truck		16,578		Accumulated Variance
+ CWIP withdrawn bank not added		18,069		34,648
+ Unused not in bank from 2001		14,131		
As Adjusted 12/31/10	440,255	228,008	212,249	

<u>2011</u>-Schedules F-46 and F-46.3 of the PUC annual report and the CIAC general ledger account # 271 reflected an addition of $130,000 entitled "Transfer from previous contributions in aid of construction", the offset of the entry was to the Deferred CIAC account # 253.1.

The actual transfer of funds from the CIAC money market account to the Rosebrook operating account were properly reflected on the bank statements and corresponding account general ledger cash accounts. A transfer of $50,000 on 8/30/2011 and $80,000 12/28/2011 were reviewed by Audit. Audit is aware that the $130,000 coincides with the expenditure of CIAC funds with regard to the capital improvement plan "CIP".

	Schedule F-46 & GLs 271 & 253.1	Schedule F-46.4	Bank Account & GL 131.2c	Running Balance Bank Withdrawals vs. Plant Additions (CIAC)
As filed 12/31/11	$ 247,914		$ 82,788	CY Withdraws Bank
Plant		200,606		130,000
CWIP		**40,529**		CY Additions
Unused		**68,095**		To Plant
Adjustments:				21,376
+ Interest	8,737			CY WD - Plant
+ 2007 MWH	105,000			Adds Funded
+ 2008 reverse charge	209,143			108,624
+ 2008 Truck		**16,578**		Accumulated Variance
- 2011 reverse addition	(130,000)			**143,272**
+ CWIP withdrawn bank not added		**18,069**		
+ Unused not in bank from 2001		14,131		
As Adjusted 12/31/11	440,794	358,008	82,788	

In summary as of December 31, 2011 the following issues were unresolved:

- General ledger accounts # 271 and #253.1 are understated by interest totaling $8,737 for 2000-2011 (and $68 for 2012). Refer to **Audit Issue #16**
- General ledger accounts # 271 and # 253.1 are understated by $105,000 from 2008. Refer to **Audit Issue #18**
- Schedule F-46.4 needs to be either adjusted for an addition to the basis of schedule F-46.4 for $14,131 for the variance from 2001 or the CIAC funds should be replaced. Refer to **Audit Issue #17**
- The basis of Schedule F-46.4 should be increased by $16,578 for the truck from 2008. Refer to **Audit Issue #19**
- The basis of the 2012 Schedule F-46.4 should be increased by $18,069 for unused funds withdrawn from the CIAC money market account for assets not yet completed and placed in service, in addition to the unused $40,529 and CWIP $68,095, as appropriate.

The majority of the adjustments required to schedule F-46.4 will have a corresponding retroactive impact on the CIAC amortization account, although the amount of the adjustment has not been determined by Audit. **Audit Issue #20**

Summary of Reported CIAC Related information

Reported on **Annual Report** schedules F-1 and F-46	
Account #131.2c CIAC Money Market Account	82,788
Account #271 Contributions in Aid of Construction	(247,914)
Account #272 Accumulated Amortization of CIAC	67,570
Account #253.1 Deferred CIAC Contributions	(79,144)
Net Contributions in Aid of Construction	(259,488)
Account #405 Amortization of CIAC	6,709
Reported on **Rate Filing** schedule 2	
Account #271 Contributions in Aid of Construction	(247,914)
Account #272 Accumulated Amortization of CIAC	67,570
	(180,344)
Reported on **Rate Filing** schedule 4	
Account #405 Amortization of CIAC	6,709

The Cash per account #131.2c $82,788 is higher than the Deferred CIAC #253.1 ($79,144) based on the interest earned on the actual cash account since the inception of account 253.1 in October 2008, or $3,644.

The ($247,914) agrees with CIAC general ledger account #271 but does not represent all CIAC funds because it does not include the newer general ledger account #253.1. The combination of the two CIAC accounts #271 and #253.1 is understated by the 2008 deposit of $105,000 and interest of $8,739 through 2011.

Audit also noted that the rate filing schedule 2, in the "Actual 12/31/2011" column, reflects CIAC of ($247,914). Of the ($247,914) only $202,606 represents plant assets in service. The remaining $45,308 represents CIAC CWIP and Unused Funds. Therefore, the filing is overstated on the CIAC line by $45,308. Refer to **Audit Issue #20.**

Audit summarizes the overall CIAC related accounts should be:

Account #271 Contributions in Aid of Construction	($247,914) including CWIP, unused cash
Account #253.1 Deferred Contributions	($ 79,144)
Commission Ordered MWH Contribution	($105,000) Refer to Audit Issue #18
Interest	($ 8,737) Refer to Audit Issue #16
TOTAL CIAC	($440,795)

Account #405 - $6,709 - Amortization of CIAC
Account #272 - $67,570 - Accumulated Amortization of CIAC

The Company calculated and reported amortization of CIAC of $6,709 on a cost basis of $200,606. Schedule F-46.4 of the annual report reflected a basis of $309,230 which included CWIP of $40,529 and unused CIAC funds of $68,095 which were properly not amortized). The amortization expense agrees with the general ledger and the rate filing. However, neither the basis of $309,230 (which included the CWIP and unused) nor $200,606 (without the CWIP and unused) tie to schedule F-46 of the annual report or the general ledger both of which report an ending balance of $247,914.

During the test year the Company reported on schedule F-46.4 that the "Telemetry System" (actually the trenching and hard wiring power to the water storage tank) was placed in service in 2011. The basis was noted to be $21,376 with a depreciable life of 40 years. The amortization expense, which should be the mirror entry of the depreciation of the asset, reflected $135. It appears that the amortization expense reflects ¼ year, rather than ½ year, which would have been $267. **Audit Issue #21**

Additionally, the Company purchased a truck with CIAC funds for $16,578 in 2008 which has not been added to schedule F-46.4 as required for assets purchased with CIAC funds. Amortization for the truck for the test year would be $1,658 for a full year. The proper classification of the truck to CIAC, retroactively to 2008, would change the accumulated amortization by the amount of the truck amortization of $829 for a half-year in 2008 and $1,658 for 2009, 2010, and 2011 for a total of $5,803. **Audit Issue #22**

Accumulated amortization of CIAC of $67,570 was reported on schedule F-46.1 of the PUC annual report which tied to the general ledger and the rate filing. However, as described above, the truck should have been amortized since 2008 and has understated the amount by $5,803. The Telemetry System is overstated by $132.

Long-Term Debt

At the end of 2011, account #224 – Long Term Dent, showed an amount remaining to be paid of $35,483. This represents a NH State Revolving Fund loan in the amount of $120,000 which was approved by Order No. 22,933 dated May 13, 1998. Terms of the loan, issued in 1999, were 4.05% for 15 years and maturing in 2014. In 2009, DES amended the finance terms of the SRF Loan Agreement to provide an interest rate of 3.352%.

Audit reviewed the general ledger and observed 12 monthly payments towards the principle totaling $8,901 for 2011. The Company posted 12 monthly interest payments to account #427 - Interest Expense – totaling $1,436 for the year. The invoices from DES were reviewed and agreed with the total principle and interest payments of $861 per month with no exceptions noted. Audit noted that the invoices during the year were not paid on the due date, rather, were paid within a week of the due date.

There were no late charges appearing on the DES invoices. The Company did not post accrued interest, account #237 in the test-year.

Accounts Payable

Account #231 - Accounts Payable reflected a balance of $53,913 at the beginning of the year and a year-end balance of $15,233. These amounts agreed with the Company's general ledger and the NHPUC 2011 Annual Report.

The aged accounts payable balance showed that 63.48% of the receivables were current, 17.41% were aged 30 days, 1.52% aged 60 days, and 17.58% aged 90 days. The year end aging consisted of the following:

Days Past Due	Expense Category	Amount Due
Current	Celebration Associates, LLC	$ 8,540
	Public Service of New Hampshire	1,765
	Local Property Taxes	958
	Legal Services	645
	Franconia Gas Company	548
	Professional Fees	525
	E. J. Prescott	169
	Resort Waste Services	105
	Miscellaneous Refunds	20
		13,274
1 – 30 Days	Horizons Engineering, PLLC	3,200
	Resort Waste Services, Inc.	401
	Bretton Woods Telephone	41
		3,642
31 – 60 Days	MWH Construction Co. LLC	187
	MWH Construction Co. LLC	129
		316
61 – 90 Days	Resort Waste Services, Inc.	3,568
	Resort Waste Services, Inc.	108
		3,676
Over 90 Days	MWH Construction Co. LLC	(5,676)
		(5,676)
Total Accounts Payable		**$15,233**

The debit to MWH Construction Company of $5,676 is described as canceling the 2nd Quarter DIL (Deed in Lieu of Foreclosure). Refer to the Operations and Maintenance portion of this report, specifically to account #923, Outside Services, for further discussion regarding the MWH Construction Co.

Due to/Due from, Related Companies

Account #2012 – Due to/Due from Related Company, totaled $624 for the test year. The general ledger reflected the following sub-accounts. Audit reviewed the activity in each and discusses the activity further in the Operations and Maintenance portion of this report as well as in the Other Income portion of the report.

Sub-account	12/31/2011	Refer to:
#2012.01 Due to/from MWH Construction	$ -0-	Expense #923
#2012.02 Due to/from Resort Waste	$ 69	Expense #923, Income #610.04b
#2012.03 Due to/from BW Club	$ -0-	Expense #923
#2012.04 Due to/from BW Land Co	$ -0-	Activity immaterial $51. Not tested.
#2012.05 Due to/from BW Services	$555	Expense #923 and #931
Total #2012	$624	

Accounts Receivable

The Company billed both Residential and Commercial customers quarterly in arrears during the test year on 3/31/2011, 6/30/2011, 9/30/2011 and 12/30/2011. Account #141 - Accounts Receivable reflected a net balance of $51,296 at the beginning of the year and a year-end net balance of $51,645. These amounts agreed with the Company's general ledger, the NHPUC 2011 Annual Report and the filing schedule 4.

The aged accounts receivable balance showed that 1.06% of the receivables were current, 97.68% were aged 30 days, and .03% aged 60 days and .009% over 90 days.

Accumulated Provision for Uncollectible Accounts

Account #143 – Accumulated Provision for Uncollectible Accounts reflected a balance of $543 per the general ledger and agrees with the NHPUC Annual Report.

One customer was foreclosed and the outstanding balance of $192 could not be collected. This amount was written off with a debit to expense account #904 – Provision for Uncollectible Accounts and a credit to account #141 – Accounts Receivable.

Operating Revenues

Summary of Revenues:

#460.5 - Unmetered Sales – Other	$2,713
#461.1 - Water Metered Sales-Residential	81,946
#461.2 - Water Metered Sales – Commercial	124,109
#471 - Miscellaneous Service Revenues – Other	750
Total Revenues	$209,518

The general ledger accounts noted above were verified to the PUC annual report schedule F-47 and to the filing without exception.

The quarterly rates issued in compliance with NHPUC Order No. 22,120 in Docket DR 96-069 were in effect during the test year were as follows:

Meter Size	Initial Rate	Consumption Charge
5/8"	$35.00	$0.4040/100 Gallons
3/4"	$38.50	$0.4040/100 Gallons
2"	$101.50	$0.4040/100 Gallons

Billing Process

Audit requested clarification of the quarterly billing process. The Operations Manager manually reads meters and writes the ending meter read on a spreadsheet. The sheet is provided to the Accounting Clerk who inputs the data into another spreadsheet which calculates the change from her beginning balance to the newly reported ending balance. The figure is multiplied by the consumption rate. The result is manually keyed into the Quickbooks system for every customer.

During the test year, the Controller manually allocated revenue figures monthly. The specifics of the allocation could not be verified, but usage for the year according to the meter read sheets was accurately reflected on the general ledger.

Audit reviewed the quarterly meter read spreadsheets and was unable to validate the first and third quarters' *residential* figures. The Accounting Clerk reviewed all supporting detail and agrees there is a mismatch between the sub accounting detail and the annual report:

the meter read sheets	$82,517
accounts receivable postings	$82,517
gl and annual report	$81,946
variance	$ 571

of which $282 reflects debits to account #461.2 noted as refunds to customers who sold homes during the year. The unknown variance of $289 is considered immaterial due to cancels and rebills as noted when meters had issues.

Account #460.5 - Unmetered Sales - Other

Account #460.5 Unmetered Sales – Other totaled $2,713 for the test year. This account contains sales to the various Hotel functions such as the Pool and Cabana, Tubing Hill, the Hotel Pump Station, the Carpenter Shop and Mount Washington Place HOA.

In the first quarter billing, the Company had found the Pool and Cabana meter had been bypassed so the water usage was estimated. The Company stated that this is recurring problem which is only discovered when Rosebrook Staff perform on-site inspections or when reading meters. **Audit Issue #23**

The Company stated that the Hotel pump station and tubing hill use water from a hydrant using a hydrant meter when needed and the Company tries to use them when someone needs a large amount of water although sometimes people use it after the fact. The hydrant pumps measure a certain amount of gallons per minute so the usage is then estimated at 1000 gallons x $4.04. Audit is unaware of the basis for other unmetered users. **Audit Issue #24**

Account #461.1 - Metered Sales - Residential

Account #461.1 - Water Metered Sales-Residential showed a year-end balance of $81,946. This amount was traced to the general ledger and the filing. Water Metered Sales are generated through quarterly billings. The amount includes $282 of refunds due to home sales.

Audit reviewed the quarterly meter read spreadsheets provided by the Company contact which totaled $206,672. The amount actually recorded was $209,518. Asked to identify the variance, the Company provided Revenue by Property Report for 2011 and stated the variance is with general letter account #461.1 – Water Sales, Residential. Refer to the Billing Process section above.

Audit tested a random sample of customer's bills for 6/30/2011 and 12/31/2011. The rates used in the billing system agreed with the tariff on file at the Commission. However, several customers from the sample were using 1" meters and being charged $38.50. The tariff does not include 1" meters **Audit Issue #25**

Account #461.2 - Metered Sales - Commercial

Account #461.2 - Water Metered Sales - Commercial showed a year-end balance of $124,109. This amount was traced to the general ledger and the filing. Commercial Water Metered Sales were generated through monthly billings per the general ledger. The tariff does not differentiate between Residential and Commercial sales but by meter size, all to be billed quarterly. The following is a breakdown of the billings:

Billing Period	Amount
1/31	$8,122
2/28	8,122
3/31	8,831
4/30	10,885
5/31	10,885
6/30	13,918
7/31	13,918
8/31	13,918
9/30	8,947
10/31	12,239
11/30	12,239
12/31	3,006
12/31 (Reclass to Residential)	(921)
Total Metered Sale - Commercial	$124,109

Account #471 - Miscellaneous Service Revenues - Other

Account #471 - Miscellaneous Service Revenues – Other totaled $750 and showed numerous postings of $25, $50 and $75 amounts. These revenues are from backflow testing and represent a direct pass through to the customers during the test year. The $25 backflow testing charge was verified to the tariff.

Refer to the Operations and Maintenance portion of this report, discussion related to account #665, Miscellaneous Expenses.

Billing Form

Audit reviewed the Company's billing form for compliance with the NH Code of Administrative Rules Puc, Section Puc 1203.06, Bill Forms, paragraph (c). Paragraph (c) details items the bills shall include, such as the meter reading information, penalty dates, the factors necessary to compute the charges, and customer service contact numbers. However, the billing forms in the sample did not show the meter size in order to compute the charges. **Audit Issue #26**

Other Income and Deductions

Account 610.04b – Other Income and Deductions contained two sub-accounts:

Account #419 Interest and Dividend Income	$2,205
Account 610.04b Other Income and Deductions – Other	1,408
Total for the test year	$3,612
Less: CIAC Interest out of account #419	(539)
Adjusted Income	$3,074

Interest and Dividend Income – Account #419 reflected postings for interest due from late payments, late fees and refunds to various customers which totaled $2,205. Included in this account was $539 interest earned on the CIAC money market bank account. The CIAC interest should have posted to account #271, Contributions in Aid of Construction. Refer to the CIAC portion of this report and to Audit Issue #16.

Other Income and Deductions – Other - Account 610.04b totaled $1,408. The account detail showed postings for various customer and vendor charges. One posting to the account shows a debit to Other Income and is described as account #310 – Power Generation Equipment for $575 dated 9/30/2013 (Refer to the Plant Section for further discussion). The posting is in error and has understated Other Income by $575. See also Audit Issue #9.

One credit entry in the amount of $1,504 which was offset to the Due to/from account #2012, represented cash received from the Bretton Woods Television which went out of business. Audit was told that the amount represented the balance in the Television Company's bank account when the account was closed. This is a **non-recurring item**.

Operations and Maintenance - $132,857

The total operations and maintenance reflected on the PUC annual report, as well as the filing schedule 4, was reported to be $132,857. The total is comprised of the following:

	Per PUC annual report	
Account #623	$ 20,878	agrees with the general ledger and filing
Account #641	$ 9,092	agrees with the general ledger and filing
Account #643	$ 3,844	agrees with the general ledger and filing
Account #652	$ 1,250	agrees with the general ledger and filing
Account #663	$ 168	agrees with the general ledger and filing
Account #665	$ 3,430	agrees with the general ledger and filing
Account #676	$ 312	agrees with the general ledger and filing
Account #677	$ 169	agrees with the general ledger and filing
Account #904	$ 192	agrees with the general ledger and filing
Account #921	$ 1,841	agrees with the general ledger and filing
Account #923	$ 84,599	net amount agrees with GL #923 and 610.07k, Other
Account #924	$ 5,256	agrees with the general ledger and filing
Account #926	$ 200	agrees with the general ledger and filing
Account #927	$ 300	included in account #928 in the general ledger
Account #928	$ 640	the general ledger reflects $940 for the test year
Account #930	$ 686	the general ledger reflects $439, $247 less than the annual report
Total per annual rprt	$132,857	
Total per the GL	$132,609, a variance of $247	

Pro-forma for Employees

During the test year, the Company had no employees. Those who worked on the Rosebrook system and accounting were employees of BW Club, then of BW Services. Audit reviewed the filing attachment A, page 1 of 3, which summarized the annual cost of the following proposed employees:

Operations Manager	$52,500
Field Technician	$43,000
Controller	$60,000
Accounting Clerk	$31,200

Audit requested the payroll records for 2013 and they were provided without exception. The Operations Manager, Controller, and Accounting Clerk are salaried, the Field Technician is hourly. At the time of the audit fieldwork (March 2013), the Controller had retired. Work done by the retired Controller during 2013 was at reduced hours (30 per week rather than 40). Audit recalculated the payroll paid during those weeks, and the amount calculated to the salaried rate noted above.

Audit questioned the expense account to which the payroll posts in 2013 and was told account #920, Salaries reflects all payroll expenses not capitalized.

Attachment A, page 2 of 3, reflects an allocation of time for each employee to be billed to affiliate companies Resort Waste and BW Resort (which is the waste system at the Mount Washington Hotel). The Operations Manager and Field Technician anticipate equal thirds of time spent on Rosebrook, Resort, and BW Resort, while the Controller and Accounting Clerk do not do any recordkeeping or administrative services for BW Resort.

The Controller position remains open as of the date of this report.

Account #623 - Fuel/Power Purchased - $20,878

Audit reviewed monthly invoices from Public Service Company of New Hampshire. One invoice was paid later than the due date, and incurred a late fee of $20. The late fee should have posted to account #427, Interest Expense. Other monthly invoices were paid on time and in full. The total, including the late fee of $20, was verified to the filing schedule 4A and 4B.

Account #641 – Chemicals - $9,092

Five invoices from Harcros Chemicals, representing 100% of the account activity, were reviewed. Chemicals purchased included sodium hypochlorite and soda ash. There were no exceptions noted. The account balance was verified to the filing schedule 4B.

Account #643 – Miscellaneous Expense - $3,844

All entries in the account were reviewed. Payments made to Eastern Analytical for required water sample testing summed to $806. Two payments to Fastenal, for a total of $595 were reviewed. One invoice indicated a purchase of a soda ash delivery line, the other represented 3 aluminum pipe wrenches and an offset wrench. Finally, eight invoices from Franconia Gas were reviewed. The total paid was $2,442. Propane is used to heat the pump house. A credit noted in the general ledger account activity was due to the replacement of the propane tank, and the Company receiving credit for the unused propane in the old tank.

The account balance was verified to the filing schedule 4B.

Audit verified that accounts #641 and #643 combined represent the $12,936 shown in the filing on schedule 4A.

Account #652 – Maintenance Water Treatment Equipment - $1,250

Audit reviewed 100% of the balance and verified the payments to invoices from USA Bluebook for tubes, connectors, drum pump tubing, coupling knobs, etc. There were no exceptions noted.

This account was combined with accounts #676 and #677 for a total of $1,732 on the filing schedule 4A. Refer to those accounts below.

Account #663 – Meter Expenses - $168

Audit reviewed one invoice from EJ Prescott for a frost plate and one invoice from USA Bluebook for gaskets. The balance in this account agrees with the annual report and the filing. There were no exceptions noted.

Account #665 – Miscellaneous Expenses - $3,340

Audit noted one entry paid to the State of NH in the amount of $30. Three other entries were paid to Sprinkler Systems Inspection Corp. Specifically, the company was hired to conduct backflow testing at a variety of commercial establishments. The Company charged Rosebrook Water $85 per test. Rosebrook then invoiced the customers at the then tariffed rate of $25 per backflow test. Refer to the Revenue section of this report for further details.

Of the three invoices reviewed, one posted on 1/1/2011 in the amount of $765. The invoice was for tests conducted and invoiced to Rosebrook on December 8, 2010. The expense should have posted to account #665 in December 2010. The overstatement of expense was noted in the PUC annual report as well as the filing. **Audit Issue #27**

Account #676 – Maintenance of Meters - $312

Audit reviewed all of the invoices from EJ Prescott without exception. The total was verified from the general ledger to the annual report and to the filing, as noted below.

Account #677 – Maintenance of Hydrants - $169

There was one entry relating to an invoice from EJ Prescott. The invoice was not reviewed due to the immateriality.

The filing schedule 4A reflects a Maintenance total of $1,732 which was verified to the following general ledger accounts:

#652 Maintenance of Water Treatment Equipment	$1,250
#676 Maintenance of Meters	$ 312
#677 Maintenance of Hydrants	$ 169
Total Maintenance verified to filing	$1,732

Account #921 – Office Supplies/Other Expenses - $1,841

Twelve entries paid to Resort Waste Services represented 50% of monthly invoices from Sprint Communication for cellular telephone service. Nine of the twelve postings were verified to invoices on file. Total recorded for the cell service was $1,259.

Two payments to FedEx were verified to invoices, indicating shipping of documents to the PUC. The total of the two was $159.

Three payments to Garneau's Garage, totaling $319, were for a tire plug, an inspection sticker, and replacement of the left front axle on the Company's pickup truck.

Other miscellaneous items noted were a purchase from WB Mason for envelopes in the amount of $54, purchase of a U-joint in the amount of $15 and the related installation of the U-joint $20.

The total $1,841 was verified to the PUC annual report and to the filing without exception.

Account #923 - Outside Services - $114,901

The total general ledger detail reflects the following activity by vendor:

BW Club, LLC	$ 46,598
BW Services, LLC	$ 33,500
Bretton Woods Telephone Co.	$ 439
Outside Legal	$ 14,818
MWH Construction Co., LLC	$ 771
Outside Accounting	$ 10,858
Total Account #923	$114,901
Adjustment	($ 30,302)
Net #923	$ 84,599

Audit requested and was provided with a vendor detail list from 1/1/2010 through 12/31/2011 for BW Club. From January through June 2010, invoices were paid in the subsequent month. At year-end 2010, the balance owed to BW Club was $12,674. During 2011, $59,998 expenses were incurred. Payments in 2011 (some of which related to 2010 balances) totaled $35,670. The BW Club went out of business in July 2011. Balance activity relating to BW Club was:

Past due balance at 12/31/2010	$12,674
Expenses incurred during 2011	$59,998
Checks paid during 2011	(35,670)
Net balance owed to BWClub	$37,002

The total reflected for the BW Club was comprised of seven entries of $7,200 which represents the monthly compensation as outlined in the Management Agreement effective January 1, 2011. Seven entries of $414 were also noted which, per invoices reviewed, represent the "proportionate share of workers' compensation insurance". The BW Club, LLC went out of business in July 2011. In October 2011, a credit noted as "final administration" in the amount of $(6,700) was noted as BW Club LLC. A copy of the contract was provided to the PUC in docket DA13-001.

An adjusting entry in the amount of $(30,302) reduced the overall amount in account #923 to $84,599 which was shown on the PUC annual report schedule F-48. The actual general ledger reflects the expense reduction under the general expense category of 610.07k, Admin/Gen Expense-Operations-Other. The adjustment, as discussed in Stephen St. Cyr's testimony, relates to the closing of the BW Club, LLC in July 2011. Documentation provided to Audit indicates that the adjustment was due to the Company's inability to pay the monthly expenses as available funds were used for an emergency elbow and water main break. The final credit entry in the amount of $6,700 reduced the amount Rosebrook owed at year-end to BW Club to zero. The $(30,302) adjustment should have posted as a credit to Other Income and Deductions, account #610.04b. **Audit Issue #28**

BW Services, LLC took over the administrative services provided by BW Club, LLC when BW Club, LLC went out of business. Monthly charges for service, in the amount of $6,700 were noted from August through December 2011. A copy of the contract was provided to the PUC in docket DA13-001. The responsibilities mirrored those of the BW Club, at a reduced monthly charge of $6,700 plus workers' compensation proportional share. There were no workers' compensation charges noted on the invoices nor in the general ledger for the five months the contract was in place during the test year.

Audit reviewed monthly invoices from the Bretton Woods Telephone Co without exception.

Outside legal invoices were reviewed. Of the $14,818 incurred, the majority of the expenses related to the dockets involved with the change of ownership and the issue of using the CIAC accounts. As a result, Audit concurs with the filing which indicated that the regular recurring legal expenses for the Company are zero. Refer to the filing schedule 4A, pro forma items #15 and #16.

MWH Construction Co., LLC invoice review revealed two monthly expenses of $1,250, which then increased to monthly invoices of $1,450. A total of $8,300 in "administrative expenses" was supported with invoices. An additional $8,700 (6 months) of monthly administrative expenses $1,450 posted to account #923 although there were not invoices to support the entries. A written contract for these services was not available. Refer to Audit Issue #2. Filed in docket DA13-001 was a copy of a contract for the period January 1, 2012 through December 31, 2012.

Miscellaneous entries for such things as changing batteries at the water tank and delivering soda ash were also reviewed. A total of six entries summing to $388 were traced to invoices. Two entries summing to $316 were noted in the general ledger account, but were not supported with invoices.

Finally, an entry in August 2011 in the amount of $(16,932) reduced the expense to a year-end figure of $771. The description was "cancel second quarter due to deed in lieu" of foreclosure of the bankrupt MWH Construction. (Refer to the Due to/Due from portion of this report) Audit was provided with a schedule outlining the financial records of MWH Construction. The entry offsetting the expense on the books of Rosebrook Water was incorrectly posted. Audit was able to verify that of the expenses incurred during the test year, $20,209, $21,673 was paid and the clearance of the checks verified to the bank statements of Rosebrook Water. The amount owed to MWH, exclusive of the $16,932 was a net debit owed back to Rosebrook in the amount of 1,464. The two entities are separate and distinct and the co-mingling of the adjustments does not comply with GAAP. **Audit Issue # 29**

Expenses relating to Stephen P. St. Cyr & Associates for Outside Accounting amounted to $10,858. The external accountant provides consulting and professional services. Audit reviewed all ten of the invoices and verified the total charged without exception. While the invoices do reflect the dates and hours for which identified work was done, the description of the work performed could not be specifically identified with a particular docket (if applicable).

The proformas in the filing schedule 4A indicates that the expense should be reduced by $4,659 to adjust for "various regulatory charges", bringing the normalized accounting expense to $6,199. Refer to proforma #17. At a rate of $105 per hour, the normalized amount equates to approximately 59 hours. During 2011, total hours worked were 97. The normalized 59 hour estimate, for tax work and PUC annual report work, as well as preparation of year-end adjusting entries, appears to be reasonable.

Account #924 – Property/Workers' Compensation Insurance - $5,256

Audit reviewed the insurance policies compiled by the Rowley Insurance using Acadia as the underwriter of the commercial property and equipment, automobile, and general liability. The policy runs from June 23 through June 23 each year. For the insurance year ending 6/23/2011, the total annual premium was $2,650. For the insurance year ending 6/23/2012, the total annual premium was $2,801. The total expensed amount of $5,256 could not be substantiated. Audit requested clarification via requests #26 and #28, both issued on 3/20/2013. **The requests have not been answered as of the date of this draft report**. As a result, it appears that the insurance expense posted to account #924 is overstated by $2,530. **Audit Issue # 30.**

The expense for the test year should be:

Premium for year ending 6/2011	$2,650 * 50% =	$1,325
Premium for year ending 6/2012	$2,801 * 50% =	$1,401
	Expense for test year	$2,726

Audit also reviewed the Prepaid Insurance account #161a, which reflected a year-end balance of $1,082. Credit activity within the account was directly offset to the expense account #924. However, debits in account #161a indicate payments to Acadia Insurance which sum to $2,770, and one payment to Resort Waste in the amount of $3,569. The debits were offset to Accounts Payable, #231. Refer to Audit Issue #30.

Account #926 – Employee Pensions/Benefits Other - $200

Audit reviewed the one entry in the account which was supported with license renewals for the Operations Manager and Field Technician. Each license was renewed for the two year period January 1, 2012 through December 31, 2013. The total was verified to the annual report as well as to the filing. **Audit Issue #27**

Account #930 – Miscellaneous General Expenses - $439

Audit reviewed entries indicating expenses incurred at NAPA, Home Depot, and reimbursement to N. Oleson for supplies purchased. One item, annual dues paid to the Granite State Rural Water Association in the amount of $175, represents almost 40% of the total expense account. Audit requested clarification of the annual report and filing balance which show $686. The amount is $247 higher than the general ledger. Audit request #27 was issued on 3/20/2013, but **has not been answered as of the date of this draft audit report. Audit Issue #30**

Account #931 – General Rents - $0

Audit was provided with a copy of a rental agreement between Rosebrook Water and 9 Remick Lane, LLC for the office space being used from August 2011 through the present. Prior to the relocation to 9 Remick Lane, Rosebrook was supported with personnel located within the Golf Club building then owned by BW Club, LLC. There was no rent associated with that location. When BW Club went out of business, the Rosebrook support staff relocated to the current building at 9 Remick Lane. The commercial lease agreement, dated August 15, 2011 reflects the term to be "beginning August 15, 2011 and ending February 15, 2011". The ending date appears as a typographical error. Based on the rental discussion identified in the lease as item #2, the rental amount, the end date of the lease should read February 15, 2012.

The rental amount is noted to be $3,900 payable in installments of $650 per month, due in advance on the 15th of each calendar month. The full six month amount was paid by Rosebrook Water via check #3600, verified to the Connecticut River Bank statement of August 2011. A deposit was noted on the Connecticut River bank statement of September 2011, thus the cash position of Rosebrook netted to zero. The following entries were noted relating to the rental amount, and all flowed through the balance sheet rather than being expensed to the General Rents account #931. Specifically:

8/5/2011 Debit account #2012.05 Due to/from BW Services	$3,900	
8/5/2011 Credit account #231 Accounts Payable		$3,900
8/5/2011 Debit account #231 Accounts Payable	$3,900	
8/5/2011 Credit account 131.2A Cash		$3,900
9/29/2011 Debit account 131.2A Cash	$3,900	
9/29/2011 Credit account #2012.05 Due to/from BW Services		$3,900

The commercial lease agreement is between Rosebrook Water and 9 Remick Lane, LLC. Audit was provided with a rent expense account detail of BW Services, LLC which reflects the entire amount of its books (refer to BW Services account #6290), rather than the rent expense of Rosebrook Water. **Audit Issue #31.**

TAXES

Account #408.11 - Property Taxes - $6,047,
Account #161c - Prepaid Real Estate Taxes - $1,519

Rosebrook reported property tax expense of $6,047 for the town of Bethlehem and the town of Carroll. The total on schedule F-50 of the 2011 PUC annual report agrees with the rate filing and the general ledger account #408.11.

Audit determined that the property tax expense associated with the test year should be $5,357 as determined below. Therefore, the property tax expense of $6,047 is overstated by $690. **Audit Issue #32**

Town of Bethlehem Bill Date	Due Date	Invoiced $	Test year 2011 Period	Test Year Amount
12/16/10	01/18/11	$627	Jan-Mar 2011	$ 314
06/14/11	07/18/11	652	Apr-Sep 2011	652
12/19/11	01/24/12	957	Oct-Dec 2011	479
		$2,236		1,444

Town of Carroll Bill Date	Due Date	Invoiced $	Test year 2011 Period	Amount
11/16/10	12/16/10	$1,337	Jan-Mar 2011	669
06/09/11	07/14/11	1,717	Apr-Sep 2011	1,717
11/22/11	12/19/11	3,054	Oct-Dec 2011	1,527
		$6,108		$3,913
			Total	**$5,357**

The total prepayment figure should be $2,006. Therefore, the total in the Prepaid account #161c at year end $1,518 is understated by $487. **Audit Issue #32**

Account # 408.12 - $2,873 - State Utility Property Taxes

A copy of the 2010 Utility Property Tax Return was provided that indicates the Company had an overpayment of $202 from the 2010 Utility Property Tax Return. The Company requested to apply the overpayment to the 2011 tax liability. This overpayment should have been claimed as an additional credit or other payment on the 2011 return which would have reduced the tax due, but was not.

Rosebrook provided a copy of the 2011 Utility Property Tax Return filed on December 30, 2011 which reported annual utility property tax due of $2,672 based on an assessed valuation of $404,793 and a tax rate of 6.6 per $1,000 of utility property value. The return claimed estimated payments of $2,575 (comprised of quarterly estimates of $644 paid in 2011 on April 13, June 1, August 30 and November 28) no additional payments or credits were claimed on the return which left a remaining balance due of $97 that was paid when the return was filed

The Company's general ledger reflects one entry in the expense account # 408.12, State Utility Property Taxes, on December 31, 2011 for $2,873 the offset was to account # 161e, Prepaid Public Utility Tax.

The prepaid account # 161e which was zeroed out at the end of the year was comprised of estimated payments of $2,575, the $202 overpayment from 2010 and the balance of tax due on the return of $97 which together totaled the $2,873.

The Company also reported $2,873 of state utility property tax on both the annual report (schedule F-50) and the rate filing. Audit believes the general ledger and the annual report and rate filing were overstated by $201. Therefore Audit has determined that the proper utility tax associated with the test year is the amount reflected on the 2011 Utility Property tax return of $2,672. Audit suggests that Rosebrook either file an amended utility property tax return and claim the $202 overpayment from 2010 (if possible) or contact the New Hampshire Department of Revenue to request a status of its utility property tax account. **Audit Issue #33**

Account #408.13 - $246 - Other Taxes and Licenses,

Audit requested support for the $246 of other taxes and licenses claimed on schedule F-50 of the PUC annual report and the rate filing, which tied to the general ledger. The Company provided documentation that indicates the $246 was for the registration of the truck (State of NH $55 and Town of Carroll $191) which should have been recorded in account #930.

Account # 161d - $1,929 - Prepaid Federal Income Tax (FIT) and State Business Tax (SBT),

Account # 161d, Prepaid FIT & SBT indicated a balance of $1,929 with no activity during 2011. The Company provided a general ledger of the account going back to 2000. Audit was able to determine that the $1,929 consisted of federal tax estimates of $500 less the $58 refund (see account #409.1 below) leaving a federal balance in the prepaid account of $442 and a State prepaid balance of $1,487 as of December 31, 2010. However, a review of the entries indicates that those which calculated to the $1,929 were backdated, as they were noted 12/31/2010. The ending balance however, appears to be overstated based on a review of the tax returns discussed below.

	G/L	Per Audit	Variance
Federal Income Tax in account #161d =	$ 442	$ 442	$-0-
State Business Tax in account #161d =	$1,487	$ 977	$510
	$1,929	$1,419	$510

Refer to the sections relating to the Federal Income Taxes, Account #409.1 and to the State Taxes Accounts #409.11 and 409.2 below. Refer also to the Recommended Adjustments portion of this report.

Account # 409.1 - ($58) - Federal Income Taxes,

Rosebrook provided copies of the 2011, 2010 and 2009 federal Form 1120s. A review of the 2011 return revealed that total income of $213,131 and total deductions of $213,131 were reported that resulted in taxable income of zero. The return claimed payments of $442 and requested that the overpayment of $442 be applied to 2012. No estimates were paid during 2011 the $442 was carried forward from the 2010 tax period. No net operating losses were identified on the return.

The review of the 2010 Form 1120 revealed that total income of $195,453 and total deductions of $195,453 were reported that resulted in zero taxable income. The return claimed estimated payments of $442 were paid during 2010. The overpayment was requested to be credited to the 2011 tax period. No net operating losses were identified on the return.

The Company reported federal income taxes of ($58) on schedule F-50 of the 2011 annual report and on the rate filing which tie to the general ledger. However given that the 2011 return indicates an overpayment of $442 that was requested to be carried forward to 2012 and the 2010 return indicated an overpayment of $442 that was requested to be carried forward to 2011, Audit requested clarification of the ($58) balance.

The Company provided support that the ($58) was the result of a miscalculation of the payments made during 2010. While the 2010 tax return claimed estimated payments of $442 a notice from IRS indicated that Rosebrook made estimated payments of $125 and had other credits of $375 which totaled $500 rather than $442. The difference of $58 was refunded. Audit noted the debit posting to the cash account #131.2A and the credit posting to account #409.1on 6/23/2011. The credit should have posted to the Prepaid Account #161d, but because of the apparent backdating of the entry described above, had already been deducted from the prepaid balance. Audit has determined that the proper amount of federal tax associated with the test year is zero with $442 reflected as prepaid as of December 31, 2011. **Audit Issue #34**

Accounts # 409.11 and #409.2 - $0 - State Business Tax

Account #409.11	NH State Business Tax	$-0-
Account #409.2	State Business Taxes	$-0-

Neither account reflected any activity during the test year.

Rosebrook provided copies of the 2011, 2010 and 2009 New Hampshire business tax returns. A review of the 2011 Business Enterprise Tax (BET) return revealed that $11 of BET was due based on $1,436 of interest paid multiplied by a tax rate of 0.75%. The Business Profits Tax (BPT) return reflected BPT due of $543 less BET credits of:

BPT due 2011	$543
BET 2011	(11)
BET 2010	(13)
BET 2008	(20)
Net BPT due	$499

The resulting $499 was due, after application of a BET credit of $44 from prior tax years and a net operating deduction from tax period 2010 of $20,176 (now completely expired). The total due of both taxes $499 + $11 = $510 was offset by credits available from prior tax periods of $1,487 leaving additional credits available for 2012 of $977. The $1,487 ties to the overpayment reflected on the 2010 business tax returns and the net operating loss deduction of $20,176 (tax benefit of $1,715) taken in 2011 ties to the negative adjusted gross business taxes reported in 2010. The $1,487 is reflected in Prepaid Tax account #161d discussed above.

It appears that with filing of the 2011 tax return, no additional net operating losses or BET credits are available for future state tax purposes.

The Company claimed zero state taxes due on both the annual report and the rate filing (before proforma adjustments for step increase) which ties to the general ledger.

Audit has determined that the proper state business tax expense associated with the test year is the amount reflected on the business tax returns, as the tax due before application of the 2010 overpayment credit, which was $510.

As of December 31, 2011 the prepaid FIT & SBT account # 161d should reflect the remaining balance of the 2010 overpayment of $977 ($1,487 less $510), it is currently overstated by $510. It does not appear that the 2010 net operating loss of $20,176 with a tax benefit of $1,715 was reflected on the general ledger as a deferred income tax asset (account #190) until its use on the 2011 return. **Audit Issue #35**

Account #410.1 - $1,449 Deferred Federal Income Taxes
Account #282.1 - $(63,081) - Accumulated Deferred Federal Income Taxes

Rosebrook explained that the accumulated deferred federal taxes are based on the difference between accumulated depreciation per books of $528,236 and accumulated depreciation per federal tax return of $948,774. The difference of $420,538 multiplied by a tax rate of 15% calculates to $63,081 as of December 31, 2011 an increase of $1,449 over 2010.

Account #410.11 - $1,012 - Deferred State Business Taxes
Account #282.11 - ($23,779) - Accumulated Deferred State Business Taxes.

The Company explained that the deferred state business taxes are based on the difference of accumulated depreciation per books of $528,236 versus for state tax purposes of $857,359. The difference of $329,123 multiplied by a tax rate of 7.225% calculates to $23,779 as of December 31, 2011 an increase over 2010 of $1,012.

Account #928 - $940 - Regulatory Commission Expense

The Company's general ledger, annual report and rate filing reflected an expense of $940 for the Public Utilities Commission annual assessment. Audit determined that the amount of PUC assessment associated with the test year 2011 was $623. Therefore, account #928 is overstated by $317. **Audit Issue #27**

State Fiscal Year 2011 due 01/15/2011	$186
State Fiscal Year 2011 due 04/15/2011	$184
State Fiscal Year 2012 due 08/10/2011	$ 72
State Fiscal Year 2012 due 10/15/2011	$181
	$623

Audit Issue #1
Ownership

Background

Rosebrook Water Company stock was approved for purchase by the BW Land Holdings, LLC. On 7/12/2007 via Commission Order 24,773 in docket DW06-149.

Issue

Based on a review of the federal tax returns, Schedule G, for years 2009, 2010, 2011, ownership noted on the federal form is solely Celebration Bretton Woods, LLC.

Annual reports to the Public Utilities Commission for the same period indicate ownership of the Company is solely BW Land Holdings, LLC.

Recommendation

The Company is reporting to the federal government ownership by one limited liability corporation, while reporting to the state Public utilities Commission ownership by a different limited liability corporation. Contemplation of any transfer of ownership had to have the approval of the Commission. Audit is unclear why the reporting of the ownership to two different levels of government would be different.

Audit is also aware of a current docket, DW12-299 and suggests that clarification of current ownership be positively determined prior to conclusion of another stock transfer.

Company Response

The Schedule G for years 2009, 2010, 2011 reporting ownership by Celebration Bretton Woods, LLC is in error. Schedule G reporting was neither intentional nor deliberate. Stock ownership of Rosebrook Water Company has not transferred nor has the Company intended to transfer ownership from BW Land Holdings, LLC to another entity without prior consent and approval of the Public Utilities Commission. The Company will correct information for future filings and consider amending the prior returns as necessary.

Audit Comment

Audit encourages the Company to comply with all applicable Federal and State tax filing rules and regulations. If amendments are required, notice to the Staff in the Water Division at the NH PUC is recommended. Clarification of ownership, as reported to all regulatory agencies, will be addressed in docket DW 12-299.

Audit Issue #2
Affiliate Agreements

Background

During the test year, none of the affiliate agreements with BW Club, BW Services, MWH Construction, or Celebration Associates, had been approved by the Commission.

Issue

Services for which monthly fees were paid were not approved by the Commission. Audit is aware that docket DW13-001 has been opened to review affiliate contracts after the fact.

A monthly administrative fee charged by MWH Construction was not documented, either in the test year, or in DW13-001. Audit was told (by the Company) that MWH Construction was no longer in business at the end of 2012.

The construction project for the water tank roof, water tank power connection, and pump house repairs, were completed by MWH Construction but supported with a contract for the work or the cost.

Recommendation

Affiliate agreements require review and approval by the Commission.

Company Response

The Company agrees.

Audit Comment

Audit concurs and encourages the Company to be vigilant regarding the contracts into which it enters and ensure that all affiliate company contracts are presented for review to the Commission.

Audit Issue #3
Entity Status

Background

Audit was informed by the Company (while onsite March 2013) that all entities owned by BW Land Holdings, LLC were out of business, with the exception of Rosebrook Water.

Issue

The entities below were identified by a 2006 chart as being 100% owned by BW Land Holdings, LLC:
Rosebrook Water Co., Inc – a NH corporation
MWH Construction LLC - a NH LLC
Bretton Woods Community Television, Inc. – a NH corporation
Bretton Woods Land Co., LLC – - a NH LLC
BW Sports Complex, LLC - a NH LLC
BW Club, LLC - a NH LLC-
BW Realty, LLC - a NH LLC

Audit reviewed the corporate status with the NH Secretary of State, and all of the entities were in Good Standing as of March 26, 2013, with the exception of BW Club which was not in Good Standing. BW Land Holdings was noted on the NH Secretary of State's website as being current and in Good Standing. Audit was unable to determine the status of the registration in Delaware. The North Carolina LLCs were verified to the NC Secretary of State's website as being in Good Standing.

Recommendation

Clarification of the legal entity status of each affiliate will assist with the instant docket as well as the issues identified in docket DW12-299.

Company Response

The following entities identified and reference by Audit while onsite in March 2013 no longer actively conduct business. The following is a summary of intent for each entity:

MWH Construction LLC, a NH LLC, discontinued operations prior to year-end of 2012. It is contemplated that legal status of this entity will be dissolved during 2013.

Bretton Woods Community Television, Inc., a NH corporation, discontinued operations prior to year 2012. It is contemplated that legal status of this entity will be dissolved during 2013.

Bretton Woods Land Co., LLC, a NH LLC, maintained as part of the settlement agreement between Crosland and Wells Fargo while certain bonding obligations are transferred between the parties as part of the foreclosure on the property. The company has not actively conducted operations during 2012. It is contemplated that legal status of this entity will be dissolved during 2013.

BW Sports Complex, LLC, a NH LLC, discontinued operations prior to year 2012. It is contemplated that legal status of this entity will be dissolved during 2013.

BW Club, LLC, a NH LLC, discontinued operations prior to year 2012. It is contemplated that legal status of this entity will be dissolved during 2013.

BW Realty, LLC, a NH LLC, discontinued operations prior to year 2012. It is contemplated that legal status of this entity will be dissolved during 2013.

Audit Comment

Audit appreciates the information and encourages Staff and the Company to adequately document affiliate legal status during the DW 12-299 proceeding.

Audit Issue #4
Check Signing

Background

With the retirement of the Controller, who had authority to sign checks and reconcile the checking account, processed checks are currently printed and mailed, along with addressed and stamped envelopes to the final vendors, to Mike Hahaj who works in Virginia.

Issue

The additional step of mailing checks for signature to an out-of-state authorized signer extends the payment time to vendors and incurs additional postage expense for the Company.

Recommendation

Audit encourages the Company to fill the Controller position with an employee who will be authorized to sign checks but will not have authority to reconcile the bank statement.

Company Response

The Company will continue to pursue filling the Controller position. It recognizes that additional time is required to remit vendor payments. It also recognizes that it incurs minimal additional expense. However, the Company believes that, until the position is filled, these additional steps to obtain a 2nd countersignature on each Company payment helps prevent unauthorized payments and established a certain level of control.

Audit Comment

The Company's response indicates that the checks require two signatures. Audit was not made aware that two signatures were required for each check. Whether or not the mailing to VA for a second countersignature had been an ongoing process, in place while the Controller was at Rosebrook, the inefficiency of the process, as outlined in the Issue above, is reiterated.

Audit understands that the Accounting Clerk issues the invoices, records the cash receipts, makes the deposits, and reconciles the checking account. In order to maintain adequate separation of duties, and reflect some level of internal control, Audit agrees that until a new Controller is hired, someone other than the Accounting Clerk should have check signing authority. However, it is also recommended that once the internal control situation is addressed with the hiring of a full-time Controller, the mailing of invoices and checks to Virginia should cease.

Audit Issue #5
Dual Records

Background

Audit attempted to validate the specific individual plant in service accounts reported on the PUC annual report to the Company's general ledger.

Issue

The external Accountant used to prepare the annual report and filing appears to maintain his own detailed general ledger. Ten of the fifteen individual plant in service reported accounts do not agree with the Company's general ledger records. Refer to page 5 of this report.

Varying prepaid Federal Income Tax and State Business tax records presented by the external Accountant were also not reflective of the general ledger of the Company. Refer to page 41 of this report.

Recommendation

The Company's general ledger must be updated to accurately reflect the plant in service. A revised general ledger should be provided to the Commission within three months of the issuance of this audit report.

Company Response

The Company agrees. There is only one general ledger. The Company uses the financial statements from the general ledger to prepare the PUC Annual Report and tax returns. Any discrepancies between the general ledger and the external report will be rectified.

Audit Comment

Audit reiterates the issue and its recommendation that a copy of the revised general ledger should be provided to the Commission along with the 2012 PUC Annual Report.

Audit Issue #6
Lack of Records

Background

Audit requested asset additions and retirements for selected testing, for activity since the prior audit, test year ended 1999.

Issue

There were no records to support any of the plant additions prior to 2005, and virtually no records to support retirements prior to 2005.

Recommendation

The Company must reconstruct its supporting schedules and locate receipts to validate the plant activity provided to the Commission each year.

Company Response

The Company is reviewing its records further and believes that it has some, if not all, of the additions and retirements from 2000 – 2005. The Company will provide such information to the Audit Staff under a separate cover letter.

Audit Comment

The Company is reminded that the detailed list of assets that were to be reviewed was submitted by Audit on 2/27/2013. As of the date of this Final Audit Report 5/14/2013, documentation has not been provided.

Audit Issue #7
2010 Plant Additions

Background

The Company was able to provide supporting documentation for $38,894 of the $104,791 additions placed in service in 2010.

Issue

Of the total placed in service, supporting documentation was unavailable for $65,897, or 63% of the 2010 additions.

Recommendation

Audit cannot verify that the costs associated with the plant placed in service in 2010 are accurate.

Company Response

The Company is reviewing its records further and believes that it has some, if not all, of the supporting documentation for the 2010 additions to plant.

Audit Comment

The Company is reminded that the detailed list of assets that were to be reviewed was submitted by Audit on 2/27/2013. As of the date of this Final Audit Report 5/14/2013, documentation has not been provided.

REPEAT Audit Issue #8
Continuing Property Records

Background

The Company was unable to provide adequate continuing property records (CPRs).

Issue

Rosebrook was ordered by the Commission in DW 06-149 to "reconstruct its accounting and to accurately provide information related to the value of fixed plant, the CIAC account, accumulated depreciation, and accumulated CIAC amortization accounts."

Recommendation

The Company is in violation of the settlement agreement executed in DW 06-149.

Company Response

The Company began an effort compile its asset records and is preparing CPRs.

Audit Comment

Audit reiterates the issue. Despite Commission Order to complete the CPRs, the Company has failed to comply.

Audit Issue #9
Retirement of Generator

Background

During the test year, a generator with a book cost of $999 was retired. The full book cost was properly credited to the plant account #310.

Issue

The Company posted the retirement entry:

Debit Accumulated Depreciation #108	$425	
Debit Other Income #610.04b	$575	
Credit Plant account #310		$999

The debit entry should have reflected the entire $999. Because of the manner of posting, the accumulated depreciation is understated by $575 and the Other Income is also understated by $575.

In addition to the incorrect entry, as identified in Audit Issue #5 above, the external Accountant included the proper debit in the reported Accumulated Depreciation on the annual report, but also reported the debit as the overall balance of Other Income, thus including the $575 debit twice.

Recommendation

The Company must adjust the filing to properly reflect the Accumulated Depreciation and the Other Income. The Company is reminded that for utility accounting purposes, when an asset is retired, the full book cost is debited to Accumulated Depreciation and credited to the appropriate plant in service account. Refer to the Uniform System of Accounts, 607.07.

Also, as noted in Audit Issue #5, the external Accountant must ensure that the accounting information is representative of the actual books and records of the Company. Discrepancies must be identified and addressed such that the records are accurate.

Company Response

The Company agrees.

Audit Comment

Audit concurs.

Audit Issue #10
Capital Improvement Plan

Background

The Company provided a Capital Improvement Plan to the Commission on May 26, 2011 in conjunction with docket DW 11-117.

Issue

Audit was provided with an updated CIP dated 8/9/2011, with a revised estimate of costs, including almost $92,000 anticipated capital funding through operating revenues.

The filing schedule 6a outlined the 2012 Step Increase items		General Ledger 2012 Actuals
Water Tank Roof	$162,354	account #304 + $183,657 – 75,000
Diesel Generator	$ 42,000	
Submersible Pump	$ 28,760	account 311.1 +$100,162 – 14,366
Total	$233,114	Actual +$283,819 – 89,366

The filing schedule 6a reflects only estimated costs and does not include any retired assets.

Recommendation

When asked why the filing figures did not agree with the general ledger, the external Accountant indicated the 2012 records had not yet been reviewed. The filing must be adjusted to reflect the actual costs identified by review of the general ledger above, as well as account for the retirements. The Company and external Accountant are reminded that the amended filing schedules were provided to the Commission in February 2013.

Company Response

The Company agrees that the filing must be adjusted to reflect the actual costs. At the time of the filing, actual costs were not available. At the time of the amended filing, the actual costs had not been reviewed and finalized.

Audit Comment

Audit concurs with the Company that the filing must be adjusted.

Audit Issue #11
Contract with Saco Roofing

Background

Rosebrook signed a contract with Saco Roofing directly for labor, materials and warranty for the replacement of the water tank roof.

Issue

Payments made by Rosebrook were issued to MWH Construction. The Company assumed that MWH Construction then paid Saco Roofing.

Recommendation

The legal and binding contract signed with Saco Roofing did not include reference to payment through a third party. The Company must ensure that payments for services as documented be made as required by the legal contract.

Company Response

The Company agrees.

Audit Comment

Audit concurs.

Audit Issue #12
Pump House Generator Project

Background

As stipulated in a prior docket, the solar panels on the pump house were to be replaced with hard-wired electrical service.

Issue

A deposit of $27,000 was paid by Rosebrook to MWH Construction, as contemplated in the contract signed by both for installation of a generator at the pump house. The contract noted the anticipated completion date of 2010.

The pump house was placed in service, at the contracted cost of $54,000, on 4/30/2012. The filing schedule 6a reflects the total estimated cost to be $42,000

Recommendation

The Company signed a contract in 2010, in the (not to exceed) amount of $54,000. The amended filing, provided to the Commission in February 2013, understated the expense by $12,000. The filing must therefore be adjusted.

Company Response

As indicated in the response to audit issue #10, at the time of the amended filing, the actual costs had not been reviewed and finalized. The Company anticipates providing Staff with the actual costs associated with the 2012 additions to plant and adjusting the estimated costs to actual costs.

Audit Comment

Audit concurs with the Company's response that they will be providing Staff with the actual costs associated with the 2012 additions to plant. Plant retirements must also be updated for Staff.

Audit Issue #13
Overtime-Affiliates

Background

Audit reviewed invoices from both MWH Construction and BW Services for costs incurred relating to the Capital Improvement Plan projects.

Issue

MWH Construction invoices reflected labor plus 10%. The one invoice from BW Services reflected overtime labor plus 20%. The Company indicated that the BW Services "management fee does not include overtime on Capital Improvement Plan projects".

The BW Services mark up of 20% appears to be excessive and undocumented within the contract that had not been provided to the Commission.

Recommendation

The $1,054 cost borne by Rosebrook appears to be overstated by 20% or $211. The filing should be adjusted by that figure, and the related general ledger account should be adjusted as well (for 2012 and ongoing).

Company Response

The Company disagrees. The Company does not view the 20% to be excessive.

Audit Comment

MWH Construction (no longer in business) apparently acted as the general contractor for the tank roof project, although there was no contract specific to the roof project. Audit reminds the Company that neither the BW Services contract nor the MWH Construction management contract contains language relating to any percentage mark up of overtime.

Audit Issue #14
Depreciation

Background

The Company claimed a depreciation expense of $36,482 using straight-line depreciation.

Issue

Of the two assets groups placed in service during the test year, one was depreciated at a full year rather than half-year convention.

- The "Telemetry System" was placed in service in on 9/30/11, at $21,376. Estimated life of 40 years equates to $534 annual depreciation expense. In the first year the expense should have been $267, but the full $534 was included in the total expense for 2011.
- Five meters were placed in service in 2011 at cost of $1,125 and reflected a deprecation rate of 2.5% or $28. Meters are normally in service for 20 years with a 10% net salvage value, resulting in an annual depreciation rate of 4.5%. The annual rate would equate to $51 with the half year convention at $25.

Also, because inadequate continuing property records are kept Audit was not able to verify the accuracy of the accumulated depreciation reported. Refer to Audit Issue #8, and refer to Audit Issue #21.

Recommendation

The Company is not entitled to a full year of depreciation for assets placed in service during the year. The depreciation expense should be reduced by $267 and the accumulated depreciation should also be adjusted by that amount. The meter expense caused a variance in year one of an immaterial $3.

Company Response

The Company disagrees with the recommendations.

The estimated live of the telemetry system is 20 year, not 40 years. Therefore, the annual depreciation is $1,069. The first year depreciation is one-half of the annual depreciation, namely $534. No adjustment is required.

The Company does not receive any salvage value from its meters. As such, it uses a 5% depreciation rate. Therefore, the annual depreciation is $56. The first year depreciation is one-half of the annual depreciation, namely $28. No adjustment is required.

With respect to the accuracy of the accumulated depreciation, the Company provided Audit Staff with the depreciation schedules for 2000 – 2010.

Audit Comment

Audit understands the 2011 "telemetry system" addition was for digging a trench to the water tank (using both equipment and hand trenching), materials and labor to convert the tank to AC voltage, and to hard wire the solar collector and transmitter and was not for the actual telemetry system itself. This project was under taken and completed to cure a deficiency received in a DES Sanitary Survey. Audit believes that 40 years is a more appropriate life.

Audit is unsure why the Company does not have salvage on its meters. Audit recommends that the Company follow the small water company booklet.

The Company must be able to accurately support the accumulated depreciation for each plant asset.

Audit Issue #15
Mount Washington Hotel Contribution

Background

In 2007, the Count Washington Hotel Partnership (former owner of Rosebrook Water) was ordered to pay $105,000 into a Contributions in Aid of Construction account. The cash general ledger account 131.2c reflected the debit. The credit was posted to Miscellaneous Income.

Issue

Because the offsetting credit was posted to a Miscellaneous Income account in 2007, the Contributions in Aid of Construction account #271 was understated.

Recommendation

Audit was forced to perform an ongoing CIAC reconciliation, using bank statements, cash general ledger accounts, CIAC balance sheet accounts and deferred balance sheet accounts. At the time the $105,000 was required, it was contemplated that the entry would be:

Debit Cash 131
Credit CIAC 271

Audit is aware that the Company filed a request to use all CIAC funds held in the Meredith Village Bank money market account, and that DW 11-117 approved such use per Order 25,328 issued in February 2012.

Company Response

The Company's recollection is that the PUC order the Hotel to pay $105,000 for the difference in rates between a special contract rate that had expired and the tariff rate for commercial customers. Therefore, the $105,000 was treated and reported as revenue and not a CIAC.

Audit Comment

While the $105,000 was the result of Rosebrook's under billing to MWH, the fact that the $105,000 was to be deposited into the CIAC account was addressed no less than five times:

- **Order No. 24,773**, issued 7/12/07 page 6 "MWH acknowledges that it had not complied with Commission Order No. 23,441 regarding the CIAC account. In addition, it acknowledges that MWH properties were provided the benefit of lower water rates after the expiration of Special Contract No.7. Consequently, MWH agreed to deposit $105,000 into the CIAC account on or before of the date of the transfer of the Rosebrook stock. The utility agreed to provide evidence of that deposit to the Commission within five days of the deposit."

- **Settlement agreement DW 06-149**, signed by James D. Kerouac, Esq 4/11/07 and Carmine D. Tomas, MWH Preservation LP 4/10/07—page 5, section D.1. "In addition, MWH acknowledges that it continued to give MWH properties the benefit of the water rates in the Special Contract No. 7 after the expiration of that Special Contract and therefore the MWH properties were undercharged by $105,000. In lieu of fines and penalties that the Commission has authority to impose pursuant to RSA 365:41 and 42, MWH agrees to deposit $105,000 into the CIAC account on or before the date of transfer of the stock of Rosebrook."
- **Letter from James D. Kerouac, Nixon Peabody LLP**, August 28, 2007 "Pursuant to the Settlement Agreement approved by Order No. 24,773 dated July 12, 2007, enclosed please find evidence of the deposit of $105,000 into the CIAC account."
- **Letter from P. Douglas Whitlock of Cleveland, Waters and Bass, PA**, January 9, 2008, "…I am providing to the Commission timely evidence of payment from MWH Preservation Limited Partnership to the Rosebrook Water Company, Inc. in the amount of $105,000 (as well as evidence of deposit of said amount into the Rosebrook operating account)".
- **Letter from Marjory Taylor, Controller, Rosebrook Water Company, Inc.,** March 31, 2011 page 1, section D.1. Deposit of $105,000 into CIAC account. "On 01/08/08 the Company received the $105,000 payment from the MWH and deposited it into the operating account to replace the $105,000 the Company had transferred to the CIAC fund in August 2007. The original deposit is listed on the attached CIAC report."

While the current Company staff may not have been aware of the requirement to deposit the $105,000 into CIAC, it is clear to Audit that the Company, the Controller and the Company's attorneys were aware that the $105,000 was to be treated as CIAC.

Audit Issue #16
Interest Earned on CIAC Money Market Bank Account

Background

The money market account which was opened in 2007 at the Meredith Village Savings Bank to hold all funds received as Contributions in Aid of Construction earned interest monthly.

Issue

The cash general ledger account accurately reflected the interest earned, but the credit offset was posted to Other Income and Deductions, account #419 rather than to the CIAC account #271. The annual report schedule F-46 did not reflect the interest earned.

Recommendation

Rosebrook's annual report and general ledger have been misrepresenting the interest earned on contributed funds as Other Income. The total since inception is $8,739 through the end of 2011.

Company Response

The Company has not previously considered whether the interest earned on the CIAC funds should be treated as interest income or CIAC. The Company will consider whether such accounting treatment is appropriate.

Audit Comment

The CIAC account was closed as of August 2012. The interest was earned on CIAC funds and should have been reflected as CIAC.

Audit Issue #17
Unresolved CIAC Variance

Background

Because of the general ledger posting issues, the manner in which the CIAC money was reported on the PUC annual reports over the years, and the lack of reconciliation among all, an unresolved variance of $14,131 exists at the end of 2011.

Issue

The Company did not conduct its own reconciliation of all CIAC monies, including interest, with the bank statements, general ledger asset and liability accounts, nor with the external Accountant's representation of CIAC and then Deferred CIAC.

Recommendation

The Company must determine, beginning in 2001, why schedule F-46.4 of that year's annual report, was out of balance with F-46. It appears that the CIAC account #271 is understated by $14,131. The schedules and general ledgers need to be reconciled, or the money must be replaced.

Company Response

The Company will review the "unresolved CIAC Variance."

Audit Comment

The Company is reminded that the variance has been in place for a decade. The review to resolve the issue must actually be done and corrected within six months. The annual report for 2013 must be reflective of the accurate CIAC information, which must agree with the general ledger of the Company.

Audit Issue #18
Inability to Track Funds

Background

Referring to Audit Issue #15, Audit was unable to validate using the annual report and the general ledger CIAC accounts, where and how the $105,000 contribution was used.

Issue

Because schedule F46, F46.4, and the related accounts #271 and then #253 did not reflect the $105,000 contributed by the Mount Washington Hotel in 2007, the use of the funds could not be traced to the assets noted on the schedules and within the general ledger.

Recommendation

As with the recommendation in Audit Issue #15, it is the Company's responsibility to positively identify all assets relating to all CIAC funding sources.

Company Response

See Company response to Audit Issue #15. The $105,000 was not treated nor reported as CIAC.

Audit Comment

Audit reiterates the issue and its recommendation. Also see Audit's response to Audit Issue #15.

REPEAT Audit Issue #19
2008 Truck Purchase

Background

In 2008, the Company used CIAC funds out of the Meredith Village Savings Bank money market account to purchase a pickup truck.

Issue

During the desk audits of both 2010 and 2011, the Audit staff noted that the addition of the truck was not noted on schedule F46.4, thus was not offsetting the plant in service account. Because the truck was not being amortized, the depreciation expense was not being offset.

The response to the desk audit letters was that the truck would be added to the F-46.4.

Recommendation

Rosebrook's annual report and general ledger have been misrepresenting the total CIAC #271 and amortization expense related thereto, by excluding the $16,578 truck added to plant in 2008.

Company Response

Regrettably, the Company has not yet reflected this transaction on F-46.4.

Audit Comment

Audit understands that the Company requested an extension until May 30, 2013, to file its 2012 annual report. The Commission, via Secretarial Letter dated 4/2/2013 approved the request. The Company has sufficient time to correct this deficiency prior to submitting the 2012 annual report.

Audit Issue #20
CIAC Amortization

Background

Audit prepared a reconciliation of all CIAC related activity using prior audit reports, bank statements, general ledger accounts and activity, and annual report schedules.

Issue

The basis on schedule F46.4 of the yet to be filed PUC annual report should be increased by:
$18,069 of funds withdrawn from the CIAC money market but not yet used for assets in service
$40,529 of work in process assets funded by CIAC
$68,095 of funds not yet used
$16,578 representing the 2010 truck purchase identified in audit issue #19

$14,131 unknown variance as identified in audit issue #17

Recommendation

The annual report and general ledger must be updated with accurate information and the information should agree with what is presented to the Commission.

The filing schedule 2 reflects total CIAC in service in the amount of $247,914, which is overstated by $45,308, the 2011 balance of CIAC CWIP and unused funds. Therefore, the filing schedule 2 should reflect CIAC in service as of 12/31/2011 in the amount of $202,606.

Company Response

The Company will undergo a review of the CIAC and the related accounting and take the necessary steps to resolve any discrepancies.

Audit Comment

Resolution should be accomplished within six months. The actual resolution should be communicated to Audit, should include adjusting general ledger entries, supporting schedules, and the 2013 general ledger should support the corrected 2013 PUC Annual Report.

Audit Issue #21
CIAC Amortization Expense

Background

Audit reviewed the CIAC amortization expenses for the test year. The Telemetry System placed in service in 2011 was posted to plant and CIAC with a basis of $21,376

Issue

The amortization expense used for the test year represented ¼ of an annual calculation, rather than using the ½ year convention. The amount noted was $135 and should have been $267. Refer to audit issue # 14 relating to the depreciation expense error.

Recommendation

The amortization expense and depreciation expense should be mirror images of one another, and both should use the half year convention in the year of acquisition.

Company Response

See Company response to Audit Issue #14. The Company agrees that the amortization expense and depreciation expense should be mirror images of one another, and both should use the half year convention in the year of acquisition. The Company believes that the first year amortization is one-half of the annual amortization, namely $534.

Audit Comment

Audit concurs with the Company's agreement that the amortization expense and depreciation expense should be mirror images of one another, and both should use the half year convention in the year of acquisition, rather than the quarter year convention.

Audit Issue #22
Amortization Expense of Truck

Background

The pickup truck purchased in 2008 has been noted as an asset and properly depreciated since 2008.

Issue

Because the truck was purchased with CIAC funds, it should have been noted in the annual report F-46.4 and had associated amortization expenses since 2008. The truck was not included in the amortization calculation and has thus understated the amortization expenses for the following years:

2008	$ 829
2009	$1,658
2010	$1,658
2011	$1,658 relates to amortization expense for the test year
	$5,803 relates to accumulated amortization for the test year

Recommendation

The contributed assets and related amortization expenses must mirror the plant assets and deprecation expenses.

Company Response

The Company agrees.

Audit Comment

Audit concurs. Also see Audit's response to Audit issue #20.

Audit Issue #23
Meter By-pass

Background

Company officials indicated to Audit that the outdoor pool and cabana at the Mount Washington Hotel have been using water after by-passing the meter.

Issue

In the first quarter billing, the Company found the Mount Washington Pool and Cabana meter had been bypassed, so the water usage was estimated. The Company stated that this is recurring problem which is only discovered when Rosebrook Staff perform on-site inspections or when reading meters. The general ledger reflected one instance of this and showed the 1st quarter billing to be $246.

Recommendation

The Company should continue to diligently monitor the water usage where problems of tapping into the Company's line have previously existed.

Because the user deliberately bypassed the meter, and thus the sales were estimated, Audit is unable to quantify what the revenue impact is.

Company Response

The Company will continue to monitor the situation and consult with its attorney to determine what, if any, legal action should be taken.

Audit Comment

Audit concurs with the Company response.

Audit Issue #24
Unmetered Sales-Account #460.05

Background

Unmetered sales relating to hydrant use are estimated by knowing the gallons per minute or flow rate of the meter, then applying the per 1000 gallon usage charge of 1000 x $4.04. This manner of estimating usage is used for the Hotel pump station and for the tubing hill.

Issue

Audit is unaware of how the other unmetered sales customer bills are calculated, specifically relating to the Carpenter Shop and the Mount Washington Place HOA.

Recommendation

The Company is encouraged to place meters at these buildings.

Company Response

The Company will make every effort to minimize unmetered sales relating to hydrants.

Audit Comment

Audit concurs with the Company, and reiterates the recommendation that these buildings be metered.

Audit Issue #25
1" Meters

Background

Audit reviewed the tariff in place for the test year. Specific meter sizes and charges were outlined. Audit was told that the contractor installed 1" meters at newer homes and businesses, without the knowledge of the Company.

Issue

1" meters, assessed a quarterly fee of $38.50, were noted during the billing test. This meter size and charge are not authorized by the tariff in place. Audit noted thirteen customers, both commercial and residential, who were assessed the fee for the 1" meter.

Recommendation

The Company is in violation of the tariff, and should refund customers the variance between 5/8" meter charge of $35 and the incorrect size and charge of $38.50.

Company Response

The Company filed a revised tariff on March 20, 2012. The PUC Staff reviewed the filing and "confirms compliance with PUC 1603 filing requirements." See PUC Staff letter dated April 20, 2012 addressed to the Company's controller. Also, see Company response to Staff data requests 1-2 and 1-3 in DW 12-306.

Audit Comment

The test year under review was 2011, thus the 2012 submission of a revised tariff did not apply to the revenue and test year.

Audit Issue #26
Billing Forms

Background

The NH Code of Administrative Rules Puc, Section 1203.06 identifies specific items which must be included on utility bills to customers.

Issue

Audit conducted an invoice test and noted that the invoices did not include the meter size which could then be verified to the tariff charge by the customer.

Recommendation

The Company must ensure that the customer invoices properly reflect all relevant data as required by Puc Section 1203.06.

Company Response

The Company agrees.

Audit Comment

Audit concurs with the Company response and suggests that the Company provide a sample of the revised customer invoice as soon as possible, but not later than three months from the date of this final audit report. The sample will be reviewed for compliance with the NH Code of Administrative Rules requirements.

Audit Issue #27
Expense Accounts Overstated

Background

Audit reviewed all expense accounts for the test year.

Issue

Account #665, Miscellaneous Expenses, is overstated by $765 relating to December 2010 backflow testing.

Account #926, Employee Pensions/Benefits Other, is overstated by $200 relating to a two water renewal licenses for the two year period January 2012 through December 2013.

Account #928, Regulatory Commission Expense, is overstated by $317 due to the cash method rather than the accrual method of accounting for the quarterly assessments.

Recommendation

The filing should be adjusted by each of the above.

Company Response

The miscellaneous expense pertaining to December 2010 should be excluded from the test year.

To the extent that Staff reduces employee pension / benefits test year expenses for the $200 relating to license renewal for 2012 and 2103, such amount should be set up in prepayments. Also, test year expenses should include one half of the 2 year expense.

Regulatory Commission Expenses reflected in the test year amount to $640. The $640 represents 4 payments to the State for the PUC assessment according to the prescribe payment schedule. The Company believes that the level of expense is appropriate.

Audit Comment

The Company is reminded that accrual accounting rather than cash accounting is required, per the USoA.

Audit Issue #28
$30,302 Adjustment to Account #923

Background

Account #923, Outside Services, included payments to, among others, BW Club for management services.

Issue

Audit was informed that BW Club, LLC went out of business in July 2011. A credit entry for $30,302 was posted to the expense account #610.07k, Admin/Gen Expense-Operations-Other, to eliminate the accumulated expenses incurred but not paid.

The entry should have posted to Other Income and Deductions, account #610.04b.

Recommendation

Audit understands that the net income impact does not change with the issue identified.

Company Response

The Company disagrees. The expense was charged to outside service. The nonpayment of such expenses should be credited to outside services.

Audit Comment

The services for which the charge was incurred were provided. The discount for those services should not be a simple deduction to the expense account, rather, should be accounted for as offsetting income.

Audit Issue #29
MWH Construction Clearing Entry

Background

A credit entry to account #923, Outside Services, reduced the amount relating to the MWH Construction by $16,932.

Issue

The description was "cancel second quarter due to deed in lieu" of foreclosure of the bankrupt MWH Construction.

Audit was able to verify that of the expenses incurred during the test year, $20,209, $21,673 was paid and the clearance of the checks verified to the bank statements of Rosebrook Water.

The amount owed to MWH, exclusive of the $16,932 was a net debit owed back to Rosebrook in the amount of 1,464.

The MWH Construction information provided to Audit showed a net amount owed from Rosebrook Water and Bretton Woods Television. Because the television enterprise was out of business, it appears that the entire write off was allocated to Rosebrook Water.

Recommendation

Audit recommends that the Company maintain its books and records as separate and distinct from all of the other entities with whom it has done and will do business. The deed in lieu calculation on the books of MWH Construction had nothing to do with how the figure posted to Rosebrook Water should have been determined. Financial records of Rosebrook Water must comply with GAAP, and the co-mingling of adjustments among the various entities is incorrect.

Company Response

The Company does maintain its books and records as separate and distinct from all other entities. The Company keeps its books records in compliance with GAAP.

Audit Comment

The Company failed to address the deed in lieu calculation of the MWH Construction, which then impacted the Rosebrook Water Company.

Audit Issue #30
Expense Accounts Overstated and Unsupported

Background

Accounts #924, Insurance and #930, Miscellaneous General Expenses were reviewed for accuracy.

Issue

Account #924 Insurance, reflected a total expense for the test year of 5,256. Audit requested clarification of the expense, as the premiums reviewed by Audit support a total expense for the year of $2,726. Allocated items in the Prepaid Insurance account in amounts of $2,770 for Acadia and $3,569 were tied to a spreadsheet, but the basis of the sheet could not be verified to the premium notices on file.

Account #930 reflects a total of $439 but the annual report and filing both show a total of $686. Clarification of the variance was requested but not provided.

Recommendation

The filing should be adjusted for account #924 down to the audited expense of $2,726 and the total for account #930 should be reduced to $439.

Company Response

Insurance ...

The sum of Account 930 Misc. General Expense of $439 and Account 408.13 Other Taxes and Licenses of $246 total $685. The $246 represents costs associated with truck registration.

Audit Comment

PUC Audit issued a draft audit report to the Company on April 3, 2013. As of the response date, May 10, 2013, the question relating to insurance was not addressed. The Company responded as above, and also phoned the Chief Auditor to acknowledge that the question regarding insurance is being researched.

Audit concurs with the $246 related to truck registration expense.

Audit Issue #31
Rent Expense

Background

Account #931, General Rents, reflect zero activity during the test year.

Issue

In August 2011, Rosebrook Water signed a lease agreement for office space (in which the Company presently operates) with 9 Remick Lane, LLC.

The payment terms were for a total of $3,900 payable in six monthly installments of $650.

Audit noted $3,900 flowed through the balance sheet accounts for cash, due to/due from, and accounts payable, ultimately never hitting the income statement of Rosebrook Water. The full amount was expensed on the income statement of BW Services, LLC.

Recommendation

The Company has failed to properly reflect a legally binding rental agreement expense on the books of Rosebrook Water, and instead has posted them to an affiliate with whom the lessee had no relationship.

The filing should be increased by four monthly installment payments of $650 for a total of $2,600 for the test year.

Company Response

In 2011, the Company paid $3,900 for 6 month rent. The amount was reimbursed by BW Services because rent was included in the management fee paid to BW Services. Therefore, there is no rent expense included in 2011. In 2012, the Company began paying rent monthly at $650 per month and such amount was reimbursed by thru October 14, 2012. Subsequent to October 14, 2012, the Company is paying rent monthly at $650 per month, but there is no longer reimbursement by or any other entity. Therefore, in 2012, there is $1,950 reflected in rent expense. The filing should be increased by twelve monthly payments of $650 for a total of $7,800 for the test year.

Audit Comment

Audit concurs with the first sentence of the Company response. Rosebrook did in fact pay $3,900 for six months of rent (four in the test year, two outside of the test year). The balance sheet flow-through booking was in error. Audit again encourages the Company to revise the filing to properly reflect the four monthly payments which sum to $2,600.

Audit Issue #32
Municipal Property Tax

Background

The Company pays municipal property to the towns of Bethlehem and Carroll.

Issue

Audit reviewed all 2010 and 2011 property tax invoices from the towns and calculated the amount to expense should have been $5,357. The Company posted entries on a cash basis and thus overstated expense account #408.11 by $690.

The prepaid property tax account was impacted as well and the figure of $1,518 was calculated by Audit to be understated by $487.

Recommendation

Municipal Property Tax expense account #408.11 should be reflected in the filing as $5,357 rather than the reported figure of $6,047.

The Prepaid account #161c should be adjusted to $2,006 up from the reported figure of $1,518.

Company Response

The Company calculated prepaid municipal property taxes as follows:

Carroll	$4,771.06 / 12 x 3 =	$1,192.77
Bethlehem	$1,304.25 / 12 x 3 =	$ 326.06
Total		$1,518.83

A review of the 2010 and 2011 property tax invoices indicated that 2011 property tax expenses should be as follows:

Carroll	$3,434.12 / 12 x 3 =	$ 858.53
Carroll	$4,771.06 / 12 x 9 =	$3,578.29
Carroll Total		$4,436.82
Bethlehem	$1,304.25 / 12 x 3 =	$ 326.06
Bethlehem	$1,609.73 / 12 x 9 =	$1,207.30
Bethlehem Total		$1,533.36
2011 Total Tax		$5,970.18

Audit Comment

The Company is reminded that the State of NH real estate property tax year runs April through March. As a result, the following, as noted within the text of this report, is how the property tax calculations should be reflected. Using your format from above, the totals should be:

The calculated prepaid municipal property taxes as follows:

Carroll 2nd half 2011	$3,054 / 6 x 3 =	$1,527
Bethlehem 2nd half 2011	$958 / 6x 3 =	$ 479
Total		$2,006

The expensed property taxes for the test year should be:

Carroll 2nd issue 2010	$1,337 /6 x 3 =	$ 669
Carroll full first issue 2011	$1,717 =	$1,717
Carroll 2nd issue 2011	$ 3,054 /6 *3 =	$1,527
Carroll Total		$3,913
Bethlehem 2nd issue 2010	$627/ 6 x 3 =	$ 314
Bethlehem full first issue 2011	$652	$ 652
Bethlehem 2nd issue 2011	$957 /6 *3 =	$ 479
Bethlehem Total		$1,444
2011 Total Tax		$5,357

Audit Issue #33
State Utility Property Tax

Background

The Company files and pays the State Utility Property tax as required by statute.

Issue

An overpayment of $201 was not taken into account when the 2011 filing was completed. Thus, account #408.12 is overstated by $201.

Recommendation

The filing should be adjusted down from the reported $2,873 by $201 as a result of the overpayment.

In addition, the Company is encouraged to contact the Department of Revenue to determine if an amended return should be completed, or to determine the status of the property tax account.

Company Response

The Company agrees.

Audit Comment

Audit concurs.

Audit Issue #34
Federal Income Tax

Background

Audit reviewed the Company filed form 1120 for the years 2009, 2010, and 2011.

Issue

A review of expense account #409.1 indicated a year-end balance credit balance of $(58). Audit reviewed the return and determined that the proper tax expense for the test year should be $-0-.

A prepaid tax calculation of $442 should have been posted to account #161d.

The credit and prepayment issue arose when the estimated payments noted on the forms completed by Rosebrook and presented to the IRS did not agree with the amount actually paid to the IRS, resulting in a credit of $58. The estimated payments related to 2010, and the credit was received in June 2011.

Recommendation

More accurate accounting for the tax expenses is encouraged. The filing should be adjusted by the Audit calculations identified above.

Company Response

The Company agrees that the "proper tax expense for the test year should be $-0-." The prepaid tax calculation of $442 is included in account 161d. See Company response to Audit Issue #35.

Audit Comment

Audit agrees.

Audit Issue #35
Prepaid Federal and State Business Taxes

Background

Account #161d reflects $1,487 at year end. The Deferred Income Tax account #190 was not used during the test year.

Issue

As of December 31, 2011 the prepaid FIT & SBT account # 161d is currently overstated by $510, calculated by Audit to be the overpayment of the 2010 credit on the State Business Enterprise Tax return.

It does not appear that the 2010 net operating loss of $20,176 with a tax benefit of $1,715 was reflected on the general ledger as a deferred income tax asset (account #190) until its use on the 2011 return.

Recommendation

The filing prepaid expense account #161d, should be adjusted by the $510 credit.

The Company and its external Accountant are again reminded that the books and records used should be those noted on the general ledger (refer to Audit Issue #5). If the Deferred Tax account is contemplated in the future, the actual records of the Company must reflect that.

Company Response

At 12/31/11 Prepaid FIT & SBT (account 161d) amount to $1,929. The amount consists of the following:

Prepaid federal income taxes	$ 442
Prepaid state business taxes	1,487
Total prepaid federal income and state business taxes	$1,929

The Company agrees that the prepaid FIT & SBT is overstated by $510 due to 2011 state business tax expense, resulting in a prepaid state business tax of $977. Also, as a result of prepaid state business taxes being overstated, state business tax expense is understated by a like amount. Therefore, prepaid state business taxes should be reduced by $510 and state business tax expense should be increased by $510.

Audit Comment

Audit agrees.