

# STATE OF NEW HAMPSHIRE

## Inter-Department Communication

**DATE:** June 9, 2021  
**AT (OFFICE):** NHPUC

**FROM:** PUC Audit Staff

**SUBJECT:** Hampstead Area Water Company, Inc.  
**FINAL** Audit Report, DW 20-117

**TO:** Stephen Frink, Director, Gas/Water Division  
Jayson Laflamme, Assistant Director, Gas/Water Division  
Anthony Leone, Utility Analyst III  
David Goyette, Utility Analyst III  
Christopher Tuomala, Hearings Examiner

### Introduction

Hampstead Area Water Company, Inc. (HAWC, Company) provides water service to approximately 3,994 customers in 13 southern NH towns. On November 24 2020, HAWC filed a petition with the Public Utilities Commission (PUC) for permanent rate increases to base charges and volumetric charges based on a tiered rate system. The Company is also proposing to implement a Water Infrastructure and Conservation Adjustment program (WICA). The filing request was based on the calendar year 2019, with the audit conducted for the period since the prior rate case that ended December 31, 2016, through the current test year December 31, 2019.

### Management Agreements

The current agreement with Lewis Builders is dated July 1, 2012. Management Fees and Rents totaled \$16,928 per the 2019 general ledger, account 931. Office supplies are provided by Lewis at Lewis' cost, plus overhead. Other services provided to HAWC include: accounting, legal advice, legal secretary, truck repair and maintenance, payroll services, real estate services, tax service, mailing, maintenance and repair, and management services. For all services provided by Lewis, a labor burden then overhead is added. The labor burden and overhead rates for 2017 through 2020 are shown below:

<u>Year</u>	<u>Labor Burden</u>	<u>Overhead</u>
2017	63%	13%
2018	67%	11%
2019	63%	11%
2020	48%	23%

The Management / Service / Rental Agreement automatically renewed from year to year (until and unless notice is given). The agreement provides for a 5% recurring annual increase. As such, the pro forma adjustment reflects the 5% annual increase.

The Company states that there is no written contract with Stephen P. St Cyr and Associates for ongoing account services. Mr. St Cyr's testimony provides the agreed upon hourly fee of \$140 per hour, plus expenses, on page 22, Bates Page 000056.

The Internal Financial Reports were included in Tab 15, bates page 000124 of the rate filing. This consisted of the Balance Sheet and Income Statement for the year-to-date 2018 and year-to-date 2019. Audit reviewed the internal financial report figures to verify that they agree with filing amounts. No exceptions were noted

### **Internal Controls**

The Company informed Audit that the bank reconciliations are performed on a monthly basis for all the cash accounts and that cash receipts are deposited daily, Monday through Friday. The check signing authority is dedicated to Chris Morse, Harold Morse, John Sullivan and Laurie Huberdeau. Management approves all write-offs of accounts receivable balances. All time cards are approved by supervisors and the payroll register is approved before releasing payroll.

### **CURRENT AND ACCRUED ASSETS**

#### **HAWC Cash and Bank Reconciliation**

The Company provided the bank reconciliations for each account which Audit verified to the 12/31/2019 NHPUC annual report, the filing schedule 2, page 1 of 2, and the following general ledger accounts without exception:

1-00-131.02	Cash-Checking - TD Bank	\$ -
1-00-131.10	Cash - Credit Card Escrow	\$ -
1-00-131.20	Checking - Pentucket	\$ 23,114
1-00-131.25	Money Market - Pentucket	\$ 3,846
1-00-131.30	Payroll - Pentucket	\$ 13,560
		<hr/>
		\$ 40,520

The general ledger shows the TD Bank checking account, 1-00-131.02 with no activity after August, 2019 and a zero ending balance. The Company stated that during the year, they switched from TD Bank to Pentucket Bank, thus the zero balance.

From the prior 2016 rate case, the Company stated the credit card escrow account is not an actual bank account and that they go on-line to use the credit card company's website which is why no statement is provided. This account, 1-00-131.10 shows no activity after May, 2019 and a zero balance. HAWC stated that they do not use the credit card escrow account anymore.

The billing\credit card software implemented in May 2019 handles the credit cards in a different way. The Company states that *“the previous credit card company put the money in a separate account before transferring it to our cash account. The new credit card company puts the money directly into our account.”*

The Pentucket Bank checking account, 1-00-131-20 is used as the general operating account which showed a year-end balance of \$23,114 on the general ledger. This amount agreed with the bank reconciliation as of December 31, 2019.

The general ledger account 1-00-131.25 - Pentucket Money Market showed a beginning balance of \$11,612 with total debits of \$100,233 and total credits of \$108,000 resulting in a year-end balance of \$3,846. This amount agreed with the Pentucket Bank reconciliation for December 31, 2019.

The payroll account 1-00-131.30 is for all HAWC payroll transactions. The general ledger showed a beginning balance of \$6,016 with total debits of \$383,100 and total credits of \$375,556 resulting in a year-end balance of \$13,560. The activity includes net payroll, quarterly payroll taxes, and bank fees. The ending balance in the account agreed with the Pentucket Bank reconciliation for December 31, 2019. Refer to the Payroll portion of this report for additional information.

#### Accounts Receivable

Audit verified the reported Accounts Receivable balance of \$307,114 on the filing Schedule 2, Page 1 of 2, and the 2019 NHPUC Annual Report Schedule 19 – Notes and Accounts Receivable to the following general ledger accounts:

1-00-141.00	Water Customers	\$ 70,622
1-00-141.50	Accounts Receivable	\$ 10,764
1-00-142.01	Grants Rec: Kent Farm	\$ 68,815
1-00-142.02	Grants Rec: ATK/Hamp Interconnect	\$ 156,913
		<u>\$ 307,114</u>

Audit was unable to review an aging report for the test-year 2019. The Company explained that in 2019, they purchased new billing software which allows them to run a current accounts receivables report but it does not allow them to go back in time to print an old aging report. HAWC also stated that they would have had to purchase the full financial package for them to be able to run past aging reports and did not discover the situation until 2020. HAWC explained that they now automatically run and save a receivables aging report at the end of each month. The Company did provide an account balance report which showed active and inactive balances for all customers as of the end of 2019 and January, 2020. This report was used by Audit to sample customers' bills in the Tariff section of this report. The 2019 NHPUC annual report shows that the accounts receivable balance increased 23% from 2018.

NHDES Grant Receivable – Kent Farm System Interconnection Grant

The Department of Environmental Services (DES) originally granted HAWC a New Hampshire Water System Interconnection Grant (SIG) in the amount of 90,885, 25% of the final interconnection cost of \$363,541. The Company recorded the NHDES Grant as a receivable on its books in 2009 as Kent Farm SIG for \$90,885. Two adjusting entries were posted in March of 2019 netting to \$789 and offset to account 1-00-271.00 - CIAC. Two credit entries were posted in May and November 2019 both for \$4,095 and resulted in an ending balance of \$68,815 which agreed with the 2019 Annual Report.

NHDES Grant Receivable – Atkinson/Hampstead Interconnection

The DES granted HAWC a New Hampshire Water System Interconnection Grant in the amount of 264,587, 25% of the final project cost of \$1,058,347. The grant was approved by the Governor and Executive Council on December 11, 2007. The Company recorded the NHDES Grant as a receivable on its books in 2009 as the Atkinson/ Hampstead Interconnection, \$264,587. An adjusting entry was posted in May and two credits were posted in May and November 2019, for \$8,761 each resulting in an ending balance of \$156,913 which agreed with the 2019 Annual Report. The adjusting entries were offset to account 1-00-271.00 – CIAC.

Material and Supplies

The Company stated that a physical inventory is performed annually and the last inventory was done on December 23, 2020. Audit verified the filing Schedule 2, Page 1 of 2 amount of \$37,237, to the 2019 NHPUC Annual Report and the following general ledger accounts without exception:

Account 1-00-151.00 - Meters & Meter Stock	\$ 2,335
Account 1-00-151.05 - Pumps & Other Stock Items	<u>\$34,902</u>
Total Materials & Supplies	\$37,237

Audit reviewed the entries to the two accounts. Both accounts show year-end entries for adjusting inventory.

Prepayments – Other Account #162 - \$33,768

According to schedule F-23 of the 2019 Annual Report, the balance was the sum of:	
Prepaid Insurance	\$25,928
Miscellaneous Prepayments.	<u>\$ 7,840</u>
	\$33,768

The Company maintains monthly spreadsheets that calculate the annual payments, the expenses for the current period of each policy or agreement, and the resulting calculated prepayment or (accrual) balance. The expense accounts to which debit entries should be posted were noted. Details supporting the 12/31/2019 balance were verified to be:

	<u>4/15/19 - 4/15/20</u>	<u>Paid Thru 12/31/19</u>	<u>Expense 4/15/19 - 12/31/19</u>	<u>(Accrued) Prepaid 12/31/19</u>	<u>One Month Expense</u>	<u>Expense Acct #</u>
Package, Auto, Umbrella	39,868.00	39,916.00	20,538.06	19,377.94	2,416.24	1-10-925.00
W/C 4/15/19- 9/01/20	12,155.00	12,155.00	5,605.28 *	<u>6,549.72</u>		
Total Insurance				<u>25,927.66</u>		
Pulsar Alarm (4td Qu. 2019)		798.00	798.00	0.00	266.00	1-10-624.00
Pulsar Alarm (1st Qu. 2020)		798.00		798.00		1-10-624.00
TiSales - Meter gun warranty 7/1/19 - 6/30/20	3,443.04	3,443.04	1,721.52	1,721.52	286.92	1-10-902.00
CUSI Web Portal 4/1/19-3/31/20		1,500.00	1,125.00	375.00	125.00	1-10-921.00
ECL - Generator Serv 12/13/18-12/13/19		4,148.00	4,148.00	0.00	172.83	1-10-633.00
ECL - Generator Serv 12/13/19-12/13/20		5,161.00	215.04	4,945.96	215.04	
Health Insurance		3,037.49	3,037.49	<u>0.00</u>		1-10-926.00
Total Miscellaneous Prepayments				<u>7,840.48</u>		
	<u>55,466.04</u>	<u>70,956.53</u>	<u>37,188.39</u>	<u>33,768.14</u>	<u>3482.035</u>	

Audit requested and was provided with the Package, Auto, Umbrella insurance policies' cover sheets for the periods 4/15/18 - 4/15/19 and 4/15/19 - 4/15/20. The annual policies were issued through insurance agent Brown & Brown of New Hampshire, Inc.:

	<u>4/18-4/19</u>	<u>4/19-4/20</u>
Package	\$14,634	\$22,975
Auto	\$ 9,554	\$13,207
Umbrella	<u>\$ 2,307</u>	<u>\$ 3,686</u>
	\$26,543	\$39,868

The Package policy represents general liability and property insurance for Hampstead Area Water Company, Inc., automobile coverage is for trucks owned by HAWC, and the commercial umbrella policy for all other risks of HAWC. The column entitled "Paid thru 12/31/19" represents the rolling calculation of the payments expensed in the calendar year vs. the policy year. Each was reviewed without exception. Refer to the Operations and Maintenance portion of this report for additional information.

### Accrued Utility Revenues

Accrued utility revenue represents the unbilled portion of revenue related to a specific year. Audit verified the reported amount from the 2019 NHPUC annual report schedule F-24, Other Current and Accrued Assets, the filing schedule 2, page 1 of 2, bates page 000084 and to the following general ledger account:

Account 1-00-173.00 - Accrued Utility Revenues \$129,220

Account 1-00-173.00, Accrued Utility Revenues reflected a net change for the year of \$(586). Audit reviewed the unbilled revenue calculations for the month end December 2019 and January 2020. Entries are automatic reversals. The December Estimated Billing amount of \$129,220 was verified to the billing summary by system as of December 31, 2019. The January reversal entry, in the amount of \$129,220 was similarly supported. There were no exceptions noted.

Deferred Debits \$1,163,245

Audit verified the reported balance on NHPUC Schedule F-28, Miscellaneous Deferred Debits, to the NHPUC 2019 annual report and the filing Schedule 2, page 1 of 2, Bates page 000084. The balance related to the following:

PUC Annual Report Schedule F-28 account 186	12/31/2018	2019 Debits	2019 Credits	12/31/2019
08-065 2008 Rate Case-Dearborn Well	\$ 11,604	\$ -	\$ (1,097)	\$ 10,507
08-065 2008 Rate Case-Bryant Woods Well	\$ 4,506	\$ -	\$ (426)	\$ 4,080
Rainbow Ridge Extension	\$ 11,751	\$ -	\$ (840)	\$ 10,911
Little River Purchase	\$ 5,394	\$ -	\$ (354)	\$ 5,040
Village Drive Well Replacement	\$ 20,230	\$ -	\$ (421)	\$ 19,809
Eastwood Well Replacement	\$ 22,118	\$ -	\$ (460)	\$ 21,658
Manchester Water Works	\$ 74,137	\$ 912,039	\$ -	\$ 986,176
Deferred Rate Case (including PUC Audit & ROE)	\$ 58,749	\$ -	\$ (58,749)	\$ -
Atkinson Tank	\$ 61,424	\$ 4,644	\$ (66,068)	\$ -
Pentucket LOC	\$ 2,534	\$ 2,603	\$ (5,137)	\$ -
Tisdale emergency Connection	\$ 8,153	\$ 12,755	\$ -	\$ 20,908
New Billing Software	\$ 19,997	\$ 54,539	\$ (74,536)	\$ -
Sawmill Ridge well	\$ 94,860	\$ -	\$ (94,860)	\$ -
Bartlett Brook Well	\$ 56,038	\$ -	\$ -	\$ 56,038
Kelly Green	\$ -	\$ 9,126	\$ -	\$ 9,126
CIAC Tariff	\$ -	\$ 7,026	\$ -	\$ 7,026
Kent Farm Legal	\$ -	\$ 11,639	\$ -	\$ 11,639
subtotal F-28 Miscellaneous Deferred Debits	\$ 451,495	\$ 1,014,371	\$ (302,948)	\$ 1,162,918
20-XXX 2020 Rate Case on F-28	\$ -	\$ 327	\$ -	\$ 327
<b>Total per Schedule F-28</b>	<b>\$ 451,495</b>	<b>\$ 1,014,698</b>	<b>\$ (302,948)</b>	<b>\$ 1,163,245</b>
ACTUAL GL 10-00-186.2, Other Deferred Debits	\$ 392,746	\$ 1,063,915	\$ (293,742)	\$ 1,162,918
ACTUAL GL 1-10-186.1 Deferred Rate Case Expenses	\$ 58,749	\$ 42,816	\$ (101,238)	\$ 327
Total Combined Deferred Debit Accounts	\$ 451,495	\$ 1,106,731	\$ (394,980)	\$ 1,163,245

Audit reviewed several of the deferrals for Commission authorization, and general ledger activity for the test-year 2019.

The 08-065 Rate Case \$10,507 represents the remaining balance of \$21,927 costs incurred for well-drilling at Dearborn Ridge. The well proved to be unproductive. The costs were part of a settlement agreement in the referenced rate case, and were authorized for amortization over 20 years. Debit offsets were verified to account 1-10-407.0, Amortization Expense-Other.

The 08-065 Rate Case \$4,080, as above, represents the remaining balance of original costs \$8,515 for an unproductive well at Bryant Woods. The settlement agreement also allowed for amortization of the costs over 20 years. Debit offsets were verified to account 1-10-407.0, Amortization Expense-Other.

The Rainbow Ridge \$10,911 reflect the remaining balance of the original \$16,787 related to expenses incurred by the Company to extend the main at Rainbow Ridge to service potential customers at the Beede Superfund Site. The Beede Group eventually decided on an alternate water source. The costs incurred for the extension are being amortized over 20 years starting in January 2013. Debit offsets were verified to account 1-10-407.0, Amortization Expense-Other.

Little River Purchase, \$5,040 remaining of the original \$7,074 deferral. The first amortization entry was made on 4/14/2014, coinciding with Order #25,636 issued on 3/14/2014 in docket DW 13-323, which approved the acquisition of the Little River system in Plaistow. The credit of \$(354) was recalculated without exception as \$7,074 / 20 years. Debit offsets were traced to account 1-10-407.0, Amortization Expense-Other.

Village Drive Well Replacement \$19,809. Per Order 25,519, issued 6/7/2013 the Company was authorized to amortize \$20,473 over 20 years for costs associated with the unproductive Village Drive Well (West Side Drive in Atkinson, NH). As noted in the prior rate case audit, *"HAWC had not started the Village Drive amortization. The books and records of HAWC list a total deferred amount of \$20,660, a variance of \$187 that was noted as a debit in 11/2016 for work performed by Steve St. Cyr. This amount was incurred in connection with the Wells Village construction (approved in 2016) in Sandown, NH and should not have been added to the Village Drive Well deferred balance. Audit understands the adjustment to the 2016 amortization expense and balance is being addressed by the Staff of the Water Division of the PUC."* The adjusted total being amortized is \$20,415. Actual amortization of the Village Drive Well Replacement began in September 2019 with a "catch-up" amortization entry of \$(352.90), then monthly credits to the -186.02 account in October, November, and December for \$(84.29) each. Debit offsets were traced to account 1-10-407.0, Amortization Expense-Other.

Eastwood Well Replacement \$21,658 is also a remaining balance related to an unproductive well, being amortized over 20 years (see docket DW 05-051). Debit offsets were verified to account 1-10-407.0, Amortization Expense-Other.

Manchester Water Works \$986,176 Audit reviewed an invoice from Manchester Water Works dated 6/20/2019 for \$892,500 for out-of-town residential water service installation charge. The reference is also known as the Merrimack Source Development Charge of \$3.57 on 250,000 gallons per day. The credit offset was part of a total \$(968,302.64) summary entry to account 1-00-131.20.

The credit of the Deferred Rate Case (Audit and RoE) \$(58,749) was verified to the beginning balance of the Deferred Rate Case Expenses account 1-00-186.01. Activity in that account showed:

1/1/2019 Balance	\$ 58,749.43
Total Debits	\$ 42,815.72
Total Credits	<u>\$(101,238.10)</u>
12/31/2019 Balance	\$ 327.65

All of the credit activity in the 186.01 account was debited to Regulatory Commission Expense, account 1-10-928.00. Refer to the Operations and Management section of this report for additional information.

The credit of the Atkinson Tank \$(66,068) was verified to the following adjusting entry:

AE #22

Debit CWIP account 1-00-105.00	\$50,000
Debit Unamortized Debt Discount and Expense 1-00-181.00	\$16,068
Credit Other Deferred Debits 1-00-186.02	\$(66,068)

Tisdale Emergency Connection \$20,908. In conjunction with dockets DW 18-128 and DW 19-011, these costs were incurred due to a temporary emergency connection to the Tisdale Trailer Park in Salem and subsequent permanent expansion to the park. Audit verified expenses incurred in 2019 totaling \$11,516.97. All 2019 expenses were verified to invoices from Stephen P. St. Cyr and Associates and from the legal division of Lewis Builders Development, Inc.

New Billing Software costs of \$74,479 were accumulated in the deferral account and transferred to Computer Equipment, account 1-00-347.00 on 9/30/2019. Refer to the Plant section of this report for additional information.

The Sawmill Ridge Well credit of \$(94,860) was verified to a May 22, 2019 entry, the offset of which was a debit to account 1-00-131.20, Checking-Pentucket. The payment is a reimbursement for LBD.

Kelly Green, \$9,126 costs relate to the petition for an expansion of the franchise area into Sandown to service a 22 unit townhouse style apartment development called Kelly Green (see docket DW 19-031). The building is owned by Lewis Builders, Inc. Costs related to docket DW 19-031 in 2019 were \$2,224 from Stephen P. St. Cyr and \$6,902 from Lewis Builders Development, Inc. The totals were verified to invoices specifically relating to the Kelly Green petition and legal hours for the development.

Kent Farm Legal \$11,639 were costs incurred by Lewis Builders Developers, Inc. legal department. Audit verified the total to monthly invoices supported with timesheets. Each timesheet outlined hours spent working on the litigation related to the lawsuit filed by eight Hampstead NH homeowners and one tenant at the Kent Farm development, and work with the outside attorney assigned by HAWC's insurance company. HAWC is operating a DES permitted well, and the complaint alleges HAWC deprived them of groundwater as a result.



## Plant in Service

As of December 31, 2019, Utility Plant in Service summed to \$17,801,797 per the general ledger and the NHPUC annual report schedule F-8 – Utility Plant in Service. Filing schedule 3, Rate Base Plant in Service totals \$17,807,797 that is higher by \$6,000, to which the Company attributed the variance as a typographical error. **Audit Issue #1**

Utility Plant in Service (101)	\$17,801,797
Property Held for Future Use (103)	\$ 75,064
Construction Work in Progress (105)	\$ 1,978,798
Total Utility Plant (101 – 106)	\$19,855,659

## Additions and Retirements to Plant

Activity since the prior audit (DW 17-118, test year ended 2016) was reviewed with the following additions, retirements and adjustments noted within each PUC annual report:

2017	\$17,026,067	representing a 3.8% increase over the 2016 balance
2018	\$17,409,617	representing a 2.25% increase over the 2017 balance
2019	\$17,801,797	representing a 2.25% increase over the 2018 balance

## Plant In Service Activity, 2017 - 2019

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Transfers</u>	<u>Ending Balance</u>
2017	\$ 16,399,826	\$ 662,411	\$ (36,169)	\$ -	\$ -	\$ 17,026,068
2018	\$ 17,026,068	\$ 490,772	\$ (107,222)	\$ -	\$ -	\$ 17,409,618
2019	\$ 17,409,618	\$ 560,745	\$ (168,563)	\$ -	\$ -	\$ 17,801,797

Plant Additions	Beginning 1/1/2019	2019 Additions	2019 Retirements	2019 Adjustments	Ending 12/31/2019
301 - Organization	\$ -	\$ -	\$ -		\$ -
302 - Franchises	\$ 46,415				\$ 46,415
303 - Land and Land Rights	\$ 89,875	\$ 4,141			\$ 94,016
304 - Structures and Improvements	\$ 1,282,931	\$ 86,592			\$ 1,369,523
304 - Structures and Improvements	\$ -				\$ -
305 - Collecting and Impounding Reservoirs	\$ -				\$ -
306 - Lakes, Rivers and Other Intakes	\$ -				\$ -
307 - Wells and Springs	\$ 1,022,407	\$ 5,753			\$ 1,028,160
308 - Infiltration Galleries and Tunnels	\$ -				\$ -
309 - Supply Mains	\$ 106,525	\$ 13,407			\$ 119,932
310 - Power Generating Equipment	\$ -				\$ -
311 - Pumping Equipment	\$ 1,636,922	\$ 88,214	\$ 12,739		\$ 1,712,397
320 - Water Treatment Equipment	\$ 768,644	\$ 93,628	\$ 40,998	\$ (1)	\$ 821,273
330 - Distribution Reservoirs and Standpipes	\$ 1,673,965				\$ 1,673,965
331 - Transportation and Distribution Mains	\$ 6,242,505	\$ 7,301			\$ 6,249,806
333 - Services	\$ 2,250,897				\$ 2,250,897
334 - Meter and Meter Installations	\$ 1,487,932	\$ 187,230	\$ 61,278	\$ (1)	\$ 1,613,883
335 - Hydrants	\$ 158,156				\$ 158,156
339 - Other Plant and Miscellaneous Equipment	\$ 303,311				\$ 303,311
339.03 - Other Plant and Miscellaneous Equipment	\$ -				\$ -
340 - Office Furniture and Equipment	\$ 1,420				\$ 1,420
341 - Transportation Equipment	\$ 236,649				\$ 236,649
343 - Tools, Shop and Garage Equipment	\$ 3,975				\$ 3,975
344 - Laboratory Equipment	\$ -				\$ -
345 - Power Operated Equipment	\$ -				\$ -
346 - Communication Equipment	\$ -				\$ -
347 - Computer Equipment	\$ 97,089	\$ 74,479	\$ 53,548		\$ 118,020
348 - Miscellaneous Equipment	\$ -	\$ -			\$ -
Total Plant in Service 101	17,409,617	\$ 560,745	\$ 168,563	\$ (2)	17,801,797

There was a DW 17-128 Step Adjustment Audit Report issued April 12, 2018 that indicated the additions were \$614,471. There was an issue with meter change outs where the labor to remove the old meter change outs was higher than the labor for the installation of new meters, among other costs. This resulted in a \$50 per meter extra charge that based on 174 meters totaled \$8,700. The Company indicated this was immaterial which is true for each installation but in aggregate the costs are material as more meters are installed. Refer to the Meters discussion below.

### **Continuing Property Records**

The Sage Fixed Asset system is an all-encompassing online system which demonstrates asset, depreciation years and rate, the system and service number, copies of supporting invoices as applicable, descriptions and locations of assets, the acquisition date, the system name, town, general ledger account number for the plant, depreciation expense and accumulated depreciation, the name of the vendor, serial numbers as applicable, contribution in aid of construction detail as applicable, replacement value, warranty date as applicable, asset total for book and tax purposes, among other information, among other items.

The Company on the fixed asset report indicated there was a “999 dummy entity” account that is used to record the unrecorded losses on the disposal of plant. The PUC does not allow utilities to record a loss on the disposal of plant. When a plant asset is not fully depreciated and is disposed, the Company books an entry to remove the assets on the books as if it was fully depreciated. This leaves behind a debit in the accumulated depreciation account and if applicable, a credit in the accumulated amortization account. The Sage depreciation program is not able to dispose of an asset this way. Therefore, in the depreciation program, when an asset is disposed and is not fully depreciated a new 999 asset is created. This new asset is the undepreciated/unamortized portion of the disposed asset. The Company Controller indicated this was the only way he could manage to reconcile the accumulated depreciation and accumulated amortization on the books to the amount in the depreciation program.

The 2019 plant in service beginning balance is \$17,409,617 per the GL but the CPR had a beginning balance of \$17,495,157. This is a (\$85,540) difference. The 2019 plant in service ending balance of \$17,801,797 per the GL while the CPR had an ending balance of \$17,919,596. This is a difference of (\$117,799). Audit reviewed the 999 account reconciliation reports prepared by the Company for the additions that showed the true up. The Company Controller takes the total 999 assets and deducts from the amounts shown on the fixed asset reports. The resulting balance on fixed asset reports agree with the general ledger.

	Per F-8 PUC Annual Report	2019 Fixed Asset Summary Report	Variance
2019 Beg. Bal	\$ 17,409,617	\$ 17,495,157	\$ (85,540)
2019 Additions	\$ 560,745	\$ 583,223	\$ (22,478)
2019 Retirements	\$ (168,565)	\$ (158,784)	\$ (9,781)
2019 End Bal.	<b>\$ 17,801,797</b>	\$ 17,919,596	\$ (117,799)
Account 999 True-up		\$ (117,799.00)	
Adjusted Summary Report		<b>\$ 17,801,797</b>	

## Meters

The activity on the 2019 fixed asset report had a \$9,780 variance for the account 334 Meter additions and retirements when comparing figures on the F-8 annual report. The meters additions per the annual report are \$187,230 and per the CPR they were \$177,450, a difference of \$9,780. The meters retirements per the annual report are \$61,278 and per the CPR they are \$51,498, a difference of \$(9,780). The Company indicated to Audit the debit and credit activity on the annual report and filing schedules were overstated by \$9,780 but the year-end balance reconciles to the CPR fixed asset report and general ledger.

	F-8, GL, Filing	Fixed Asset Summary Report	Variance
Beginning Balance	\$1,487,932	\$1,487,932	\$-0-
Additions	\$ 187,230	\$ 177,450	\$ 9,780
Retirements	<u>\$ (61,279)</u>	<u>\$ (51,498)</u>	<u>\$(9,780)</u>
Ending Balance	\$1,613,883	\$1,613,883	\$-0-

Audit reviewed the 2017-2019 meters accounts on the general ledger and fixed asset reports and noticed the Company charges \$500 for a meter change out and \$450 for a new meter. The Uniform System of Accounts requires that the cost of removal be debited to Accumulated Depreciation and credited to the applicable Plant in Service account. This was also identified as Audit Issue #1 in the DW 17-128 Step Adjustment. Audit quantified the number of meters affected by this for 2018 and 2019 by counting the number of \$500 entries on the annual activity CPR records and multiplying each amount by \$50. The chart below summarizes the \$30,800 figure Audit calculated. **Audit Issue #2**

Per Annual Activity CPR record

<u>Acct #</u>	<u>Account Name</u>	<u>Year</u>	<u># Meters</u>	<u>Total Amount</u>
334	Meters	2018	305	\$15,250
334	Meters	2019	311	<u>\$15,550</u>
Total				\$30,800

**Summary of Systems**

The Company uses Sage 300 CRE for the accounting system and Sage Fixed Assets for the plant accounting assets such as calculating depreciation expense. The two systems are separate and do not integrate with one another.

**Bid Process**

The Company indicated that it does not have a formal bidding process as smaller day-to-day projects are billed consistently with the intercompany rates formula approved in DW 02-128. The Company indicated it went out to a public bid for a large pump station on Westside Drive. There were two bidders and Lewis Builders was the lowest bidder. The West Side Drive pump station did not go into plant in service until 2020 so it does not affect the 2019 test year.

**E-22s and Construction Budgets**

The Company did not file any E-22 Proposed Expenditures for Capital additions or Construction Budget due to the work being done internally with a contractual agreement with Lewis Builders Development.

**Leases**

The Company indicated there were not any capital leases with regard to fixed assets.

## Prior Audit Report

Since the DW 17-118 rate case there was a single step adjustment. The step adjustment Audit Report issued April 12, 2018 recommended a recovery of \$614,471 based on a review of the asset additions booked to plant in service. The filing indicated the Company submitted \$802,305 in asset additions booked. The Audit Report indicated the developer contributions were (\$394,805). The audited half year accumulated depreciation was (\$17,270). The Step assets are summarized below:

<u>Town</u>	<u>Area Name</u>	<u>Account Description</u>	<u>Account</u>	<u>Asset</u>	<u>As Audited</u>	<u>CIAC</u>	<u>Audited 1/2 Yr. A/D</u>
Sandown	Wells Village	Structures	304	\$ 108,600	\$ 108,600	\$ (96,392)	\$ (1,358)
Sandown	Wells Village	Wells & Springs	307	\$ 30,000	\$ 30,000	\$ (26,628)	\$ (495)
Sandown	Wells Village	Supply Mains	309	\$ 60,000	\$ 60,000	\$ (53,256)	\$ (600)
Sandown	Wells Village	Pumping Equipment	311	\$ 109,505	\$ 109,505	\$ (97,196)	\$ (5,475)
Sandown	Wells Village	Water Treatment	320	\$ 30,450	\$ 30,450	\$ (27,027)	\$ (548)
Sandown	Wells Village	Distribution Reservoirs	330	\$ 38,250	\$ 38,250	\$ (33,950)	\$ (421)
Sandown	Wells Village	T&D Mains	331	\$ 48,000	\$ 48,000	\$ (42,604)	\$ (480)
Sandown	Wells Village	Services	333	\$ 20,000	\$ 20,000	\$ (17,752)	\$ (250)
Sandown	Wells Village	Meters	334	\$ 17,500	\$ 16,700	\$ -	\$ (376)
<b>net for Wells Village</b>				<b>\$ 462,305</b>	<b>\$ 461,505</b>	<b>\$ (394,805)</b>	<b>\$ (10,003)</b>
Atkinson	Saw Mill Ridge	Well	307	\$ 115,000	\$ -	\$ -	\$ -
Hampstead	Kent Farm	Well	307	\$ 35,000	\$ -	\$ -	\$ -
<b>net non Wells Village Wells</b>				<b>\$ 150,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Danville	Colby Pond	Pumping Equipment	311	\$ 40,000	\$ 18,171	\$ -	\$ (909)
Sandown/Fremont	Cornerstone	Pumping Equipment	311	\$ 40,000	\$ 17,795	\$ -	\$ (890)
<b>net non Wells Village Pumping Equipment</b>				<b>\$ 80,000</b>	<b>\$ 35,966</b>	<b>\$ -</b>	<b>\$ (1,799)</b>
<b>System</b>	<b>System</b>	<b>T&amp;D Mains</b>	<b>331</b>	<b>\$ 10,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>System</b>	<b>System</b>	<b>Services</b>	<b>333</b>	<b>\$ 5,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
System	System	Meters (100*\$500)	334	\$ 50,000	\$ 87,000	\$ -	\$ (1,663)
		Audit Issue #1			\$ (8,700)		\$ 424
System	System	Meters (100*\$450)	334	\$ 45,000	\$ 38,700	\$ -	\$ (4,229)
<b>net non Wells Village meters</b>				<b>\$ 95,000</b>	<b>\$ 117,000</b>	<b>\$ -</b>	<b>\$ (5,468)</b>
<b>TOTAL Step 2017 assets</b>				<b>\$ 802,305</b>	<b>\$ 614,471</b>	<b>\$ (394,805)</b>	<b>\$ (17,270)</b>

The Audit Report identified two issues. The first Audit issue related to meter change-outs. The second issue identified property tax expenses based on estimates rather than actual costs. The recommendation was to refile a revised schedule based on the actual property tax expense. The meter change-out issue indicated the Company charged an additional \$50 per meter change-out, rather than the cost of the new meter being installed. The additional cost had to do with labor to remove the old meters. The \$50 per meter change-out is immaterial on a per unit basis. However, the dollar impact is more significant as more meters are changed out. The report indicated there were 166 meters changed that meant the meter additions were overstated by \$8,700. Based on a review of the Meter accounts for 2017-2019 this matter has not been resolved. **Audit Issue #2**

### **Overhead Rates**

The Management/Service/Rental Agreement dated July 1, 2012 between Hampstead Area Water Company, Inc. (HAWC) and Lewis Builders Development, Inc. (Lewis) was signed by Christine Lewis Morse, Vice President of HAWC and President of Lewis.

The agreement details all of the services and associated fees as well as the cost of renting office space. Office supplies are provided by Lewis at Lewis' cost, plus overhead. For all services provided by Lewis, a labor burden then overhead is added. An exhibit of costs used to calculate the labor burden and overhead is attached to the agreement, and must be recalculated on or before April 1 of the following year as of December 31 of the previous year.

	<u>Labor Burden</u>	<u>Overhead</u>
2012	74%	34%
2013	66%	22%
2014	62%	17%
2015	59%	15%
2016	63%	15%
2017	63%	13%
2018	67%	11%
2019	63%	11%

### **Property Held for Future Use**

Property Held for Future Use, account #103.00 totaled \$75,064 per the 2019 NHPUC Annual Report schedule F-9, Miscellaneous Plant Data. The account consists of costs for three wells dug in 2007 in the Fieldstone location. The Company indicated there are no plans for when the wells will be used.

### **Franchises Account #302 and Land/Land Rights Account #303**

Franchises, account #302 - \$46,415 included amounts paid in consideration for franchises, consents or certificates for a specific time of more than one year. The only new Franchise assets added since the prior rate case were from the purchase of Bow Lake Estates in 2018. The franchise costs related to Bow Lake Estates were \$9,832.

There was \$13,690 in 2018 activity related to account #303 Land Rights related to the 2018 acquisition of Bow Lake Estates. HAWC's franchise and land costs are shown below:

Bow Lake Estates	\$ 9,832
Black Rock	\$ 2,069
Camelot Court	\$ 1,462
Coopers Grove	\$ 2,789
Cornerstone	\$ 1,462
Cricket Hill	\$ 1,204
Fairfield	\$ 4,977
Hampstead Core	\$ 1,564
Kings Landing	\$ 3,593
Lamplighter	\$ 1,462
Oakhill	\$ 1,157
Sargent Woods	\$ 9,042
Snows Brook	\$ 2,193
Walnut Ridge	\$ 3,066
Waterford Village	\$ 543
Total Franchise Costs #302	\$46,415

Land and Land Rights #303 Prior Rate Case	\$76,185
Bow Lake Estates Land Rights	\$13,690
Total Land and Land Rights #303	\$89,875

### **Plant Additions**

The Company explained that reviewing the plant additions by specific water system is more efficient than by project or work order in their Sage Fixed Asset System. All additions were verified to the Sage Fixed Asset system as well as to the general ledger accounts indicated. Audit then chose specific additions and the related contributions (CIAC) by general ledger account within certain systems to review, as shown below:

Account	Description	Year	Amount
331	Transmission Mains	2017	\$ 48,000
333	Services	2017	\$ 20,000
304	Structures and Improvements	2017	\$ 108,000
309	Supply Mains	2017	\$ 60,000
	Total		\$ 236,000
307	Wells and Springs	2018	\$ 100,644
320	Water Treatment Equipment	2018	\$ 51,673
341	Pickup Truck	2018	\$ 82,659
	Total		\$ 234,976
304	Structures and Improvements	2019	\$ 86,592
347	Computer Equipment	2019	\$ 74,479
	Total		\$ 161,071
	Total All Years		\$ 632,047

### 2017 Additions

The Company provided a bill of sale for \$462,305 for additions that were done during 2017 by the developer Kasher Corporation in DW 16-825 that relates to HAWC purchase of Wells Village. The developer contributed 88.75% to the project. The Company Controller indicated there were not more detailed invoices to review than the bill of sale documentation. The additions and CIAC values are illustrated below.

<u>Account</u>	<u>Description</u>	<u>Amount</u>	<u>CIAC Value</u>
304	Pump house	\$108,600	\$96,392
307	Wells (testing, drilling, engineering)	\$30,000	\$26,628
309	Supply Mains	\$60,000	\$53,255
311	Pumping Equipment	\$109,505	\$97,196
320	Water Treatment Filters	\$30,450	\$27,027
330	Distribution Storage	\$38,250	\$33,950
331	Trans. And Dist. Mains	\$48,000	\$42,604
333	Services	\$20,000	\$17,752
334	Meters	\$17,500	0
Total		\$462,305	\$394,805

### 331.0 Mains

Audit reviewed the transmission and distribution main additions for \$48,000 for the Wells Village portion of HAWC in Sandown that were booked to account 1-00-331.00. The Company did not retire any mains or book any cost of removal charges for the mains. The Company indicated the purpose was to repair the mains to prolong the life of assets. The Company indicated all costs above \$2,000 are capitalized and the anything under that amount is expensed.



The Company provided the Sage System documentation that showed the CPR asset location, Company portion of main installation, and developer contribution portion of the project that were from February 2017. The main additions were unitized to plant in service in November 2017. The Company indicated the work on the mains was done by Kasher Corporation. Audit verified the Company was using the correct 2.0% depreciation rate over a 50 year period for mains per the small water booklet.

Acct. 1-00-331.00, Mains, 11/30/2017 \$48,000

### 333 Services

Audit reviewed the services additions for \$20,000 for the Wells Village portion of HAWC in Sandown that were booked to account 1-00-333.00. The Company did not retire any services or book any cost of removal charges for the services. The Company indicated the purpose was to repair the services to prolong the life of assets. The Company indicated all costs above \$2,000 are capitalized and the anything under that amount is expensed. The Company provided the Sage System documentation that showed the CPR asset location, Company portion of main installation, and CIAC portion of the project that were from February 2017.

The services additions were unitized to plant in service in November 2017. The Company indicated the work on the services was done internally by the developer Kasher Corporation. Audit verified the Company was using the correct 2.5% depreciation rate for services over a 40 year period per the small water booklet.

Acct. 1-00-333.00, Services, 11/30/2017 \$20,000

### 304.0 Structures and Improvements

Audit reviewed the structures and improvements additions for \$108,000 for the Wells Village portion of HAWC in Sandown that were booked to account 1-00-304.00. The work related to the pump house and site related work related to the pump house for the Wells Village portion of the system. The Company provided the Sage System documentation that showed the CPR asset location, Company portion of structure and improvement work, and CIAC portion of the project that were from February 2017. The structures and improvements additions were unitized to plant in service in November 2017. The Company indicated the work on the structures and improvements was done by the project developer Kasher Corporation. Audit reviewed the bill of sale provided by the Company. Audit verified the Company was using the correct 2.5% depreciation rate for structures and improvements over a 40 year period per the small water booklet.

Acct. 1-00-304.00, Structures. And Improvements, 11/30/201 \$108,600

### 309.0 Supply Mains

Audit reviewed the supply main additions for \$60,000 for the Wells Village portion of HAWC in Sandown that were booked to account 1-00-309.00. The work related to installation

of supply mains. The Company provided the Sage System documentation that showed the CPR asset location and 2.5% depreciation rate over a 50 year period. The Company indicated the work on the structures and improvements was done by the developer Kasher Corporation. The supply main additions were unitized to plant in service in November 2017. Audit verified the Company was using the correct 2.0% depreciation rate for supply mains over a 50 year period per the small water booklet.

Acct. 1-00-309.00, Supply Mains, 11/30/2017	\$60,000
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## 2018 Additions

### 307.0 Wells and Springs

Audit reviewed the wells and springs additions for \$100,644 for the Walnut Ridge, Kent Farm, Settlers Ridge, and Cogswell Farm portions of HAWC. The wells are in the communities of Atkinson and Hampstead and were booked to account 1-00-307.00. The Company provided the Sage System documentation that showed the CPR asset location, Company portion of the wells and springs work, project that were from December 2018. The wells and springs additions were unitized to plant in service in December 2018. Audit reviewed invoices from work internally done by Lewis Builders Development Inc. and Lewis Engineering. The type of work included well drilling, well permitting, pumping test, backflow, research, and follow up on engineering requests/correspondence. Audit verified the invoices were paid according to the terms of the management agreement with the Commission.

Audit reviewed invoices from Meridian Land Services for wetland monitoring/mapping services. Audit reviewed invoices from Fondriest Environmental for water level and temperature tracking loggers. Audit reviewed invoices for Emery and Garrett Groundwater Investigations to perform water level and stream flow monitoring services. Audit reviewed invoices for Vierra Artesian Well LLC for the setup of 155' of 8" well deepening. Audit reviewed invoices from Young Brothers also for well deepening services provided such as those provided by Vierra Artesian Well LLC. Audit reviewed invoices from Nelson Analytical Lab for "zone fracking and PH/after water treatment". Audit verified the Company was using the correct 3.33% depreciation rate for structures and improvements over a 30 year period per the small water booklet.

Acct. 1-00-307.00, Wells and Springs, 12/31/2018	\$45,019
Acct. 1-00-307.00, Wells and Springs, 12/31/2018	\$31,091
Acct. 1-00-307.00, Wells and Springs, 12/31/2018	\$15,652
Acct. 1-00-307.00, Wells and Springs, 12/31/2018	\$6,840
Acct. 1-00-307.00, Wells and Springs, 12/31/2018	<u>\$2,042</u>
Total	\$100,644

### 320.0 Water Treatment Equipment

Audit reviewed the water treatment equipment additions for \$51,673 for the Walnut Ridge, Kent Farm, Settlers Ridge, and Cogswell Farm portion of HAWC. The wells are in the communities of Atkinson and Hampstead that were booked to account 1-00-320.00. The Company provided the Sage System documentation that showed the CPR asset location, Company portion of the Water Treatment Equipment. The water treatment equipment additions were unitized to plant in service in December 2018.

Audit reviewed invoices from Marlo Inc. that were for two water position indicators as well as the freight charges to ship the equipment. The invoices indicated there is a service contract indicating that Marlo Inc. will provide any service repairs that are needed. Audit reviewed invoices from Lewis Builders Development Inc. for water treatment, wood framing, replacing the old pressure tank, and other general expenses. Audit reviewed invoices from RE Prescott for cartridge filter replacements, control valves and UV replacements. Audit verified the Company was using the correct 3.57% depreciation rate for water treatment equipment over a 28 year period per the small water booklet.

Acct. 1-00-320.00, Regular Filters,	12/31/2018	\$234
Acct. 1-00-320.00, Filters,	12/31/2018	\$9,272
Acct. 1-00-320.00, Filters,	12/31/2018	\$23,473
Acct. 1-00-320.00, Filters,	12/31/2018	\$7,015
Acct. 1-00-320.00, Filters,	12/31/2018	<u>\$11,679</u>
Total		\$51,673

### 341.0 Transportation Equipment

Audit reviewed an \$82,659 addition for the purchase of a 2017 and 2019 Ford F-250 Pickup trucks for general use unitized to plant in service account 341 in 2018. The 2017 pickup truck was purchased for \$41,159 from Stoneham Motor Company in January 2018 and the 2019 truck was \$41,500 from McFarland Ford in September 2018. Audit verified the closing contract document that indicates the Company used cash to purchase both vehicles. The Company did not retire any vehicles that could have been used as a trade-in. The Company indicated the old vehicle was primarily to be used as a spare because of the hiring of an additional employee and not used as a trade in. Audit verified the Company was using the correct 12.85% depreciation rate for transportation equipment over a 7 year period per the small water booklet.

Acct. 1-00-341.00, Transportation Equip.,	1/11/2018	\$41,159
Acct. 1-00-341.00, Transportation Equip,	10/1/2018	<u>\$41,500</u>
Total		\$82,659

## 2019 Additions

### 304.0 Structures and Equipment

Audit reviewed the structures and equipment additions for \$86,592 for the Walnut Ridge in Atkinson. The Company provided the Sage system documentation for Audit to review. The structures and equipment booked to account 304 were unitized to plant in service on September 30, 2019. Audit reviewed invoices from Lewis Engineering for engineering related to the Page Farm well pumping station design. Audit reviewed an invoice from the Rockingham Country Registry of Deeds for a recording fee and transfer tax related to the well structure.

Audit reviewed an invoice from Sweet Electric for an amp service to be connected to the pipe and wire pump house. The invoice included labor and materials. Audit reviewed a progress payment from Emery and Garrett Groundwater Investigations for the permitting of a new public water supply well, monitoring of five domestic wells, and analysis of bacteria. Audit reviewed progress payments from Standard Electric to perform electrical work on the wells and pump house. Audit verified the Company was using the correct 2.5% depreciation rate for structures and improvements over a 40 year period per the small water booklet.

Acct. 1-00-304.00, Structures and Equipment. 9/30/2019                      \$86,592

### 347.0 Computer Equipment

Audit reviewed \$74,479 in software additions related to a billing system software upgrade installed by Tyler Technologies. Audit reviewed the Tyler Technologies invoices for the new billing system. This included customer service, Utility CIS computer programming, hosting services, CRM features, and testing and user face implementation. The Company included in the \$74,479 total \$3,647 in costs from Atkinson Resort and Country Club that included postage, ink for the postage machine, answering service, and other administrative charges. These charges should not have been capitalized but rather expensed. **Audit Issue #3** The billing system software was unitized to plant in service in September 2019. Audit verified the Company was using the correct 9% depreciation rate for communications equipment over a 10 year period per the small water booklet.

Acct. 1-00-347.00, Computer Equipment. 9/30/2019                      \$74,479

### Purchase of Bow Lake Estates Water Works, Inc.

The Commission Order 26,153 issued on June 26, 2018, with an effective closing date of July 26, 2018, authorized HAWC to acquire the assets and franchise of the Bow Lake Estates Water Works, Inc. for \$8,000 in cash. The 2017 Bow Lake Estates annual report indicated the Company had \$33,374 in plant assets. The accounts were verified to the GL and 2018 HAWC annual report.

<u>Account</u>	<u>Description</u>	<u>2017 Ending Balance</u>
302	Franchises	\$1,349
303	Land/Land Rights	\$13,690
304	Structures and Improvements	\$6,287
307	Wells and Springs	\$2,042
330	Dist. Reservoirs and Standpipes	\$8,013
331	Transmission Mains	\$1,580
333	Services	<u>\$413</u>
Total		\$33,474

## **Retirements**

### **Test-year Retirements**

Assets in the amount of \$168,563 were reported retired during the test year. Audit reviewed each and noted that the plant account in which the asset had been reflected was properly credited with the full original cost and offset to accumulated depreciation.

<u>Account</u>	<u>Description</u>	<u>Amount</u>
311	Pumping Equipment	\$12,739
320	Water Treatment Plant	40,998
334	Meters and Meter Installations	61,278
347	Computer Equipment	<u>53,548</u>
Total 2019 Retirements		\$168,563

HAWC retired pumping equipment in September 2019, booking a credit to Water Treatment Plant, account 320, and a debit to Accumulated Depreciation, account 108.

Hampstead retired water treatment equipment in September 2019 that was described as replacing media for \$10,402 Lancaster, \$7,586 Oak Hill, \$7,414 Maplevale, \$6,234 Tanglewood, and \$9,272 Snows Brook. The Company debited account 108 and account 320 for the same amount.

Meter retirements for 2019 totaled \$61,278 and were booked monthly during 2019 with different amounts charged each month. This amount agrees with the 2019 NHPUC annual report and the general ledger. A total of 308 meters were retired throughout the year per the general ledger. The total 2019 asset retirements shown on the Company's Disposal Report in the amount of \$61,278 does not agree with the general ledger that indicated the amount was \$51,498. Because meter additions were overstated by the same variance during the year, \$9,780, the difference in the activity during the year nets to zero. Refer to the Meter additions section of this report.

The Company booked adjusting entry #27 in September 2019 that disposed of computer equipment and software in the amount of \$53,348. Audit reviewed computer software

retirements related to a laptop, licensing rights and billing system software. The assets were retired because the Company purchased new billing system software in 2019. The Company debited the 108 accumulated depreciation account for \$53,548 and credited the computer software account 347 for the same amount.

Acct. 1-00-347.00, RVS Software 6/30/2003	\$3,944
Acct. 1-00-347.00, RVS License 9/1/2004	\$1,000
Acct. 1-00-347.00, Novastar Laptop 5/24/2005	\$539
Acct. 1-00-347.00, Billing Software Training 1/19/2007	\$1,858
Acct. 1-00-347.00, CUSI Bill. Software 3/31/2007	<u>\$46,207</u>
Total	\$53,548

There were no cost of removal charges booked during 2019 as the Company indicated they did not retire any mains or other assets requiring any removal. Refer to **Audit Issue #2**.

#### Net Utility Plant Acquisition Adjustments

Audit verified the net \$1,388 in Utility Plant Acquisition Adjustments booked to accounts 114.00 and 115.00 on filing schedule 2 and the 2019 annual report. There was no activity during the test year in the 114.00 Utility Plant Acquisition Adjustments that had a \$1,503 year end balances. The charges for the 114.00 account relate to the purchase of the Bow Lake Estates Water System in August 2018.

The activity in the 115.00 Accumulated Amortization account reflected a change of \$84 during the test year, resulting in a \$115 year-end balance. The only activity was one journal entry at year end for \$83.50, offset to 1-10-406.00, Amortization of Utility Plant Acquisition Adjustment. Further review was not conducted.

#### Accumulated Depreciation

Accumulated Depreciation, account #108.00 for the test year December 31, 2019, as reported in the 2019 NHPUC report, was \$7,375,714 for plant in service of \$17,801,797. Depreciation Expense was \$557,503 and the Book Cost of plant retired was \$168,563. Other items debited to the accumulated depreciation totaled \$(9,779). The Company indicated this relates to meters that were overstated (both additions and retirements) on the annual report and filing schedule. See the Meters section of this report for further discussion. Audit traced these amounts to the Company's general ledger for the 2019 test year, the filing schedule 2, page 1 of 2 and the Excel spreadsheet detail records.

Beginning Balance 2017	\$ 6,083,178
Depreciation Expense	\$ 500,470
Book Cost of Plant Retired	\$ (36,169)
Beginning Balance 2018	\$ 6,547,479
Depreciation Expense	\$ 525,662
Book Cost of Plant Retired	\$ (107,222)
Other (debit)/credit items	\$ 11,235
Bow Lake Estates Accumulated Deprecation	\$ (159)
Beginning Balance 2019	\$ 6,976,995
Depreciation Expense	\$ 557,503
Book Cost of Plant Retired	\$ (168,563)
Other (debit)/credit items	\$ 9,779
Ending Balance 2019	\$ 7,375,714

### Depreciation and Amortization Expenses

#### Depreciation

Audit reviewed the Depreciation Expense Report and verified that the total Acquired Value in the Sage Fixed Asset System equaled the Plant in Service balance as of December 31, 2019. Current YTD Depreciation Expense in the amount of \$557,503 shown on schedule 1 of the filing agreed with the general ledger, account #403 - Depreciation Expense and the NHPUC 2019 annual report schedule F-2, Statement of Income.

Audit traced several accounts from the Depreciation Expense Report for the test-year to the NHPUC annual report schedule F-12 – Annual Depreciation Charge. The Company on the F-12 included \$1,905 in depreciation expense related to account #303 land and land rights. The Company should not have included these costs. **Audit Issue #4** All of the property records added during the test year were reviewed for compliance with the half-year convention requirement, with no exceptions noted.

#### Amortization

1-10-406.00	Amortization of Utility Plant Acquisition Adjustment	\$83.50
1-10-407.00	Amortization Expense-Other	\$3,597.27

There was an \$83.50 debit entry booked to account 406.00 Amortization of Utility Plant Acquisition Adjustments related to the purchase of Bow Lake Estates. This figure was verified to the 2019 annual report and filing schedule 1.

The Amortization Expense – Other, account 407.00 totaled \$3,597 per the filing schedule 1 and agrees with the general ledger and the NHPUC 2019 annual report schedule F-28, Miscellaneous Deferred Debits. The debits to the account 407.00 mirrored the credits to account 186.02, Other Deferred Debits on the general ledger. The expense represents the Rainbow River Extension and the Little River Water system purchases and depreciation adjustments from the

2008 rate case for the Dearborn and Bryant Woods wells. The Other expenses related to the Village Drive and Eastwood Drive well replacements.

### Construction Work in Process (CWIP)

The CWIP balance, reported on the 2019 NHPUC annual report, schedule F-10 was \$1,978,798 and was verified to the Company's general ledger, account #105 and the filing page #84 – Balance Sheet, Assets for the year-end 2019. The estimated additional cost to complete the projects was reported as \$2,850,000.

Settler's Ridge 4	\$19,048
Manchester WW	\$69,735
Angle Pond Well	\$144,925
West Side Dr. BS	\$501,399
Atkinson Tank	\$1,240,428
Dearborn Ridge Well	<u>\$3,263</u>
Total CWIP	\$1,978,798

Audit reviewed copies of the invoices for Lewis Builders Development Co. for the pump station on West Side Drive. The invoice was part of a lump sum contract that indicated the total contract was for \$1,085,009. Audit reviewed two invoices that were progress payments for Atkinson storage tanks. The contract with DN Tanks was a lump sum contract for \$1,470,036

### 105 CWIP

<u>Month</u>	<u>Vendor</u>	<u>Amount</u>
10/25/2019	DN Tanks	\$ 356,767
11/26/2019	DN Tanks	\$ 131,967
11/27/2019	Lewis Development	<u>\$ 175,955</u>
	Total	\$ 664,689

### Contributions in Aid of Construction (CIAC)

The CIAC balance, reported on the 2019 NHPUC annual report, schedule F-46 was \$9,239,980 and was verified to the Company's general ledger, account #271.00 and the filing schedule 2, the balance sheet as well as filing schedule 3 plant rate base. Debits to the GL account totaled \$408,782 and consisted of meter retirements. The Credits on the GL summed to \$533,912 and were grants received from the New Hampshire Department of Environmental Services for water system interconnection grants.

CIAC – 2017	\$9,142,476
CIAC – 2018	\$9,109,850
Test Year – 2019	\$9,239,980

The detailed GL \$9,239,980 is the correct 2019 ending balance. The 2017 and 2018 trial balances and detailed GL were slightly different due to when the adjusting entries are performed



at the end of the year. The chart below summarizes the balance differences between the trial balance, annual report, and detailed GL.

CIAC 1-00-271.00 per:

	Beg Bal 17	End Bal 17	Beg Bal 18	End Bal 18	Beg Bal 19	End Bal 19
Detailed GL	\$ (8,762,516.27)	\$ (8,750,790.39)	\$ (9,142,475.60)	\$ (9,091,867.37)	\$ (9,109,850.37)	\$ (9,239,980.30)
Trial Balance	\$ (9,142,763.61)	\$ (9,142,475.60)	\$ (9,100,923.27)	\$ (9,109,850.37)	\$ (9,415,095.30)	\$ (9,239,980.30)
Annual Report	\$ (8,762,709.00)	\$ (9,142,476.00)	\$ (9,142,476.00)	\$ (9,109,850.00)	\$ (9,109,850.00)	\$ (9,239,980.00)

  

beg detail agrees with AR	end detail does not agree w detail, but does agree w trial balance	beg bal detail agrees w AR	end detail does not agree w detail, but does agree w trial balance	beg bal detail agrees w AR	all ending balances agree
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#### Accumulated Amortization of CIAC/Amortization of CIAC Expense

The related Accumulated Amortization of CIAC, account #272.00 totaled \$3,873,534 on the Company's general ledger. This amount agree with the Amortization of CIAC on filing schedule 2, and the 2019 NHPUC annual report for the test year 2019. The account activity on the GL consisted of monthly debits of \$18,500 related to amortization expense. The credit entries consisted of retired meter change outs. The debits on the GL summed to \$223,214 and the credits summed to \$8,868. Amortization of CIAC expense, account 405.00 for the test-year totaled \$(221,541) on the Company's general ledger. This amount agreed with schedule 1 of the filing and the 2019 NHPUC annual report. Audit verified that the depreciation rates and the amortization rates were the same from the Sage fixed asset system's information page.

<u>Asset</u>	<u>Cost Basis</u>	<u>Rate</u>	<u>Amount</u>
302 Franchises	\$ 6,059	4.0%	\$151
303 Land and Land Rights	\$ 13,690	2.0%	\$0
304 Structures and Improve.	\$ 647,587	2.5%	\$16,170
307 Wells and Springs	\$ 423,365	3.3%	\$13,943
309 Supply Mains	\$ 74,342	2.0%	\$1,487
311 Pumping Equipment	\$ 722,523	10.0%	\$30,864
320 Water Treatment	\$ 233,383	3.6%	\$8,214
330 Dist. Reserv. And Pipes	\$ 520,961	2.2%	\$11,541
331 Trans. And Dist. Mains	\$4,691,796	2.0%	\$96,737
333 Services	\$1,734,997	2.5%	\$39,152
334 Meters and Meter Inst.	\$ 31,199	5%/10%	\$604
335 Hydrants	<u>\$ 140,079</u>	2.00%	<u>\$2,678</u>
Total	\$9,239,980		\$221,541

## AFUDC

The Company did not have any AFUDC charges during the 2019 test year. The Company has not incurred any AFUDC charges in the past, as they do not finance projects using internal funds.

## Equity

The 2019 test year total equity reported on Schedule 4 of the filing was \$3,122,097. Audit verified the total equity to page 17 of the annual report, as well as to the general ledger. The only changes noted during the test year were to Other Paid in Capital, account 211, and Retained Earnings, account 215. As noted within the Testimony on Bates page 49 of the filing, \$900,000 of Other Paid-In Capital was contributed from the sole owner of HAWC, Christine Lewis Morse. The \$900,000 increase over the past two years, consisted of a \$400,000 contribution in 2018 and a \$500,000 contribution in 2019, with a total reported Other Paid-In Capital of \$4,054,354 for the test year. Combined with the negative retained earnings of \$(949,024) and the Common Stock value of \$16,767, Audit substantiates the reported \$3,122,097 total equity in the Company as of 12/31/2019.

## Debt

Bates page 53 of the filing 1604.02(a)(3), within the direct testimony of Stephen St. Cyr, states that the Company has no short term debt. Audit reviewed the filing schedules and annual report, confirming that there was no short term debt indicated as being used by the Company.

The 2019 long term debt balance of \$4,504,424 was stated on page 17 of the annual report for account 224, Other Long Term Debt, as well as on Schedule 4 of the filing. Audit tied the long term debt balance to the general ledger account 232, Notes Payable, noting that the annual report F-1 balance sheet lists the long term debt in Account 224, Other Long Term Debt, but the general ledger and the noted enclosed schedule F-35 of the annual report both state the long term debt in account 232, Notes Payable. **Audit Issue #5**

Audit reviewed copies of the notes for the debt obligations listed on Schedule F-35 of the annual report. The 2019 interest expense total of \$125,631 was verified to the annual report, as well as to the general ledger account 427.03, Interest on Long term Debt. The 2019 long term debt amount of \$4,504,424, as noted in the filing and annual report, is confirmed to the following general ledger balances:

Date of Note	GL Acct.	Lender	Rate	12/31/2019 Balance	2019 Interest	PUC Order #
3/13/19	232.02	Pentucket Bank	4.75%	450,000.00	11,525.31	26,218
TBD	232.05	NH DES	3.38%	681,000.00	0.00	26,230
9/6/05	232.06	NH DES	3.352%	643,586.24	22,672.42	24,437
3/31/06	232.08	Aquarius Properties LLC	5.50%	12,033.55	985.57	24,608
6/24/09	232.11	NH DES	2.864%	681,789.65	20,302.11	24,937
11/18/16	232.12	Ford Motor Credit	4.890%	15,785.66	899.62	25,968
6/26/12	232.13	Shribco Realty Two, LLC	0.00%	3,000.00	0.00	24,831
10/8/18	232.14	Ford Motor Credit	4.90%	32,894.56	1,857.08	26,173
8/2/13	232.16	NH DES	3.104%	203,429.50	6,494.14	25,526
10/28/14	232.18	Hillcrest Estates LLC	0.00%	0.00	0.00	25,757
9/15/16	232.19	Pentucket Bank	3.25%	1,780,904.58	60,894.72	25,930
				<b>4,504,423.74</b>	<b>125,630.97</b>	

Account #232.02 Note payable to Pentucket Bank was approved in Order 26,218 on 2/1/2019 authorizing the Company to borrow up to \$1,000,000 in the form of a working line of credit (LOC), where funds would be used to improve the Company's various water systems and distribution lines, and other short-term working-capital needs. The 2019 outstanding balance at year end totaled \$450,000 for the note owed to Pentucket Bank. Audit reviewed a copy of the promissory note and verified the \$450,000 transaction on the account for the advance from LOC. The offsetting entry was confirmed to account 131.20, Checking – Pentucket. Audit inquired as to why there was no amortization schedule provided and the Company stated that, *"The notes without amortization schedules have the interest and principal amounts broken out on the monthly invoices we receive."* A copy of the monthly detailed loan invoice from Pentucket Bank was also reviewed. Audit verified the interest rate to Wall Street Journal prime rate, as per the loan terms reviewed in the promissory note.

Account #232.05 The debt is the State Revolving Fund payable to the NH DES and approved in Order 26,230 on 3/29/2019. The Company was authorized to borrow up to \$1,020,000 from the Drinking Water and Groundwater Trust Fund (DWGTF), administered by NH DES. The funds were authorized to finance part of the construction of a 1,000,000 gallon water tank (Tank Project) as part of the Southern New Hampshire Regional Water Project. Audit inquired as to why the date of the note, along with the monthly principal and interest payments, were listed as "TBD" on schedule F-35 of the annual report. The Company stated that the final P & I amount *"cannot be determined until 6 months after the start date of the note. All the DES notes have interest only payable at 1% for the first 6 months of the note. The Company also has the option to capitalize those interest payments and add them to the note. The final P & I payment will be determined after the Company makes its decision on whether or not to capitalize the interest payments."* The Company added that the loan will not be final until 2021. Audit requested and reviewed a copy of the detailed monthly loan invoice from NH DES. The 2019 outstanding balance at year end totaled \$681,000 for the monthly NH DES requisitions made between August and December.

Account #232.06 The debt is for the Drinking Water State Revolving Fund, payable to the NH DES, approved by Commission Order 24,437 on February 25, 2005. The funds were authorized

for the construction of a new 500,000 gallon water storage facility and a tank level monitoring and telemetry system. The year-end principal balance of \$643,586 was verified to the general ledger. Audit reviewed a copy of the promissory note and the allonge, representing the amount of advances made by NH DES to HAWC. The amortization schedule and a copy of the monthly detailed loan invoice from NH DES were also reviewed by Audit. The interest rate was verified to the amortization schedule, as well as to the NH DES monthly invoice and the principal payment confirmed to the general ledger.

Account #232.08 The debt payable to Aquarius (for the Autumn Hills development) was assigned in 2009 to "Randall L. Bennett, Trustee of April – May Realty Trust" and booked at \$24,000, with principal reductions over 20 years and interest calculated at prime plus 2.25%. The balance on the account at the 2019 year end totaled \$12,034. Authorization of the financing was noted in docket DW 06-106, Order 24,608. Audit reviewed a copy of the promissory note and the amortization schedule, verifying the monthly payments and year-end balance on the account.

Account #232.11 The debt payable is the State Revolving Fund payable to the NH DES in the original amount of \$1,058,347 with a 2019 year-end balance of \$681,790. The Commission approved the financing via Order 24,937 in docket DW 08-088. The SRF was approved for the interconnection of Hampstead's two core systems in Hampstead and Atkinson. Audit reviewed a copy of the allonge to the promissory note and amendment of the loan agreement, as well as the amortization schedule, verifying the monthly payments on the account. A copy of the monthly detailed loan invoice from NH DES was also reviewed. Audit verified the interest rate to the amortization schedule, as well as to the NH DES monthly invoice and the principal payment was confirmed to the general ledger.

Account #232.12 The Ford Motor Credit was approved by Order 25,968 in DW 16-826 for the *"purchase of a new 2016 Ford F-250 for use by one of HAWC's water system operators for its utility business."* Audit reviewed a copy of the Ford Credit note, confirming the interest rate and payment schedule, as well as an August 2019 invoice from Ford Credit. Audit verified the principal payment to the invoice and to the general ledger.

Account #232.13 The Shribco Realty Two, LLC loan received Commission approval, via Order 24,831 in docket DW 07-133, with the originally recorded principal balance of \$18,000. This balance was renegotiated in 2012, and documented in an amended promissory note, dated June 26, 2012, to \$12,000. Audit reviewed a copy of the amended note, verifying the changed interest rate from prime plus 2.25% to no interest. The repayment terms were outlined to be installments of \$750 for each of the remaining 16 units to be sold in the Cooper's Grove development, upon water service hookup. The 2019 year end outstanding balance of \$3,000 was verified to the general ledger. Audit noted that there were no entries on the general ledger for the test year and the Company verified that the account had *"no activity during 2019."*

Account #232.14 Ford Motor Credit was approved by Order 26,173 in DW 18-121 for the purchase of a new vehicle to be used by HAWC in the operation of its business. Audit reviewed copies of the Ford Credit note, confirming the interest rate and payment schedule, as well as a

January 2019 invoice from Ford Credit. Audit verified the principal payment to the invoice and to the general ledger.

Account #232.16 Note is for the State Revolving Fund payable to the NH DES. The 2019 year end principal balance of \$203,430 was verified to the general ledger. The Commission approved the financing, via Order 25,526 in docket DW 11-226, for \$255,000 (\$180,000 with an additional \$75,000) to fund the replacement of water service lines. Audit reviewed copies of the promissory note, as well as an April 2019 detailed loan invoice from NH DES and verified the interest rate and principal payment to the general ledger.

#232.18 The Hillcrest Estates loan was approved through Commission Order 25,757, dated on 1/16/15, which allowed the Company to purchase the Snows Brook elderly Housing Community water distribution system. Audit reviewed a copy of the promissory note, confirming that the pay was agreed at \$1,000 per hook up, for a total of \$34,000, once the accompanying housing units were constructed. The 2019 year end principal balance of \$0 was verified to the general ledger.

Account #232.19 The Note payable to Pentucket Bank was approved through Order 25,930, dated on 7/29/2016, which authorized the Company to borrow \$2,167,000 and use the proceeds to retire two TD Bank loans due in September 2016. The 2019 outstanding balance at year end totaled \$1,780,905 for the note owed to Pentucket Bank. Audit reviewed a copy of the promissory note, as well as a September 2019 detailed loan invoice from Pentucket Bank and verified the interest rate and principal payment to the general ledger.

#### Interest Expense \$129,880

The annual report noted the 2019 Interest Expense in the amount of \$129,880. Audit confirmed the interest expense to schedule 1 of the filing, as well as to the following general ledger account balances:

427.03	Interest on Long Term Debt	\$125,631
428.00	Amortization of Debt Discount & Expense	<u>4,249</u>
	Total Interest Expense	\$129,880

#### 427.03 Interest on Long Term Debt \$125,631

The Interest on Long term Debt account 427.03 reflected a year-end balance of \$125,631. Audit reviewed the monthly entries in account 427.03 and account 232, Notes Payable, comparing the monthly payment amount on Schedule F-35 of the Annual Report to schedule 5A of the Filing. The monthly payment amounts indicated in the Annual Report can be calculated by the appropriate principal and interest payment amounts found in the GL between Accounts 232 and 427.03. Audit selected seven transactions on the general ledger and reviewed the corresponding copies of invoices, with at least one from each quarter, for the principal and interest payments. The invoiced amounts were verified to the general ledger with the principal payments on account 232, Notes Payable, and the interest to account 427.03, Interest on Long Term Debt.

428.00 Amortization of Debt Discount & Expense \$4,249

Audit confirmed the \$4,249 year-end balance for the Amortization of Debt Discount & Expense, account 428, to page 19 of the annual report, as well as to schedule 1 of the filing. There were monthly debit transactions on the account, totaling \$4,276, for the amortization expense for each of the long term notes, as applicable. Refer to the Long Term Debt section of this report for details regarding the loans with either zero percent interest or for loans without a balance in 2019. Journal entries on account 428.00 were offset to account 181, Unamortized Debt Expense. Audit reviewed the amortization schedule, as well as the general ledger for account 181, Unamortized Debt Discount Expense. The general ledger balance totaled \$55,964 for account 181, which tied to page 16 of the annual report and schedule 2 of the filing for the Unamortized Debt Expense. Audit verified the monthly credit entries on the account and their offset to the Amortization of Debt Discount & Expense, account 428.

237.00 Accrued Interest \$0

The general ledger for the Accrued Interest account was reviewed by Audit. There was no activity reported on the account for the 2019 test year.

**Current and Accrued Liabilities \$337,561**

Audit tied the general ledger balances, for the current and accrued liability accounts, to page 17 of the annual report, as well as to schedule 2 of the filing. The general ledger accounts, included in the total current and accrued liabilities, were reviewed by Audit. The following represents their 2019 year-end account balances:

1-00-231.00	Accounts Payable	\$ 143,888
1-00-233.00	Accounts Payable to Associated Companies	156,209
1-00-235.00	Customer Deposits	6,569
1-00-236.01	Accrued Taxes, Utility (See <u>Tax</u> section)	3,032
1-00-236.11	Accrued Taxes, Other (See <u>Tax</u> section)	(771)
1-00-241-00	Miscellaneous Current & Accrued Liabilities	<u>28,634</u>
	Total Current and Accrued Liabilities	\$ 337,561

231.00 Accounts Payable \$143,888

The Accounts Payable 2019 general ledger reported a year-end balance of \$143,888. The figure has increased by 379% from the 2018 year-end balance of \$30,042. The Company explained the increase by stating that, “[*There were*] 2 large construction projects ongoing at 12/31/19 – the Atkinson Tank and West Side Drive Booster Station. At 12/31/19 the Accounts Payable included \$130,968 on the Atkinson Tank project.” The Company provided the aged accounts payable report with a 12/31/19 balance of \$143,888. Audit verified that the total aged accounts payable ties to the ending Accounts Payable balance in the general ledger.

233.00 Accounts Payable to Associated Companies \$156,209

Audit reviewed the general ledger for the account, noting a year-end balance of \$156,209. The figure has increased by 254% from the 2018 year-end balance of \$44,093. The Company explained the increase by stating that, due to the 2 large construction projects that were ongoing at 12/31/19, “...the Accounts Payable to Associated Companies included \$110,586 on the West Side Booster Station project.” The Company provided the aged accounts payable report for the intercompany. Audit verified that the 12/31/19 total aged intercompany accounts payable balance of \$156,209 tied to the ending Accounts Payable to Associated Companies balance in the general ledger.

235.00 Customer Deposits \$6,569

The PUC annual report reflects a Customer Deposit total of \$6,569, which agrees with the filing schedule 2, Bates page 000085 as well as the general ledger account 1-00-235.00. The opening balance on the account totaled \$7,635. Audit noted an April transaction for a \$1,066 adjustment to customer deposits with the offsetting entry to account 461.01, Metered Sales to Residential Customers. There was no other customer deposit activity on the account for test year 2019.

The Company provided a Deposit Interest Register showing customer deposits. The list contained information on 44 customers who had activity dealing with deposits during 2019. The list provided by HAWC contained the account number, customer name, deposit code, the amount of the deposit, the number of days and the interest amount.

Audit notes no account 427.4-Interest on Customer Deposits existed. Audit asked where the deposit interest is booked and HAWC said that the interest is credited directly to the customers’ outstanding amount receivable. In the previous rate case, the Company stated that “going forward, HAWC will create and implement a process to book the interest expense”. In response to a request to why there was no account set up, the Company stated that “When we switched billing systems it looks like we neglected to set up the interest amounts to go into a separate interest expense account” **Audit Issue #6**

241.00 Miscellaneous Current and Accrued Liabilities \$28,634

Audit reviewed the detailed general ledger for the Miscellaneous Current and Accrued Liabilities. Monthly transactions were posted for HSA (Health Savings Account) deductions (debits) and employee payroll costs, as well as to record some of the fire protection revenue.

253.00 Other Deferred Credits \$898,404

There were only two December transactions on the account, totaling \$898,404, for the state funding of the Atkinson Tank, approved in PUC Order 26,230 in Docket DW 18-138. One credit to the account, in the amount of \$395,096, was recorded for the re-class of the DES disbursement. The other credit on the account, in the amount of \$503,388, was recorded for the adjustment for the DES requisition grant loan amounts.

263.00 Pensions and Benefits Reserve \$64

Audit reviewed the general ledger and noted weekly credits from payroll contributions, as well as a monthly debit related to 401k with a corresponding credit to Accounts Payable #231. Refer to the Expenses section of the report for further details on Payroll Charges.

282.00 Accumulated Deferred Income Tax-Liberalized Depreciation

For details regarding account 282.00, Liberalized Depreciation, refer to the Tax Section of this report.

**Revenues**

Total revenue reported on the filing Schedule 1, bates page 000077, and in the 2019 NHPUC annual report, schedule F-47, was \$2,325,428 which was verified to the following general ledger accounts:

1-10-461.01	Metered Sales to Residential	\$ 1,967,875
1-10-462.00	Fire Protection Revenue	\$ 55,088
1-10-471.04	Misc. (Late) Fees	\$ 38,074
1-10-474.00	Other Water Revenue	\$ 12,624
1-10-474.99	Rate Recovery Fees	\$ 191,206
1-99-474.00	Other Water Revenue	\$ 60,561
Total Revenue per GL for 2019		\$ 2,325,428

Metered Sales to Residential

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

Fire Protection Revenue

General Private Fire Protection Service, account 1-10-462.00 totaled \$55,088 on the general ledger and was billed on two of the customer's bills that were sampled. The charges were based on rates described in the tariff, Original Page 37. No exceptions were noted.



1 ½" Dia. Pipe	\$100
2" Dia. Pipe	\$200
3" Dia. Pipe	\$400
4" Dia. Pipe	\$600
6" Dia. Pipe	\$1,500

The revenue is reclassified on a monthly basis from "Metered Sales to Residential Customers" as total amount calculated by the billing system and described above.

#### Late Fees

The total revenue collected from Late Fees during the test-year was \$38,074 and posted to account 1-10-471.04. The fees are reclassified on a monthly basis from "Metered Sales to Residential Customers" as total amount calculated by the billing system. (See the tariff section of this report for more discussion). The NHPUC annual report Schedule F-47, Operating Revenues, line 9 describes this account as Miscellaneous Service Revenues, though it is actually Late Fees on the general ledger.

#### Other Water Revenues

Other Water Revenues, account 1-10-474.00 totaled \$12,624 on the general ledger and are a component of Other Water Revenue shown on the NHPUC annual report schedule F-47, line 12 totaling \$264,391. The transaction descriptions shown on the general ledger are described as Weekly Incode Transactions. The Company states that this account represents miscellaneous charges to customers such as disconnect/reconnect fees, returned check fees, and hookup fees to customers.

#### Rate Recovery Fees

Rate Recovery Fees, account 1-10-474.99 totaled \$191,206 on the general ledger and are a component of Other Water Revenue shown on the NHPUC annual report schedule F-47, line 12 totaling \$264,391. This amount consists of the temporary rate recoupment and rate case expense charged to customers from DW 17-118, Orders 26,185 and 26,248. The offsetting entry was posted to accounts receivable. See also accounts 186.01 and 928.

#### Other Water Revenues

Account 1-99-474.00 – Other Water Revenues totaled \$60,561 at year-end per the general ledger and are a component of Other Water Revenue shown on the NHPUC annual report schedule F-47, line 12 totaling \$264,391. Per the Company, this account contains revenue for services provided by HAWC to Lewis Builders.

#### Non-Utility Income

The general ledger shows Non-utility Income, account 1-00-421.00 with a zero balance. Activity on the GL represents the sewer billing for Atkinson Area Waste Water (AAWW). The

Company states that HAWC invoices the sewer usage on a separate bill the same time they bill for the water usage. The sewer portion is entered into HAWC A/P, and charged to account 421. HAWC then creates a journal entry which credits Non-Utility Income account 421 and debits account 461 Metered Sales.

### Uncollectible Accounts

The Company provided a report titled “My Account Balance with as of Date” shows many customers with an “inactive” status as of 12/31/2019. Without an aging, Audit cannot determine what accounts should be written off. Also, from the 2017 rate case, *‘HAWC will establish an annual amount to include as the Bad Debt expense with a corresponding amount established in the Allowance for Uncollectible Assets Account.’*

There is not an account on the general ledger for the Accumulated Provision for Uncollectable Accounts #143 and account #1-10-904.00 - Uncollectable Account shows no activity for the test-year. Audit requested the Company’s write-off policy and if the Company knows what customer amounts should be written off. The Company responded that they had a discussion about setting up an allowance for uncollectable accounts asset account, however this was never done. As of December 31, 2019, the total inactive accounts prior to January 1 2018 was \$10,423. The Company stated that this amount could be written off. **Audit Issue #7**

### Tariff Review

A sample of customer bills of different rate classes for December 2019 were reviewed to ensure that the tariffed rates for consumption and meter charges were properly assessed. Also, the actual bills were examined to confirm compliance with the tariff section PUC 1203.06 – Bill Forms under Terms and Conditions. No exceptions were noted.

Audit reviewed thirteen customer bills from December 2019 including several with large past due balances. In reviewing the samples of customers’ bills, the fire protection charge on those bills receiving fire protection showed the monthly charge. The bill does not state the size of the service pipe.

The tariff states that “all accounts 25 days past due will be assessed a late charge of \$10 at the discretion of the Company.” Within the sample of bills reviewed, Atkinson Concessions and the account at 208 Lancaster Dr., Salem were not charged a late fee. Audit requested what the considerations are for charging or not charging a late fee and the Company responded that Atkinson Concessions was marked not to charge penalties by mistake and that this has now been corrected. The Lancaster Drive account had a payment agreement so this account was also marked to not charge penalties.

All consumption was charged at \$6.11 per 100 cubic foot. The consumption charges and meter charges were matched to the tariff and recalculated with no exceptions noted. The rates in effect were:

<u>Monthly Base Charge 2019</u>	
5/8" meter	\$10
3/4" meter	\$20
1" meter	\$30
1 1/2" meter	\$60
2" meter	\$100

### Customer Count Analysis

Audit reviewed the reported customer count, by town, as noted in each PUC Annual report since the prior test year of 2016. Each count is noted below, with the change from 2016 to 2019 indicated:

### **ANALYSIS OF CUSTOMERS: 2016 - 2019**

#### **Per Schedule A-6 of Annual Reports**

					<b>change since prior TY 2016</b>	
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Incr/Dcr</u>	<u>% Inc/Dcr</u>
Hampstead	1,314	1,287	1,297	1,338	24	1.83%
Sandown	244	292	294	272	28	11.48%
Danville	158	159	158	166	8	5.06%
Chester	60	60	60	59	(1)	-1.67%
Nottingham	19	19	19	19	-	0.00%
E Kingston	123	124	124	120	(3)	-2.44%
Kingston	79	99	99	117	38	48.10%
Atkinson	1,176	1,201	1,254	1,299	123	10.46%
Salem	83	83	83	86	3	3.61%
Plaistow	75	75	74	75	-	0.00%
Newton	134	134	134	114	(20)	-14.93%
Fremont	113	113	113	150	37	32.74%
Strafford			43	42	42	#DIV/0!
Totals	3,578	3,646	3,752	3,857	279	7.65%

### Expenses

#### Payroll

As of the end of 2019 there were eight employees of HAWC:

- One Operations Manager
- One Supervisor
- Three Water Operators
- One Customer Service Manager
- Two Customer Service representatives

During the year, two Water Operators left the Company and were replaced, and one Customer Service representative left and was replaced.

Audit requested the 2019 year-to-date Payroll register and related Payroll tax returns, which were provided. Gross payroll \$376,432, noted within the filing on Bates page 000076 as part of the Wages proforma #9, agrees with the Gross payroll figure on the calendar year 2019 Payroll Register.

Timesheets used by all HAWC employees document the date, Job number to which the hours should be charged, a description of work, hours and total hours for each specific day. [From the DW 17-118 Audit report] "The hours are totaled by job to a Job Cost Transaction Report then a separate report calculates the total Labor and Labor Burden for that specific job. The dollar total per job (including OH and Labor) is then broken down into the appropriate cost code/ GL expense account. Finally, the costs incurred by each job are summed and a journal entry is prepared with the summed totals of each expense type to record the appropriate GL capital or expense account."

Audit verified that the officers and directors noted within Tab 28 of the filing as not receiving any compensation, were not seen on the HAWC Payroll register:

Harold Morse, President  
Christine Lewis Morse, Vice President and Director  
Elizabeth Morse, Secretary  
Anthony Augeri, Assistant Secretary  
Jonathan Morse, Treasurer

Total payroll charged and distributed, as noted on the NH PUC Annual Report schedule F-58 showed \$336,951. The calendar year 2019 payroll register, which includes all paychecks issued during calendar 2019 showed:

Gross Wages	\$376,431.78
Phone	\$ 880.00
Employee Taxes Withheld	\$ (61,450.91)
Other Deductions	<u>\$ (37,874.38)</u>
Net Pay	\$277,986.49

The Accounting for payroll showed a total of \$335,404, \$1,547 less than schedule F-58. Federal payroll tax returns were provided and are summarized below. The State payroll tax return was not reviewed.

Payroll tax return W3 dated 1/17/2020

Wages, tips, other	\$ 342,897.92	
Fed inc tax wheld	\$ 33,938.16	
SS wages	\$ 359,643.63	
SS tax wheld	\$ 22,297.92	
medicare wages	\$ 359,643.63	
medicare tax wheld	\$ 5,214.83	
deferred compensation		\$ 16,745.71
	<u>\$ 61,450.91</u>	\$ 16,745.71

Quarterly 941 Federal Tax Returns					
	1/19 - 3/19	4/19 - 6/19	7/19 - 9/19	10/19 - 12/19	TOTAL
	<u>dated 4/18/19</u>	<u>dated 7/25/19</u>	<u>10/15/2019</u>	<u>1/23/2020</u>	<u>CY 2019</u>
Wages, tips, other	\$ 84,053.78	\$ 83,195.73	\$ 90,873.96	\$ 84,774.45	\$ 342,897.92
fed inc tax wheld	\$ 8,177.06	\$ 8,017.17	\$ 9,051.16	\$ 8,692.77	\$ 33,938.16
taxable ss wages	\$ 88,079.95	\$ 87,387.79	\$ 95,329.57	\$ 88,846.32	\$ 359,643.63
*0.124	\$ 10,921.91	\$ 10,836.09	\$ 11,820.87	\$ 11,016.94	\$ 44,595.81
taxable medicare	\$ 88,079.95	\$ 87,387.79	\$ 95,329.57	\$ 88,846.32	\$ 359,643.63
*0.029	\$ 2,554.32	\$ 2,534.25	\$ 2,764.56	\$ 2,576.54	\$ 10,429.67
current quarter adj	\$ -	\$ (0.01)	\$ 0.04	\$ 0.01	\$ 0.04
<b>Total Liability</b>	<b>\$ 21,653.29</b>	<b>\$ 21,387.49</b>	<b>\$ 23,636.62</b>	<b>\$ 22,286.27</b>	<b>\$ 88,963.68</b>
Fed Liab month 1	\$ 6,910.50	\$ 6,161.50	\$ 7,468.29	\$ 6,934.56	\$ 27,474.85
Fed Liab month 2	\$ 6,991.90	\$ 7,996.62	\$ 9,493.42	\$ 8,741.21	\$ 33,223.15
Fed Liab month 3	\$ 7,750.88	\$ 7,229.37	\$ 6,674.91	\$ 6,610.50	\$ 28,265.66
<b>Total Liab</b>	<b>\$ 21,653.28</b>	<b>\$ 21,387.49</b>	<b>\$ 23,636.62</b>	<b>\$ 22,286.27</b>	<b>\$ 88,963.66</b>

The payroll tax included in the proforma #10 on Bates 000076, \$28,797 does not agree with the payroll register \$27,513, nor with the Labor Cost by Account and Job report which shows \$24,976. Those two figures vary due to the issuance of actual payroll and Accounting for payroll. Audit requested clarification of the variances with the reports to the proforma, and the basis on which the proforma had been calculated. The Company indicated their consultant provided the following response: *"I have support for the 2019 Payroll and 2020 YTD Payroll thru 8/21/20, but don't seem to have specific support for the 2019 Test Year Actual payroll tax expense of \$28,797. Please note that the proforma adjustment of \$11,301 was determined by applying 7.65% to the increase in the payroll proforma adjustment (\$147,720.65 X 7.65%). As such, even if the 2019 actual test year payroll tax expense is some different amount, it would not change the proforma adjustment of \$11,301."* Audit agrees that the proforma to the payroll tax expense is calculated on the proformed wage figure, rather than simply the difference between the calculated proforma total and the unsupported "actual" noted expense for the year.

Payroll is direct charged to specific jobs, with batches posted weekly. Employees record their hours worked on each job, and for those jobs worked for affiliates, the hours are billed at the employee's pay rate plus the mark-up based on the management agreement.

According to the Company:

HAWC does not have unionized employees.

Employees are not authorized to use company vehicles for personal purposes.

There was not an incentive plan for employees or management during the test year.

Audit requested if an actuary had been employed to value any pension or post-retirement benefit other than pension plans. The Company indicated that pension plans and related PBOP are not offered. Rather, the Company offers employees and management participation in a

401(k) plan, to which HAWC matches 50% of the employees' first 6% contribution. Labor costs included in capitalized plant or expensed were tested in the Plant in Service and Operations and Maintenance sections of this report.

HAWC offers employees the opportunity to participate in the Anthem health insurance plan, with the premium split. HAWC pays 80% of the premium, and the employee pays 20%. Delta provides dental coverage for employees who pay 100% of the premiums. The Standard represents life insurance and short term disability insurance. The life insurance is paid 100% by HAWC while the short term disability insurance is paid 100% by the employees who elect this benefit. Refer to the Operations and Maintenance discussions below for additional detail.

### **Operation and Maintenance (O&M) Expenses \$1,745,684**

The filing Schedule 1 reports the total Operation and Maintenance Expenses for 2019 as \$1,745,684. Audit tied this total to page 19, line 3, of the annual report, as well as to the detailed general ledger activity for all of the Operation and Maintenance Expense accounts. The following accounts depict the general ledger activity detail within the Operation and Maintenance Expense accounts and verified to schedule F-48 of the Annual Report:

#### **601 Operation Labor and Expenses \$14,466**

The total Operation expense of \$14,466 was verified to Schedule F-48 of the annual report, as well as to the following two general ledger accounts:

601.00 Well Operation Labor and Expense	\$ 5,193
603.00 Well Miscellaneous Expenses	<u>9,273</u>
Total Operation Expense	\$ 14,466

Audit noted that schedule F-48 of the annual report lists account 601 and 603 with balances of \$14,466 and \$0, respectively. However, the general ledger reports a balance of \$5,193 for account 601 and a balance of \$9,273 for account 603. The \$14,466 balance for account 601, reported in the annual report, represents the combined balances of accounts 601 and 603. **Audit Issue #8**

The inclusion of the \$9,273 balance of account 603 with the \$5,193 balance of account 601 did not impact the \$14,466 of total Operation Expenses reported. The total Operation Expenses reflected an 85% increase from the preceding year, due to *"increased labor, materials and expenses associated with the operation of the supply plant."*

#### **601.00 Well: Operation Labor and Expenses \$5,193**

Audit reviewed the detailed general ledger for the Operation Labor and Expenses. Entries were from Lewis Development, RE Prescott, and payroll.

603.00 Well: Miscellaneous Expense \$9,273

There were a total of thirteen entries in the account during 2019. Three of the entries were from Lewis Development, six entries were from RE Prescott, and the remaining four entries were for payroll.

610.00 Maintenance Supervision and Engineering \$1,764

Audit reviewed the general ledger, noted that there were seven entries from payroll. The 2019 year-end balance was an increase of 171% from the preceding year. The Company explained the increase by stating that the incurred increased labor was, “...associated with the maintenance of the supply plant.”

611.00 Well Maintenance of Structures and Improvements \$10,290

The general ledger for the Maintenance of Structures and Improvements account contained entries payable to Lewis Builders Development for well maintenance, snow removal, and landscaping. Audit reviewed the supporting invoices and job cost reports for two of the entries, totaling \$2,437. Services were for well maintenance at the Village Green Pump House and landscaping at the Sargent Woods Pump House. The 2019 year-end balance of \$10,290 represented a 24% increase from the preceding year, due to the increase in materials and expenses associated with the maintenance of the supply plant.

614.00 Maintenance of Wells and Springs \$9,209

Audit reviewed one invoice, totaling \$2,293, from RE Prescott for a 1/28/19 journal entry. Charges were for a stainless steel pump end, drop pipes, and lead free check valves. The invoice contained stamps indicated “Received”, “Entered”, “Approved”, “Reviewed” and “Posted”, along with employees’ signature and verification date.

Out of the \$9,209 year-end balance on the account, \$2,639 was charged as Payroll, \$1,698 charged by Lewis Developers, and the remaining charges were from RE Prescott. The balance on the account represented an 11% decrease from the preceding year.

623.00 Power Purchased for Pumping \$219,181

The entries on the account are with PSNH, Unitil, Liberty or NH Electric Coop. Audit reviewed one invoice from each of the four providers, verifying the charges to the journal entries without exception. The \$219,181 balance reflects a 3% increase from the preceding year.

624.00 Pumping Labor and Expenses \$37,885

The 2019 labor costs were spread among a variety of expense accounts. Audit reviewed the Labor Costs by Account and Job report provided by the Company. Monthly transaction selections from the general ledger were verified to Audit’s recalculation of the employees’ amount with taxes, as depicted on the Labor Costs by Account and Job Report. The balance at year-end 2019 was \$37,885, representing a 44% increase from the preceding year, due to “The

*Company [incurring] higher labor costs, materials and expenses associated with operating the pumps and related equipment.”*

626.0x Miscellaneous Expenses \$65,931

The total Miscellaneous expense of \$65,931 was verified to the following two general ledger accounts:

626.00 Pumping Miscellaneous Expenses	\$ 5,714
626.01 Miscellaneous Expense Operating Sup	<u>60,216</u>
Total Miscellaneous Expense	\$ 65,931

The net balance in the 626 accounts at year-end 2019 represents a 23% decrease from the preceding year. Monthly labor costs were noted in account 626.00 and transactions for supplies were noted in account 626.01. Audit reviewed one invoice from RE Prescott for the purchase of two XP-V Variable 115V 17 GPD Input needed for the Chlorine Pumps and parts. No exceptions were noted.

631.00 Pumps Maintenance of Structures and Improvements \$27,552

The account balance at 12/31/2019 reflected a decrease of \$4,634 or 14% over the preceding year-end balance. Audit reviewed three Lewis Builders Development invoices, as well as their accompanying time sheets, for labor related to the pumps maintenance at the Lancaster Farm, Bryant Woods, and Tower/54 Sawyer locations. Charges were verified to the journal entries with no exceptions noted.

633.00 Maintenance of Pumping Equipment \$40,399

Audit reviewed the activity within the account, noting that the balance at 12/2019 reflected a decrease of \$1,391 or 3% over the preceding year-end balance. Audit reviewed the time sheets for two employees, as well as invoices from Northeast Panels and Lewis Builders Development. The Northeast Panels invoice was for the purchase of a 400A main breaker and the Lewis Builders Development invoice was for the plumbing labor of two employees at the Colby Pond Pump House. Audit requested clarification regarding the purpose of the main breaker purchase from Northeast Panels in determining that the item should be expensed. The Company explained that the charge “...is for repairs to electrical panels at our Midpoint and Cogswell pump stations.” Audit verified the labor hours billed on the invoice to the time sheets with no exceptions.

1-10-641.00 Chemicals \$13,500

The 12/31/2019 account balance of \$13,500 reflected an increase of \$977 or 8% over the preceding year-end balance. Audit reviewed one invoice, in the amount of \$1,296, from D&P Swimming Pools for the purchase of sixty-four items of Chlorine Liquid at five gallons each and sixty-four, five-gallon chlorine containers. Audit also reviewed another invoice, in the amount of \$648, from D&P Pools for thirty-two, 5 gallon containers and the purchase of thirty-two items



of Chlorine Liquid at five gallons each. Charges were verified to the journal entries with no exceptions noted.

1-xx-642.00 Treatment Operation and Labor \$172,741

The total Treatment Operation and Labor expense of \$172,741 was verified to the following two general ledger accounts:

1-10-642.00	Treatment Operation Labor	\$ 172,677
1-99-642.00	Treatment Operation Labor	<u>65</u>
	Total Treatment Operation Labor	\$ 172,742

The net increase in account 642 over the preceding year-end balance was reported as \$8,133 or 5%. Activity in these accounts is reflective of the time split noted on the Labor Costs by Account and Job report. Audit reviewed three transactions on the 2019 general ledger and their corresponding invoices, Job Cost Transaction Reports, and time sheets from Lewis Builders Development and Nelson Analytical Lab. Charges were for materials and labor related to the treatment operation at Atkinson/Hampstead Core, as well as water testing at Granite Village.

1-10-652.00 Maintenance of Water Treatment Equipment \$1,443

The \$1,443 test year 2019 balance in the account reflects a decrease of \$1,845 or 56%. Audit reviewed the general ledger for the account, noting that transactions on the account were for payroll. One entry on 11/8/19 was reviewed in detail, including a copy of the supporting Payroll Post Checks Report with corresponding employee time sheet. Charges were for labor related to the maintenance of water treatment equipment and the amount was verified to the journal entry with no exceptions noted.

1-10-662.00 Transmission and Distribution Lines Expenses \$33,160

Activity in this account is reflective of the time split noted on the Labor Costs by Account and Job report. The decrease in the account 662 balance, over the preceding year-end balance, was reported as \$4,995 or 13%. Audit sampled a May journal entry for the posted checks and verified the amount to the payroll post checks report.

1-10-663.00 Meter Expenses \$23,738

The \$23,738 balance on the account represented a 20% increase from the preceding year. The Company explained that, “[HAWC] incurred increased labor, material and expenses associated with the operations of customer meters. The Company also added more customers in 2019, resulting in more meters and the related operations and maintenance expenses.”

Audit reviewed three transactions on the 2019 general ledger and their corresponding invoices, Job Cost Transaction Reports, and time sheets from Lewis Builders Development and Ti-Sales, Inc. Charges were for materials and labor related to meter expenses and new meter installation at the Stoneford Pump House and Atkinson/Hampstead Core System, as well as the

purchase of 5/8 meters. The reviewed time sheets with listed job numbers verified the meter work performed for the labor charges. Specifically:

May 2019 work performed by LBD at the Stoneford Pump House \$441.47 was split among the accounts as identified on the LBD invoice:

-334	New Meter Installation	\$ 72.37
-642	Treatment-Operation	\$115.80
-663	Meter Expenses	<u>\$253.30</u>
	Total LBD invoice	\$441.47

May 2019 work performed by LBD in the Atkinson/Hampstead Core systems \$6,160.71 was identified by the LBD account structure as follows:

01-120	Project Manager	\$1,565.68	
01-271	Drafting	\$ 78.18	
01-301	Survey-Topo/Existing Cond	\$1,565.43	
15-400	Plumbing	\$ 78.29	
99-334	New Meter Installation	\$1,432.29	mis-post to 1-10-663.00 <b>Audit Issue #11</b>
99-631	Pumps-Maint of Structures	\$ 164.65	
99-642	Treatment-Operation	\$ 39.80	
99-662	Mains-Operation	\$ 289.49	
99-663	Meter Expenses	\$ 338.34	
99-673	Mains-Maintenance	\$ 217.12	
99-675	Maint. of Service Lines	<u>\$ 391.44</u>	
	Total LBD invoice	\$6,160.71	

July invoice from T-Sales for 60 5/8" x 1/2" Neptune T-10 Meter Integrated E-Coders at \$259.80 each \$15,588.00 was split among the following accounts, but should have been capitalized:

1-10-633.00	Maint Pumping Equip	\$ 3,500.00
1-10-663.00	Meter Expense	\$ 4,500.00
1-10-676.00	Maint of Meters	<u>\$ 7,588.00</u>
	Total Ti-Sales	\$15,588.00 <b>Audit Issue #11</b>

#### 1-10-664.00 Customer Installations Expenses \$3,104

Activity in this account is reflective of the time split noted on the Labor Costs by Account and Job report. The \$3,104 balance for the Customer Installations Expenses represented a 58% decrease from the preceding year.

#### 1-10-665.00 Transmission and Distribution Lines – Miscellaneous Expense \$300

The \$300 balance on the account represented a 23% decrease from the preceding year. There were only two transaction on the account from Lewis Builders Development. Audit reviewed both transactions, noting that they were for shop repairs and materials.

1-10-672.00 Maintenance of Distribution Reservoirs and Standpipes \$1,935

The total Maintenance of Distribution Reservoirs and Standpipes expense of \$1,935 was verified to the following two general ledger accounts:

1-10-672.00	Maintenance of Distribution Reservoirs and Standpipes	\$ 1,767
1-99-672.00	Maintenance of Distribution Reservoirs and Standpipes	<u>168</u>
	Total Main of Distribution Reservoirs and Standpipes	\$ 1,935

The net increase in account 672 over the preceding year-end balance was reported as \$829 or 75%. The Company explained that they added more customers in 2019, resulting in more related maintenance expenses. Activity in the accounts is reflective of the time split noted on the Labor Costs by Account and Job report. Audit reviewed one invoice, along with the accompanying Job Cost Transaction Report and time sheets, from Lewis Builders Development Inc. in the amount of \$899. Charges were for labor related to the Smith Mountain Tank project and fixing the road access to the tank, including paving and brush removal.

1-10-673.00 Maintenance of Transmission and Distribution Mains \$23,848

The total Maintenance of Distribution Reservoirs and Standpipes expense of \$23,848 was verified to the following two general ledger accounts:

1-10-673.00	Maintenance of Transmission & Distribution Mains	\$ 23,364
1-99-673.00	Maintenance of Transmission & Distribution Mains	<u>484</u>
	Total Maintenance of Transmission & Distribution Mains	\$ 23,848

The aggregate decrease in account 673 over the preceding year-end balance was reported as \$11,375 or 32%. Audit reviewed one invoice and work order description, along with the accompanying Job Cost Transaction Report with time sheets, from Lewis Builders Development Inc. in the amount of \$1,908. Charges were for labor related to the repairs at the Bow Lake project for the maintenance of service lines.

1-10-675.00 Maintenance of Services \$44,691

Audit noted that the 2019 year-end balance of \$44,691, for the Maintenance of Services expenses, reflects a 171% increase over the preceding year-end balance. The Company explained the increased costs by stating that, *"During 2018 the company increased its effort in leak detection, leading to discovery of more leaks that were fixed in the latter part of 2018 and throughout 2019."*

Audit reviewed one invoice, along with the accompanying Job Cost Transaction Report and employee time sheets, from Lewis Builders Development Inc. in the amount of \$2,748. Charges were for labor related to the leak repairs at 14 Meredith Drive for the maintenance of service lines and site work.

1-10-676.00 Maintenance of Meters \$30,332

Activity in this account is reflective of the time split noted on the Labor Costs by Account and Job report where monthly transaction selections from the general ledger were verified to Audit's recalculation of the employees' amount with taxes. Audit reviewed three invoices from Lewis Builders Development Inc., as well as the supporting Job Cost Transaction Report and employee time sheets. Charges were for the labor needed during the treatment and operation at the Stoneford Pump House, as well as the labor needed for the meter repairs at the Atkinson/Hampstead Core System and at Colby Pond. The invoices contained stamps indicated "Received", "Entered", "Approved", "Reviewed" and "Posted", along with employees' signature and verification date. Audit confirmed the charges to the journal entries with no exceptions noted.

The balance on the account for 2019 reflects an increase of \$20,162 or 198%. A footnote on Schedule F-48 of the PUC annual report states that, *"The Company incurred increased labor, material and expenses associated with the maintenance of customer meters. The Company also added more customers in 2019, resulting in more meters and the related operations and maintenance expenses."*

1-10-677.00 Maintenance of Hydrants \$6,569

Minimal activity on the general ledger was noted within the 2019 test year. Expenses recorded were primarily reflective of the time split noted on the Labor Costs by Account and Job Report where monthly transaction selections from the general ledger were verified to Audit's recalculation of the employees' amount with taxes. Audit noted the expense decrease of \$730 or 10% over the preceding year-end balance.

1-10-902.00 Meter Reading Expenses \$9,948

The general ledger meter reading expense activity throughout the year related to the time allocations per the Labor Costs by Account and Job report where monthly transaction selections from the general ledger were verified to Audit's recalculation of the employees' amount with taxes. Audit noted the expense decrease of \$1,182 or 11% over the preceding year-end balance.

1-xx-903.xx Customer Records and Collection Expenses \$140,621

The total customer records and collection expense of \$140,621 was verified to the following three general ledger accounts:

1-10-903.00	Customer Records and Collection	\$ 113,410
1-10-903.01	Credit Card Fees	27,191
1-99-903.00	Customer Record and Collections	<u>20</u>
	Total Customer Records & Collection Expenses	\$ 140,621

The aggregate increase in account 903 over the preceding year-end balance was reported as \$21,757 or 18%. The Company stated that the increase was due to adding another customer service person. Direct charges by Lewis Builders Development Inc. employees were posted monthly as incurred. Audit reviewed four invoices from Lewis Builders, as well as the supporting Job Cost Transaction Report and employee time sheets. Charges were for customer records and collections, as well as admin hours provided by Atkinson. The invoices contained stamps indicated "Received", "Entered", "Approved", "Reviewed" and "Posted", along with employees' signature and verification date. Audit confirmed the charges to the journal entries with no exceptions noted.

Fees listed on the reviewed invoices were charged by Atkinson. There were flat fees for the answering service and administrative costs associated with employees of the Atkinson Country Club, posting to account 921, Office Supplies and Other Expenses. Refer to the Management Agreement section for details regarding the Company's affiliate agreements.

Costs in account 1-10-903.01, Credit Card Fees, were reviewed by Audit. Monthly transactions represent the fees charged to HAWC by Heartland processing e-checks, as well as credit card payments made by those customers who pay their bills using one of those methods. Audit understands that, *"The Company and the PUC Staff agreed in the last rate case that such expenses are appropriate and are reflected in current rates."*

#### 1-10-920.00 Administrative and General Salaries \$60,208

The total Administrative and General Salaries expense of \$60,208 was verified the 920 account, Administrative and General Salaries, as well as to the items held in the Suspense account, 998, as they await allocation to the final general ledger account. Audit tied the 2019 total Administrative and General Salaries expense to the following two general ledger accounts:

1-10-920.00	Administrative and General	\$ 29,746
1-99-998.00	Lewis Labor	<u>30,462</u>
	Total Administrative and General Salaries	\$ 60,208

The total Administrative and General Salaries expenses for the test year reflected an increase of \$37,230 or 162% from the preceding year. The Company explained the increase by stating that that, *"The 2019 Annual Report amount of \$60,208 includes \$30,462 for HAWC labor charged to Lewis Builders Development, Inc. for worked performed on Lewis jobs during 2019. The 2018 Annual Report amount of \$22,978 does not include the HAWC labor charged to Lewis jobs for 2018. That amount \$33,693 was included on the 2018 Annual Report in account 923 Outside Services."*

Audit reviewed the general ledger for accounts 1-10-920.00 and 1-99-998.00, noting that the Administrative and General Salaries were predominately payroll charges verified to the supporting Labor Costs by Account and Job reports during the test year. Audit reviewed three journal entries, as well as the supporting Labor Costs by Account and Job, for payroll posted in June, October, and November of 2019. Charges were recalculated with the amounts verified to the general ledger.

1-10-921.00 Office Supplies and Other Expenses \$57,864

Audit reviewed the general ledger for the account and found charges for WB Mason office supplies, postage, Verizon Wireless phone service, Amazon charges, UPS shipping charges, and Fairpoint Phone service. The total Office Supplies and Other Expenses for the test year reflected a decrease of \$2,700 or 4% from the preceding year.

1-10-923.xx - Outside Services Employed \$433,784

The total Outside Services Employed expense of \$433,784 was verified to the following four general ledger accounts:

1-10-923.01	Outside Services Engineering	\$ 117,899
1-10-923.02	Outside Services Management	169,153
1-10-923.03	Outside Services Accounting	85,650
1-10-923.04	Outside Services Legal	<u>61,082</u>
	Total Outside Services Employed	\$ 433,784

The total expense for account 923, Outside Services Employed, during the 2019 test year reflected an increase of \$84,005 or 24% from the preceding year. The Company explained the increases by stating that they *“incurred increased costs associated with professional services including engineering, accounting, legal and management.”*

Account 923.01, Outside Services Engineering, represents costs incurred monthly from Lewis Builders Development Inc. for engineering labor. Account 923.02, Outside Services Management, represents management fees invoiced monthly. Refer to the Management Agreement section of this report for details regarding the current agreement with Lewis Builders Development. Accounts 923.03 and 923.04 were used for Outside Services Accounting and Outside Services Legal, respectively. Monthly expenses were recorded, from Lewis Builders Development and Stephen St. Cyr of St. Cyr and Associates, on the appropriate accounts for accounting fees and legal fees.

Audit reviewed six journal entries and their supporting invoices, Job Cost Transaction Reports, and employee timesheets. Charges were recorded to the appropriate account for labor related to the Cogswell Farm Pump House, project management, and dig safe at Lancaster Farm. The invoices contained stamps indicated “Received”, “Entered”, “Approved”, “Reviewed” and “Posted”, along with employees’ signature and verification date. Audit confirmed the charges to the journal entries with no exceptions noted. An invoice for services provided by Stephen P. St. Cyr & Associates was reviewed with details regarding the billing for professional services rendered in relation to year-end and rate filing. Audit also reviewed three entries on the account associated with Bow Lake and verified the offset to the deferred asset account #186. These expenses should be considered non-recurring. See **Audit Issue #9**

A reclassification of \$2,575 was debited to account 1-10-923.03, Outside Services-Accounting, and offset to Miscellaneous Deferred Debits, account #186. Two entries summing to \$220 relate to Bow Lake Estates. These entries should be considered non-recurring.

Six entries in account 923.03 summing to \$3,609.03 relate to the Return on Equity generic docket and should have been deferred. Two entries to the same account related to the “Rate Filing” sum to \$406.25. These should also have been deferred.

A reclassification of \$43,196.78 was debited to account 1-10-923.04, Legal, offset to Miscellaneous Deferred Debits, account #186. This entry should also be considered non-recurring. See **Audit Issue #9**

#### 1-xx-925.00 Injuries and Damages \$44,136

The total Injuries and Damages expense of \$44,136 was verified to the following two general ledger accounts:

1-10-925.00	Injuries and Damages Reserve	\$43,430
1-99-925.00	Injuries and Damages	<u>706</u>
		\$ 44,136

The aggregate amount of \$44,136 for the Injuries and Damages expense during the 2019 test year was \$10,636 or 19% less than the preceding year end balance. Audit reviewed the general ledger for the 925 accounts, noting that the expenses incurred were for package, auto, and umbrella insurance. Expenses incurred were for workers’ compensation and general liability, as provided by Acadia. Audit reviewed the 2019 insurance prepayments schedule provided by the Company. The Package, Auto, and Umbrella Insurance carried by HAWC is expensed to this account at the amount of \$2,416 per month. This amount was verified to the GL for the months of April through December 2019. For the months of January through March 2019, the prior year’s policy amount of \$2,212 monthly was in effect, which Audit verified to the prepayment schedule and general ledger. Refer to the Current and Accrued Assets section of the report for further details regarding prepayments.

#### 1-xx-926.00 Employee Pensions and Benefits \$78,931

The total Employee Pensions and Benefits expense of \$78,931 was verified to the following two general ledger accounts:

1-10-926.00	Employee Pensions and Benefits	\$ 78,215
1-99-926.00	Employee Pensions and Benefits	<u>716</u>
	Total Employee Pensions and Benefits	\$ 78,931

The aggregate amount of \$78,931 for the 2019 test year reflected a decrease of \$4,792 or 6% from the preceding year. Audit reviewed the general ledger noting that monthly charges on the account were for payroll benefit pay, such as holiday time and personal days off, as well as monthly premiums for employee benefits such as health care, employee certification, exam costs,

and license renewal fees. The Labor Costs by Account and Job report was reviewed for three journal entries on the account described as “post checks summary.” The Company confirmed that the posted checks were for payroll related to benefits. Audit specifically reviewed eight individual employee payroll amounts, confirming the holiday and personal day off pay.

Audit reviewed one of the monthly invoices from Anthem Blue Cross and Blue Shield for a 5/12/19 journal entry totaling \$1,857.85. The total invoice was for \$2,322 and Audit recalculated the 80% employer cost, verifying the \$1,857 expense recorded to the general ledger. The remaining \$464 portion of the bill was the employee cost and Audit verified the amount to the general ledger account 263.00, Pensions and Benefits Reserve. Refer to the Payroll section of this report for details regarding insurance benefits provided to employees.

#### 1-10-927.00 Franchise Requirements \$5,840

The total Franchise Requirements expense for the 2019 test year reflected a decrease of \$465 or 7% from the preceding year. Audit reviewed two copies of check requests and their accompanying invoices from NH DES. Charges were for service connections at the Coopers Grove and Kings Landing locations in Kingston. The invoices contained stamps indicated “Received”, “Entered”, “Approved”, “Reviewed” and “Posted”, along with employees’ name and verification date. Audit confirmed the charges to the journal entries with no exceptions noted.

#### 1-10-928.00 Regulatory Commission Expense \$76,106

The general ledger reflects:		Totals should be:	Variance
Net Assessment entries	\$ 7,343	\$ 7,300	\$ 43
Net Rate Case Expense	<u>\$68,763</u>	<u>\$66,269</u>	<u>\$2,494</u>
Total for the year	\$76,106	\$73,569	\$2,537 <b>Audit Issue #9</b>

Audit verified the Assessment to the PUC Business Office assessment records shown on the PUC website for the state fiscal years ending 6/30/2019 and 6/30/2020:

Quarter 3 Fiscal Year 6/30/2019	\$1,855
Bow Lake Estates	\$ 27
Quarter 4 Fiscal Year 6/30/2019	\$1,855
Bow Lake Estates	\$ 27
Quarter 1 Fiscal Year 6/30/2020	\$1,539
Quarter 2 Fiscal Year 6/30/2020	<u>\$1,997</u>
Total Assessment for Calendar Year 2019	\$7,300

The difference between what the Assessment books demonstrated and the general ledger relates to the first and second quarterly assessments in the state fiscal year 2019, relating to Bow Lake. The amounts which sum to an immaterial \$43 should have been booked in calendar year 2018.



HAWC was authorized by Commission Order 26,153 in docket DW 17-145, issued on 6/26/2018, to purchase Bow Lake Estates Water Company. The transaction was finalized August 16, 2018. The PUC Assessment detail reflects Bow Lake Estates as a specific utility for state fiscal year ending 6/30/2019. Bow Lake was rolled into the Assessment for HAWC for the state fiscal year ending 6/30/2020.

Audit reviewed the general ledger and noted the recording of the quarterly assessments, as well as monthly rate case expenses. The total Regulatory Commission Expense for the 2019 test year reflected an increase of \$65,947 from the preceding year, due to the increased expenses *“associated with recovery of PUC rate case expenditures.”* Rate case expenses were approved:

Order 26,185 \$36,436

Order 26,248 \$29,833

\$66,269 Non-recurring-see Audit Issue #9

Audit reviewed Order No. 26,185 in docket DW 17-118, 2016 rate case, and verified the authorization for the recovery of \$36,436 *“over five monthly billing periods.”* Audit calculated the monthly entries should have been \$7,287.20. Debit entries for January through September, in the amount of \$7,537.20 were booked in error. The debit entries posted were \$250 higher than authorized, and represent the total of approved costs and estimated NH PUC audit related costs, which were disallowed for recovery. Four reversing entries were noted; one in the amount of \$(7,793.16) and three in the amount of \$(7,287.20) each. Three additional debit entries in the amount of \$250 each were also included, again appearing to represent costs related to the NH PUC audit work. The entries and reversals resulted in an overstatement of the authorized rate case expenses by \$2,494. **Audit Issue #9**

Audit noted a 6/30/2019 debit entry on the account, totaling \$29,833, described as an additional rate case expense related to the return-on-equity component of the DW 17-118 rate case. Commission authorization for the \$29,833 was noted in Order 26,248, dated 5/6/2019 where, *“Staff agreed that recovery should occur in June 2019, after the expiration of the monthly surcharges approved in Order No. 26,185.”* Audit verified the offsetting entry to account 186.01, Deferred Rate Case Expenses. This expense should also be considered non-recurring. **Audit Issue #9**

Account #1-10-930.xx Miscellaneous Expense \$39,290

The total Miscellaneous Expense of \$39,290 was verified to the following two general ledger accounts:

1-10-930.00	Miscellaneous General Expenses	\$ 4,277
1-10-930.50	Miscellaneous Expenses – Vehicle	<u>35,013</u>
	Total Miscellaneous Expenses	\$ 39,290

The aggregate amount of \$39,290 for the 2019 test year reflected a decrease of \$55,070 or 58% from the preceding year. Activity within account 1-10-930.00, Miscellaneous General Expenses, reflected reclassifications of various minimal dollar entries.

Account 1-10-930.50, Miscellaneous Vehicle Expenses, reflected vehicle registrations and servicing of various vehicles. Also included in this account were fuel charges which were verified to a copy of the credit card statement for gas charges which were assigned by employee name, employee account number, and location of the gas purchase. Copies of invoices for two transactions on the account were also reviewed from Lewis Equipment Company Inc., Sullivan Tire, Senter Auto Supply, and from the Town of Atkinson. Charged amounts related to auto repairs on the Ford F150, serviced by Sullivan Tire and Senter Auto Supply, as well as vehicle registration from the Town Clerk's Office of Atkinson. The Job Cost Transaction report and a copy of the cashed check were confirmed to the journal entries with no exceptions noted.

#### 1-10-931.00 General Rents \$16,928

The total General Rents expense for the 2019 test year reflected an increase of \$28 or less than 1% from the preceding year. Audit reviewed the general ledger and accounts payable check register, noting that the increase on the account was due to a \$28 discount that was recorded incorrectly. There were twelve charges on the account, each in the amount of \$1,408, for the monthly rental cost of warehouse space from Lewis Builders Development. Refer to the Management Agreements section of this report for details regarding the rental agreement with Lewis Builders.

### Taxes

#### Prepaid Tax Expense

Audit reviewed the \$37,610 in prepaid property taxes booked to account # 1-00-163.02 for 2019. The Company indicated they calculated the prepaid property tax expense using one quarter of the \$150,440 2019 first and second issuance municipal property tax bills. This is an acceptable method of calculating municipal property taxes as the property tax year is based on an April 1, 2019-March 31, 2020 calendar schedule. The usual method for calculating the prepaid property tax expense is taking exactly one-half of the 2019-second issuance of the municipal property tax bills. Audit verified the prepaid property tax expense to the 2019 annual report and filing schedule 2 without exception.

#### Municipal/State Property Tax Expense

Audit reviewed the property taxes paid during the test year, \$146,846 to the filing, annual report and 408.1 general ledger account to the actual invoices seen below:

2019 NH DRA Utility Property Tax	\$40,094
½ of 2 <sup>nd</sup> Issue 2018 Municipal	\$27,427
Full 1 <sup>st</sup> Issue 2019 Municipal	\$60,524
½ of 2 <sup>nd</sup> Issue 2019 Municipal	<u>\$25,008</u>
Property tax expense	\$153,053
method acceptable	per Audit calculation but Company calculation

Audit reviewed the December 2018 municipal property tax bills, both issuances for 2019 and the state utility tax for 2019. The state utility property tax was verified to quarterly \$10,024 payments made to NHDRA in April, June, September, and December 2019. Audit calculated the property tax expense to be \$153,053. This is \$6,207 different from what the Company booked to the GL. The Company explained the reason for the \$6,207 was the specific way they calculated the property tax expense. The property tax expense period is 4/1/19 – 3/31/2020. As such, the calculated expense was 3/4 of the 2019 first and second property tax bills and the prepayment was 1/4 of the 2019 first and second property tax bills. Based on this method the Company calculated the municipal property tax expense to be \$106,752 and the state utility portion to be \$40,094. The Company included a \$250 failure to file in a timely manner penalty in the state property tax expense. This brings the total property tax expense to \$146,846 that was booked to account #1-10-408.11 and the F-50 on the 2019 Annual Report. Audit also verified that the reported expense agrees with the PUC annual report as well as with the filing schedule 1.

### State Property Taxes

The State Department of Revenue Administration assesses the utility for the full \$6.60 per thousand of statewide education taxes. Audit was provided with the Notice of Value and Tax Bill for the tax periods, 4/1/2018 – 3/31/2019 and 4/1/2019 – 3/31/2020. The Notices are issued in December, with payment required the following January 15, along with Form DP-255 “Utility Property Tax Payment Form”. The Company included a \$250 failure to pay in a timely manner payment penalty in the state utility tax property tax expense that should not have been included.

### **Audit Issue #10**

The 12/17/2018 Notice calculated the amount due:

Assessed value as of April 1, 2018:	
Tax rate per \$1,000 of assessed value:	\$5,331,300
2018 Utility Property Tax due pursuant to RSA 83-F:	\$ 6.60
Penalty:	<u>\$ 250 <b>Audit Issue #10</b></u>
Total due (1/15/2019):	\$ 35,437

The 2018 DP-255 form, dated 1/15/2019 reflected:

Notice of Valuation	\$ 35,137
Penalty	\$ 250
Payments from estimated taxes	\$(30,274)
Credit carry-over	<u>\$ (9,820)</u>
Balance of tax due	\$ (4,657) credit to next year

The related 2019 DP-255-ES reflected:

All utility taxes paid in 2018	\$ 40,094
2018 overpayment applied to 2019 taxes	<u>\$ (4,657)</u>
Balance of estimated utility property tax	\$ 35,437

### Computation and Record of Payments

		<u>Total</u>
\$10,023.50	less (\$4,657.00) overpayment	\$5,366.50 due April 15, 2019
\$10,023.50		\$10,023.50 due June 15, 2019
\$10,023.50		\$10,023.50 due September 15, 2019
\$10,023.50		\$10,023.50 due December 15, 2019
<hr/>		
\$ 40,094	\$(4,657)	\$35,437

### The 12/17/2019 Notice calculated the amount due:

Assessed value as of April 1, 2019:

Tax rate per \$1,000 of assessed value:	\$5,334,200
2019 Utility Property Tax due pursuant to RSA 83-F:	\$ 6.60
Penalty:	\$ -0-
Total due (1/15/2020):	\$ 35,272

### Accrued Taxes

Audit reviewed the accrued taxes booked on the general ledger to the filing schedule 2 and annual report. The 236.01 Accrued Taxes Utility Other Operating Income Tax consists of the 2019 NH Business Enterprise Tax and the 236.11 Accrued Taxes Utility Operating Income consists of payroll taxes.

1-00-236.01 Accrued Taxes-Utility	(\$3032)
1-00-236-11 Accrued Taxes Other	<u>\$771</u>
Total	(\$2,261)

### Federal Income Taxes

Audit requested and was provided with the 2019 US Income Tax Return for Hampstead Area Water Company, Inc. The form 1120 return was prepared by Stephen P. St. Cyr and Associates. Audit verified the \$(51,968) Net Loss on Schedule M to the 2019 annual report. Components of the annual report balance sheet and income statement of HAWC were included within the federal tax return supporting schedules.

### Review of State Tax Returns

Audit reviewed HAWC State of NH tax returns for years 2018 and 2019 that were filed as part of Lewis Builders, LLC, a Subchapter S Corporation (for federal tax filing purposes, although the NH DRA does not recognize sub-chapter S for state tax purposes). The returns were prepared by EJ Callahan & Associates, LLC based in Woburn, MA, based on year-end reviews and compilations of the financial records of Lewis Builders. The subsidiaries included in the Unified return are:

Centerview Hollow Land, LLC

Atkinson Farm, Inc.  
East Coast Lumber & Supply, Inc.  
The Hampstead Area Water Co., Inc.  
ECLBSC, LLC

The NH Unified returns showed the net Business Enterprise Tax (BET) and net Business Profits Tax (BPT) for each year:

2018 BET due	\$ 140,556
2018 BET paid	<u>\$(182,132)</u>
2018 Net	\$ (41,576) carry-over to 2019
2018 BPT	\$ -0-
2019 BET due	\$ 87,571
2019 BET paid	<u>\$(145,576)</u>
2019 Net	\$ (58,005) carry-over to 2020
2019 BPT	\$ -0-

Audit verified the State tax form and the expenses associated with it to the general ledger.

The Provisions for Income Taxes, \$15,577 total was verified to the tax worksheets as well as the filing schedule 1 and the following accounts without exception:

1-10-409.11 State Income Taxes	\$3,032
1-10-410.00 Provisions for Deferred Income Taxes	\$1,269
1-10-410.10 Deferred Federal Income Tax	\$2,113
1-10-410.11 Deferred State Business Income Tax	<u>\$9,163</u>
Net Income Tax	\$15,577

Account 409.11 reflects one entry in the amount of \$3,032 related to New Hampshire Business Enterprise Tax, with the credit offset posted to account 236.01 – Accrued Taxes, Utility Operating Income. The Company provided the detail calculations which resulted in the entry:

Compensation and Wages	\$375,475
Interest Paid or Accrued	<u>\$129,880</u>
Total Enterprise Value Tax Base	<u>\$505,355</u>
BET .0060 =	\$ 3,032

For taxable periods ending on or after 12/31/2019, the BET rate was reduced to .0060. The adjusted rate results in the BET of \$3,032.

Account 410.00 Provisions for Deferred Income Taxes reflected a total for the year of \$1,269 that consist of recurring monthly entries in the amount of \$108 related to the Hampstead Core, Kent Farm, and Walnut Ridge water systems. The recurring offsetting entries were booked to account 1-00-190.00 Deferred Income Taxes that had a year-end balance of \$10,711.

Accounts 410.10 recorded \$2,113 in deferred federal income tax for 2019. The 410.10 account also indicates the \$9,163 deferred state business income tax was posted incorrectly and promptly corrected. The Company booked the correct \$9,113 in deferred state income tax expense to account 410.11.

1-10-410.10 Deferred Federal Income Tax	\$2,113
1-10-410.11 Deferred State Business Income Tax	<u>\$9,163</u>
	\$11,276

Accumulated Deferred Income Taxes

Audit verified the Deferred Income tax total of \$67,854 to the following general ledger accounts.

1-00-282.00 ADIT-Liberalized Deprecation	0
1-00-282.10 ADIT-Federal	\$2,113
1-00-282.20 ADIT-State	<u>\$65,741</u>
Total	\$67,854

The ADIT-Liberalized Depreciation 282.00 account did not have any activity during the test year. The 282.10 allocated \$2,113 in ADIT and \$65,741 to the state portion in account 282.2. The Company provided the tax worksheet calculations that were used that were related to the book and tax differences related to accumulated depreciation. Audit verified the calculations were correct.

**Audit Issue #1**  
**Filing Schedule 3 Plant in Service Balance**

**Background**

As of December 31, 2019, all Utility Plant in Service accounts summed to \$17,801,797 per the general ledger and the NHPUC annual report schedule F-8 – Utility Plant in Service.

**Issue**

The Company overstated the Plant in Service Balance on Filing Schedule 3 for the test year which shows \$17,807,797. The figure is higher than the general ledger and annual report by \$6,000, due to what the Company stated was a typographical error.

**Recommendation**

The Company should reduce filing schedule 3 by \$6,000 to reflect the correct \$17,801,797 December 31, 2019 test year plant in service ending balance.

**Company Comment**

The Company agrees.

**Audit Comment**

Audit encourages the Company to file an adjusted schedule within the instant docket.

## **Audit Issue #2 Meters**

### **Background**

Audit reviewed the 2017-2019 Meters accounts on the general ledger and fixed asset reports and noticed the Company charges \$500 for a meter change out and \$450 for a new meter.

### **Issue**

This means that labor expenses associated with removing the (current) meters are \$50 higher per unit than the labor included with the installation of the new meter. The Water Uniform System of Accounts requires that the cost of removal be debited to Accumulated Depreciation and credited to the applicable Plant in Service account. Audit quantified the number of meters affected by this for 2018 and 2019 by counting the number of \$500 entries on the annual activity CPR records and multiplying each amount by \$50. The chart below summarizes the \$30,800 figure Audit calculated.

<u>Acct #</u>	<u>Account Name</u>	<u>Per Annual Activity CPR record</u>		
		<u>Year</u>	<u># Meters</u>	<u>Total Amount</u>
334	Meters	2018	305	\$15,250
334	Meters	2019	311	<u>\$15,550</u>
Total				\$30,800

### **Recommendation**

The Company should remove from filing schedule \$30,800 in excess labor and meter change out costs for 2018 and 2019. The Company should work with Commission Staff to resolve the meter change out issue identified in the DW 17-128 Step Adjustment Audit that still has not been resolved.

### **Company Comment**

The difference in costs is not all labor – see below. There are different material parts involved in a replacement versus a new meter. The actual labor to remove the existing meter is minimal. Most of the extra labor is due to the extra parts required with a replacement meter.



Meter Replacement:

Meter	233.75
Meter Bracket	6.43
3/4 " insert	1.43
3/4" angle meter valve	75.00
3/4" backlow preventer	48.51
Expansion tank	27.11
3/4" brass tee	4.98
3/4" x 1.5" nipple	2.71
Labor	<u>\$100.00</u>
TOTAL	\$499.92 (rounded to a standard cost of \$500.00)

New Meter:

Meter	233.75
Meter Bracket	6.43
1" insert	1.43
1" angle meter valve	96.00
3/4" backlow preventer	48.51
Labor	<u>\$65.00</u>
TOTAL	\$451.12 (rounded to a standard cost of \$450.00)

The Company does not believe that any adjustment is required.

**Audit Comment**

Given the updated detailed list of additional parts in addition to the additional labor, Audit concurs that the Meter Replacement costs of \$500 are reasonable and no adjustment is required.

**Audit Issue #3**  
**Atkinson Country Club Administrative Charges**

**Background**

The Company included administrative charges on new billing software that was installed in 2019.

**Issue**

The Company in 2019 installed new billing software that was unitized to the plant in service account 347 for \$74,479. As part of that, the Company booked \$3,648 in costs from Atkinson Resort and Country Club that included postage, ink for the postage machine, answering service, and other administrative charges (originally to 1-00-186.02, reclassified to account 347 9/30/2019).

5/1/2019	\$ 863.28
5/1/2019	\$1,921.50
6/1/2019	<u>\$ 863.28</u>
	\$3,648.09

Audit understands the Atkinson Resort and Country Club assists HAWC with administrative task but answering services, postage, ink for the postage machine, and other administrative tasks should be booked as operating expenses rather than capitalized.

**Recommendation**

The Company should reduce the plant in service general ledger and filing schedules by \$3,647 and for the filing, reclassify the \$3,647 Atkinson Resort and Country Club administrative costs as an operational expense rather than as capitalized costs.

**Company Comment**

The reclass should be \$863.28 (6/1/2019). The other items mentioned relate directly to the new software.

**Audit Comment**

Audit understands the 5/1/2019 \$863.28 relates directly to lodging charges and travel costs for a Tyler Tech employee to travel to NH to train employees on the new billing software. Audit agrees that specific training costs should remain as a capitalized cost.

Audit understands that the 5/1/2019 \$1,921.50 does represent postage, but the postage relates to an information letter to customers explaining the new billing system. Audit restates that this cost should be expensed and not capitalized.

Audit concurs with the misclassification of the 6/1/2019 \$863.28, which the Company agrees should have been expensed as office supplies.

## **Audit Issue #4 Depreciation Expense**

### **Background**

The Company on the F-12 of the 2019 annual report booked \$1,905 in depreciation associated with account #303 Land and Land Rights.

### **Issue**

The \$1,905 of depreciated Land and Land Rights is part of the total \$557,503 depreciation expense during the test year in account #403 depreciation expense. The Company depreciated the land at a 2.00% during the test year. The land depreciation charges were also included on filing schedule 1.

### **Recommendation**

The Company should reduce filing schedule 1 by (\$1,905) as the Company should not be depreciating account #303 Land and Land Rights. The Company going forward should cease the practice of depreciating land as part of the depreciation expense and make any necessary adjustments to the general ledger Accumulated Depreciation account.

### **Company Comment**

The Company disagrees. Except for \$13,690 associated with Bow Lake land (on which there is no depreciation), the remaining costs of \$80,326 are associated with easements/leases. As such, it is appropriate to depreciate (or amortize) such costs. The Company utilizes 40 years as the recovery period, which is an extremely long recovery period and minimizes the impact on annual expense. Please note that the Company inadvertently did not record any depreciation expense on Page Farm Area easement. As such, \$103.52 ( $\$4,140.80 / 40$ ) should be added to test year depreciation expense.

### **Audit Comment**

Audit appreciates the clarification of the land vs. easement figures and concurs that easements may be amortized over a 40-year period. Audit concurs in principal with the addition of the Page Farm Area easement. A review of the easement documentation was not done.

## **Audit Issue #5**

### **Long-term Debt Account**

#### **Background**

The 2019 current liability account 232, Notes Payable, is listed with a \$0 balance on schedule F-1, Balance Sheet, page 17 of the annual report.

The 2019 long term debt account 224, Other Long Term Debt, is listed with a balance of \$4,504,424 on schedule F-1, Balance Sheet, page 17 of the annual report.

#### **Issue**

The general ledger account used by HAWC for their long-term debt, #232 Notes Payable, is the incorrect account to use for long-term debt. As was identified as an issue in the DW 17-118 Audit report, the Company agreed to *“plan and execute the movement of the Long Term Debt currently in Account #232 to Account #224.”*

#### **Recommendation**

The reclassification of all long-term debt accounts out of #232 into #224 should be accomplished as agreed in the DW 17-118 Audit report.

#### **Company Response**

The Company agrees.

#### **Audit Conclusion**

Audit encourages the reclassification as soon as possible.

## **Audit Issue #6**

### **Interest on Customer Deposits**

#### **Background**

Audit notes no account 1-00-427.04 - Interest on Customer Deposits exists. Audit asked where the deposit interest is booked and HAWC said that the interest is credited directly to the customers' outstanding amount receivable. In the previous rate case, the Company stated that "going forward, HAWC will create and implement a process to book the interest expense.

#### **Issue**

In response to a request to why there was no account set up, the Company stated that *"When we switched billing systems it looks like we neglected to set up the interest amounts to go into a separate interest expense account."* Based on the response, it does not appear that the Company is complying with all terms of Puc 1203.03, Deposits.

#### **Recommendation**

HAWC should establish the account 1-00-427.04 – Interest on Customer Deposits. The Company must also ensure that they comply with Puc 1203.03 (m) (6) which states "With the agreement of the customer, deposits plus interest may be applied against the current bills until the balance of the deposit is exhausted".

#### **Company Comment**

The Company agrees. The correction to the system has been completed.

#### **Audit Comment**

Audit appreciates that the Company indicates it has come into compliance with Puc 1203.03 as well as with the NH PUC USoA.

**Audit Issue #7**  
**Accounts Receivable and Uncollectible Accounts**

**Background**

The Company's report titled "My Account Balance with as of Date" shows many customers with an "inactive" status as of 12/31/2019. In the review of accounts receivable, the Company stated that there is no aging for 2019. The Company explained that in 2019, they purchased new billing software which allows them to run a current accounts receivables reports but it does not allow them to go back in time to print an old aging report.

**Issue**

Without an aging, the Company cannot determine what accounts should be written off. Also, from the 2017 rate case, the Company commented that "*HAWC will establish an annual amount to include as the Bad Debt expense with a corresponding amount established in the Allowance for Uncollectible Assets Account.*" This was not done.

Account #1-10-904.00 - Uncollectable Account shows no activity for the test-year. Audit requested the Company's write-off policy and if the Company knows what customer amounts should be written off. The Company responded that they had a discussion about setting up an allowance for uncollectable accounts asset account, however this was never done. As of December 31, 2019, the total inactive accounts prior to January 1 2018 was \$10,423. The Company stated that this amount could be written off.

**Recommendation**

Audit recommends the Company write-off the accounts that have been inactive since prior to January 1 2018, \$10,423.

Audit also recommends that the Accumulated Provision for Uncollectable Accounts, #143 be established as agreed in the DW 17-118 Audit report.

**Company Comment**

The Company agrees.

**Audit Comment**

Audit appreciates the Comment and anticipates reviewing the write-offs and establishment of the Accumulated Provision for Uncollectable Accounts as part of the next examination.

## **Audit Issue #8 Operation Expense Accounts**

### **Background**

The total Operation expense of \$14,466, on Schedule F-48 of the annual report, is stated as consisting of account 601 and 603, with balances of \$14,466 and \$0 respectively.

The general ledger reports the following balances for accounts 601 and 603:

601.00 Well Operation Labor and Expense	\$ 5,193
603.00 Well Miscellaneous Expenses	<u>9,273</u>
Total Operation Expense	\$ 14,466

### **Issue**

The \$14,466 balance for account 601, as reported on Schedule F-48 of the annual report, represents the combined general ledger balances for accounts 601 and 603.

### **Recommendation**

The Company needs to separately report the \$5,193 general ledger balance for account 601 and the \$9,273 general ledger balance for account 603, on Schedule F-48 of the annual report, line 4 and line 6 respectively.

### **Company Response**

The Company agrees that the amount should be separated into separate accounts. The Company did so on Schedule F-48 in its 2020 PUC Annual Report.

### **Audit Conclusion**

Audit reviewed the 2020 NH PUC Annual Report Schedule F-48 and concurs that there are now balances for accounts 601 and 603.

## Audit Issue #9 Overstatement of Regulatory Commission Expenses and Other Non-recurring Entries

### Background

The Regulatory Commission Expense for the 2019 test year totaled \$76,106, as reported on schedule F-48 of the annual report and PUC 1604.01(a)(1) Tab 15 of the filing. Order No. 26,185 of docket DW 17-118 (2016 rate case) authorized the recovery of \$36,436 in rate case expenses. The general ledger entries on account 928.00, Regulatory Commission Expenses, are summarized in the following:

Assessment Entries	\$ 7,246
Assessment for 2019	97
Rate Case Expense Recoveries	38,930
Additional Rate Case Expense (Order No. 26,248)	<u>29,833</u>
Total for the Year	\$ 76,106

Audit verified the Assessment to the PUC Business Office assessment records for the state fiscal years ending 6/30/2019 and 6/30/2020. The following depicts the 2019 total assessment of \$7,300:

Quarter 3 Fiscal Year 6/30/2019	\$1,855	
Bow Lake Estates		\$27
Quarter 4 Fiscal Year 6/30/2019	\$1,855	
Bow Lake Estates		\$27
Quarter 1 Fiscal Year 6/30/2020	\$1,539	
Quarter 2 Fiscal Year 6/30/2020	<u>\$1,997</u>	
Total Assessment for Calendar Year 2019	\$7,246 plus Bow Lakes \$54	<b>Total \$7,300</b>

### Issue

The \$97 assessment entry is \$43 more than the fiscal year 6/30/2019 assessment of \$27 per 3<sup>rd</sup> and 4<sup>th</sup> quarter, as reported on the Fiscal Year 2019 List of Utility Assessments for Bow Lake. The \$38,930 recorded on the general ledger is \$2,494 more than the \$36,436 that the Company was authorized to collect, via Order No. 26,185 of docket DW 17-118.

Account 928.00, Regulatory Commission Expenses, represents a \$2,537 (\$43 + \$2,494) overstatement of rate case expenses. In addition, the Commission approved Rate Case Expense recoveries reflected on the general ledger should be considered non-recurring.

Order 26,185	\$36,436
Order 26,248	<u>\$29,833</u>
	\$66,269

A reclassification of \$2,575 was debited to account 1-10-923.03, Outside Services-Accounting, and offset to Miscellaneous Deferred Debits, account #186. Two entries summing to \$220 relate to Bow Lake Estates. These entries should be considered non-recurring.



Six entries in account 923.03 summing to \$3,609.03 relate to the Return on Equity generic docket and should have been deferred.

Two entries identified as “Rate Filing” in account 923.03 total \$406.25 should have been deferred.

A reclassification of \$43,196.78 was debited to account 1-10-923.04, Outside Services-Legal, offset to Miscellaneous Deferred Debits, account #186. This entry should be considered non-recurring.

## **Recommendation**

1-The Company should reduce the filing account 923.03 by \$4,015.28 and increase the Miscellaneous Deferred Debit account 186 by the same figure.

2-A total of \$45,991.78 posted to the 923.03 and 923.04 accounts should be considered non-recurring.

3-The Company should reduce the Regulatory Commission Expenses account 928, on the filing by \$2,537. The \$38,930 and \$29,833 should be considered non-recurring.

## **Company Response**

1-The Company agrees that the rate filing account 923.03 by \$4,015.28 should be decreased and the Miscellaneous Deferred Debit account 186 should be increased by the same figure.

2-The Company generally agrees.

It is not sure to what the \$220 related to Bow Lake pertains?

The \$2,575 pertains to E J Callahan’s bill for CIAC tax review and the Company agrees that it is non-recurring.

The \$43,197 pertains to legal, accounting and internal costs associated with the CIAC tax review and the Company agrees that they are non-recurring. It should be noted that the Company made a proforma adjustment (O&M Exp #13) to recover such costs over a 3 year period. The Company proposed to reduce test year expenses by \$25,783 for the costs of the CIAC tax review, resulting in an annual expense of \$12,892 ( $\$38,675 / 3$ ). It appears as though the Company inadvertently did not include all of the accounting and internal labor costs. As such, the amount subject to recovery should be increased by \$7,097 ( $\$45,992 - \$220 - \$38,675$ )

3-The Company agrees that the Regulatory Commission Expenses account 928 should be reduced by \$2,537. The Company further agrees that \$38,930 and \$29,833 should be considered non-recurring. Similarly, the surcharge revenues associated with the rate case expenditures reflected in Other Water Revenues account 474 should also be considered non-recurring.

## **Audit Conclusion**

Audit appreciates the thorough responses, as identified:

1-Concur with the decrease to account 923.03 by \$4,015.28 and increase account 186 by the same

2- The referenced \$220 Bow Lake Estates is the sum of two invoices from Stephen P. St. Cyr, 1/5/2019 \$202.50 and 5/4/2019 \$17.50. Audit restates that the total \$43,197 is non-recurring, and understands the Company proposed recovering the expenses over a three-year period. The disposition of that proposed recovery, and the information relating to the internal labor, will be determined at the conclusion of the current rate case.

3-Audit appreciates the agreement with the account 928 reduction of \$2,537, and the non-recurring expenses of \$38,930 and \$29,833. Audit also concurs with the statement that the rate case surcharges in account 1-10-474.99, \$191,206 should be considered non-recurring as well.

## **Audit Issue #10**

### **State Property Tax Penalty**

#### **Background**

The Company included a late payment penalty in the state utility tax expense that should not have been included.

#### **Issue**

The Company booked \$146,846 in 2019 test year property tax expense. The state utility tax portion was \$40,094 for the test year. The Company included a \$250 failure to file in a timely manner penalty in the state portion of the property tax expense that should not have been included.

#### **Recommendation**

The Company should reduce the amount on the filing schedule by \$250 to reflect the late payment penalty that should not have been included in the \$146,846 property tax expense during the test year.

#### **Company Comment**

The Company agrees.

#### **Audit Comment**

Audit anticipates the Company may include the reduction in any updated filing schedules provided to the Commission in this docket.

## **Audit Issue #11 Expense vs. Capital**

### **Background**

Audit reviewed the activity within the Operations and Maintenance accounts. Audit selected certain entries from the general ledger to test to supporting documentation, which was provided.

### **Issue**

A July 2019 invoice from Ti-Sales for 60 5/8" x 1/2" Neptune T-10 Meter Integrated E-Coders at \$259.80 each totaling \$15,588.00 was split among the following expense accounts, but should have been capitalized:

1-10-633.00 Maint Pumping Equip	\$ 3,500.00
1-10-663.00 Meter Expense	\$ 4,500.00
1-10-676.00 Maint of Meters	<u>\$ 7,588.00</u>
Total Ti-Sales	\$15,588.00

A May 2019 invoice from LBD identified \$1,432.29 as New Meter Installation to be booked to account 334. The amount was posted to the Meter Expense account 1-10-663.00 but should have been capitalized.

### **Recommendation**

The entries above should have been capitalized rather than expensed. As a result, the general ledger and the filing should be adjusted to increase Meters, or Meter Inventory by \$17,020.29 and filing expenses should be reduced by the same.

### **Company Comment**

The Company agrees that the invoice noted above should have been posted to Meter Inventory but disagrees that the filing and general ledger need to be adjusted. In December of each year, the Company performs a physical inventory which includes counting the meters on hand. The Meter Inventory general ledger account was adjusted to the physical count performed on December 24, 2019. The 12/31/19 Balance Sheet and filing show the correct amount for Meter Inventory. No adjustment is necessary.

### **Audit Comment**

Audit reviewed the general ledger and verified the following 12/31/2019 entries as adjustments due to inventory:

12/31/2019 Adjusting Entry #23

Debit account #1-10-663.00 Meter Expense	\$6,689.94	
Debit account #1-10-626.00 Pumping and Misc. Equip	\$3,344.97	
Credit account #1-00-151.00 Meters and Meter Stock		\$ (9,257.52)
Credit account #1-00-151.05 Pumps and Other Stock Items		<u>\$ (777.39)</u>
	\$10,034.91	<u>\$(10,034.91)</u>

12/31/2019 Adjusting Entry #25

Debit account #1-10-633.00 Maint. of Pumping Equip.	\$3,344.96	
Credit account #1-10-626.00 Pumping and Misc. Equip		\$(1,672.48)
Credit account #1-10-663.00 Meter Expense		<u>\$(1,672.48)</u>
	\$3,344.96	<u>\$(3,344.96)</u>

The physical meter inventory spreadsheet was not reviewed. The statement regarding the adjustments due to the physical inventory, and resulting journal entries, however, appear to be reasonable.