STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: April 4, 2011
AT (OFFICE): NHPUC

FROM: Stuart Hodgdon, Chief Auditor
Karen Moran, Examiner
James Schuler, Examiner

ORIGINAL
N.H.P.U.C. Case No. DW 10-217
Exhibit No. # 3
Witness Panel
DO NOT REMOVE FROM FILE

SUBJECT: Tioga River Water Company, Inc.
DW 10-217
FINAL AUDIT REPORT

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

Introduction

Tioga River Water Company, Inc., (Company) is a regulated public utility that provides water service to 22 customers in Belmont through its Tioga division (Tioga) and to 89 end users through its Gilford Village Water District (GVWD). On August 16, 2010, the Company filed a notice of intent to increase its rates. On October 15, 2010, the Company filed its rate schedules as well as materials supporting its proposed permanent rate increase.

The PUC Audit Staff has reviewed the books and records of the Company, for the test year ended October 31, 2009, and appreciates the direct and timely assistance provided to us by Norman Harris, III, Mary Sorrell, and Tricia Eisner.

Affiliate Agreements

The Company is owned by the Gilford Well Company. Services provided by Gilford Well are billed to the respective water division as such service is performed. Refer to the Plant section of this report and the Operations and Maintenance section of this report for further details.

Customer Deposits

There were no Customer Deposits held by the Company during the test year.

Plant in Service

Total Plant in Service at 10/31/2009 was $127,869. This total was verified to the filing Schedule 2 without exception. The filing and annual report both reflect the Tioga and GVWD divisions individually, in compliance with Commission approval of a settlement agreement in docket DW 02-094. The general ledger also reflects each division, using the PUC Chart of Accounts general ledger number, and -01 for the Tioga division, -02 for the GVWD division. The plant accounts on the general ledger agree with the annual report and filing.

Additions and Retirements

The last full audit of the Company was completed by Audit as of the year ended October 31, 2005. As a result, Audit reviewed the additions and retirements which have taken place from 2006 through 2009. The following grid was compiled using the schedule F8 from each of the annual reports for the referenced years:

	Tioga division	GVWD division
2006 additions	$ 945	$-0-
2006 retirements	($1,072)	$-0-
2007 additions	$3,536	$43,532
2007 retirements	($1,873)	$-0-
2008 additions	$3,091	$ 4,095
2008 retirements	($1,554)	($ 350)
2009 additions	$ -0-	$ 819
2009 retirements	$ -0-	$ -0-
Total additions	$7,572	$48,446
Total retirements	($4,499)	($ 350)
Net change	$3,073	$48,096

2006 Additions

$500 for a Myers sump pump S33VI, 1/3 hp was added February 15, 2006 to account 311, Pumping Equipment, for the Tioga division. $445 on January 24, 2006 was added to account 334, Meters. Documentation was provided for each.

2006 Retirements

The Myers sump pump added in 2006 replaced an S25VI ½ hp Myers sump pump which had been added in 2004. The retired amount of $548 wrote down the original cost basis of the 2004 sump pump, in compliance with the PUC chart of accounts. The credit for $548 posted to account 311. A meter retirement noted in account 334 in the amount of $524 wrote down the book cost of two meters. The retirement was posted on December 7, 2005 (in the 2006 fiscal year.) There were no additions or retirements noted in the GVWD division for 2006.

2007 Additions

The Tioga division added a Gould 1.5hp submersible pump to account 311 on October 3, 2007 in the amount of $3,536.

The GVWD division reflected several additions in 2007. Specifically:

Account 304-Structures-electrical dated 10/23/2007	$ 4,318	
Account 307-Wells-553'deep, CIAC	*$24,864*	*$10,359 of which was CIAC*
Account 309-Main and conduit from well to pump house	$ 6,550	
Account 311-Gould 3hp submersible pump, CIAC	*$ 7,800*	*$3,900 of which was CIAC*
	$43,532	

Documentation could not be provided for any of the plant added to the GVWD in 2007. **Audit Issue #1**

2007 Retirements

There was a Gould 1.5 hp submersible pump retired out of account 311 in the Tioga division in the amount of $1,873. That asset had been added in 2002. The retirement figure agreed with the original cost basis.

The additions to the GVWD in 2007 were new assets which did not replace any existing assets, therefore there were no corresponding retirements.

2008 Additions

In the Tioga division, account 304, two tanks were added in 2008, one X-Trol 302, 88 gallon tank $1,801 and one X-Trol 302, 44 gallon tank $1,290

The GVWD division reflected two additions in account 311 during fiscal 2008. Both were related to pumps and motors, 3hp, 3 phase, 200V in well #2. The addition amounts were listed as $4,095 and $819. Both assets are listed as being in service on October 10, 2008. However, the $819 was not listed as an addition in 2008 annual report, rather, was in the 2009 report. The depreciation rates for these assets were listed at 10% and 15% respectively. A notation on the 15% indicated that for the test year, 5% which should have been recorded in 2008, the year of acquisition, was booked in addition to the standard 10% appropriately booked. The notation also indicates that in 2010 and beyond, the rate will be 10%.

2008 Retirements

Tioga reflected one retirement in account 304 in the amount of $1,554. However, the retirement was shown on the detailed spreadsheet as an addition, thus causing the subtotal basis for account 304 to be overstated by $3,108. There was no depreciation expense associated in 2009 with the retired asset.

GVWD retired pumping equipment (account 311) in 2008, but incorrectly added rather than deducted the $350 from the total basis. Thus, the depreciation schedule basis of $22,732 is incorrect, and the $22,382 on schedule F8 is also incorrect. The total basis for GVWD account 311 should be $22,032.

2009 Additions

The $819 noted as the only addition in the GVWD was placed in service on 10/10/2008. Refer to the detailed paragraph above regarding the 2008 additions. Tioga had no additions in 2009. There were no retirements for either division noted for the fiscal year ended 10/31/2009.

Construction Work in Progress (CWIP) Account #105

The balance at year end 10/31/2009 in the CWIP account was $22,303 which was reported to be the Tioga pump station, pumps and treatment equipment as well as the GVWD pump station, pumps, treatment equipment, and generator. Audit verified $15,907 to the Tioga CWIP account 105-01, and $6,396 to the GVWD CWIP account 105-02. The items in CWIP represent the assets for which financing approval was granted by Order 24,988 on July 23, 2009. Refer to the Debt section of this report for details. There had been no balance in the CWIP account at year end 10/31/2008. As noted in the Order, 50% of the $266,000 will be forgiven, thus one half of the plant funded by the entire loan will be considered Contribution in Aid of Construction in the amount of $133,000 once the plant is used and useful.

Please refer to forward looking Staff Data Requests set 1 relating to the bidding process for the work detailed in the Order above, as well as the completion status and whether the plant is used and useful as of 2011. Audit reviewed the requests submitted to the NH Department of Environmental Services for payments through the state revolving fund.

Depreciation Expense and Accumulated Depreciation

Audit reviewed the cost basis noted on the PUC annual report schedule F11 and verified the total basis to the plant in service outlined on schedule F8.

Audit Issue #1 in the prior audit report (for the period ending 10/31/2005) identified the lack of work orders, continuing property records, etc., as one of the reasons that the appropriateness of the depreciation expense as well as accumulated depreciation could not be determined. Audit, in the current review, requested the (same or improved) spreadsheet discussed in the comments section of the prior audit issue, and was provided with a Lotus 1-2-3 spreadsheet. Due to the lack of compatibility with the current PUC software, a facsimile copy was provided in a timely manner. The sheet details the assets by account and by division. The depreciation expense was similarly differentiated. However, the following issues were noted:

The lead sheet of the information sent to Audit reflected total plant in service of $127,872. However, the detail behind the lead sheet, which reflected the divisions and individual assets, totaled $129,776, a variance of $1,904. Four plant account totals did not agree, and specific asset retirements were noted as additions rather than retirements in two of the four accounts. Rates were incorrect on the detail sheet as well. **Repeat Audit Issue #2**

TIOGA Division-Depreciation Expense

The depreciation expense for the test year 2009 was noted on the spreadsheet to be $1,425. Audit recalculated the figures noted on the spreadsheet, but found that the basis does not agree with the PUC annual report, schedule F8 for accounts 304, Structures, 311 Pumping Equipment , 331 Mains, and 333 Services. Further, the rate reflected on the sheet, in account 307, Wells should be 3.33%, not 2.5%. **Repeat Audit Issue #2** Therefore:

Tioga basis/rate/expenses identified by the Company

Account	Basis	Rate	Expense
303-Land Improvements	$ 1,005	-0-%	$ -0-
304-Structures/Improvements	$ 7,744	2.5%	$ 155-basis $2,072 more than F8
307-Wells	$ 7,106	2.5%	$ 178- rate should be 3.33% $237
311-Pumping Equipment	$10,784	10%	$ 506-basis $379 less than F8
330-Storage Tank	$ 3,417	2.0%	$ 68-basis does not match GL
331-Mains	$ 9,770	2.0%	$ 196-basis $217 less than F8
333-Services	$ 1,676	2.5%	$ 42-basis $217 more than F8
334-Meters	$ 5,689	4.5%/5%	$ 282 2006 in service $445 @ 5%
Subtotal TIOGA	$47,191		$1,425

Audit reconstruction of the basis/rate/expense for Tioga

Account	Basis	Rate	Expense
303-Land Improvements	$ 1,005	-0-%	$ -0- no change
304-Structures/Improvements	$ 4,636	2.5%	$ 116-basis, dep. exp decrease $39
307-Wells	$ 7,106	3.33%	$ 237- increase of $59
311-Pumping Equipment	$10,784	10%	$ 506-no change in expense
330-Storage Tank	$ 3,417	2.0%	$ 68-basis does not match GL/ F8
331-Mains	$ 9,770	2.0%	$ 196-basis $217 less than F8
333-Services	$ 1,676	2.5%	$ 42-basis $217 more than F8
334-Meters	$ 5,689	4.5%	$ 280
Subtotal TIOGA	$44,083		$1,445

Schedule F8 details a basis for Tioga account 304 of $5,034. However, the Company provided plant and depreciation spreadsheet reflects $7,744. On the sheet is a retirement in 2008 for $1,554 which was added rather than deducted from the total. However, had it been deducted properly, the total would have been $4,636 which does not match schedule F8. The depreciation expense above has been estimated by Audit using the $4,636.

Account 311 basis of $10,784 is $379 less than schedule F8. The difference could not be tied to any asset on the listing. The depreciation expense used by both the Company and Audit was calculated using the spreadsheet basis as opposed to the F8 basis. Because some of the assets within the account are fully depreciated, the annual expense of $506 appears to be accurate.

Account 330, Distribution Reservoir & Standpipes, reflects $4,194 throughout the test year. This figure is $777 higher than the Lotus 1-2-3 spreadsheet. The spreadsheet has only one asset listed for $3,417 put into service 11/1/1981.

Schedule F8 appears to have juxtaposed the assets reflected in account 331 and 333. F8 reflects account 331, Mains as $9,987 which is $217 more than the supporting depreciation schedule, while account 333 on schedule F8 reflects $1,459 which is $217 less than the depreciation schedule. Both the Company and Audit calculated the depreciation expense using the bases noted on the depreciation schedule.

The 22 meters listed in account 334, added in 2000, are being properly depreciated at 4.5%. Two meters were retired in December 2005 and two added in January 2006. Those meters, with a basis of $445, are on the depreciation schedule at a rate of 5%. The variance is an immaterial $2.

Despite the $3,108 variance in the total basis on which the depreciation expenses were calculated, the net overall depreciation expense to year ended 10/31/2009 of $1,445 is an immaterial $20 higher than what was reported.

GVWD Division-Depreciation Expense

The depreciation expense for the test year 2009 was noted on the Company spreadsheet to be $3,595. Audit recalculated the figures on the spreadsheet, but noted that the basis does not agree with the PUC annual report, schedule F8 for account 311 Pumping Equipment.

Further, the rate reflected on the sheet, in account 304, Structures should be 2.50%, not 1.25%; the rate for account 307, Wells shows 1.67% for an asset added in 2007 in the amount of $24,864 but the rate was not updated to 3.33% as it should have been; one asset in account 311 shows a rate of 15%, with a notation that the rate represents ½ year for 2008 and a full year for 2009; account 331 T&D Mains, reflects a rate of 6.7% and should be 2.0%; and one asset in account 334 reflects a rate of 6.7% but that rate should be 4.5%. Refer to the Company summary below, and to the Audit reconstruction below as well. **Repeat Audit Issue #2**

GVWD basis/rate/expenses identified by the Company

Account	**Basis**	**Rate**	**Expense**
304-Structures/Improvements	$ 4,318	1.25%	$ 54-rate should be 2.5%
307-Wells	$26,664	0, 3.33%, 1.67%	$ 494- rates wrong on all assets
309-Supply Mains	$ 7,479	2.0%	$ 150
311-Pumping Equipment	$22,732	5%-10%	$1,869-basis $350 more than F8
330-Dist. Res. Standpipe	$ 1,100	2.5%	$ 28
331-Mains	$11,183	6.7%	$ 749-rate should be 2.0%
333-Services	$ 8,214	2.5%	$ 205
334-Meters	$ 895	6.7%, 4.5%	$ 47 –one asset at 6.7%
Subtotal GVWD	$82,585		$3,595

Audit reconstruction of the basis/rate/expense for GVWD

Account	**Basis**	**Rate**	**Expense**
304-Structures/Improvements	$ 4,318	2.5%	$ 108- an increase of $54
307-Wells	$26,664	3.33%	$ 888- an increase of $394
309-Supply Mains	$ 7,479	2.0%	$ 150-no change
311-Pumping Equipment	$22,032	5%-10%	$1,828-a reduction of $41
330-Dist. Res. Standpipe	$ 1,100	2.5%	$ 28-no change
331-Mains	$11,183	2.0%	$ 224-a reduction of $525
333-Services	$ 8,214	2.5%	$ 205-no change
334-Meters	$ 895	4.5%	$ 40-a reduction of $7
Subtotal GVWD	$81,885		$3,471-a reduction of $124

The subtotal as calculated by Audit reflects a change of $700. This is due to the Company's spreadsheet adding a "retirement of $350, noted for 2008", as opposed to deducting the $350 in account 311. Audit further calculated the basis by the rates in the Small Water

Company Information booklet, thus causing an overall GVWD reduction in the test year depreciation expense of $124.

Accumulated Depreciation

The accumulated depreciation portion of the spreadsheet provided was not differentiated by division nor by account. The portion dedicated to the accumulated depreciation began with a balance of ($38,687), with depreciation expense for the test year of ($5,020) and an ending balance of ($43,707). The general ledger account 108-01, Accumulated Depreciation Tioga was $19,544 at year end, and account 108-02, Accumulated Depreciation GVWD was $24,164 for a total year end balance of $43,708.

Audit attempted to reconstruct the depreciation expenses and thus accumulated depreciation, by year (beginning in 1981), by division, and by account. The effort relied solely on the outdated Lotus 1-2-3 spreadsheet provided. The resulting accumulated depreciation amount was calculated to be ($38,203) a variance of $5,504. **Repeat Audit Issue #2**

Contributions in Aid of Construction (CIAC)

Audit reviewed the filing schedule 2D for Tioga and 2D for GVWD. The Tioga division had no CIAC while the GVWD reflected $26,099 in CIAC with $6,349 accumulated amortization of CIAC. These figures agree with the annual report schedules F-46 and F-46.1 respectively. Proformas relating to the amortization of CIAC (see the filing schedule 5A) reflect the actual amortization expenses noted in the annual report. Audit verified that the figures noted agreed with the general ledger, specifically account 271-02, CIAC, and 272-02, Accumulated Amortization of CIAC.

As with the assets and depreciation rates, the Lotus 1-2-3 schedule included a page of contributed plant and associated amortization rates.

Accumulated Amortization of CIAC

Audit verified that the year end general ledger balance in account 272-02 $6,349 agrees with the annual report and filing. The rates of the amortization are consistent with the depreciation rates for the contributed plant.

Revenue

Total operating revenues of $23,611 consist of metered sales and quarterly fixed charges applied to both divisions of the Company. The total was verified to the filing and to the PUC annual report, schedule F47. The Company agreed (by Settlement Agreement) to maintain separate income statements and plant statistics for the two divisions. The Settlement was approved by Commission Order 24,097 dated December 16, 2002, docket DW 02-094.

Revenue for Tioga Division

Meters are read on a fiscal quarterly basis by the Gilford Well Company. Meter sheets were provided (to Audit) which detailed the customer, previous meter read, current meter read, water used, water charges multiplied by the tariff, plus the fixed quarterly charge, any past due amount, and the total charged. The current total charges per quarter were verified to the general ledger, account #460-01. Because the meters are read and bills issued on the fiscal quarter, there were no accruals posted. The total on the general ledger was $10,490.

The tariff on file for the Tioga division outlines a quarterly fixed charge of $39.93 and consumption charge of $0.0525 per cubic foot. The quarterly fixed charge invoiced to the 22 customers of the Tioga division was recalculated without exception. Schedule S-1 of the annual report indicated 981,000 gallons sold during the test year. Audit converted the gallons sold to cubic feet sold and multiplied the result by the consumption charge per the tariff. Total revenue for this division was calculated to within $91.

Fixed Charge 22 customers	$ 3,514
Consumption Charge	$ 6,885
Total calculated	$10,399
Total reported filing schedule 5	$10,490
Variance	(91)

A divider of 7.48 used to convert from gallons to cubic feet was noted on the sample invoice for the Tioga division. Divider should be 7.481. Audit recalculated, and there was no change to the overall consumption fee.

The "variance" noted above was verified to three customers, one of whom was issued a final bill, one who had paid in advance causing the meter read sheet to be less than the GL, and one estimated invoice due to a meter malfunction. The Company had noted and made reference on the meter read sheets to these three customers. Audit agrees with the filing schedule 5, reported revenue for the test year, as that figure was verified to the meter read sheets and the general ledger.

Revenue for GVWD Division

The tariff on file for the GVWD division outlines a quarterly fixed charge of *$14.87 per unit*, and consumption charge of $0.02133 per cubic foot. A multiplier used to convert the gallons consumed to cubic feet, 0.1337, was shown on the sample bill without exception. The consumption rate of $0.02133 was then applied to the resulting cubic foot used. The quarterly charges invoiced to the customers were noted on quarterly meter read sheets. The meters are read by the town of Gilford on a calendar basis, not the fiscal basis. As a result, the 4th quarter (October, November, December) meter read total is divided by three and booked as accrued revenue to account for the October fiscal year. *Using the quarterly meter read sheets, the revenue was:*

Fixed Charge GVWD (**31** customers with **1** unit)	$ 1,843.88
Fixed Charge (**4** customers with **2** units 2 quarters)	$ 237.92
Fixed Charge (**3** customers with **2** units 2 quarters)	$ 178.44
Fixed Charge (**1** customer with **3** units 2 quarters)	$ 89.22
Fixed Charge (**2** customers with **3** units 2 quarters)	$ 178.44
Fixed Charge Knolls I (**1** customer **22** units)	$ 1,308.56
Fixed Charge Knolls II (**1** customer **24** units)	$ 1,427.52
Subtotal GVWD fixed charges	$ 5,263.98
Consumption Charge $.02133 cf	$ 7,494.17
Total calculated	$12,598.37
Adjusting journal entry on the general ledger	($ 644.19)
Adjusting journal entry on the general ledger	$ 1,006.97
Total reported filing schedule 5	$13,120.93

The total reported GVWD revenue agrees with the annual report schedule F47 and with the filing schedules 5 and 5a. This total was verified to the general ledger as outlined below:

The general ledger 461-02 reflects the following quarterly entries:

1/21/2009 Oct., Nov., Dec. 2008	$ 3,039
4/20/2009 Jan., Feb., Mar. 2009	$ 2,196
7/16/2009 Apr., May, Jun. 2009	$ 4,201
9/30/2009 Jul., Aug., Sep. 2009	$ 3,322
10/31/2009 Journal Entry #2	(644)
10/31/2009 Journal Entry #2	$ 1,007
Total GVWD Revenue per GL	$13,121

Audit requested clarification of Journal entry #2, as the $644 was offset to accounts receivable (where accruals had prior to 2009 been posted), and the $1,007 was offset to accrued revenue account #173, based on the $3,039. The clarification requested of the outside accountant has not been answered. Audit calculated that the adjusting entries, had the year end accruals been done in a consistent manner, *should have been*:

10/31/2009 Journal Entry #2	(1,013) 1/3 of $3,039
10/31/2009 Journal Entry #2	$ 977 1/3 of 12/31/09 $2,996

Audit Issue #3

Internal Controls

Internal Control Questionnaire

An Internal Control Questionnaire was completed by the Company during Audit's on-site visit and no items required additional review.

Cash Reconciliation

The Company provided Audit with a cash reconciliation report for each division's separate bank account. The NHPUC annual report for the test-year shows a balance of $2,813.

The general ledger balance for the Tioga division of $665 agrees that Company's bank reconciliation. The general ledger balance of $2,148 for the GVWD division agrees with that Company's bank reconciliation. Total cash per the bank reconciliations of $2,813 agrees with the general ledger and NHPUC annual report for the test-year.

Accounts Receivable

Audit reviewed the aged receivables listing for both the Tioga division and the GVWD division. Both were verified to the general ledger accounts 141-01, $2,761 and 141-02, $1,806 respectively. The listing indicates that for Tioga, only two customers are past due (in the amount of $143 or 5% of the total outstanding.) For GVWD, there are four customers past due more than the current quarterly invoice, and they represent $301 or 17% of the total receivable outstanding.

Manual sheets are also maintained, by customer, which show all bills issued and all payments received, allowing the Company to have an individual's receivable history at hand if necessary.

Accounts Payable

Audit submitted a request for an explanation for the increase in account 231, Accounts Payable, from $16,288 in fiscal year 2008 to $45,835 in fiscal year 2009, a $29,547 increase. The Company responded by providing the aged list of payables and resending the general ledger account detail. Account 225-02 - A/P GVWD to Tioga total $3,312. Account 231-01 – A/P Tioga totals $20,677 and account 231-02 - A/P GVWD totals $21,846. These test-year balances agree with the Company's accounts payable aging for both divisions and the NHPUC annual report amount of $45,835.

Aging for Tioga;

0-30 Days	31-60 Days	61-90 Days	Over 90 Days	Total Amount Due
$2,486	$0	$0	$18,191	$20,677

Aging for GVWD;

0-30 Days	31-60 Days	61-90 Days	Over 90 Days	Total Amount Due
$2,868	$242	$4385	$14,351	$21,846

Acct. 225-02 - A/P GVWD to Tioga	$3,312
Acct. 231-01 – A/P Tioga	$20,677
Acct. 231-02 - A/P GVWD	$21,846
A/P Total	$45,835

Audit submitted a sample of old invoices that have not been paid and requested an explanation. The Company provided the cash disbursements journal for the sampled invoices which shows the payments being made in 2010.

Debt and Other Liabilities

As of 10/31/09, the NHPUC annual report, schedule F-35, Long-Term Debt, shows an ending balance of $54,908 which agrees with the filing, schedule 4A. Long Term Debt consists of the following:

2002 6% Note payable – Tioga to NH Jr. No maturity date.		$6,391
2002 6% Note payable – GVWD to NH Jr. No maturity date.		15,350
2006 9% Note payable – GVWD to GVWD to Gilford Well. No maturity date.		12,810
2007 9% Note payable – GVWD to NH Jr. No maturity date.		11,928
2008 9% Note payable – GVWD to NH Jr. No maturity date.		8,429
	Total	$54,908

Three loans from 2006, 2007 and 2008 have not been approved by the Commission. The Company states that the terms of the loans have not been determined and they have been unable to pay any principle or interest on the loans. **The Company has requested that the loans be approved as part of this rate filing.**

Accrued Interest

Account 237, Accrued Interest totaled $17,928 on the 2009 NHPUC annual report. This amount agrees with the schedule provided to Audit by the Company which listed the interest for each loan.

Interest Expense

Interest Expense, account 427-01, Tioga totaled $383 on the general ledger. Interest expense, account 427-02, GVWD totaled $3,464 on the general ledger. The total interest expense of $3,847 agreed with the 2009 NHPUC annual report schedule F-2, Statement of Income.

Audit notes however, that the total interest expense on the Company's rate case filing, schedule 4B is reported as $4,290 for year 2009. The Company's filing, schedule 4A shows the loan for year 2008 with an interest rate of 3.75% however, the Company's filing, schedule 4B shows this loan with an interest rate of 9%, therefore increasing the interest expense by $443. The Company responded on Staff Data Request #1-6 that they inadvertently did not accrue enough interest on the 2008 loan during the test year.

Unamortized Debt Expense

St. Cyr & Associates performed a year-end adjusting entry to capitalize debt expense associated with ARRA/SRF financing. The following costs are included as Unamortized Debt Expense:

St Cyr & Associates		$2,000
St Cyr & Associates		515
Westcott, Dyer, Fitzgerald & Nichols, PA		1,744
Foster Daily Democrat		482
	Total	$4,741

For the test-year 10/31/09, the Company allocated 50% of the above financing costs to each division, Tioga was allocated $2,370, account 181-01 and GVWD was allocated $2,371, account 181-02 of the total amount.

Operations and Maintenance Expenses

Audit reviewed the 2009 PUC annual report total of $26,667 for operations and maintenance (O&M) expense of the two divisions and tied the totals to the filing, schedule 5. Tioga O&M totaled $9,462 and GVWD O&M totaled $17,205.

Audit's review of invoices found that there are no indications that approval for payment was made by management, nor which general ledger account should be charged. (Note that many of the invoices reviewed for the test year had not been paid in the test-year).

The following are expenses of importance per PUC Audit.

Account 604-02, Maintenance of Structures– **GVWD**; $2,242

The general ledger shows $2,242 in account 604-02. However, the PUC annual report reflects the costs of $2,242 in account 631, Structures and Improvements. This amount was for a single invoice charged to GVWD. Audit submitted a request to review the invoice(s). Upon Audit's review of the expense and the explanation provided on the NHPUC annual report, this charge for replacing a broken electric pole at the Potter Hill Well/Pump station should be considered an extraordinary expense and booked to a deferred account to be written down over a designated period of time. (See page 15)

Account 633-01, Maintenance of Pumping Equipment- **Tioga**; $1,830

Tioga reinstalled a booster pump for $1,612 during the test-year. Audit submitted a request to ascertain when the original pump was put into service and an explanation as to why the pump should not be capitalized. The Company explained that "*this cost was to rebuild a booster pump that has been in the water system since it was built. This pump has been rebuilt a number of times in the history of the system and is a repair to the system that may only last one year. For that reason we expensed the item rather than capitalizing it over many years*".

Audit observed during the review of invoices that Tioga replaced a meter for $218 in July of 2009 and charged account 633-01, Maintenance of Pumping Equipment. Audit maintains that the cost for replacing a meter should be charged to account 334, Meters and Meter Installations. **Audit Issue #4**

Account 642-01, Water Treatment Expense – **Tioga**; $1,812

Audit's on-site review of the Gilford Well Company, invoice #16571, dated 2/19/2009 revealed a charge to account 642-01, Water Treatment Expense for $270 relating to shut-offs of delinquent accounts. Other charges to the account are $290 per quarter to Gilford Well for water system operating fees. Per written agreement the fee is to be $97 per month for Tioga Water Company.

Account 642-02, Water Treatment Expense – **GVWD**; $4,985

Audit's on-site review of invoices showed charges to account 642-02, Water Treatment Expense from the Gilford Well Company for $242.25 per month for water system operating fees. This amount was tied by Audit to the written agreement. Other charges to this account were miscellaneous water testing fees from NHDES and payments to Gilford Well Company for state testing fees. The Gilford Well Company water system operating services agreement for $242.25 per month states that this price does not include any State testing fees.

Account 673-02, Maintenance of Mains - **GVWD**; $2,186

GVWD charged account 673-02 the sum of $1,534 for the rental of a generator and mechanic labor at the pump station due to a power outage in December, 2008. Audit believes that this should be treated as a non-recurring/extraordinary item with a charge to a deferred account and written down over time. (See page 15)

Other charges of $652 were payments to Gilford Well Company for mechanic and pump helper labor.

Account 903-01, Customer Records & Collections – **Tioga**; $495

The charges are primarily related to Gilford Well Company billings for the reading of the Tioga meters and the collection of Tioga payments.

No charges were made to GVWD, as the Town of Gilford reads those meters.

Account 921, Office Expenses; $2,838

Gilford Well Company billed Tioga with invoice #19117 the sum of $1,207 for office expenses for the period of 11/01/08 – 10/31/09. Total office expenses for the Tioga division were $1,248 for the test-year.

Gilford Well Company billed GVWD with invoice #19118 the sum of $1,590 for office expenses for the period of 11/01/08 – 10/31/09.

Office expenses for both Tioga and GVWD total $2,838.

Account 923, Outside Services; $3,570

The total expense for both divisions was $3,570. This amount was for accounting services from St Cyr & Associates. The amount was allocated 50/50 between Tioga and GVWD.

Account 927, Franchise Requirements; $622

Audit reviewed the year-end adjusting entry to reclassify and allocate the Franchise Fee. Tioga was charged $271 for 22 customers in Belmont, NH and GVWD was charged $351 for 37 customers in Gilford, NH.

Account 928, Regulatory Commission Expense; $91

Audit reviewed the year-end adjusting entry to reclassify and allocate the NHPUC assessment to the Regulatory Commission Expense account. The Company allocated the expense between the divisions using the number of customers in each division. The total assessment was verified to the PUC List of Utility Assessments for fiscal years 2009 and 2010.

Taxes

Prepaid Property Taxes

Prepaid Property Taxes were booked at the end of the year for Tioga with a debit to Prepaid Taxes, account 163-01, for $166 and a credit to account 408.01, Real Estate Taxes for $166. For GVWD, prepaid taxes were booked at the end of the year with a debit to Prepaid Taxes, account 163-02, for $272 and a credit to account 408.02, Real Estate Taxes for $272. The Company explained that these amounts were calculated using the actual tax amount paid for the period 4/1/2009 – 3/31/2010 and taking the five months beyond the Company's fiscal year to which the tax pertains. These amounts agree with the NHPUC annual report for the test-year.

Municipal and Utility Property Tax

Audit reviewed both the 2008 and 2009 Municipal Property Tax notices and returns for the total real estate taxes charged to account 408.01 and 408-02 during the year for Tioga and GVWD respectively. The total real estate tax, for both divisions, amounts to $1,296 which agrees with the filing, schedule #5 and the NHPUC annual report.

Property tax bills for both the Belmont and GVWD reflected the state, municipal and county portion on the municipal bill for 2008 and 2009.

Audit reviewed both the 2008 and 2009 Utility Property Tax notices and returns for the total utility taxes charged to account 428.01 and 428-02 during the year for Tioga and GVWD respectively. The total utility property tax, for both divisions, amounts to $595 which agrees with the filing, schedule #5, and the NHPUC annual report.

Accrued Property and Utility Taxes

Accrued Taxes that were booked at 10/31/2008 were reversed at the end of the year for Tioga with a debit to Accrued Taxes, account 236-01, for $102 and a credit to account 408-01, Real Estate Taxes for $33 and account 428-01 Utility Property Taxes for $69.

For GVWD, accrued taxes were booked at 10/31/2008 and were reversed at the end of the year with a debit to account 236-02, Accrued Taxes for $125 and a credit to account 408-02, Real Estate Taxes for $19 and a credit to account 408-02 Utility Property Taxes for $107.

Non-Recurring/Extraordinary Items

The following expenses are considered by Audit to be non-recurring, and should be amortized over a period of time for rate making purposes:

Description	Account	Amount
Broken Pole Replacement	604.02 – Maint. of Structures, GVWD	$2,242
Power Outage/Generator Rental	673.02 – Maint. of Mains, GVWD	1,534

AUDIT ISSUE #1

Lack of Supporting Documentation for Additions to GVWD in 2007

Background

The GVWD division reflected several additions in 2007, the majority of which were offset to the Contributions in Aid of Construction account. Specifically:

Account 304-Structures-electrical	$ 4,318
Account 307-Wells-553'deep, CIAC	$24,864 of which $10,359 is CIAC
Account 309-Main and conduit from well to pump house	$ 6,550
Account 311-Gould 3hp submersible pump, CIAC	$ 7,800 of which $3,900 is CIAC
	$43,532

Issue

Because the financial records are maintained in a Peachtree accounting system, the recording of a contributed asset could not be located by the office staff through a review of her disbursement journal. Audit requested clarification from the external accountant after Audit informed the office staff that the disbursement journal would not reflect a contributed asset. The external accountant has not responded.

Further, while invoices for each division are maintained in separate manila folders for each year, documentation could not be located for the 2007 GVWD additions.

Audit Recommendation

Documented evidence of all plant in service, whether Contributions in Aid of Construction or not, must be maintained. Refer to the Repeat Audit Issue #2 regarding the ongoing lack of Continuing Property Records.

Company's Response

The external accountant was unaware of the request for documentation of the 2007 GVWD additions to plant. See attached documentation.

Audit's Response

Audit reviewed the Excel information provided by the external accountant, and requested actual invoices to support the figures provided. Such documentation has not been provided. Audit cannot determine the appropriateness of the information, and specifically cannot support the inclusion of $7,111 in reported "past due interest". This amount should have been expensed below the line, if incurred.

[Company Attachment to Audit Issue #1]

Tioga River Water Company
Draft Audit Report
Audit Issue #1
Lack of Supporting Documentation for Additions to GVWD in 2007

304.02	**Structures & Improvements**			
3/28/2006	6624	Gilford Well Company	Pulled wire from well to building	$1,228.16
4/26/2006	6863	Gilford Well Company	Tie system into tank and finish electrical	1,530.42
10/31/2007	12541	Gilford Well Company	Wired-up controls fir new well	457.03
Sub-total				$3,215.61
10/31/2007		Gilford Well Company	Capitalize interest	1,099.41
Total				$4,315.02
307.02	**Wells**			
9/14/2005		Gilford Well Company	Drill Well	$7,718.50
12/5/2006	6147	Gilford Well Company	Sustained pumping test w/water quality testing	6,500.00
12/5/2006	6149	Gilford Well Company	Well preliminary and final reporting estimate	6,500.00
Sub-total				$20,718.50
10/31/2007		Gilford Well Company	Capitalize interest	4,144.21
Total				$24,862.71
309.02	**Supply Mains**			
12/5/2006	6151	Gilford Well Company	Water main and conduit from well to pump station	$4,686.68
10/31/2007		Gilford Well Company	Capitalize interest	1,867.69
Total				$6,554.37
311.02	**Pumping Equipment**			
12/5/2006	6145	Gilford Well Company	Installation of Well Pump	$7,800.00
Total				$7,800.00
Total				$43,532.10

SPSt. Cyr
3/27/2011

Tioga River Water Company
Draft Audit Report
Audit Issue #1
Lack of Supporting Documentation for Additions to GVWD in 2007
Capitalized Interest

In fiscal year 2007 GWVD paid Gillford Well $7,111.31 for interest owed on past due amounts. The $7,111.31 was allocated to the new well and related work as follows:

304	Structures	$2,759.00	15.46%	$1,099.41
307	Well Supply	10,400.00	58.28%	4,144.21
309	Mains	4,687.00	26.26%	1,867.69
Total		$17,846.00		$7,111.31

SPSt. Cyr
3/27/2011

REPEAT AUDIT ISSUE #2
Lack of Continuing Property Records and Work Order System
Lack of Compliance with Commission Order

Background

The PUC Chart of Accounts requires all water companies to maintain a work order system and a continuing property record system.

Issue

Tioga Water Company does not have a continuing property record system. As a result, the supporting detail for the assets of the company are not reliable; an ongoing accounting by asset of the original and remaining book value does not exist; the location of the assets is not recorded; etc.

Audit Recommendation

The Company has failed to comply with the PUC Chart of Accounts (Uniform System of Accounts) and rules requiring an accurate accounting of the assets on the financial books, despite at least four Commission instructions to do so. The Lotus 1-2-3 spreadsheet provided is inadequate regarding the location, the accumulated depreciation, the accurate depreciation rate to apply, among other issues.

Order 21,795, issued on August 22, 1995 required the Company to "maintain records in accordance with the Commission's chart of accounts..."

Order 24,097, issued on December 16, 2002 required "the Company to perform a detailed inventory of plant assets...establish and maintain a system of Continuing Property Records and Work Order System in accordance with the Commission's Uniform System of Accounts...not later than June 30, 2003."

Audits completed for years ended 1997 and 2005 found a lack of Continuing Property Records and Work Orders. In each audit report, the Company agreed to comply with the Orders and Commission's Uniform System of Accounts.

The Company is reminded of the initial Commission instruction to comply (see Order 21,795); the subsequent Commission instruction to comply (see Order 24,097); the audit report for year ended 1997; and the audit report for year ended 2005.

Company's Response

By 4/15/11 the Company will conduct a physical inventory of its plant and, by 4/30/11, it will review its blueprints. Once the physical inventory is taken and the blueprints reviewed, the Company will, 5/15/11, attempt to match the physical assets to the depreciation schedule and its books. Further, once the Company attempted to match the assets to the costs, the Company will, by 5/25, develop the CPRs

Audit's Response

Audit requests documentation of each of the steps outlined, as the above dates and goals are achieved. If for some reason the company is unable to meet the deadlines outlined in the Comment section above, a documented reason should be provided.

AUDIT ISSUE #3
GVWD Revenue

Background

In the current year, a year end adjusting journal entry was prepared which accrued for one month's worth of revenue. The town of Gilford reads meters on a quarterly calendar basis, therefore the December meter read sheets received include October, November, and December usage. The external accountant calculated 1/3 of the December 2008 revenue to account for the month of October, 2009.

Issue

Journal entry #2 reflected additional revenue of $1,007 to account for the month of October 2009. In response to a data request from Staff regarding the accrued revenue, it was answered that 1/3 of the December meter read sheet (for October, November, December) in the amount of $3,039 was used to accrue the revenue. The amount referenced relates to the December 2008 meter read sheet total. The December 2009 meter read sheet total of $2,933 should have been used.

The reduction of revenue in the amount of $644 related to a receivable posted which is where the accruals had posted prior to 2009, however does not reflect 1/3 of the $3,039 December 2008 meter read sheet.

Audit Recommendation

Had the December 2008 meter read sheet been used as the basis for the accrual, the reversal would have been ($1,013) and the additional accrued revenue using December 2009 would have been $977, for total GVWD revenue of $12,722. As a result, it appears that the filing revenue of $13,121 and general ledger are overstated by $399.

Company's Response

The Company inadvertently used the December 2008 (instead of the December 2009) meter read sheet to record October 2009 unbilled revenue.

Audit's Response

Audit understands the Company's response as concurring with the issue as outlined.

AUDIT ISSUE #4
Meter Replacement

Background

Audit observed during the review of invoices that Tioga replaced a meter for $218 in July of 2009 and charged account 633-01, Maintenance of Pumping Equipment.

Issue

The cost for replacing a meter should have been capitalized.

Conclusion

The Company should reclassify the cost of the meter from account 633-01 to account 334, Meters and Meter Installations for the test-year. Audit considers the Depreciation Expense for ½ year or $5 (218 x .045/2) immaterial.

Company's Response

The Company agrees with the audit staff conclusion.

Audit's Response

The Audit Staff concurs with the Company's response.