STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: September 22, 2015
AT (OFFICE): NHPUC

FROM: James Schuler, Examiner
Anthony Leone, Examiner

SUBJECT: Abenaki Water Company
DW 15-199
FINAL Audit Report

TO: Mark Naylor, Director, Gas/Water Division
Robyn Descoteau, Utility Analyst III

Introduction

Abenaki Water Company (AWC, Abenaki or Company), is a wholly-owned subsidiary of New England Service Company (NESC) a publicly traded corporation headquartered in Plainville, CT. Abenaki was formed to purchase and run the White Rock Water Company (WRWC) in Bow, NH and Lakeland Management Company (LMW) in Belmont, NH. The Purchase and Sales Agreement was authorized by NH PUC Order #25,261. As Abenaki is a brand new company in the State of NH, this is their first rate case proceeding before the NH PUC.

As a result of the purchase, Abenaki now provides water services to approximately 95 customers in Bow, and water and sewer services to approximately 150 customers in Belmont. On July 23, 2015 AWC filed with the Commission, a petition for permanent rate increases, with an additional request filed on August 17, 2015 for temporary rates. The rate case test year is the period ending December 31, 2014. Audit appreciates the timely cooperation provided throughout the audit process by Deborah Carson, Office Manager and Treasurer at New England Service Company (NESC) and AWC.

Affiliate Agreement

Abenaki indicated there was one Affiliate Agreement on file with the PUC. This Agreement, into which AWC and NESC entered, commenced on February 14, 2014 and can be found in Docket DA 14-064 where it was determined that the Agreement would be adjoined to and reviewed with this rate case proceeding. Among other items, this Affiliate Agreement detailed the duties of NESC and Abenaki and the monthly charges from NESC to Abenaki, as Abenaki does not have any employees and relies on NESC for managerial and operational capabilities.

The Company provided copies of nine monthly of NESC invoices beginning in April, 2014. Each invoice shows the monthly service charges to LMC Water, LMC Wastewater System and WRWC described on the invoice as contracted work. NESC work not covered in the affiliate Agreement's scope of services is described as Non-Contracted work which is charged hourly.

The scope of services to be provided by NESC which falls under contract work includes 24/7 stand-by work, meter reading on a monthly, quarterly or as needed basis, monitoring water quality and systems oversight, and services for shut-offs or turn-ons of water services including reconciliations of customer accounts. The monthly contract charge also includes regulatory and compliance reporting, valve exercising and flushing of mains, resolving on-site water and service issues, inspections and miscellaneous customer service issues.

The charges for the monthly contract work are $3,608 for LMC, $484 for the LMC Wastewater system and $2,075 for WRWC (See expense section for expense allocations). The hourly charges for non-contracted work are $70 per hour for LMC, LMC Wastewater and WRWC during regular working hours. During non-working hours the hourly charge is $105 per hour. The scope of non-contracted work is described as emergency response for unplanned, unpredicted situations impacting quality and jeopardy of service for all systems. The agreement also states that the charges paid to NESC by AWC are to increase 2.5% annually. AWC is charged an additional 15% for materials and supplies not in inventory. **Audit Issue #1**

The invoicing from NESC shows the three contract charges on each monthly invoice and non-contract work charges by the number of hours times the appropriate rate. Audit requested source documentation for the charges for the months of May, October and November.

The May 1, 2014 invoice is for work performed in April. The designation for non-contracted work is shown in the line description and the CWC A/C # column (which stands for Colonial Water Company and applicable to AWC) and account number which comes from a QuickBooks template to designate employee and capital or expense account charges. This assists the person processing intercompany accounts payable for AWC.

The May 1, 2014 invoice shows a total of 23.5 non-contracted hours at the hourly rate of $70. The supporting timesheet for April shows a total for non-contracted work of 24 hours, a difference of ½ hour of $35 which Audit considers immaterial.

The October invoice shows a total of 2.5 hours at the hourly rate of $70 and 2 hours at the non-contracting hourly rate of $105. This agrees with the supporting timesheet for the total of non-contracted work of 4.5 hours.

The November invoice does not show the number of hours worked for non-contracting work which totaled $2,819. Audit could not tie the number of hours for three of the eight line items on the invoice totaling $1,593 to the timesheets for two employees. **Audit Issue #2**

Among the NESC monthly management invoices provided by the Company, a separate April invoice shows administrative expenses and capital labor costs in the amount of $3,006. This was in addition to the April Management Agreement charges. The Company explained that they *"eventually decided to include administration work in the monthly management agreement."* **Audit Issue #3**

Per the Company, *"after the first couple of bills, only capital labor was billed from NESC to AWC in addition to the management agreement bills."* The Company provided a listing of the administration expenses from the March, April and May invoices totaling $4,071. Refer to the <u>Operations and Management</u> section, account #920 for further information.

Plant in Service

The 2014 AWC beginning Plant balance consists of the combined 2013 ending balances from both the LMC and WRWC. Audit was able to tie the two prior Companies' 2013 annual report ending balances to the filing schedule 3, 2013 Plant in Service.

Audit chose to review the activities since the last audit of LMC, test year ended 12/31/2009. The WRWC prior rate increase was approved in docket DW 06-101, but audit work was not requested or conducted at that time.

The table below shows the yearly Annual Report plant balances for both Companies from 2010 to the end of 2013. Audit also confirmed that the appropriate account classifications were used and that plant additions were used and useful.

	Lakeland	2010 End. Balance	2011 End. Balance	2012 End. Balance	2013 End. Balance
303	Land and Land Rights	1,500	1,500	1,500	1,500
304	Structures & Improv.	26,581	26,581	26,581	26,581
307	Wells and Springs	235,478	196,152	196,152	196,152
311	Pumping Equipment	60,672	98,395	100,274	100,274
320	Water Treatment Equip.	22,164	22,164	22,164	22,164
330	Dist. Res/Standpipes	88,324	106,343	106,343	106,343
331	T & D Mains	41,239	41,239	41,239	41,239
333	Services	15,000	15,000	15,000	15,000
334	Meters & Meter Install.	19,964	19,964	19,964	19,964
354	Sewer Structures	0	3,855	3,855	3,855
361	Collec. Sewer/Gravity	100,000	100,000	100,000	100,000
		610,922	631,193	633,072	633,072

	White Rock	2010 End. Balance	2011 End. Balance	2012 End. Balance	2013 End. Balance
303	Land and Land Rights	2,566	2,566	2,566	2,566
304	Structures & Improv.	55,058	55,058	55,058	55,058
307	Wells and Springs	33,529	33,529	33,529	33,529
311	Pumping Equipment	60,824	60,824	53,212	53,010
320	Water Treatment Equip.	143,900	143,900	143,900	143,900
330	Dist. Res/Standpipes	21,416	21,416	21,416	21,416
331	T & D Mains	44,403	44,403	44,403	44,403
333	Services	4,800	4,800	5,910	15,061
334	Meters & Meter Install.	23,708	23,040	21,572	21,572
335	Hydrants	1,200	1,200	1,200	1,200
348	Other Tangible Plant	11,727	11,727	11,727	11,727
		403,131	402,463	394,493	403,442

	Abenaki	2014 Beg Balance	Additions	2014 End. Balance
301	Organization	0	102,233	102,233
303	Land and Land Rights	4,066		4,066
304	Structures & Improv.	81,639		81,639
307	Wells and Springs	229,681		229,681
310	Power Gen. Equip.	0	13,700	13,700
311	Pumping Equipment	153,284	823	154,107
320	Water Treatment Equip.	166,063		166,063
330	Dist. Res/Standpipes	127,759		127,759
331	T & D Mains	85,642		85,642
333	Services	30,061	4,319	34,380
334	Meters & Meter Install.	41,537	40,081	81,618
335	Hydrants	1,200		1,200
346	Communication Equip.	0	815	815
347	Computer Equipment	0	8,538	8,538
348	Other Tangible Plant	11,727	146	11,873
354	Sewer Structures	3,855		3,855
361	Collec. Sewer/Gravity	100,000		100,000
371	Sewer Pumping Equip.	0	7,204	7,204
	Combined Plant in Srvc	1,036,514	177,859	1,214,373
	CWIP			73
	Total Plant in Service	1,036,514		1,214,446

The Consolidated Plant balance shown on the filing schedule 2, page 1 of 2 totals \$1,112,213, and was verified to the LMC and WRWC general ledger trial balances. The 361 Collection Sewer/Gravity account was properly reflected on the annual report, but was traced to account 331-01-00, T&D Mains Sewer on the general ledger. **Audit Issue #10**

Individual Schedules 3	
LMC Water Plant	$ 575,113
LMC Sewer	110,059
WRWC	425,965
Total of Filing Schedules 3	$1,111,137
Plant Balance Filing Consolidated Schedule 2	$1,112,213
Organization #301 Year-End Adjustment	102,233
Consolidated Plant Balance	$1,214,446

The individual filing schedules 3 shows the December 2014 Plant in Service balances for LMC Water, LMC Sewer and WRWC totaling $1,111,137. The consolidated filing Schedule 2 amount of $1,112,213 includes CWIP of $73. The variance on individual schedules 3 vs. the consolidated schedule 2 is ($1,076), $73 of which is CWIP.

The Company states that the individual LMC Sewer schedule 3 plant amount of $110,059 should be $111,059, a $1,000 discrepancy. **Audit Issue #4** The total of the filing 3 schedules should be $1,112,137 which would tie to the filing schedule 2 amount, less the $73 CWIP, of $1,112,140 with a $3 immaterial variance.

The Organization total of $102,233 was verified to the #301 general ledger account, but the Company reflected the amount in the annual report and filing as part of the Deferred Debit total. Refer to the sections of this report related to Organization and Deferred Debits. Refer also to Audit Issue #10.

CONTINUING PROPERTY RECORDS (CPR)

Audit requested the CPR from AWC for the test-year 2014 and from LMC and WRWC for the prior years 2010 through 2013.

For AWC, the Company provided a Capital Expenditures Report showing projects totaling $75,625. This amount agrees with the 2014 annual report and the filing schedule 3B showing the cost of plant placed in service. The Company provided a spreadsheet titled AWC, Plant Additions 1/1/14 through 12/31/14 which showed the account number, subcontract and/or materials costs, total cost and the date placed in service. The location of the assets was shown only as LMC or WRWC and the assets were listed as a total by the account number. No individual assets were listed. **Audit Issue #5** Also provided were summary sheets for meters and the generator projects which included the vendor, invoice number and quantity of meters.

The CPR that were provided for LMC and WRWC from 2010 through the carry forward date of December 31, 2013 are spreadsheets showing the accumulated depreciation, depreciation expense from 2010 through 2014. The assets are listed separately by account; however the plant beginning balances, additions and ending balances are not shown on the report. The lack of CPR was identified in the prior LMC audit report in docket DW10-306. The depreciation totals did tie to the annual reports for the prior years. **Audit Issue #5**

Bidding

Audit requested general information on the bidding process and bids for projects greater than $5,000 for the test-year 2014. The Company stated that *"for 2014, the only item AWC put out to bid was the generator. Generally for any item or project of significant expense, AWC will attempt to get quotes from 3 vendors or for a project do an RFP and try to get at least 3 responses. Alex and Don review and make the final decision and give me a PO"*. The Company provided 3 quotes for the installation of the generator and the resulting purchase order went to the lowest bidder.

Lakeland Management Prior Years' Additions

Audit reviewed the PUC annual reports and noted the following additions, according to the F8:

2010, Account #330 – Distribution Reservoirs and Standpipes $72,924
2011, Account #330 – Distribution Reservoirs and Standpipes $18,019
2012, Account #311 – Pumping Equipment $9,780
2013, No Additions

See the discussion for the Continuing Property Records and **Audit Issue #5**

White Rock Water Prior Years' Additions

Audit reviewed the PUC annual reports and noted the following additions, according to the F8:

2010, Account #311 – Pumping Equipment $9,178
2011 - No Additions
2012, Account #311 – Pumping equipment $3,695
2013, Account #333 – Services $9,151

See the discussion for the Continuing Property Records and **Audit Issue #5**

Abenaki Water 2014 Additions

Power Generation Equipment, account #310 was charged with a total of $13,700 for the purchase and installation of a generator for the WRWC station in the test-year 2014. AWC installed a 20KW stand-by generator, electrical switching, concrete slab and a corresponding 120 gallon propane tank. Below is the summary of costs:

Vendor/Subcontractor	Description	Date Paid	Amount
Vendor	Generator Order	7/15/14	$3,000
Vendor	Generator Delivery	8/15/14	6,000
Vendor	Install Transfer Switch	9/24/14	1,700
Vendor	Install Propane Tank	9/24/14	1,800
NESC	DV Labor	4/17/14	106
NESC	DV Labor	5/16/14	110
NESC	DV Labor	7/28/14	326
NESC	AC Labor	6/26/14	105
NESC	DV Labor	8/25/14	269
NESC	DV Labor	9/24/14	434
Vendor	Rebate	12/15/14	150
Total Generator			$13,700

The Company filed the E-22, Report of Proposed Expenditures to Fixed Capital, for the third quarter in October, 2014. The project cost came in under the estimated cost of $13,850. The filing included an AWC Capital Expenditures Report as of December, 2014 and shows the project has been completed with the final costs paid in September, 2014. Audit was provided with three company's bids for the project with the Generator Connection chosen for the work. The vendor's proposal and the purchase order from AWC were reviewed along with the invoices for all the charges and the testing of NESC labor charges discussed in the affiliate agreement section. Audit found no exceptions.

The Company took advantage of a $150 rebate, crediting account #310 and debiting the checking account #131-02 on 12/15/2014. There were no retirements for the account in 2014.

Computer Equipment, account #347 was charged with a total of $8,537 for additions in the test-year 2014. The Company provided the vendor's invoices and the corresponding accounts payable approval payment form. All the vendor's invoices were split 60% LMC and 40% WRWC based on the number of customers.

The charges were described as setting up the computer billing, general ledger, AP systems and website for the Company and the Capital Expenditures Report designates the project as complete. Audit tied the general ledger entries for April from NESC and charged to both companies in the amount of $1,041. These charges were traced to the NESC invoices for April and were coded 14-06 which designates labor charges for account 347 – Computer Equipment. The audited trial balance shows account #347-06 totaling $8,116 for the two systems with December year-end entries charged to account #347-03 totaling $421 ($278 + $143). Audit reviewed all the vendor invoices to support the project costs. Shown below is the brake down of costs for the computer additions:

Vendor Charges:	
Allocated to LMC	$3607
Allocated to WRWC	2,404
Service Company Charges:	
Allocated to LMC	1,724
Allocated to WRWC	660
November Reclass	(279)
December Adjusting Entries	421
Total Project Cost	$8,537

Sewer Pumping Equipment, account #371 was charged a total of $7,204 for the purchase of a new pump and the rebuilding of an existing pump in the test-year 2014. The Company provided the NESC invoices for a new, 3HP pump and sewer and drain work along with the related vendor's invoices supporting the subcontracting work. The Company's signed accounts payable and approval for payment form was reviewed showing the costs coded to 14-08, sewer pumping equipment. Audit submitted a request for two invoices from NESC describing work done by Blake Equipment for $4,055 and a $595 charge from Rowell's Sewer and Drain, dated 3/28/2014. These invoices were coded correctly, however a charge of $49 was coded to 14-06, computer equipment which should have gone to 14-08. The Company states that the timesheet was coded incorrectly and Audit considers the error immaterial. Also, two general ledger entries for account #371-14-18-00 in April appeared for the same amount. The Company provided copies of the actual invoices that appeared double-counted and explained that NESC non-contract work performed in April and an invoice from Rowell's Sewer and Drain Company, by coincidence, happened to be the identical dollar amounts.

Meter and Meter Installations - 2010 Through 2014

The total cost of meters taken from the annual reports from 2010 through 2013 for LMC and WRWC was $41,537 and charged to account #334 – Meters and Meter Installations. The $41,537 AWC beginning balance consists of the 2013 ending balances carried forward from LMC of $19,964 and WRWC of $21,572. Total meters installed in the 2014 test-year for AWC was $40,081, resulting in a 2014 year-end total of $81,618.

LMC	Beginning Balance	Additions	Retirements	Transfer	End Balance
2010	$19,915	$174	($125)	$0	$19,964
2011	$19,964	$0	($0)	$0	$19,964
2012	$19,964	$0	($0)	$0	$19,964
2013	$19,964	$0	($0)	$0	$19,964
WRWC	**Beginning Balance**	**Additions**	**Retirements**	**Transfer**	**End Balance**
2010	$25,463	$1,061	($2,816)	$0	$23,708
2011	$23,708	$341	($1,009)	$0	$23,040
2012	$23,040	$983	($2,451)	$0	$21,572
2013	$21,572	$0	($0)	$0	$21,572
AWC	**Beginning Balance**	**Additions**	**Retirements**	**Transfer**	**End Balance**
2014	$41,537	$40,081	($0)	$0	$81,618

The Company does not have a written meter tracking process but stated that *"we would only keep a couple in inventory, but generally they are purchased 6 to 18 at a time and installed almost immediately after purchase. We plan to test them after ten years or if requested by a customer. When they are installed, a meter change out record is completed that records the reading on the old meter as well as the meter type, number and MIU#. It also tells me the same information for the new meter as well as the purchase and installation date, which all gets entered in our billing software. We assign the meter to the related customer account and can query the system in the future when we want to start testing/repair/replacement program."*

The Company also states that they have replaced almost 100% of the residential meters in the system with radio read meters. However, the 2014 annual report and the general ledger show no indication that any meters were retired even though meter additions totaled $40,081. **Audit Issue #6**

Hydrants Installed, Replaced and Retired for 2010 through 2014

Only WRWC carried a balance from 2010 of $1,200 for account #335 – Hydrants. Abenaki acquired this amount for the beginning 2014 plant balance and had no additions for 2014. The annual report agrees with the trial balance and filing schedule 2B, page 1 of 2. The 2014 annual report for Abenaki shows the account fully depreciated. Going forward, Puc 609.10 states that each utility shall file form E-17 describing its inspections of hydrants on an annual basis.

Allowance for Funds Used During Construction (AFUDC)

The Company stated that AFUDC has not been calculated or included for the Company's capital projects in the test-year 2014.

Organization

The Company provided the AWC Organization expense detail that shows the various costs consisting of Legal, Consulting work and NESC labor charges relating to the acquisition of Lakeland Management and White Rock (DW 13-236). The total $102,233 was verified to the general ledger account 301, and is included on the annual report and filing as part of the Deferred Debit total, rather than included in the plant in service amount.

The general ledger shows a May entry dated 5/20/2014 described as Deeds and Fees to Acquire Company in the amount of $9,141. The State of NH Uniform system of Accounts for Water Utilities states that fees to acquire land and land rights and water rights including securing rights of way should be charged to account #303 – Land and rights. Audit submitted a request for an explanation as to why these costs should not be charged to account #303 – Land and Land rights which are not depreciated. The Company concurred with Audit. **Audit Issue #7**

The Amortization of Organization Costs are shown on Schedule 3B of the filing titled "To Reclass Organizational Costs to Plant."

The total cost of $102,223 is to be allocated 25% to WRWC, 75% to LMC. LMC then allocates 74% to the Water system and 24% to the Wastewater system.

The individual filing schedules 3B reflect the proposed allocation and amortization of the Organization costs as follows:

	Organization Cost	Annual Amortization	Accumulated Amortization
Belmont Water 56%	$56,739	$4,726	$2,363
Belmont Sewer 19%	$19,935	$1,661	$ 830
Bow Water 25%	$25,558	$2,129	$1,065

Per Deborah Carson's filing testimony, the Company proposes to amortize the acquisition costs over 12 years. The filing Schedules 3B, page 2 of 3 for the three systems propose the entries to adjust test-year expenses for the amortization amounts. The Company did not yet book the proposed amortization.

Vehicle Costs

The Company states that *"there are no vehicle costs that are charged directly to AWC. They are owned and paid for under NESC, and AWC pays NESC an hourly rate for labor that includes all overheads."* Account #341 – Transportation Equipment had no balance for the 2014 test-year for AWC. The prior year's Property, Plant and Equipment schedules for LMC and WRWC also showed no previous balances to carry forward.

Other Tangible Plant

The Company provided a listing showing the items totaling $11,872 for account #348 – Other Tangible Property.

348	Magnetic Locator	12/31/1993	SL	10	0.00%	$ 620
348	Media Replacement	8/01/2007	SL	2	0.00%	2,595
348	Media Replacement	11/01/2007	SL	2	0.00%	8,401
348	Media Replacement	11/01/2007	SL	2	0.00%	111
348	Pur. alternator for low pressure	12/01/2014	SL	10	10.00%	144
	Total					$11,872

The 2014 beginning balance of $11,727 was carried over from the WRWC. All the prior year items from the WRWC are fully depreciated. The 2014 purchase of the alternator in the amount of $144 is being depreciated over ten years. The 2014 annual report ending balance in the amount of $11,872 agrees with the audited trial balance:

#348-02-00-00 Other Plant and Misc. Equip-WRWC	$11,727
#348-14-03-01 Cap Exp under $1000 LMC	$ (1)
#348-14-03-02 Cap Exp under $1000 WRWC	$ 144
	$11,870

The $2 variance is immaterial.

Retirement of Fixed Capital

Audit reviewed each PUC annual report for retirements since the prior LMC rate case, 2009. The total for each company for each year is summarized below.

Year	LMC	WRWC
2010	$ 125	$20,372
2011	$ -0-	$ 1,009
2012	$7,901	$13,759
2013	$ -0-	$ 362
2014	$ -0-	$ -0-

AWC reported no retirements for the test-year 2014. Audit issued a request to review a sample of prior years' retirements taken from the annual reports.

Per the annual reports, the only significant retirements occurred in 2012 for LMC for account #311 – Pumping Equipment in the amount of $7,901.

For WRWC, account #311 – Pumping Equipment showed retirements totaling $11,308 in 2012.

In 2010, account #311 – shows Pumping Equipment retired of $9,726 and account #320 – Water Treatment Equipment showed retirements totaling $6,290.

The Company provided a spreadsheet titled Book Depreciation for both systems. For LMC, the depreciation schedule shows a booster pump retired in 2012 for $901 and a well pump retirement for $7,000 totaling $7,901. This amount agrees with the annual reports for 2012. For WRWC, the depreciation schedule shows 2012 retirements totaling $11,308 which agrees with the 2012 annual report but the schedule did not include the column for the 2010 retirements, therefore Audit was unable to tie the amounts retired from the annual reports to the book depreciation schedule. **Audit Issue #8**

Audit noted that there were no costs of removal or salvage value associated with the pre-acquisition retirements.

DEPRECIATION

Accumulated Depreciation – Lakeland (Water and Sewer)

	Beginning Balance	Expense	Book Cost of Retirements	Cost of Removal	Salvage	Ending Balance
2010	$206,649	$15,588	($125)	$0	$0	$222,112
2011	$222,112	$18,265	($0)	$0	$0	$240,377
2012	$240,377	$18,363	($7,091)	$0	$0	$250,839
2013	$250,839	$18,364	($0)	$0	$0	$269,203

Accumulated Depreciation – White Rock

	Beginning Balance	Expense	Book Cost of Retirements	Cost of Removal	Salvage	Ending Balance
2010	$190,166	$12,195	($19,993)	$0	$0	$182,368
2011	$182,368	$12,581	($1,009)	$0	$0	$193,940
2012	$193,940	$12,590	($13,758)	$0	$0	$192,772
2013	$192,772	$12,748	($362)	$0	$0	$205,158

Accumulated Depreciation – Abenaki

	Beginning Balance	Expense	Book Cost of Retirements	Cost of Removal	Salvage	Ending Balance
2014	$478,142	$28,435	($0)	$0	$0	$506,577

The ending balances carried forward from LMC and WRWC totaled $474,361 ($269,203 + $205,158) however, the 2014 AWC beginning balance was $478,142, a $3,781 variance. The Company explained that the difference was the amount accrued between December, 2013 and February 14th, 2014. LMC accrued $2,275 and WRWC accrued $1,506 totaling $3,781.

The accumulated depreciation, depreciation expense and retirements netted to $506,577 on the trial balance for the 2014 test-year which agreed with the NHPUC annual report and schedule 2 of the filing. There was no cost of removal or salvage value recorded. Depreciation rates used were confirmed and recalculated with no exceptions noted.

CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

There were no additions to the CIAC account #271-00 for the 2014 test-year. The NHPUC annual report, schedule F-46 - CIAC figure of $186,952 agreed with the test-year audited trial balance and the AWC Consolidated filing Schedule 3 without exception. Total Net CIAC was $131,727.

Acct. #271-01	CIAC LMC	$ 43,052
Acct. #271-02	CIAC WRWC	143,900
Less: Acct. #272-01	Accum Amort of CIAC LMC	(6,405)
Less: Acct. #272-02	Accum Amort of CIAC WRWC	(48,820)
	Total CIAC (Net)	$131,727

Accumulated Amortization of CIAC and Amortization Expense

Account numbers 405-01 and 405-2, Amortization of CIAC totaled $7,021 for the 2014 test-year. This amount, reported on schedule F-46.1 of the annual report, consisted of pumping equipment and Distribution Reservoirs and Standpipes totaling $1,231 for LMC. WRWC totaled $5,790 and consisted of an Absorption System and a Backwash Booster. These amounts were posted as a year-end entry and are reflected on the annual report schedule F-46.4 Amortization of CIAC. The Accumulated Amortization of CIAC on the 2014 annual report totaled $55,225. This amount agrees with the audited trial balance and the filing Schedule 3 with no exceptions noted.

CONSTRUCTION WORK IN PROCESS (CWIP)

Abenaki acquired no CWIP balances from either LMC or WRWC. The test-year beginning balance was therefore $0. The Company posted a year-end entry to record $73 to account #105-00 – CWIP. This amount from the audited trial balance agreed with the 2014 Annual Report and schedule 2 of the filing.

Compliance with Accounting and Reporting Requirements

As stated above, Abenaki does not have any employees therefore Audit reviewed the Office Procedures Manual for NESC as it pertains to the functions performed by NESC for Abenaki Water Company. In addition to general office procedures, the manual also covered the areas of disbursements, authorizations, and internal controls. Audit did not find any exceptions in the policy

Balance Sheet Accounts

Cash Reconciliation

The Company provided copies of both the savings and checking account bank statements, in order to verify the reported year-end cash balances. The cash reported on the PUC Annual Report and the Trial Balance was $10,711 for the checking account and an FSB money market account of $15,097. The checking account statement reconciliation for December 31, 2014 of $10,711 agrees with the general ledger account 131-02 and filing schedule 2. The money market ending account balance of $15,097 also agrees with schedule 2 of the filing and the general ledger account 131-03.

Materials and Supplies

The 2014 AWC Annual Report and filing schedule 2 amounts show account #151 combining materials and supplies in the amount of $8,355 and prepaid chemicals in account #165 of $1,954 to total $10,309 **Audit Issue #10**.

AWC costs for the Materials and Supplies are accumulated in account #151, which totaled $8,355 for the test year 2014, per the annual report and filing. The $8,355 consists of the 2013 ending balances carried forward from LMC of $7,931 and WRWC of $424. The Company is reminded that a physical inventory is required annually, and any adjustment to the balance sheet accounts must be booked at that time.

The filing schedule 3 totals $8,355 which agrees with the general ledger. Prepayments consist of chemicals for both Companies. The audited Trial Balance shows the three accounts separately as follows:

151-00-00 – Plant Materials and Supplies	$8,355
162-05-01 – Prepaid Chemicals, LMC	1,594
162-05-02 – Prepaid Chemicals, WRWC	360
Total	$10,309

Accounts Receivable

The 2014 Annual Report indicated $2,880 was receivable in Account #141 at year end. This amount was reconciled to the GL with adjusting entries provided by Abenaki. Specifically, the balance was comprised of the following amounts:

141-01- Lakeland Customer Receivables	$(28,311)
141-02- White Rock Customer Receivables	$ 29,276
141-03- Other Accounts Receivable	$ 1,915
	$ 2,880

Audit requested clarification regarding the credit balance for the Lakeland portion, and Abenaki stated that "…*not all of the cash codes were set up correctly so some payments were hitting the wrong account. I [Deborah Carson] just netted the two on our financials. It is one bank account and there is no real need to keep it separate*." **Audit Issue #9**

The balance in Account #141-03 of $1,915 was created as a sub account at the recommendation from the Company's outside auditors. The $1,915 is comprised of the total investment return from Co-Bank of $2,553 less the $638 already received. The offsetting account for the investment income was account #419-02 Dividend Income. Other Accounts Receivable should be posted to account #142 and not 141-03, per the chart of accounts. **Audit Issue #10**

Accounts Receivable Aging

After netting Accounts 141-01 and 141-02, $1,064 represents the amount due from customers. Audit compared this to the AR Aging provided by the Company in the following table but it did not match. Specifically, the Accounts Receivable Aging provided indicated a net amount of $1,865 due, an $800 increase over what the Annual Report and GL indicated as due from customers. **Audit Issue #11**

Aging	Amount	% of Total Due
Listed as current in AR Aging	$ (240)	-13%
Less than or equal to 30 days outstanding	$ 204	11%
Less than or equal to 60 days outstanding	$ 1,493	80%
Less than or equal to 90 days outstanding	$ 248	13%
Less than or equal to 120 days outstanding	$ -	0%
More than 120 days outstanding	$ 143	8%
Finance Charges	$ 16	1%
Total Customer Receivable	**$ 1,864**	100%

Allowance for Doubtful Accounts

The Company indicated that it did not write off any amounts in 2014 and that it did not expense any amount as bad debt or allocate any funds to the Allowance for Doubtful Accounts. While this may work for a new Corporation such as Abenaki, the amount past due by at least 120 days comprises 9% of the currently due revenue. If this percentage were to remain throughout the year, it may become necessary to begin to fund the allowance and expense a portion throughout the calendar year.

Miscellaneous Current and Accrued Assets

The 2014 annual report and the Filing, schedule 2B, page 1 of 2, list a balance of $66,523 in Account #174. The GL, after adjusting entries, lists the same balance but in Account #173. All of the amounts in this account represent accrued unbilled 4th quarter revenue for LMC and WRWC as detailed below. **Audit Issue #10**

173-01-00-00	Accrued Unbilled Rev - LMC	$32,605
173-02-00-00	Accrued Unbilled Rev - WRWC	15,184
173-03-00-00	Accrued Unbilled Rev - SEWER	18,734
Total		$66,523

The Company completed the PUC annual report for class C companies, those with revenues under $150,000. Due to the combined overall revenue (refer to the Revenue section of this report) which exceeds $230,000 and the sophistication of the accounting being used, it is recommended that the Company, going forward, use the annual report form for class A/B companies.

Miscellaneous Deferred Debits

Account 186 - Miscellaneous Deferred Debits shows a balance of $124,694 on the AWC Consolidated Balance sheet, filing schedule 2 page 1 of 2, however the general ledger and the audited trial balance shows a zero balance for the #186 accounts. The general ledger entries for account numbers 186-02-01 and 186-02-02 – Regulatory Assets show a credit posting to reclass additional acquisition expense. Audit verified the reported figure to the following accounts:

125-01	CoBank Investment	$ 1,638
181-01-00	Unamortized Debt Expense	18,831
183-14-09	Due Diligence-Dockham Shores	221
183-14-11	Prep. Acquisition-Millbrook	116
183-14-13	Petition for Monthly Billing	102
183-14-14	Deferred Sewer Treatment Increase	1,554
301-00-00	Organizational Costs	102,233
	Total	$124,694

The account numbers and names of the accounts are shown on the trial balance, however the 2014 annual report and schedule 2 of the filing place all the accounts in account #186. **Audit Issue #10**

Account #125-01 – CoBank Investment [Other Investments]

The 2014 Annual Report and Filing do not list an Account 125, instead including these amounts in Account 186 as described above. The GL at year end did not list an account 125. The account was created after year end with adjusting entries. The reported balance on the Annual Report of $1,638 includes the $1,000 originally accounted for as part of the loan origination fee and $638 of equity cash received by the Company as of year-end. For additional information about the reclass entry, see the Account #181 discussion below.

Account #181- Unamortized Debt Discount

The Detailed GL and adjusting entries indicate a balance of $18,831 but the Annual Report and Filing do not contain an Account #181. As discussed below, the Annual Report and consequently the Filing, include the amounts of Account #181 with the amounts in Account #186, Miscellaneous Deferred Debits.

Audit requested and the Company stated that the balance of Account #181 relates to a Long Term Debt loan fee of $3,000 from Co-Bank; as well as $18,634.45 in legal bills from Mclane for their work on the loan, totaling a 2014 starting balance of $21,634. The starting balance less 10 months of amortization expense ($1,803) less the reclass discussed in the next paragraph equals the ending balance of $18,831. The Company has stated that total debt expense (of $21,634.45]) is being amortized monthly at the rate of $180.28 to Account #407-01. This amortization timeframe represents the 10 year life of the loan; however based upon the reclass, the amortization will stop short at 9.5 years.

As stated above, $1,000 of the $3,000 loan origination fee was reclassified as a year-end entry from Account #181 to Account #125-01. Audit requested and the Company stated that " … $1,000 of the loan origination fee is considered an equity investment in CoBank [LTD Lender]. Then, each year you earn patronage (a dividend) equal to 1% of your outstanding loan balance. You get 75% of that dividend in cash, and 25% is reinvested so it increases your equity."

Preliminary Survey and Investigation Charges Account #183

The 2014 Annual Report included this balance in Account 186. This balance was $1,992. This balance corresponds to the GL after adjusting entries and the filing. Charges were labeled as: Due Diligence of Dockham shores- $220, Prep of Acq of Millbrook Water $116, Deferred Sewer Treatment Costs $1,553 and $102 for the Petition for Monthly Billing. Per the Chart of Accounts, this account is reserved for exploring the feasibility of construction projects. All current charges should be placed in Account #186. **Audit Issue #10**

301 Organizational Costs are discussed in Plant in Service section of this report.

Long Term Debt Account# 224

Principal

On January 14, 2014, the Commission issued Order# 25,621, which authorized Abenaki to acquire up to $300,000 in Long Term Debt (LTD) at a proposed rate of 3%. Audit has reviewed the Promissory Note effective 2/14/2014 and verified it is in the amount of $300,000 at a fixed rate of 3.68% for 10 years from the effective date. Abenaki has recorded this LTD in Account# 224-01 and at the end of 2014 Abenaki's GL indicated there was $279,007 of principal remaining.

`The 2014 Annual Report (AR) indicates there was $252,802 remaining. Abenaki stated that the difference of $26,205 is due to Abenaki's auditors recommending moving the current portion (the total of the 2015 payments) of the LTD from Account# 224 to Account# 241-Miscellaneous Current and Accrued Liabilities. The amount of the loan and the overall liabilities are unchanged. **Audit Issue #12**

Payments

The Promissory Note does not state a monthly payment amount but rather the number of monthly payments to be made over the life of the loan. The Abenaki GL indicates that $29,630 was credited to the cash Account (#131-02) for payments on the "Co-Bank Loan". The GL further indicates this amount was comprised of $20,993 of Principal credited to Account# 224-01 and $8,637 of Interest debited to Account# 427-03. Based on the loan information from the Promissory Notes, Audit calculated the loan payments to be $2,992 per month. The information from the Company and the Lender, Co-Bank, however indicates payments of $3,003 per month for a difference of $11 per month. Over the life of the loan, (10 years), the total difference comes out to $1,320. Audit believes neither the amount nor the fact the expense is below the line warrant it significant enough to re-file. Audit further believes this difference may be caused by the description of, and therefore the actual interest calculation found in the Promissory Note on page 2 which reads, " Interest shall be calculated on the actual number of days each loan is outstanding on the basis of a year consisting of 360 days…", and the Term of the Note as found on the cover page submitted to Audit, "Term: 3658 days".

Short Term Debt

According to the Filing, the Annual Report ending December 31, 2014 and the Books and Records of Abenaki, there is no Short Term Debt utilized.

Other Paid in Capital Account 211

For the test year, Schedule F-1 of the 2014 Annual Report submitted by Abenaki indicates a balance of $339,521 at year end. The rate case filing submitted by Abenaki simply contains a copy of the F-1 Balance Sheet from the report; however the GL Detail sent over contains the same balance of $339,521 after adjusting entries. The one adjusting entry in this case was a reclass of $97,894 from Account# 201 Common Stock to Account# 211 Other Paid in Capital. Audit requested and the Company stated that at the recommendation of their external Auditor, they reclassed the amount due to the 100 outstanding shares having no par value. The GL initially sent over to PUC Audit did not contain Account #211 because the entry was made as a beginning balance entry and with no activity in Account #211 during the year it was not captured in the file.

Accounts Payable Account# 231

For the test-year, Schedule F-1 of the PUC Annual Report submitted by Abenaki indicates a balance of $18,265 at year end. The rate filing submitted by Abenaki simply contains a copy of the F-1 Balance Sheet from the Report. However, the GL submitted by Abenaki reports a balance of $27,717 for a difference of $9,452. See section on Miscellaneous Current and Accrued Liabilities for more information. **Audit Issue #12**

In addition, Abenaki has stated that no bills were paid late and therefore no late fees were incurred in 2014. A random selection of invoices and the GL detail support this finding.

Accrued Taxes Account# 236

For the test-year, Schedule F-1 of the PUC Annual Report submitted by Abenaki indicates a balance of $8,089 at year end. The rate case filing submitted by Abenaki simply contains a copy of the F-1 Balance Sheet from the Report, and the GL submitted by Abenaki reports the same balance of $8,089 after adjusting entries.

Audit cross-referenced the expense entries for the Local and State Utility Taxes to charges in this account. For each of the local taxes, Belmont and Bow, the tax liability created throughout the year was reduced by the payment of the tax bill. Specifically, the ending adjusted balances for the Belmont Taxes Payable, Account #236-11-01 was a debit balance of $36, the Bow Taxes Payable, Account 236-11-02 was a credit balance of $25 and the State Utility Tax Liability was $0 in each case. The only balances left were Account 236-12-01- accrued Federal Income Tax ($6,400) and Account 236-12-02- Accrued NH Corporate Income Tax ($1,700). For information regarding which accounts were expensed for each division, see the section below on <u>Taxes</u>.

Miscellaneous Current and Accrued Liabilities Account 241

For the test-year, Schedule F-1 of the PUC Annual Report submitted by Abenaki indicates a balance of $35,690 at year end. The rate case filing submitted by Abenaki simply contains a copy of the F-1 Balance Sheet from the Report. The Detailed GL Report sent by Abenaki did not contain an account #241. **Audit Issue #12**

The Balance of $35,690 is comprised of the 2015 LTD portion of $26,205 and the $9,452 difference form the Accounts Payable seen above. The difference of $30 is not seen as material, but was noted in the Accumulated Deferred Income Tax Account #282.

<u>Accumulated Deferred Income Taxes Account 282</u>

The 2014 Annual Report indicated a balance of $33,900. The GL after adjusting entries indicated $33,934, an immaterial difference of $34. There was one entry for the year noted, and it credited Account #282 and debited Account #410 (Deferred Income Taxes) by $1,800. Audit requested a copy of the worksheet used for calculating the deferral and the Company submitted a detailed Tax Deferral worksheet from one of their outside accountants, DHL&S Accounting and CPA firm. Audit notes that no invoices for DHL&S were identified in the 2014 GL.

<u>Tax Expense</u>

Below is a table detailing what the Company expensed for taxes in 2014. Audit verified that the municipal property tax invoices did not include the statewide portion of the tax, as is proper. Audit notes that there was a $0 balance in the Prepaid taxes accounts at year end 2014. **Audit Issue #13**

	Account #	GL (w. Adj entries)	2014 Annual Report	Rate Case Filing
Belmont Property Taxes	408-01	$ 9,948	$ 9,948	$ 9,948
Bow Property Taxes	408-02	$ 7,150	$ 7,150	$ 7,150
		$ 17,098	**$ 17,098**	**$ 17,098**
State Utility Property Taxes-Belmont	408-03-01	$ 3,000	$ 3,000	$ 3,000
State Utility Property Taxes-Bow	408-03-02	$ 1,000	$ 1,000	$ 1,000
		$ 4,000	**$ 4,000**	**$ 4,000**
Federal Income Taxes	409-01	$ 6,400	$ 6,400	$ 6,400
State Business Taxes	409-02	$ 1,700	$ 1,700	$ 1,700
Deferred Income Taxes	410-00	$ 1,800	$ 1,800	$ 1,800
		$ 9,900	**$ 9,900**	**$ 9,900**
Total Taxes		**$ 30,998**	**$ 30,998**	**$ 30,998**

The following table relates the total taxes from above to each of the different divisions' taxes as found in the column titled "Actual 2014 Year End Balance" of Schedule 1 of the Filing. In each case the total taxes amount to $30,998 respective of rounding.

Filing	**Account #**	**Lakeland Water**	**Lakeland Sewer**	**White Rock**	
Taxes Other than Income	408-1 to 408-13	$ 9,581	$ 3,366	$ 8,150	**$ 21,097**
Income Taxes	409-1, 410-1, 411-1, 412-1	$ 7,425		$ 2,475	**$ 9,900**
					$ 30,997

Belmont / Lakeland Local Taxes- Account #408-01

The GL, Annual Report and Filing all indicate $9,947.64 was expensed for Belmont Local Taxes. Audit requested and Abenaki provided the 2013 and 2014 tax bills for Belmont. The tax calculation should include ½ of the 2013 2nd Issue, the full 2014 1st Issue and ½ of the 2014 2nd Issue. The calculation does not appear to be correct. The table below details the correct expense figures and the over expense of $253 with any portion over paid to be placed in a Prepaid Tax Account. From the information provided there is no indication of Abenaki debiting the prepaid tax asset account for the over expenditure. **Audit Issue #13**

Belmont/Lakeland		
Half of December 2013 Issue	$	2,980
Full June Issue	$	4,674
Half of December 2014 Issue	$	2,040
Audited Total	**$**	**9,694**
Expensed Total	**$**	**9,948**
Difference	**$**	**(254)**

Bow / White Rock Local Taxes- Account #408-02

The GL, Annual Report and Filing all indicate $7,150 was expensed for Bow Local Taxes. The Company expensed at the rate of $625 per month. Audit requested and Abenaki provided the 2013 and 2014 tax bills for Belmont. The tax calculation should include ½ of the 2013 2nd Issue, the full 2014 1st Issue and ½ of the 2014 2nd Issue. The calculation does not appear to be correct. The table below details these figures and the under expense of $210 with any underpayment to be placed in the Accrued Tax Liability account. From the information provided there is no indication of Abenaki crediting the accrued tax liability account for the under expenditure. **Audit Issue #13**

Bow/White Rock Parcel #1		
Half of December 2013 Issue	$	1,211
Full June 2014 Issue	$	2,199
Half of December 2014 Issue	$	1,095
Audited Total	**$**	**4,504**
Bow/White Rock Parcel #2		
Half of December 2013 Issue	$	744
Full June 2014 Issue	$	1,427
Half of December 2014 Issue	$	686
Total	**$**	**2,856**
Total Bow Taxes	**$**	**7,360**
Expensed Total	**$**	**7,150**
Difference	**$**	**210**

State Utility Taxes

Abenaki provided estimated NH Utility Tax coupons per form DP-255-ES from the NH Department of Revenue Administration. The sum of these estimated tax coupons was $4,000 and after the appropriate adjusting entry, was split with $3,000 debited to Account 408-03-01 (Lakeland) and $1,000 debited to Account# 408-03-02 (White Rock). Abenaki also provided the actual 2014 State Utility Tax bill dated 12/15/2014 in the amount due of $3,758.56. In addition there is no indication the Company debited the prepaid state utility tax account for the difference of $241. **Audit Issue #13**

State Income Taxes

Abenaki has stated that they have filed extensions for the 2014 State of NH income tax return and therefore did not provide one for this Audit. Audit reviewed the entries recorded in 2014 and confirmed that Abenaki expensed the following amounts:

$1,275 to Lakeland State Income Taxes- Account #409-02
$ 425 to White Rock State Income Taxes- Account #409-02
$1,700- Agrees with the Filing

Federal Income Taxes

Abenaki has stated that they have filed extensions for the 2014 Federal Income tax return and therefore did not provide one for this audit. Audit has reviewed the entries thus far and confirms the $4,800 and $1,600 amounts, with the Tax Deferral only indicated by an adjusting entry to the Detailed GL submitted:

$4,800 to Lakeland Federal Income Taxes- Account #409-01
$1,600 to Whiterock Federal Income Taxes- Account #409-01
$6,400- Agrees with the Filing

$1,800 to Deferred Income Tax Amount- Account #410-01

PUC Assessment

See explanation for PUC Assessment in the Operations and Maintenance section below.

Operating Revenue

The total operating revenue of $238,354 as noted in Schedule F-2 and S-1 of the 2014 Abenaki Annual Report was verified to the Abenaki GL trial balance as of 12/31/14 and Schedule 1, column B, for the respective water and sewer divisions found on pages 2, 18 and 32 of Attachment D, Testimony of Deborah Carson. This revenue appears accurate after discussing all variances and adjusting entries as well. Specifically,

Lakeland Sewer division	$ 68,524
Lakeland water division	$111,808
White Rock division	$ 58,021
	$238,354

Proportionately, the customer charges across both divisions of $127,775 accounted for 54% of all Operating Revenue and the service charges of $110,579 accounted for 46% of all Operating Revenue. Abenaki currently uses the following GL accounts to record their revenue:

461-01-01-00	Metered Sales-Residential-Lakeland
461-01-02-00	Metered Sales-Residential-White Rock
461-02-01-00	Metered Sales-Commercial-Lakeland
471-01-00-00	Miscellaneous Service Revenue-Lakeland
471-02-00-00	Miscellaneous Service Revenue-White Rock
522-01-00-00	Sewer Revenue-Residential
522-02-00-00	Sewer Revenue-Commercial

Pursuant to Commission Order# 25,621 dated January 14, 2014 authorizing the purchase of the Lakeland and White Rock water and sewer systems, Abenaki appears to have completed the transfer of ownership as of February 14, 2014. This is the same day the $300,000 Co-Bank Promissory Note has an as of effective date. Audit notes these dates due to Abenaki prorating the First Quarter Revenue (effectively using 10.5 months rather than 12) for all divisions, systems and rate classes. When verifying the revenue reports provided, Audit found the first quarter was split 50/50 consistently by Abenaki. Any inconsistencies between the usage calculations and reported revenue were described to Audit as one or more of the following: a few of the meters were reportedly reading Gallons rather than Cubic Feet, credits and rebills, and a few bills that were recalculated when the ownership was transferred. All variances were discussed and were calculated at less than 1% of reported Operating Revenue.

Billing Process

Abenaki has described their billing process in the following manner: As of December 31, 2014, the meter reads are collected on a monthly basis by a meter gun whereby an employee drives in the neighborhood of the residence and the meter signal is picked up by the gun (with the exception of 5 commercial, 4 multi-family, and 5 remaining residential meters which are manually read and recorded). The file is e-mailed to be uploaded in the billing software in the CT office, and the manually read meter reads are typed in. Debbie Carson reviews the billing edit journals for reasonableness as well as Alex Crawshaw (President of Abenaki Water Company). Once accepted, the bills are printed, stuffed, postage applied, and mailed from the CT office.

The exceptions to the billing process are: The Orchard at Plummer Hill and the Orchard Hill 2. In both of these cases, the property manager receives and pays the bills even though the individual units have separate meters. For further information regarding this particular arrangement, see Commission Order 20,163 from Docket DR 91-006 dated July 1, 1991.

Bill Form and PUC 1203.06 Rules

The NH PUC has established minimum standards required for information on a utility customer's bill. These rules are found under PUC 1203.06-Bill Forms. After reviewing several bill forms from Abanaki, Audit has concluded that their bills are missing some of the required information. It should be noted that the bills reviewed by Audit covered a sample date ranging from 2014 through June 2015 and therefore represent not only test year but current practices.

The following information is missing from the AWC Bills:

1203.06 (c)(1) The date of the next meter reading

1203.06 (c)(6) All Factors necessary to compute the charges (specifically the usage rate per the customer rate class). **Audit Issue #14**

Lakeland Water Division

The Lakeland Water Division consists of a fixed quarterly charge as well as a consumption charge across one of the four rate classes. PUC Audit reviewed invoices from the 2nd Quarter Billings without exception. Audit also reviewed the revenue as found in the "Monthly Stats" report which covers all of 2014. The following table is from the Abenaki GL where the meter and consumption charges are in the same "Metered Sales" GL account.

Acct #	Account Name	Revenue
461-01-01-00	METERED SALES - RESIDENT - LMC	$ 92,988
461-02-01-00	METERED SALES -COMM - LMC	$ 18,720
471-01-00-00	MISC SERVICE REV. - LMC	$ 100
		$ 111,808

The rates in place during 2014 have been in place since DW 10-306 and are as follows:

			Annual	Quarterly	Consumption Charge
Customer Class	**AKA**	**# of Meters**	**Base Charge**	**Base Charge**	**per CCF**
MCA	Commercial Class A	1	$ 1,308.00	$ 436.00	$ 15.0495
MCB	Commercial Class B	4	$ 437.00	$ 145.66	$ 6.7967
MRM	Residential Multi-Family	4	$ 3,104.00	$ 1,034.66	$ 5.3388
MRS	Residential Single-Family	150	$ 97.00	$ 32.33	$ 5.3388

Lakeland Water Residential

The 2014 Trial Balance indicated the residential water revenue was $92,988. This figure represents both the meter and consumption charge for both single Family and Multi-Family rate classes. According to the revenue reports provided by Abenaki, the total Single Family meter charge was verified at $50,925 and the consumption charge at $23,241. The total Multi-Family meter charge was verified at $10,864 and the consumption at $8,885, for a grand total of $93,915. The difference of $927 from the table above is a Net amount due to a reclass of revenue into this account and a reversal of revenue that should be in 2015.

Lakeland Water Commercial

The 2014 Trial Balance indicated the commercial water revenue was $18,720. This figure represents both the meter and consumption charge for both the Commercial Class A and Commercial Class B rates. According to the revenue reports provided by Abenaki, the total Commercial Class A meter charge was verified at $4,578 and the consumption charge at $2,614. The total Commercial Class B meter charge was verified at $6,118 and the consumption at $5,701, for a grand total of $19,011. The difference of $291 from the table above is due to a reclass of a portion of these revenues to the Lakeland Water Residential Division revenue.

Lakeland Water Miscellaneous Revenue

$100 in Miscellaneous Revenue was charged as a reconnection fee to one customer. This fee is found in the current tariff of Abenaki. Audit noted there was no Account included in the GL that corresponds to #471-01 and no adjusting entry, but that the Annual Report did include this information when filed with the PUC. Audit requested and the Company stated that the entry was originally made on 12/2/2014 but that it had been entered with an incomplete Account # and was put on an exception list that was posted during the months closing entries to Account #471-01.

Lakeland Sewer Division

Lakeland Sewer has a unique relationship the City of Laconia, where in Abenaki described the process as "*AWC [Abenaki Water Company] performs sewer collection and pumping, and then the City of Laconia does the sewer treatment. Laconia bills AWC after our [the AWC] billing is posted, using that information as support and we send payment*". As part of the Settlement Agreement for the purchase of the Lakeland Water System, Abenaki was to attempt to formalize its agreement with the City of Laconia for the treatment of Lakeland's sewage (Lakeland sends its sewage to Laconia's treatment plant by pipe and pays Laconia its volumetric rate pursuant to a longstanding but unwritten arrangement. Audit requested status on any such agreement and Abenaki stated that no such agreement has been made with the City of Laconia. **Audit Issue #15**

PUC Audit has reviewed invoices from the 2nd Quarter Billings without exception. Audit also reviewed the revenue as found in the "Monthly Stats" report which covers all of 2014. The usage amounts for the sewer system are calculated largely from the water usage. In this way the water and sewer usage would be almost identical. Abenaki has stated that in some cases there are variances due to the following: a few laundry facilities have an exemption from being charged sewer as they have their own gray water well systems, and some Commercial B meters are for irrigation only. The following table is from the Abenaki GL where it lists the meter and consumption charges in the same "Metered Sales" GL account.

Acct #	Account Name	Revenue
522-01-00-00	SEWER REVENUES - RESIDENTIAL	$ 60,288
522-02-00-00	SEWER REVENUES - COMMERCIAL	$ 8,236
		$ 68,524

The rates in place during 2014 have been in place since DW 10-306 and are as follows:

			Quarterly	
Customer Class	AKA	# of Meters	Base Charge	Consumption Charge
MCA	Commercial Class A	1	$ 803.00	$ 8.1303
MCB	Commercial Class B	3	$ 268.00	$ 2.5070
MRM	Residential Multi-Family	1	$ 2,340.00	$ 3.6290
MRS	Residential Single-Family	150	$ 60.00	$ 3.6290

Lakeland Sewer Residential

The Annual Report and GL indicated the residential sewer revenue was $60,289. This figure represents both the meter and consumption charge for both single Family and Multi-Family rate classes. According to the revenue reports provided by Abenaki, the total Single Family meter charge was verified at $31,500 and the consumption charge at $15,627. The total Multi-Family meter charge was verified at $8,190 and consumption at $6,040, for a grand total of $61,357. The difference of $1,069 from the table above is due to a reclass of a portion of these revenues to the Lakeland Water Division revenue.

Lakeland Sewer Commercial

The Annual Report and GL indicated the commercial sewer revenue was $8,236. This figure represents both the meter and consumption charge for both the Commercial A and B rate classes. According to the revenue reports provided by Abenaki, the total Commercial A meter charge was verified at $2,811 and the consumption charge at $1,412. The total Commercial B meter charge was verified at $2,814 and the consumption at $1,342, for a grand total of $8,379. The difference of $143 from the table above is due to a reclass of a portion of these revenues to the Lakeland Water division revenue.

White Rock Division

The White Rock Water Division consists of a fixed quarterly charge as well as a consumption charge across the one rate class. PUC Audit has reviewed invoices from the 2nd Quarter Billings without exception. Audit also reviewed the revenue as found in the "Monthly Stats" report which covers all of 2014. The following table is from the Abenaki GL where it lists the meter and consumption charges in the same "Metered Sales" GL account.

Acct#	Account Name	Revenue
461-01-02-00	METERED SALES - RESIDENT - WRWC	$ 57,931
471-02-00-00	MISC SERVICE REV - WRWC	$ 90
		$ 58,021

The rate in place for 2014 has been in place since at least Order # 24,741 in DW 06-101. Specifically it is as follows:

			Annual	Monthly	
Customer Class	AKA	# of Meters	Base Charge	Base Charge	per CCF
GM	General Service-Metered	95	$ 120.00	$ 10.00	$ 10.2000

According to the 2014 Annual Report, White Rock sold 4,568 thousand gallons of water. According to the unaccounted for water report from Abenaki, the actual amount of water sold was 4,100 thousand gallons or 548,120 cf, with the difference of 10% attributable to loss water. The resulting revenue in the Annual Report of $57,931 represents both the meter and consumption charge for the General Service rate class. According to the revenue reports provided by Abenaki, the total meter charge was verified at $9,975 and the consumption charge at $49,532 for a total of $59,506. The difference of $1,575 from the table above is due to a reclass of $1,204 of these revenues to the Lakeland Water division revenue, an adjustment of $371when the actual revenue figure replaced the accrued revenue.

White Rock Miscellaneous Revenue

The $90 in Misc. revenue is made up of two $20 charges and one $50 charge. The Tariff allows White Rock to charge $20 for reconnection after disconnection, termination or starting service (as a new customer), and $50 charge was described as the cost of sending a technician to disconnect service but the customer paid the technician the money to prevent the disconnection. No exceptions noted.

Interest and Dividend Income

The 2014 Annual Report indicated Interest and Dividend Income of $2,650. This figure was verified to the GL Account # 419. The amount reflects $97 of interest income and $2,553 ($1,915 due and $638 already received) noted as earnings from equity in Co-Bank.

Operation and Maintenance Expenses (O&M)

The O&M Expense total per the 2014 Annual Report was $162,195. This figure matches the Abenaki GL after the accompanying adjusting entries and the total of the amounts found in the rate case filing in the column titled "Actual Year End Balance" for each of the divisions: Lakeland Water, Lakeland Sewer and White Rock Water of $49,815, $70,518 and $41,864 respectively. Immaterial variances between the totals are present due to rounding.

As found in the Purchase and Sales Order, Abenaki is supposed to keep separate the accounting for the different divisions. In reviewing the expenses for Abenaki, it appears as if some of the accounting is combined, at least when listed on the General Ledger. One example of this is the expense for Emergency Calls, Account #664. The GL consists of two separate accounts, #664-01 and 664-02, however when reconciling accounts with the Trial Balance Excel spreadsheet provided by Abenaki, the cost of the Lakeland Emergency Calls, $526, is split further between Lakeland Water and Lakeland sewer, 50% and 50%. There is no indication on the GL however of a differentiation between Lakeland Water and Lakeland Sewer for this specific cost. In total, Audit has identified 15 accounts that are not split between Lakeland Water and Lakeland Sewer. **Audit Issue #17**

Company Allocations

General Expense Allocations

According to page 8 of the Testimony of Deborah Carson, Abenaki utilizes a two-step allocation system when it comes to allocating costs among Lakeland and White Rock. When the Company determines that a shared cost should be split between Lakeland and White Rock, they first split the cost 75% to Lakeland and 25% to White Rock. From this point, depending on the cost being shared, 1 of 3 allocations are chosen. These 3 methods are detailed in the table below:

Allocation Methods within Lakeland / Belmont Systems		**Water**	**Sewer**	**Total**
Allocation #1	Allocation based on 5 Quarter	$ 208,930	$ 72,294	$ 281,224
	Average Rate Base with Rounded %	**74%**	**26%**	**100%**
Allocation #2	Allocation based on # of customers	158	156	314
	Rounded %	**50%**	**50%**	**100%**
Allocation #3	Allocation based on Pre-Tax Income	**100%**	**0%**	**100%**
Note: Due to sewer net income being negative, 100% of the income taxes is being allocated to water.				

Additionally, Abenaki has indicated that they rarely allocate charges company (NESC) wide; and that as many charges as possible are billed directly from the vendor to each company. One example includes invoices for "Cloud/Sage Invoice", these cover the cost of the online billing and payment system, with Lakeland and White Rock being billed separately by Cloud/Sage Invoice.

Insurance Allocations

Audit reviewed the insurance allocations for General, Property and Directors and Officers (D&O) Insurance and verified the premiums charged corresponded to the premiums expensed. Audit also requested information pertaining to how the company allocates the premiums among their various businesses and the Company stated that, "*Most everything is directly charged by the insurance company ("actual premiums") based on all of the information we provided them about each company…The only one that we allocate ourselves is the D&O insurance. For that we use the MASS formula, which takes into account the revenue, plant, and labor relating to each company as a percentage of the whole [of NESC*]". For more information regarding the insurance see the Operations and Maintenance section of this report. Audit was provided an excel sheet detailing the calculation of the MASS formula and found it reasonable.

Office Space Rent Allocations

During the test year, Abenaki had two offices, 1 NH office, located in Gilford, NH and office space at the NESC headquarters in Plainville, CT. Audit requested and NESC stated that they paid the rent for the Gilford office for 2014 and did not allocate that expense down to Abenaki; and that beginning in January 2015, Abenaki will be paying rent for office space at the NESC office in Connecticut. Abenaki has indicated the cost of renting the CT office space is $257.50 / month or $3,090 for the year, and that the annual amount would most likely be an adjustment to the Filing account #930. **Audit Issue #16**

Monthly Service Charges

As found in Docket DA 14-064, and discussed above, the Affiliate Agreement between NESC and Abenaki details the recurring and the per incident charges agreed upon between NESC and Abenaki. Those monthly recurring charges totaled $6,167 per month. Audit has reviewed the general ledger for Abenaki and verified the monthly total to the following accounts without exception:

	Lakeland Water		
Acct #	**Acct Name**	**Charge**	**% of Total**
624-01	Pumping Labor & Expense	$ 721.60	20%
631-01	Maintenance of Structures	$ 721.60	20%
642-01	Treatment Expense	$ 721.60	20%
673-01	Maintenance of T&D Mains	$ 721.60	20%
902-01	Meter Reading	$ 360.80	10%
903-01	Customer Records	$ 360.80	10%
		$ 3,608.00	**100%**
	Lakeland Sewer		
Acct #	**Acct Name**	**Charge**	**% of Total**
775-03	Pumping Maintenance Expense	**$ 484.00**	**100%**

	White Rock		
Acct #	**Acct Name**	**Charge**	**% of Total**
624-02	Pumping Labor & Expense	$ 415.00	20%
631-02	Maintenance of Structures	$ 415.00	20%
642-02	Treatment Expense	$ 415.00	20%
673-02	Maintenance of T&D Mains	$ 415.00	20%
902-02	Meter Reading	$ 207.50	10%
903-02	Customer Records	$ 207.50	10%
		$ 2,075.00	**100%**
Grand Monthly Total:		**$ 6,167.00**	**100%**

Power Purchased for Pumping- Account 623- $7,829

Audit has reviewed the GL transactions for these accounts and all transactions are listed as bills paid to either PSNH or Unitil for power. In each of the respective divisions, there was no January bill which coincides with the February date of purchase by Abenaki.

623-01-01- Power Purchased for Pumping- Lakeland Water	$ 165
623-01-02- Power Purchased for Pumping- Lakeland Water	$2,589
623-02-01- Power Purchased for Pumping- White Rock	$5,074
	$7,829

Pumping Labor and Expense- Account 624- $13,457

624-01-Pumping and Labor Expense- Lakeland Water- $7,857- The majority of charges in this account are in line with the Affiliate Agreement filed in Docket DA 14-064 and the appropriate percentage of monthly charges, as described above, of $3,608 charged to Lakeland Water, $484 to Lakeland Sewer and $2,075 charged to White Rock Water. In this case, Abenaki allocated 20% of the total to each month and 10% for February due to the purchase date being in the middle of February. The only other charges in the account were 4 hours of emergency service during regular working hours @ $70 / hour or $280.

624-02- Pumping Labor and Expense- White Rock- $5,600- The majority of charges were in line with the Affiliate Agreement, 20% for each month and 10% for February. Except for May 2014, there was 1 bill from Richard Shaw with a portion to be paid by TC (Terry Crawshaw). Audit reviewed the invoice for the January 2014-May 2014 period which included a date/time sheet and the rate charged by Mr. Shaw for what was labeled as monitoring and maintenance of the Bow pump house. No exceptions were noted.

Maintenance of Structures- Account 631- $11,934

631-01- Maintenance of Structures- Lakeland Water- $7,577- Affiliate Agreement charges of 20% per month and 10% for February. No exceptions noted.

631-02- Maintenance of Structures- White Rock- $4,358- Affiliate Agreement charges of 20% per month and 10% for February. No exceptions were noted.

Maintenance of Pumping Equipment- Account 633- $2,344

633-01- Maintenance of Pumping Equipment- Lakeland Water- $1,660 Charges consist mainly of an allocation of prepaid generator service, $80/month with the offsetting prepaid asset account # 162-03-01 – Prepaid Generator Maintenance. Other charges include 2 hours of "regular hours" emergency response, plus some additional invoicing in November from Brymar Construction for work performed on pumping equipment in the pump house. Audit requested information regarding the prepaid generator charges and Abenaki stated the charges are actually for the LMC sewer pump station, and should have been recorded to Account 775-03 Miscellaneous Sewer Expense. In addition the total cost of $475 covered 12 months, March 2014- March 2015. The Company is including $59 of ineligible charges ($475/12)*1.5 months of non-ownership. **Audit Issue #16**

633-02- Maintenance of Pumping Equipment- $683- One invoice from Irving Energy and another from Brymar and FW Webb which was reviewed as work done on the pump house and related equipment.

Water Testing- Account 641- $1,169

641-01- Water Testing- Lakeland- $458 of water testing charges listed as paid to Eastern Analytical, a professional laboratory and drilling services company located in Concord, NH were reviewed.

641-02- Water Testing- White Rock- $711 of water testing charges listed as paid to Eastern Analytical, a professional laboratory and drilling services company located in Concord, NH, were reviewed.

Audit notes that the cost of testing the water should be booked to account #642. **Audit Issue #10**

Water Treatment- Account 642- $15,747

642-01- Water Treatment- Lakeland- $10,633 of charges consisted of Chemical charges from Harcros Chemicals, a chemical manufacturer and distributor; chemical allocations as well as Affiliate Agreement charges of 20% and 10% for February.

642-02- Water Treatment- White Rock- $5,114 of monthly allocation charges, two charges from Harcros Chemicals as well as three charges totaling $1,081.32 of Prepaid Chemical Allocation charges were reviewed.

Audit notes that the cost of the chemicals exclusively should be placed in account #641, but that the labor charges should stay in this account #642. **Audit Issue #10**

Meter Expenses- Account 663- $175

663-01- Meter Expenses- Lakeland- $102- This amount represents charges by TI and TP Sales.

663-02- Meter Expenses- White Rock- $ 75- This amount represents charges by TI Sales only.

Emergency Calls [Customer Installation]- Account 664- $1,366

664-01- Emergency Calls- Lakeland- $526- This amount represents charges by NESC only of one half hour of non-regular emergency work at the rate of $105 per hour ($52.50) and 6 ½ hours of regular hours emergency work at $70 per hour ($473)

664-02- Emergency Calls- White Rock- $630- This amount represents charges by NESC only of six hours of non-regular emergency call work at the Affiliate Agreement rate of $105 per hour.

Maintenance of Transmission and Distribution Mains (T&D)- Account 673- $15,824

673-01- Maintenance of T&D Mains- Lakeland- $6,855- The amount represents Affiliate Agreement charges of 20% per month and 10% for February. No exceptions noted.

673-02- Maintenance of T&D Mains- White Rock- $7,832- This amount also Affiliate Agreement charges of 20% per month and 10% for February. Other various charges were from Dig Safe, GSM Paving and EJ Prescott. There was one charge in the amount of $219 from EJ Prescott that was reclassified to a Capital Expenditure.

Maintenance of Services- Account 675- $255

675-01- Maintenance of Services- Lakeland- $105- This figure represents one charge from NESC.

675-02- Maintenance of Services- White Rock- $150- This figure represents one charge from the Town of Bow for an excavation permit. Audit requested clarification of the charge and was told that the Company anticipates costs such as excavation permits to be ongoing, as future work demands.

Purchase Sewer Treatment- Account 710- $46,479

710-01-Purchased Sewer Treatment- Lakeland Sewer- $46,479, account consisted solely of charges listed as City of Laconia for treatment of sewage. As stated earlier, Abenaki calculates their customers' sewer usage from the customers' water usage and uses that information to then provide a bill, payment and supporting documentation to the City of Laconia for the sewer treatment. Audit was provided with an Excel spreadsheet detailing the calculation of the quarterly sewage bill for each of the quarters in 2014. Audit verified that the usage figures as found in the quarterly sewage treatment bills matches the usage figures found on the revenue calculation sheet provided, discussed and verified earlier in this report. The total reported sewer expense was $46,479, however the total charges incurred before adjustments was $54,088. This figure was reduced to account for half of the first quarter owed by the previous owner ($6,057) and $1,554 of rate increases charged by the City of Laconia discussed below.

The sewer rates in the Excel sheet provided by Abenaki were verified to those found on page 6 of the testimony of Deborah Carson for this rate case filing. Those rates were $32.50 per unit and usage charge of $3.69 per hcf for the 1st, 2nd and 2/3 of the 3rd quarter and $33.25 per unit and $4.19 per hcf for remainder of the 3rd quarter as well as the 4th quarter of 2014. The September 2014 rate change was enacted by the City of Laconia and not Abenaki and is the first of two rate changes scheduled by the City of Laconia. The difference of $1,554 was indicated as being placed in Deferred Asset Account# 183-14-14.

Purchased Power Sewer-Account 715- $6,081

715-03- Purchased Power- Lakeland Sewer- $6,081- Account consisted of charges from PSNH and two charges from NESC in the amount of $88.33.

Miscellaneous Sewer Expense- Account 775- $7,735

775-03- Pumping Maintenance- Lakeland Sewer- $7,665- This figure represents Affiliate Agreement charges of $484 (100%) per month and $240 (50%) for February. Also charges related to quarterly sewer maintenance. No exceptions were noted.

775-08- Sewer Agreement LMC- one charge of $70 was noted.

Meter Reading- Account 902- $6,002

902-01- Meter Reading- Lakeland- $3,823- Affiliate Agreement charges of 10% per month and 5% for February. No exceptions were noted.

902-02- Meter Reading- White Rock- $2,178- Affiliate Agreement charges of 10% per month and 5% for February. No exceptions were noted.

Customer Records- Account 903- $5,967

903-01- Customer Records- Lakeland- $3,788- Charges consisted of 10% of the monthly allocation with February having a 5% allocation. No exceptions were noted.

903-02- Customer Records- White Rock- $2,179- Charges consisted of 10% of the monthly allocation and 5% for February. No exceptions were noted.

Administrative and General Salaries- Account 920- $4,071

920-01-01- Admin & General Salaries- Lakeland-	$3,034
920-01-02- Admin & General Salaries- White Rock-	$1,037
	$4,071

The Annual Report, Schedule F-48 contains a $0 balance, but Abenaki submitted a revised QuickBooks income statement (filed behind Schedule F-2) figure with the correct amount.

Audit requested further information regarding these charges in relation to the charges found within the Affiliate Agreement in Docket DA 14-064 and Abenaki stated that "*The affiliate agreement only covers operational expenses, not administrative. That is why I thought NESC would bill AWC for labor at cost just as it does with the other subsidiaries. After some time and discussing this with Alex [Crawshaw] and Don [Vaughn], we determined the admin expense should be included in the monthly flat rate, even though it was not explicit in the agreement. Alex told me prior to our ownership, C&C Water Services only billed the water companies for administrative work when it was a higher demand time, such as a billing period. After some experience and efficiencies, we determined the monthly flat rate covered NESC expenses for labor*." Audit questioned whether the inclusion of these expenses in the calculation of the permanent rates was warranted but the Company did not respond. **Audit Issue #16**

Office Expenses- Account 921- $4,240

921-01-01- Printing and Forms- Lakeland- $1,241- Account consisted of various charges from NESC, Briarwood Printing, and Northern Data Systems.

921-01-02- Printing and Forms- White Rock- $634- Account consisted of various charges from NESC, Briarwood Printing, and Northern Data Systems.

921-02-01- Main Office Phone - Lakeland- $726- Account consisted of charges from Fairpoint Communications and NESC.

921-02-02- Main Office Phone- White Rock- $479- Account consisted of charges from Fairpoint Communications and NESC.

921-03-01- Postage Expense- Lakeland- $644- Account consisted of charges from NESC and Valley Water Systems. Audit requested what services Valley Water Systems (a subsidiary of NESC) provides for Abenaki stated that the charges were related to use of a postage machine owned by Valley Water and that it was billed at cost.

921-03-02- Postage Expense- White Rock- $281- Account consisted of charges from NESC and Valley Water Systems, as described above.

Professional Services- Account 923- $2,519

923-01-01- Technical Support- Lakeland- $1,079- Account consisted of charges from Northern Data and Basic Innovations labeled website maintenance.

923-01-02- Technical Support- White Rock- $719- Account consisted of charges from Northern Data and Basic Innovations labeled website maintenance.

923-02-01- Accounting Services- Lakeland- $541- Account consisted of charges from Stephen St Cyr & Associates Accounting firm.

923-02-02- Accounting Services- White Rock- $180- Account consisted of charges from Stephen St Cyr & Associates Accounting firm.

Audit requested further information regarding the Accounting fees and the Company stated that while the specific topic may not be recurring item, the Company anticipates consulting with an outside professional, such as St. Cyr and Associates, on a recurring, as-needed basis in the future.

Property Insurance- Account 924- $1,252

924-01-01- Property Insurance- Lakeland- $715- Account consisted of 11 months of Property Insurance Expenses which were verified to the Insurance Reconciliation and Allocation information submitted by Abenaki to PUC audit. No Exceptions Noted.

924-01-02- Property Insurance- White Rock- $537- Account consisted of 11 months of Property Insurance Expenses which were verified to the Insurance Reconciliation and Allocation information submitted by Abenaki to PUC audit. No Exceptions Noted.

Audit reviewed the insurance policies and found the effective date of January 1, 2014 and ended with January 1, 2015.

Regulatory Expenses- Account 928- $2,126

928-01-01- Regularity Expenses- Lakeland- $1,458- Account consisted of charges from State of NH, State of NH DES, PUC and NESC.

928-01-02- Regulatory Expenses- White Rock- $668- Account consisted of charges from State of NH, State of NH DES, PUC and NESC.

Within the amount of $2,126 would be the PUC Assessment covering the test year (2014) of $984. Audit requested a reconciliation of the charges in the account and Abenaki explained that a portion of expenses is due to the PUC Assessment for the periods of 10/15/2014, 1/15/2015, and 4/15/2015 as well as a charge consisting of prior period and current period assessments that was not expensed until now in the amount of $507.88. The total charges reconciled amounted to $1,374 or $390 more than the test year assessment as found on the PUC website of $984. **Audit Issue #16.**

Miscellaneous General Expenses - Account 930- $5,225

930-01-01- General Insurance- Lakeland- $1,399- Audit verified the cost of the General Insurance to a copy of the Insurance Policy covering January 1, 2014 to January 1, 2015 listing the Annual Premium and a reconciliation of the Insurance costs across all applicable companies under NESC. Abenaki was allocated 2.0% of the total cost of the insurance policy or $1,428. No exceptions were noted.

930-01-02- General Insurance- White Rock- $400- Audit verified the cost of the General Insurance to a copy of the Insurance Policy covering January 1, 2014 to January 1, 2015 listing the Annual Premium and a reconciliation of the Insurance costs across all applicable companies under NESC. Abenaki was allocated 2.0% of the total cost of the insurance policy or $1,428. No exceptions were noted.

Additionally, the General Ledger Account 930-01-01 and the Filing included a $371 charge labeled as Jan-Feb Prepaid Insurance Expenses. Audit requested and the Company indicated this charge was prior to and carried through the acquisition. **Audit Issue #16**

930-02-01- D&O Insurance- Lakeland- $421- Audit verified the cost of the D&O Insurance to a copy of the Insurance Policy listing the Annual Premium of $18,439. Abenaki was allocated 4.5% of the total premium which covered the calendar year of 2014. The cost was split 50/50 between Lakeland and White Rock.

930-02-02- D&O Insurance- White Rock- $421- Audit verified the cost of the D&O Insurance to a copy of the Insurance Policy listing the Annual Premium of $18,439. Abenaki was allocated 4.5% of the total premium which covered the calendar year of 2014. The cost was split 50/50 between Lakeland and White Rock.

930-03-01- Association Dues and Education- Lakeland- $538- The total consisted of Lakeland's portion of Association dues to NHWWA in the amounts of $129 and travel and travel related expenses for attending a conference for the NAWC-National Association of Water Companies. No Exceptions noted.

930-03-02- Association Dues and Education- White Rock- $222- The total represents White Rock's portion of dues to NHWWA in the amounts of $65 and travel related expenses for attending a conference for the NAWC. No Exceptions noted.

930-04-01- Misc. Board Expenses- Lakeland- $563- Included charges for Ms. Bonalyn Hartley, Board Member of Abenaki Water Company.

930-04-02- Misc. Board Expenses- White Rock- $188- Included charges for Ms. Bonalyn Hartley, Board Member of Abenaki Water Company.

930-05-01- Invoice Cloud/Sage Fees- Lakeland- $630- Included charges for Cloud Services/Sage Fees. The service provided is described as a third party online billing/payment vendor.

930-06-02- Invoice Cloud/Sage Fees- White Rock- $387- Included charges for Cloud Services/Sage Fees.

930-06-01- Banking Fees- Lakeland- $25- Check Stamp and Returned Check Fees. No exceptions noted.

930-06-02- Banking Fees- White Rock- $32- Check Stamp and Returned Check Fees. No exceptions noted.

Maintenance of General Plant- Account 950- $399

950-01- Maintenance of General Plant- Lakeland- $6- One charge from NESC. No exceptions were noted.

950-02- Maintenance of General Plant- White Rock- $393- Various small NESC charges with some charges also from "On Demand Snow Removal LLC". No exceptions were noted.

Bad Debt Expense

In reviewing the expenses for Abenaki, there is no account for Bad Debt Expense. Audit requested if the company has written anything off and the company stated that they did not write anything off during 2014 and if they would have it would have been to the appropriate expense account # 904.

Audit Issue #1

Affiliate Agreement

Background

Per the agreement section 5(f), Schedule of Charges paid by AWC to NESC, it is stated that AWC will pay NESC cost plus 15% for parts and materials not in AWC's inventory.

Exception

The New Hampshire Uniform System of Accounts section 610.01(e)(2), utility Plant – Components of Construction Cost, states that all amounts included in the accounts for utility plant acquired as an operating unit or system shall be stated at the cost incurred by the person who first devoted the property to utility service.

Note: Audit reviewed two original vendor invoices for sewer and pumping equipment additions and found no additional upcharge added to NESC invoices.

Recommendation

The Company should adhere to the New Hampshire Uniform System of Accounts for vendor purchases of utility plant and materials and supplies.

Company Comment

The PUC has approved the 15% mark up in the original affiliate agreement as of 2/14/14 and the new affiliate agreement filed with the Commission as of 1/1/15**.** The two invoices that did not include an upcharge will be subject to review as they were an oversight. NESC believes the upcharge is justified due to the administrative costs incurred with intercompany billing.

Audit Comment

Audit recommends that the Water Division staff and the Company review this portion of the affiliate agreement, as it is contrary to the New Hampshire Uniform System of Accounts.

Audit Issue #2

NESC Invoice

Background

The Company provided copies of nine monthly NESC invoices beginning in April, 2014. Each invoice shows the monthly service charges to LMC Water , LMC Sewer and WRWC described on the invoice as contracted work. NESC work not covered in the affiliate Agreement's scope of services is described as Non-contracted work which is charged hourly. Audit reviewed the non-contract charges for the months of May and November.

Exception

The November invoice shows non-contracting work totaling $2,819. Audit could not tie the number of hours for three of the eight line items on the invoice totaling $1,593 to the timesheets for two employees.

Recommendation

The Company must ensure that the invoices and timesheets reflect the accurate hours and related costs.

Company Comment

The reason the number of hours relating to time worked on accounts 664-01-01, 664-01-02, and 775-03 did not tie to the timesheets is because there was overtime included. Instead of adding a separate line item at the overtime rate, the number of OT hours was multiplied by 1.5 to achieve the same dollar amount. The invoices will be more explicit going forward.

Audit Comment

Audit concurs with the Company.

Audit Issue #3

Administration and Capital Labor Invoices

Background

The Company provided monthly NESC invoices to AWC from March through December 2014.

Exception

Included with invoices was a separate April invoice showing administrative and capital labor costs in the amount of $3,006. This was in addition to the April Management Agreement charges. The Company explains that they decided to include administration work in the monthly management agreement. After the first couple of bills, only capital labor was billed from NESC to AWC in addition to the management agreement bills. The Company provided a listing of the administration expenses from the March, April and May invoices totaling $4,071.

Recommendation

The Company should amended section 1 of the management agreement to include administration costs. See also Audit Issue #16

Company Comment

The affiliate agreement on file as of 1/1/15 does include administration costs in the weekly flat rates in section 5.

Audit Comment

Audit concurs with the Company that the 2015 agreement contains reference to administrative costs. The agreement in place during the test year did not include the administrative costs language.

Audit Issue #4

Plant Balances

Background

The individual filing schedules 3, shows the December 2014 Plant in Service balances for LMC Water, LMC Sewer and WRWC totaling $1,111,137. However, the consolidated filing Schedule 2 shows the Plant in Service amount as $1,112,213 which includes $73 CWIP.

Exception

There is a variance between the individual schedules 3 and the consolidated schedule 2 of $1,076. $73 of the difference is CWIP.

The Company states that the LMC Sewer amount shown on LMC schedule 3 of $110,059 should be $111,059, a $1,000 discrepancy.

Recommendation

The Company should refile schedule 3 for the correct amount of Plant in Service for LMC Sewer.

Company Comment

Agreed. Please see the attached revised schedule 3. Seven copies will also be provided at the technical session.

Audit Comment

Audit was provided with an updated schedule 3 and agrees with the restated Plant in Service for LMC Sewer. Audit also agrees that the Company must file an updated schedule with the Commission, and that a Technical Session is being held on September 23, 2015.

Audit Issue #5

Continuing Property Records

Background

For AWC, the Company provided a Capital Expenditures Report showing projects that total $75,625. This amount agrees with the 2014 Annual Report and the filing schedule 3B showing the cost of plant placed in service. The Company provided a spreadsheet titled AWC, Plant Additions 1/1/2014 through 12/31/2014 which showed the account number, subcontract and/or materials costs, total cost and the date placed in service. The location of the assets was shown only as LMC or WRWC and the assets were listed as a total by the account number. No individual assets were listed.

The CPR that were provided for LMC and WRWC from 2010 through the carry forward date of December 31, 2013 are spreadsheets showing the accumulated depreciation, depreciation expense from 2010 through 2014. Lack of CPR was identified in the audit report relating to docket DW10-306.

Exception

The Company provided a spreadsheet titled AWC, Plant Additions 1/1/2014 through 12/3120/14 which showed the account number, subcontract and/or materials costs, total cost and the date placed in service. The location of the assets was shown only as LMC or WRWC and the assets were listed as a total by the account number. No individual assets were listed.

The CPR for LMC and WRWC for the prior years are listed out separately by account. However the plant beginning balances, additions and ending balances are not shown on the report. Lack of adequate CPR was identified as an issue in the Lakeland Management audit in docket DW10-306.

Recommendation

The Company should conform to the NH Uniform system of Accounts 610.01(e)(20) which states that "the records for operating property shall be subdivided so as to show the operating property at each location. For each item of one or more units, the date of acquisition, date placed in service, location of the property and in the case of movable items, the manufacturer's name or number and the company's number or designation necessary to complete identification".

Company Comment

The Company will add this level of detail as required to the plant additions records from 2014 going forward.

Audit Comment

Audit concurs with the Company and would like the new format of the 2014 Continuing Property Records provided to Audit when it is completed.

Audit Issue #6

Meter Retirements

Background

The Company states that they have replaced almost 100% of the residential meters in the system with radio read meters. The LMC filing schedule 3B shows account #334 Meter and Meter Installations additions for 2014 in the amount of $40,081.

Issue

The 2014 annual report and the general ledger show no indication that any meters were retired in the test-year. The Company states that *"the meters that were removed were still held as of the end of the year in case of any customer complaints that required us to test the old meter."*

The Company plans to scrap the meters in 2015 which results in overstating the meter account 334 by the amount of the meters that were replaced. The Company informed Audit that the value of the meters retired for LMC should be $18,307 and for WRWC $2,952, for a total retirement of $21,572.

Recommendation

The Company should timely retire the book cost of the replaced meters and charge the corresponding amount to the accumulated depreciation.

Company Comment

The Company agrees that meters should be retired if they will no longer be used at the time of removal, and will do so going forward. As of 12/31/14, the value of those meters removed was approximately $18,307 for LMC and $2,952 for WRWC.

Audit Comment

Audit agrees with the Company that meter retirements for LMC should be $18,307 and $2,952 for WRWC. Audit also concurs with the Company that the meters should be retired at the time of removal.

Audit Issue #7

Organizational Costs

Background

The General ledger account #301 – Organization Cost shows a May entry dated 5/20/2014 described as Deeds and Fees to Acquire Company in the amount of $9,141.

Issue

The State of NH Uniform System of Accounts for Water Utilities states that fees to acquire land, land rights and water rights including securing rights of way should be charged to account #303 – Land and rights.

Recommendation

The Company should reclassify the entry for $9,141 from account #301 – Organizational Costs to account #303 – Land and Land Rights. The related depreciation for the amount is immaterial for the test year and need not be adjusted.

Company Comment

Agreed.

Audit Comment

Audit concurs with the Company.

Audit Issue #8

Prior Year Retirements

Background

Audit tied the prior years' retirements taken from the annual reports to a spreadsheet titled Book Depreciation provided by the Company for both LMC and WRWC.

Issue

LMC depreciation schedule agrees with the annual report for 2012. However, the schedule did not include the column for the 2010 retirements, therefor Audit was unable to tie the amounts retired from the annual reports to the book depreciation schedule.

Recommendation

The Company should provide to Audit a depreciation schedule showing 2010 retirements that agrees with the annual report for WRWC in 2010.

Company Comment

The Company does not have a depreciation schedule showing 2010 retirements. However, it does have a copy of the 2010 JEs. See attached JEs 10 & 13. JE 10 represents the prior management's determination of certain plant equipment that was on the books that was no longer in service.

Audit Comment

Audit was able to tie the journal entries provided to the plant retirements shown on schedule F-8 - Plant in Service and the corresponding schedule F-11 - Accumulated Depreciation on the 2010 annual report. Refer to the lack of Continuing Property Records Audit Issue #5.

Audit Issue #9

Accounts Receivable

<u>Background</u>

The Purchase and Sales Agreement authorized by the Commission requires that Abenaki account for each of their divisions separately until authorized to do otherwise.

<u>Issue</u>

Audit requested clarification regarding a credit balance for the Lakeland portion, and Abenaki stated that "*…not all of the cash codes were set up correctly so some payments were hitting the wrong account. I [Deborah Carson] just netted the two on our financials. It is one bank account and there is no real need to keep it separate*."

Abenaki has failed to separate the amounts receivable between the three divisions as evidenced by the large debit and credit balances and verification by AWC in General Ledger Account #141-01 LMC (both water and sewer) and 141-02 WRWC.

<u>Recommendation</u>

Audit realizes the amounts may be combined into the same bank account. However, to comply with Commission Order, the company must ensure that the general ledger accounts support the appropriate receivable for each of the three divisions. Audit understands that the Company has petitioned to consolidate the divisions as part of this proceeding.

<u>Company Comment</u>

It was determined to be too burdensome to try and reconcile the accounts, especially given that the goal is to consolidate the divisions. It would also be burdensome to use separate AR accounts for the Lakeland water and sewer accounts.

<u>Audit Comment</u>

The Company must maintain individual divisional general ledger accounts, to comply with the Commission Order establishing the franchise. Further, regardless of consolidation, the Sewer division must be booked to the Sewer accounts identified in the Uniform System of Accounts for Sewer Utilities.

Audit Issue #10

Incorrect GL Account

<u>Background</u>

Each utility shall keep their books and records in accordance with the appropriate water or sewer Uniform System of Accounts (chart of accounts).

<u>Issue</u>

Audit noted the following errors related to where accounting entries are posted:
#141-03, Other Accounts Receivable should be booked to account #142
#641, Water Testing should be booked to account #642
#642, Water Treatment should include labor only, chemical costs should be in #641

#361 noted on the annual report for Collection Sewers/Gravity, is the proper account to use. However, Audit verified the $100,000 to the general ledger account 331-01-00, T&D Mains-Sewer.

Due to the use of the class C annual report form, the following were reflected in accounts other than where they would be noted if the Company used the class A/B form:

#173-xx, Accrued Utility Revenue is properly booked, but due to the use of the class C form is listed as account #174, Miscellaneous Current Asset

The following were included in the Miscellaneous Deferred Debits account #186

#125-01	CoBank Investment
#181-01-00	Unamortized Debt Expense
#183-14-09	Due Diligence-Dockham Shores
#183-14-11	Prep. Acquisition-Millbrook
#183-14-13	Petition for Monthly Billing
#183-14-14	Deferred Sewer Increase
#301-00-00	Organizational Costs

<u>Recommendation</u>

AWC must book all entries to the proper NH PUC account. Audit also recommends that, due to the combined size of Abenaki and its level of accounting sophistication, it use the PUC annual report form for class A/B companies, rather than the smaller form for class C companies.

<u>Company Comment</u>

The Company belives the CoBank Investment, Unamortized Debt Expense, Due Diligence-Dockham Shores, and Prep. Acquisition-Millbrook accounts were all appropriately classified on the trial balance as Other Investments, Unamortized Debt

Expense, and Preliminary Survey & Investigations, respectively. The Company agrees that the last three accounts should be in 186 accounts.

Audit Comment

Audit agrees that each listed amount within the 186 annual report line item is appropriately booked on the Company's general ledger. The issue identified the location of each on the PUC Annual Report.

Each division alone is a Class C company. The combined Abenaki Company is a Class A. The class distinction is important, as the larger company annual report includes specific lines for accounts identified by Abenaki.

Because the Company addressed only those accounts listed in 186, and did not address the first five accounts, Audit reiterates the issue, and recommends that the appropriate account be used for each.

Audit Issue #11

Receivable Aging does not Agree with the General Ledger

Background

Audit reviewed the Accounts Receivable general ledger account balances and compared the total with the Accounts Receivable aging provided by the Company.

Issue

Account 141-01 Accounts Receivable –Customers-LMC	$(28,211)
Account 141-02 Accounts Receivable –Customers-WRWC	$ 29,276
Net due from Customers per general ledger	$ 1,065
Aging of receivables	$ 1,864

Recommendation

The Company must reconcile the general ledger with the aging detail to ensure that all customer payments have been properly accounted for and posted to the proper customer billing account.

Company Comment

Agreed. The account has since been reconciled.

Audit Comment

Audit concurs with the Company

Audit Issue #12

Account Balances do not Match

Background

Audit reviewed the Annual Report and Filing balances for:
Account 224- Long Term Debt
Account 231- Accounts Payable
Account 241- Miscellaneous Current and Accrued Liabilities

Issue

The account balances on the Annual Report/Filing do not match the GL.

Account 224- Long Term Debt- The Annual Report/Filing lists a balance of $252,802 while the GL lists a balance of $279,007.

Account 231- Accounts Payable- The Annual Report/Filing lists a balance of $18,265 while the GL lists a balance of $9,425.

Account 241- Miscellaneous Current and Accrued Liabilities- the Annual Report lists a balance of $35,690 while the GL lists a balance of $0.

The Company stated that its external auditor recommended accounting for the current portion of the long term debt, but without the appropriate adjusting entries the amounts should not have been reflected in the manner that they were.

Recommendation

The Company must ensure that its annual report reflects the general ledger. As recommended previously, the Company should use the annual report form for class A/B companies, rather than that form used for class C companies.

Company Comment

Agreed.

Audit Comment

Audit concurs with the Company.

Audit Issue #13

Taxes

Background

NH municipal property tax bills are issued twice per year, covering the time period of three months before and three months after the date of the issue. Accounting for the expense portion of 2014 taxes, should include the second half the second 2013 issue, the entire 2014 first issue and half of the 2014 second issue. The remainder, either over or under expense would then be placed in the appropriate prepaid asset or accrued tax liability account. In addition, any over payment of State taxes, through estimated payments should also be reflected as a prepaid asset.

Issue

Abenaki did not debit any prepaid asset account or credit the accrued tax liability account for the portion of the tax issues that were for periods other than 2014. The following over/(under) expense totals were calculated by Audit:

#408-03 State	over expensed by $241	should be in Prepaid Property Tax
#408-01 Belmont	over expensed by $253	should be in Prepaid Property Tax
#408-02 Bow	under expensed by $(210)	should be in Accrued Tax Liability

Recommendation

Audit recommends debiting the prepaid tax asset account $494 and crediting the accrued tax liability account for the 2015 portion (half) of the second 2014 tax issue $(210). Audit also recommends that the Company calculate the property tax payments to conform to the tax period of the state of New Hampshire.

Company Comment

The Company agrees to this method going forward. At this point in the year, the Company does not want to amend the audited financials or PUC Report.

Audit Comment

Audit concurs with the Company comment and agrees that the net over-expense of $284 is not material enough to warrant amending the financial statements.

Audit Issue #14

Bill Forms

Background

Each utility shall ensure the bills they send to customers for service meets the minimum requirements set forth by the NH PUC.

Issue

Abenaki has failed to ensure their bills contain the minimum components required by the NH PUC such as the date of next meter reading and all factors necessary to compute the charges.

Recommendation

Audit recommends the company ensure the following required PUC information is added to their bills forms:

1203.06 (c)(1) The date of the next meter reading

1203.06 (c)(6) All Factors necessary to compute the charges (specifically the usage rate per the customer rate class).

Company Comment

The Company includes… items on the back of the bill form (see attached). The approximate or estimated date of the next meter reading can be added to the bill message going forward. As the rates are pending, the Company can include the new usage rates once approved on the back of the preprinted bill form as well.

Audit Comment

Audit recommends that the Company comply explicitly with the 1200 rules. The customer invoice, on the face, should reflect the information above.

Audit Issue #15

Contract with Laconia

Background

The settlement agreement approved by Commission Order #25,621 required Abenaki to attempt to formalize its agreement with the City of Laconia for the treatment of Lakeland's sewage.

Issue

As of the date of this report, the Company does not yet have a formalized agreement with the City of Laconia.

Recommendation

Audit recommends that the Company continue to demonstrate their ongoing determination to formalize an agreement with the City of Laconia for treatment of its sewage, in compliance with the settlement agreement.

Company Comment

On August 21, 2014, Alex Crawshaw and Donald Vaughan met at the office of Paul Moynihan, Laconia Public Works Director to establish a sewer agreement with Abenaki Water Company. In the absence of a response, Donald Vaughan followed up on the meeting via an e-mail dated September 29, 2014. When there was still no response, Donald Vaughan sent an e-mail to Paul Moynihan for assistance in developing a contract to comply with the PUC's request. There has been no reply. It appears that Laconia has no motivation to execute the requested contract.

Attachments: D. Vaughan e-mails dated 8/21/14, 9/29/14, and 5/29/15.

Audit Comment

Audit appreciates the update and related emails (which are now on file with the Company's response). Audit encourages the Company to continue trying to document the agreement between the Company and the City.

Audit Issue #16

Expenses

Background

Each utility shall ensure the expenses included in their filing meet the requirements for inclusion and consideration in their rate petitions.

Issue

Throughout the audit, Abenaki and PUC Audit have identified a list of expenses and transactions that need to be both removed and added to the expenses incurred that wish to be considered for inclusion in the new rate making process. A few of these include:

-Adding Abenaki's cost to rent space in the CT office of $3,090 to account #930
-Removing 1.5 months of prepaid generator charges of $59 from #633
-Removing the Admin & General Salaries of $4,071 from account #920
-Removing $390 of Regulatory Expenses from account #928
-Removing $371 of prepaid expenses from account #930

Recommendation

Audit recommends adjusting the filing schedules to which each of the identified charges, as well as any other the Company determines, should be added or removed.

Company Comment

Agreed, subject to twelve months of expense being recorded in the test year for the prepaid and regulatory expenses in question.

Audit Comment

Audit concurs with the Company comment.

Audit Issue #17

Accounting for Divisions Separately

Background

As found on page 8 of Order 25,621 authorizing the Purchase and Sale to Abenaki, no change in rates was requested at the time. In addition, the current docket, DW 15-199 requests to consolidate the water rates but keep separate the sewer rate.

Issue

In order to continue to present the financial information of each of the companies purchased for determination of new rates, Abenaki must account for each division separately. In more than one instance it appears as if costs attributed to Lakeland Water GL accounts should have been split between Lakeland Water and Lakeland Sewer GL Accounts.

Recommendation

Audit recommends establishing all appropriate sewer accounts per the Chart of Accounts to properly separate the Lakeland Water and Sewer expenses.

Company Comment

The Company agrees to work with the PUC recommendation and do this wherever possible.

Audit Comment

Audit concurs.