

STATE OF NEW HAMPSHIRE

Inter-Department Communication

ORIGINAL
Case No. DW 10-306
Exhibit No. #5
Witness Panel 1
DO NOT REMOVE FROM FILE

DATE: August 22, 2011

AT (OFFICE): NHPUC

FROM: Robyn Descoteau, Examiner
James Schuler, Examiner

SUBJECT: Lakeland Management Company, Inc.
DW 10-306
FINAL Audit Report

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

Introduction

Lakeland Management Company (Lakeland, Company) is a regulated utility that provides water and sewer services to approximately 152 customers in the Town of Belmont. On January 19, 2011, Lakeland filed rate schedules as well as materials supporting its proposed permanent rate increase with the Public Utilities Commission to increase its rates to both the water and sewer utilities. Lakeland seeks to increase its annual water revenues by 73.16% and its annual sewer revenues by 11.9%. The filing request is based on the calendar year ended December 31, 2009.

The NHPUC Audit Staff (Audit) was requested by Mark Naylor, Director of Water and Gas, to review the books and records of Lakeland Management Company for the year ended 12/31/09.

Audit appreciates the thorough and timely assistance provided to us by Wade and Terry Crawshaw, Company representatives, and Stephen St. Cyr, Company Accountant.

Affiliate Agreement

During the Audit of the Company's 2008 Annual Report, the Company provided a Management Agreement dated 2009. The Agreement contained a Schedule of Rates, however no specific day or month designating the start of the agreement was indicated nor was the document signed by the operator, Wade Crawshaw, President of C&C Water Services and President of Lakeland Management Company. Audit Staff has verified that a signed and dated agreement for 2010 has been filed with the Commission.

The Schedule of Rates charged in 2009 is as follows;
Monthly Charge - \$3,798
Hourly Rate for a Licensed Water Operator - \$56
Hourly Rate for a Mechanic - \$46
Quarterly Rate for Billing Services - \$2,450
Hourly Rate for Backhoe/Equipment - Market
Parts and Materials – 5% over cost

Bank Reconciliations

Per the Company, reconciliations are done monthly for the Company's cash account. Staff was provided with the reconciliation as of December 31, 2009. Audit tied the test-year ending balance of the cash account to the general ledger and the filing with no exceptions.

Accounts Receivable, Account 141, \$37,183

For the test year ending 12/31/2009, Schedule F-1 of the PUC Annual Report, submitted by Lakeland Management Company reported an Accounts Receivable balance at the beginning of the year of \$43,373 and a year-end balance of \$37,183. These amounts agree with the general ledger and page 1 of the Company's filing.

Audit made a request to review the aged accounts receivable and payables, but the Company stated that they do not have a formal aging. The Company did provide the Audit Staff with a list that includes the sum of the 4th quarter 2009 billing plus the past due amounts, less adjustments, (primarily the write-off of the Fair Point balance) equaling the 12/31/09 accounts receivable balance.

The Company explained that 30 days past due accounts are sent a late notice. Accounts 60 days past due are sent a shut-off notice.

Plant Materials and Supplies, Account 151

For the test year ending 12/31/2009, Schedule F-1 of the PUC Annual Report, submitted by Lakeland Management Company, reported the Materials and Supplies balance at the beginning of the year of \$879 and a year-end balance of \$615. These amounts agree with general ledger and the rate filing.

Per conversation with the Company's representative, a physical inventory is not taken on an annual basis mainly because the small dollar amount consists only of several meters.

Audit also note that the Company's Management Agreement states that a 5% overhead charge is added to the cost of parts and materials provided by C & C Water Services.

Prepayments, Accounts 162 and 163, \$2,982 (Split)

Prepayments and Prepaid Taxes were split equally between Water and Sewer.

<u>GENERAL LEDGER</u>		<u>FILING</u>			
162 Prepayments	\$448	Water	224	Sewer	224
163 Prepaid Taxes	<u>2,534</u>	Water	<u>1,266</u>	Sewer	<u>1,266</u>
	\$2,982		(\$1,490)		(\$1,490)

Prepayments, Account 162, \$448

The test year balance in the Prepayment account, \$448, consists of 205 days of Lakeland Management's current property insurance premium. Property Insurance for Lakeland Management is through Peerless Insurance. The policy period is July 24, 2009 to July 24, 2010. The total Premium was \$780 with a Terrorism Risk Insurance Act of 2002 and 2005 Coverage add-on of \$18.

Prepaid Taxes, Account 163, \$2,534

Prepaid Taxes for the Test Year are \$2,534. The balance consists of one-quarter of the Town of Belmont 2009 property tax statement, \$1,146 (See Property Taxes, Account #408.2), an estimate of the State of NH Business Profits Tax, \$1,481, and a credit of (\$93) related to the overestimate of the 2008 taxes.

PLANT

Continuing Property Records/Depreciation Schedule

Audit received the Continuing Property Records (CPRs) during their on-site visit to the Company. The Company provided complete records for additions prior to 2006, however several records for additions were incomplete, showing only the account, amount added and the yearly depreciation amount up to 2006.

Staff received no CPRs from the Company for water additions from 2006 through 2009
Audit Issue #1.

CPRs were received from the Company for the sewer account 361 – Collection Sewer /Gravity with a 2009 ending balance of \$100,000. There have been no additions since 2006. Depreciation for the sewer account has been booked with a year-end adjusting entry to the general ledger, however the depreciation has not been updated on the actual CPR/Depreciation Schedule since 2006.

Bidding

Audit submitted a request to review the bidding process. Audit sought the results of any bid proposals and if there is a minimum dollar amount required for bidding. The Company stated that it had put the tank project out to bid but did not provide any other documentation.

Construction Work in Progress, Account 105, \$18,775

For the test year ending 12/31/2009, Schedule F-6 of the PUC Annual Report, reported the Construction Work in Progress (CWIP) balance at the beginning of the year of \$137,250 and a year-end balance of \$18,775. The beginning and year-end balances agreed with the amounts submitted by the Company on Schedule 3 of the Permanent Rates Filing.

For 2009, the amount charged to account 105 - CWIP of \$18,775 and the amount estimated to finish the tank project of \$76,225, (shown on Schedule F-10 of the 2009 PUC Annual Report) total \$95,000. This equals the amount borrowed in DW 09-128 and consists entirely of ARRA funding.

Plant in Service (Split)

Plant in Service - Water

For the test year ending 12/31/2009, Schedule F-8 of the PUC Annual Report, submitted by the Company, reported a Total Water Plant in Service balance at the beginning of the year of \$284,659, additions of \$143,669, and retirements of \$371, for a year-end balance of \$427,957.

Additions - Water

The following analysis shows details for property additions to the water plant from 2006 through 2009:

<u>Year, Additions</u>		<u>Retirements /Adj.</u>	<u>Total Water Plant Ending Balance</u>
2006, No Additions			\$284,173
2007, Meters – Acct. 334	\$783	(\$257)	\$284,699
2008, Meters – Acct. 334	\$88	(\$128)	\$284,659
2009, Wells – Acct. 307	\$143,405		
Meters – Acct. 334	\$264	(\$371)	\$427,957

Audit Staff reviewed the additions booked by Lakeland Management Company during the test year of \$143,669, testing the vendor invoices and the Management Company's invoices

by recalculating labor rates, reviewing descriptions of the work performed, dates the work was put into service and summing totals from the invoices.

Account 307, Wells showed additions of \$143,405 and account 334, Meters showed additions of \$264 in 2009. Relative to the Audit Staff's review of supporting invoices for the 2009 additions, it appears that \$39,015 of the charges to account 307 – Wells should have been charged to account 311 – Pumping Equipment **Audit Issue #2**.

One invoice miscalculated the total resulting in a \$311 overcharge **Audit Issue #2**. The following is Audit Staff's revised total for account 307 – Wells;

Initial filing amount, account 307 – Wells	143,405
Miscalculated invoice	<u>(311)</u>
New Plant Total	143,094
Reclass to account 311 – Pumping Equipment	<u>(39,015)</u>
Revised account 307 - Wells	104,079

Audit also questions an invoice from Village Pump & Irrigation Company which contained material charges of \$17,970 for a 10 HP pump and 880 feet of 1¼” PVC pipe. Audit researched the cost of several 10HP pumps and the price per foot for a range of 1-1/4” PVC pipe and could not justify the charge of \$17,970 described as materials. **Audit Issue #2**

Included in the additions to plant in 2009 was a report that listed invoices from 2008 totaling \$23,809. The Company added 5% to the total invoice listing which increased the cost to \$24,999. No actual invoices were provided and several of the charges did not list invoice numbers. Without documentation to review, Audit could not differentiate labor from materials in order to verify this 5% overhead charge. **Audit Issue #2**

Plant in Service - Sewer

Total Sewer Plant in Service was \$100,000 and agrees with the 2009 PUC Annual Report and Schedule 2 of the Company's Permanent Rates Filing.

<u>Year, Additions</u>	<u>Retirements /Adj.</u>	<u>Total Water Plant Ending Balance</u>
2006, No Additions		\$100,000
2007, No Additions		\$100,000
2008, No Additions		\$100,000
2009, No Additions		\$100,000

Accumulated Depreciation, Account 108, \$206,649 (Split)

Accumulated Depreciation, Water/Sewer

Net accumulated depreciation noted in the 2009 Annual Report was (\$206,649) at the end of the test year and agrees with the filing. The total was verified to the following general ledger accounts:

Account 108 Accumulated Depreciation/Water	(194,416)
Account 108 Accumulated Depreciation/Sewer	(12,604)
Account 108 Book Cost of Plant Retired	<u>371</u>
Total Accumulated Depreciation	(\$206,649)

Depreciation Expense, Account 403, \$12,604 (Split)

Depreciation Expense – Water/Sewer

Depreciation expense for water totaled \$10,604 for 2009. The 12/31/09 depreciation expense for sewer totaled \$2,000. Total depreciation expense for the test-year was \$12,604 and was verified to the general ledger account 403 – Depreciation Expense.

As a result of Audit Issue #2 for which Audit believes that the additions to account 307 - Wells is overstated and account 311 – Pumping Equipment is understated the depreciation expense and accumulated depreciation for the test-year will need adjustments **Audit Issue #3**.

Accounts Payable, Account 231, \$2,400

For the test-year, Schedule F-1 of the PUC Annual Report submitted by Lakeland Management Company reports an Accounts Payable balance of \$37,521 at the beginning of the year and a year-end balance of \$2,400. These amounts agree with the rate filing, Schedule 2.

The Company stated that an aging for accounts payable is not done and the year-end balance in the amount of \$2,400 is due to the Mooney's. (Previous owners).

Long-Term Debt

The Company's general ledger shows a beginning balance of \$41,036 and ending balance for the 2009 test-year of \$47,192 for account 224 – Long - Term Debt. These balances agree with the 2009 NHPUC Annual Report. The only entry for the year was an adjusting entry to debit CWIP and credit Long-Term Debt in the amount of \$6,155 and is described as capitalizing 2009 expenditures and increasing long-term debt. This amount is a loan from C & C Water Services to the Water Company in 2008. This loan should have been approved by the Commission **Audit Issue #4**. A promissory note, dated September 1, 2010 in the amount of \$47,192 with an interest rate of 7% has been reviewed by Staff.

2009 ARRA Loan

The Company was authorized to receive ARRA funding in the amount of \$95,000 pursuant to order no. 25,003 dated August 12, 2009. Fifty percent of the loan principle would be considered a grant and will not accrue interest while the remaining 50% would be considered a loan with an interest rate of 2.34%. Audit confirmed that expenditures related to the storage tank project completed in 2010 with ARRA funds are not included in the rate case.

Miscellaneous Deferred Debits, \$5,991

The balance in account 181, Unamortized Debt Expense at year-end was \$4,568. This amount agreed with the filing and consists of charges traced to Jordan and St. Cyr invoices related to ARRA funding.

The balance in account 186 - Deferred Rate Case Expenses at the end of the test-year was \$1,423. Lakeland Management provided invoice support for all of the charges dating from March through December 2009.

Miscellaneous Accrued Liabilities, Account 241, \$71,621

Miscellaneous Accrued Liabilities at the end of the test year were \$71,621. The year-end balance was traced to the Lakeland Management general ledger and the filing. The following is a breakdown of the balance:

<u>Vendor</u>	<u>Amount</u>
C&C (July – Dec miscellaneous)	\$55,599
C&C (Crawshaw: President)	\$4,032
City of Laconia	9,185
Lueders	1,561
PSNH	574
Fairpoint	69
Stephen St. Cyr	210
Jordan Gfroerer & Weddleton	<u>391</u>
	<u>\$71,621</u>

Revenues

Water Metered Sales, Account 461, \$81,259

Water Metered Sales for the test year were \$81,259. This amount was traced to the Lakeland Management general ledger and the filing. Water Metered Sales are generated through quarterly billings. The following is a breakdown of the billings:

<u>Billing Period</u>	<u>Amount</u>
March Quarter	\$19,054
June Quarter	\$20,301
September Quarter	\$21,488
December Quarter	<u>\$20,416</u>
	\$81,259

C&C Water Services, Inc. (C&C) provides the billing and collection services for Lakeland Management. At the end of every quarter, C&C prepares prepaid meter reading cards and mails them to the customers or condo associations, with the exception of the following: C&C reads the meters at Fairpoint, Irving Oil (Mac's) and Maple Hill Acres. The customers read their meter and mail the prepaid meter reading cards back to C&C **Audit Issue #5**. C&C personnel enter the meter reading results into the computerized billing system; looking for, noting and correcting inconsistencies found in the readings. C&C mails the invoices to the customers, the exception being Orchard Hill I customers; one bill with detailed consumption information is sent to the Management Company used by the Association, then the Association's Management Company sends bills to the individual customers. C&C keeps a sample of one or two invoices from the entire group for reference. C&C prints a consumption report for the entire billing group for reference.

Audit tested the third quarter sales. September had sales of \$21,488 and was the highest sales quarter of the year. Audit reviewed all the meter cards filled out by customers and then compared a random sample of the cards to the computer system for keying and calculation accuracy. The rates used in the billing system tied to the Tariff on file at the Commission (see chart below). No exceptions were noted. Occasionally, a discrepancy between the meter card reading and a prior reading was noted by C&C personnel, notes were made on both the meter card and the computer system describing the problem and correction made by C&C personnel.

The **QUARTERLY** rates in effect during the Test Year were as follows:

<u>Classifications</u>	<u># of Meters</u>	<u>Rate Charged</u>
Commercial: Class A	1	\$833.00 + 12.183 /ccf
Commercial: Class B	4	\$278.00 + 4.2729/ccf
Residential-Multi: Maple Hill	4	\$278.00 + 4.2729/ccf
Residential-Single: Orchard Hill I	43	\$62.00 + 3.4617/ccf
Residential-Single: Orchard Hill II	33	\$62.00 + 3.4617/ccf
Residential-Single: Granite Ridge Condo	26	\$62.00 + 3.4617/ccf
Residential-Single: Briarcrest	48	\$62.00 + 3.4617/ccf

Sewer Sales, Account 522, \$69,388

Sewer Sales for the test year were \$69,388. This amount was traced to the Lakeland Management general ledger and the filing. Sewer Sales are generated through quarterly billings. Sewer Sales are based on Water Metered Sales, the billings are done together. Audit tested the third quarter sales while testing the Water Metered Sales, above. September, with sales of \$18,349, was also the highest sales quarter for Sewer Sales. The following is a breakdown of the billings:

<u>Billing Period</u>	<u>Amount</u>
March Quarter	\$16,270
June Quarter	\$17,335
September Quarter	\$18,349
December Quarter	\$17,434
	<u>\$69,388</u>

Sewer Sales are calculated by multiplying the total Water Metered Sales (Monthly rate + cubic foot usage) by 0.854. There are three meters that do not receive a sewer charge because they are not connected to the sanitary sewer; two are laundry water meters and one is an irrigation meter. Audit found no exceptions during testing.

Billing Form

Audit reviewed the Company's billing form against the NH Code of Administrative Rules Puc, Section Puc 1203.06, Bill Forms, paragraph (c). Paragraph (c) details items the bills shall indicate, such as the meter reading information, penalty dates, the factors necessary to compute the charges, and customer service contact numbers. Two items were found to be missing: "(5) the approximate date of the next meter reading" and "(10) a statement that customers may call the commission for further assistance after first attempting to resolve disputes with the utility" **Audit Issue #6**

Taxes

Taxes Other than Income per the filing included State Utility Property Taxes and Belmont Property Taxes; they were split equally between Water and Sewer.

<u>GENERAL LEDGER</u>		<u>FILING</u>			
State Utility Property Taxes	\$3,349	Water Filing	\$1,675	Sewer Filing	\$1,675
Belmont Property Taxes	4,529	Water Filing	2,265	Sewer Filing	2,265
	<u>\$7,878</u>		<u>\$3,940</u>		<u>\$3,940</u>

State Utility Property Taxes, Account 408.1, \$3,349

Audit reviewed the expensed portion of the Utility Property tax. The Company expensed the full year of 2008 tax expense and the full year of 2009. The Company has proposed a Proforma adjustment to eliminate the 2008 tax expense of \$1,604, splitting it equally between water and sewer, (\$802).

Belmont Property Taxes, Account 408.2, \$4,529

Audit recalculated the tax expense for the Test Year. In doing so, Audit noted that the expense total represented amounts billed by the Town of Belmont, NH. The total expense was comprised of prepayments from the prior calendar year 2008, the full first issue 2009, the full second issue 2009, and then a portion of the second issue total tax year figure was deducted as prepayment for the calendar year 2010. This calculation was not done correctly, but the difference was not substantial and no adjustment to the rate case is required. The correct

calculation should include half of the December 2008 amount due as a prepaid amount for January, February and March 2009, all of the June billing, and then half of the December 2009 amount due for October, November and December. See calculation below:

Quarter of 2008 Final Billing	\$1,091	Half of 2008 Dec Amt Due	\$1,301
June 2009 Billing	2,181	June 1009 Billing	2,181
December 2009 Billing	2,403	Half of 2009 Dec Amount Due	<u>1,201</u>
Quarter of 2009 Final Billing	<u>(1,146)</u>		\$4,683
	\$4,529		

Audit verified that the municipal property tax invoices did not include the statewide portion of the municipal tax, as is proper.

Income Taxes per the filing included Federal Income Taxes, State Income Taxes and Deferred Taxes; they were split equally between Water and Sewer.

<u>GENERAL LEDGER</u>		<u>FILING</u>			
Federal Income Taxes	(\$44)	Water	(\$22)	Sewer	(\$22)
State Income Taxes	283	Water	143	Sewer	140
Deferred Taxes	<u>(976)</u>	Water	<u>(488)</u>	Sewer	<u>(488)</u>
	(\$738)		(\$371)		(\$370)
Audit Issue #7	<u>(196)</u>	Water	<u>(98)</u>	Sewer	<u>(98)</u>
Adjusted Income Taxes	(\$934)	Water	(\$469)	Sewer	(\$468)

Federal Income Taxes, Accounts 409.1, (\$44)

Federal Income Taxes, (\$44), represents the difference between the estimated 2008 tax amount (\$2,635), the actual 2008 tax amount, \$2,469 and a small expense of \$122. The 2008 tax amount paid in 2009 contains a \$78 penalty assessed on the 2008 tax return. The \$78 should not be included in the filing. **Audit Issue #7**

State Income Taxes, Account 409.11, \$283

The State Income Taxes balance at the end of the test year, \$283, represents fees and penalties assessed on the 2008 State of NH tax return. This amount should not be included in the filing. **Audit Issue #7**

Deferred Taxes, Account 410, (\$976)

Audit reviewed Lakeland Management's Deferred Tax schedule for 2009. The Accumulated Book Depreciation used in the calculation did not equal the year end general ledger or the filing. Audit was not able to confirm the Accumulated Tax Depreciation amount. Audit recalculated the Deferred Tax schedule based on the reported year-end balance of Accumulated Book Depreciation. The correct Deferred Tax amount for the test year 2009 is (\$811), a difference of \$165. **Audit Issue #7**

Operation and Maintenance Expenses

Operations and Maintenance Expenses; many accounts make up this category. Audit reviewed the general ledger detail for each account. The following chart lists the general ledger account and how these expenses were split between Water and Sewer for the filings. The reader should be aware that there are some variances between the expense amounts recorded in the general ledger and the amounts recorded in the same category of the filing. This is a result of changes that were made within the General Ledger after the PUC Annual Report was submitted. The grand totals did not change.

<u>GENERAL LEDGER</u>		<u>FILING</u>			<u>VARIANCE</u>	
614 Maint of Wells	\$1,910	Water	\$1,604	Sewer	\$0	\$306 Acct 633
623 Purchase Power Expense	5,347	Water	5,347	Sewer	0	0
624 Pumping Labor & Exp	69	Water	806	Sewer	0	(737) Acct 921
626 Pumping Misc Exp	12	Water	0	Sewer	0	12 Acct 633
633 Maint of Pump Equip	4,449	Water	4,769	Sewer	0	(320) Acct 614 & 626
641 Chemicals	7,899	Water	7,899	Sewer	0	0
642 Treatment Expense	4,105	Water	4,105	Sewer	0	0
661 T&D Storage Facility Exp	155	Water	0	Sewer	155	0
673 Maint of T&D Mains	1,611	Water	1,611	Sewer	0	0
710 Purchase Sewer Treatment	37,042	Water	0	Sewer	37,042	0
730 Contracted Services	11,198	Water	0	Sewer	11,198	0
765 Regulatory Comm Exp	183	Water	0	Sewer	183	0
903 Customer Records	9,800	Water	4,960	Sewer	4,960	(120) Acct 921
904 Uncollectible Accounts	2,835	Water	2,835	Sewer	0	0
921 Office Expense	917	Water	30	Sewer	29	858 Acct 624 & 903
923 Outside Services	50,414	Water	50,414	Sewer	0	0
924 Property Insurance	786	Water	393	Sewer	393	0
927 Franchise Requirements	300	Water	300	Sewer	0	0
928 Regulatory Comm Exp	222	Water	222	Sewer	0	0
930 Miscellaneous Exp	7	Water	4	Sewer	4	(1) Rounding
GRAND TOTALS	<u>\$139,261</u>		<u>\$85,299</u>		<u>\$53,964</u>	
Audit Issue #623	(\$214)	Water	(\$214)	Sewer	0	0
Audit Issue #633	(\$2,419)	Water	(\$2,419)	Sewer	0	0
Audit Issue #710	(309)	Water	0	Sewer	(309)	0
Proposed Proforma #730	(1,600)	Water	0	Sewer	(1,600)	0
Proposed Proforma #904	<u>(\$2,835)</u>	Water	<u>(\$2,835)</u>	Sewer	<u>0</u>	0
ADJUSTED TOTALS	\$131,884		\$79,831		\$52,055	

Maint of Wells, Account 614, \$1,910

Maintenance of Wells consists of three charges; a C&C charge of \$1,160 for work on the 2" HDPE pipe for well #4 and the suction pipe at the Gilford Well, a C&C charge of \$443 for two SS foot valves for well #4, and a C&C charge of \$308 for replacing check valves & piping in well #4.

The difference between general ledger and the filing is the \$308 charge for replacing check valves & piping in well #4 that was reported as Maint of Pump Equip, Account #633, on the filing.

Purchase Power Expense, Account 623, \$5,347

Purchase Power Expense contains Public Service Company of NH (PSNH) charges ranging from a low of \$403 for March 2009 usage to a high of \$574 for December 2009 usage. The account contained only 12 charges for the year, however, the January 2009 billing contained usage from 11/21/08 – 1/27/09. The total charges represented usage for the period of 11/21/08 – 12/22/09; a thirteen month period. **Audit Issue #8**

Maint of Pumping Equipment, Account 633, \$4,449

Maint of Pumping Equipment contains five charges from C&C totaling \$4,449. The March invoice, \$375, was associated with Booster A. The May invoice, \$336, stated that C&C worked with NHEM on the VFD. The June invoice, \$1,318, was for work on Booster B and the VFD – Well #5. The July invoice, \$560, states that it took two C&C employees 5 hours each to replace booster A suction piping and install new stack in A; following that in August, was an invoice for an SS stack kit for pump A, \$1,859. **Audit Issue #9**

The difference between general ledger and the filing are two charges that total \$320; costs to replace check valves and pipe in well #4, \$308, reported as Pump Labor and Exp, Account 633 and a misc electrical charge, \$12, reported as Pumping Misc Exp, Account 626, in the general ledger.

Chemicals, Account 641, \$7,899

Chemical costs consist of charges from C&C for chemical usage. The major charge to Chemicals was Caustic Potash. CP722 was also charged.

Treatment Expense, Account 642, \$4,105

The Treatment Expense account contains charges for various sampling and testing charged by C&C. Charges included such things as bacteria, nitrate and chemical samples. There was also a charge for PH test kits.

Maint of T&D Mains, Account 673, \$1,611

Two maintenance charges make up the Test Year expense for Maintenance of T&D Mains. In March, C&C charged Lakeland Management \$1,323 for paving, Darby break. The other charge was a December C&C invoice for 12” plus rock for culvert washout, \$288.

Purchase Sewer Treatment, Account 710, \$37,042

Lakeland Management’s sewage treatment is done by the City of Laconia. C&C prepares quarterly payment and support for Lakeland Management. Payment support reviewed by Audit references an Agreement between Paul Moynihan of the City of Laconia and Wade Crawshaw, made on February 2, 2009, for rates to be used for the Maple Hill Acres development. Audit requested copies of all contractual agreements but was not provided a copy of any written agreements between the City of Laconia and Lakeland Management for sewage treatment. Follow up conversations with Lakeland Management confirmed that no written contracts exist

between the City of Laconia and Lakeland Management with respects to the sewage treatment or Rates. **Audit Issue #10**

The Sewer Treatment costs are split into two categories. There is a Base Rate and a Usage Charge. The Base Rate is determined by counting the number of Units (addresses) in the system. Maple Hill Acres is counted separately because their rate is different from the other systems. To determine the Usage Charge, C&C uses the water consumption report to find the total amount of water used by all customers during the quarter. Each category is multiplied by agreed billing rates. The categories are added together to determine the final amount due to the City of Laconia.

During Audit's review of the payment support, Audit discovered that one payment to the City of Laconia had been incorrectly calculated. The Usage was miscalculated at \$4,299 when it should have been \$3,991, an overpayment to the City of Laconia of \$309. **Audit Issue #11**

Contracted Services, Account 730, \$11,198

Lakeland Management has an agreement with C&C for sewer management services. The charges for this agreement began in March 2009. A large portion of the balance in Contracted Services, \$4,480, represents this agreement. In July 2009, C&C charges totaled \$1,077 for checking an alarm, hooking up a phone line, servicing a locked rotor on Pump 1 (\$112), and pumping out a chamber and having Rowells pull Pump 1 to free up the grinder (\$252). August charges of \$1,009 were for more servicing of Pump #1. Servicing of Pump #1 continued in September with maintenance fees of \$1,002 and the purchase of two new SS grinders totaling \$1,600. In December, Rowells was called back in to work on pump #1; charges for Rowells and C&C personnel totaled \$2,030.

Lakeland Management has proposed a Proforma adjustment to reduce Contracted Services by \$1,600 for the capitalization of the two SS grinders purchased in September.

Customer Records, Account 903, \$9,800

Lakeland Management has an agreement with C&C for billing and collection services. The balance in Customer Records represents four quarters of billing services at \$2,450 per quarter, per the Agreement.

The difference between general ledger and the filing is the cost of meter cards, \$120, reported as Office Expense, Account 921, in the general ledger.

Uncollectible Accounts, Account 904, \$2,835

The Company wrote off \$2,835 of bad debt expense in 2009. Per Steve St. Cyr, Lakeland's outside accountant, "The write off was the net of \$4,951.66 associated with the Fair Point bankruptcy and other adjustments of \$2,117.03 to get the total A/R balance to agree with the sum of the individual customer A/R balances." The Company has proposed a Proforma adjustment eliminating the expense of \$2,835.

Office Expense, Account 921, \$917

Office Expense contains Fairpoint Communication charges of \$738 for January through November 2009 telephone costs, USPS PO Box charges of \$59, and costs for meter cards of \$120.

The difference between general ledger and the filing are two charges that total \$858; Fairpoint, \$738, reported as Pump Labor and Exp, Account 624 and meter cards, \$120, reported as Customer Records, Account 903, on the filing.

Outside Services, Account 923, \$50,414

Outside Services contains C&C monthly service fees totaling \$40,200, St Cyr & Associates (accounting services) fees totaling \$4,820, Jordan Gfroerer & Weddleton (legal services) fees totaling \$1,363, and additional C&C fees for Mr. Crawshaw acting in the capacity of Company President \$4,032. The additional fees for Mr. Crawshaw acting in the capacity of Company President were not detailed in the Agreement between Lakeland Management and C&C.

Property Insurance, Account 924, \$786

Property Insurance for Lakeland Management is through Peerless Insurance. The policy period is July 24, 2009 to July 24, 2010. The total Premium was \$780 with a Terrorism Risk Insurance Act of 2002 and 2005 Coverage add-on of \$18.

The test year Property Insurance expense of \$798 contains the prepaid premium recorded in 2008, \$436, the payment of the current year premium of \$798, and the reclassification of 205 days insurance expense for the 2010 prepaid premium, (\$448).

AUDIT ISSUE #1

Continuing Property Records

Background

The Company provided Continuing Property Records/Depreciation Schedules for water and sewer that includes additions up to 2006.

Issue

Several CPRs for water additions were incomplete and all records did not show depreciation since 2006. No CPRs for water additions from 2007 through 2009 were received.

The CPR/Depreciation Schedule for the sewer account 361 – Collection Sewer /Gravity also had not been updated since 2006.

Audit Recommendation

The Company needs to update its Continuing Property Records/Depreciation Schedules to include the water additions from 2007 through 2009 and also update depreciation on the CPR for account 361 – Collection Sewer/gravity.

Also the Company must complete records prior to 2006 that are lacking the Commission requirement for CPRs.

Company's Response

The Company agrees with the recommendation and is in the process of updating the CPRs.

Audit's Response

The Audit Staff concurs with the Company.

AUDIT ISSUE #2

Account Reclassifications

Background

The Company completed a new well for the Briarcrest Estates development in 2009 and booked the entire accumulated costs of the project from account 105 - Construction Work in Progress to Plant-in-Service, account 307, Wells in the amount of \$143,405 in 2009.

Issue

Relative to the Audit Staff's review of supporting invoices for the well additions, it appears that \$39,015 of the charges to account 307 – Wells should have been be charged to account 311 – Pumping Equipment.

One invoice miscalculated the total resulting in a \$311 overcharge. Audit also questions an invoice for materials that was capitalized for \$17,970.

Audit also questions the addition of 5% made on a list of invoices. Audit found a lack of descriptions and believes some labor was included and that cost should not have a 5% added.

Audit Recommendation

Audit recommends the following account reclassifications/adjustments;

Initial filing amount, account 307 – Wells	143,405
Miscalculated invoice	<u>(311)</u>
New Plant Total	143,094
Reclass to account 311 – Pumping Equipment	<u>(39,015)</u>
	104,079

Further reductions to plant may be required. (See above Issue Section).

Company's Response

The Company provided a separate written response pointing out adjustments to Audit's review of the wells account.

The Company agreed the following amounts should be charged to pumping equipment; \$9,980, \$3,563, & \$6,155 as well as an invoice for a VFD controller. The Company also states that as though most of the piping, wiring, parts, etc., i.e. well pipe & conduit, 1100 ft. of well lateral wire, well transmission, etc. are well related, there may be some that are pumping related.

Audit's Response

Upon consideration of the Company's response and consultation with PUC engineering, the total reclassification from the Wells account 307, to account 311 – Pumping Equipment should be for 3 invoices totaling \$29,698 (19,980+3,563+6,155), an invoice for a VFD controller and the related labor totaling \$3,927 and other invoice charges for \$4,084 described as “pump station piping and separate controls for booster pumps”. The Company is still reviewing Audit's adjustment of \$1,306 (339.11+966.67) related to electrical work.

The revised Wells account is as follows;

Initial filing amount, account 307 – Wells	143,405
Miscalculated invoice	<u>(311)</u>
New Plant Total	143,094
Reclass to account 311 – Pumping Equipment	<u>(39,015)</u>
Revised account 307 - Wells	104,079

Also, Audit could not determine if a 5% adder by C & C to invoices amounting to \$23,809 was done properly. The 5% added results in a total of \$24,999 charged to Wells. No Company response was presented. Although Audit does believe this to be immaterial for the final audit report the Company needs to be more specific in the future.

AUDIT ISSUE #3

Depreciation Adjustments

Background

Relative to the Audit Staff's review of supporting invoices for the well additions, it appears that \$39,015 of the charges to account 307 – Wells should have been posted to account 311 – Pumping Equipment (See Audit Issue #2).

Issue

Depreciation expense for wells in the test was calculated based on additions of \$143,405.

Audit Recommendation

The accounting error found by PUC Audit for plant additions in the test-year understates depreciation expense. Depreciation for Account 307 – Wells, is 3.3% per year. Presently, Audit has determined that only \$104,079 of the original Company booking should be depreciated at the rate of 1.65% for the test year. Using the ½-year convention when adding new Plant-in-Service results in depreciation of \$1,717 per Audit, which is a reduction of \$649 to that booked by the Company.

Per Audits recommendations, Pumping Equipment additions of \$39,015 should now be depreciated. That rate would be 10%. Using ½-year convention for the new Plant-in Service, Audit computes the depreciation expense to be \$1,951 for Pumping Equipment.

Company's Response

The Company provided a separate written response pointing out adjustments to Audit's review of the wells.

Audit's Response

Audit's reclassification of the Wells account will result in revising depreciation expense. As the Company's depreciation expense was \$2,366 ($\$143,405 \times 1.65\%$) then a reduction is necessary in the amount of \$649 for Wells and an addition in the amount of \$1,951 for Pumping Equipment. Audit calculates that a net addition of \$1,302 should be made to depreciation expense.

AUDIT ISSUE #4

Long-Term Debt

Background

The Company's general ledger shows an ending balance for the 2009 test-year of \$47,192 in account 224 – Long - Term Debt. The only entry for the year was an adjusting entry to debit CWIP and credit Long-Term Debt in the amount of \$6,155 and is described as capitalizing 2009 expenditures and increasing long-term debt.

Issue

This amount was a promissory note from C & C Water Services to the Lakeland Water Company in 2008. This loan has not been approved by the Commission. The note states an interest rate of 7% and has been determined by the Company.

Audit Recommendation

The Company must seek Commission approval for this loan.

Company's Response

The Company agrees with the recommendation and will seek Commission approval as part of its current rate case.

Audit's Response

The Audit Staff concurs with the Company.

AUDIT ISSUE #5

Meter Reading

Background

C&C Water Services, Inc. (C&C) provides the billing and collection services for Lakeland Management. At the end of every quarter, C&C reads the meters at Fairpoint, Irving Oil (Mac's) and Maple Hill Acres. C&C prepares prepaid meter reading cards and mails them to the remaining customers or condo associations. The customers read their meter, usually located inside a closet within the residence, and mail the prepaid meter reading cards back to C&C.

Issue

Lakeland Management is in violation of Chapter Puc 600 Rules for Water Service, Part Puc 603 Service Provisions, Section Puc 603.03, Measurement of Service, paragraph (c) states, "A utility shall, except as a result of weather-related emergencies or other extenuating circumstances, read the meter or remote read device of its metered customers every billing period. In no case shall it do so less than every third billing period..."

Lakeland Management is not reading the meter for the majority of its customers. The meter readings are obtained by the customer.

Audit Recommendation

Lakeland Management needs to develop and implement a plan to read manual meters.

Company's Response

The Company agrees with the recommendation. The Company will develop and implement a plan. The plan will include an estimate of costs, a proposed timeline and a proposal for recovery of such expenditures via a step adjustment.

Audit's Response

The Audit Staff recognizes that the Company will be developing and implementing a meter reading plan.

AUDIT ISSUE #6

Billing Form

Background

Audit reviewed the billing form against the NH Code of Administrative Rules Puc, Section Puc 1203.06, Bill Forms, paragraph (c). Paragraph (c) details items the bills shall indicate, such as the meter reading information, penalty dates, the factors necessary to compute the charges, and customer service contact numbers.

Issue

Lakeland Management's billing form violates two items contained in NH Code of Administrative Rules Puc, Section Puc 1203.06, Bill Forms, paragraph (c): "(5) the approximate date of the next meter reading" and "(10) a statement that customers may call the commission for further assistance after first attempting to resolve disputes with the utility."

Audit Recommendation

Lakeland Management's billing form should be modified to contain the approximate date of the next meter reading.

Audit suggests the following language be added to Lakeland Management's billing form regarding customer service and contacting the Public Utilities Commission:

"If you have questions about your water bill, please contact Lakeland Management at 603-293-8580. If after speaking to the Company, you still have questions, you can contact the New Hampshire Public Utilities Commission's Consumer Affairs department at 1-800-852-3793."

Company's Response

The Company agrees with the recommendation and will incorporate such information in its next billing.

Audit's Response

The Audit Staff concurs with the Company.

AUDIT ISSUE #7

Tax Adjustments

Background

The 2008 Federal Income Tax amount paid in 2009 contains a \$78 penalty assessed on the 2008 tax return. The \$78 should not be included in the filing.

The State Income Taxes balance at the end of the test year, \$283, represents fees and penalties assessed on the 2008 State of NH tax return. This amount should not be included in the filing.

Audit reviewed Lakeland Management's Deferred Tax schedule for 2009. The Accumulated Book Depreciation used in the calculation did not equal the year end general ledger or the filing. Audit was not able to confirm the Accumulated Tax Depreciation amount. Audit recalculated the Deferred Tax schedule based on the reported year end balance of Accumulated Book Depreciation. The correct Deferred Tax amount for the test year 2009 is (\$811), a difference of \$165.

Issue

Penalties assessed on the 2008 tax returns should not be included in the filing.

The Deferred Tax schedule was not calculated on the filing/year end depreciation balance causing an incorrect deferred tax expense amount to be used in the filing.

Audit Recommendation

Remove Federal penalty	(78)	Water Filing	(39)	Sewer Filing	(39)
Remove State penalty	(283)	Water Filing	(142)	Sewer Filing	(141)
Correct Deferred Taxes	165	Water Filing	83	Sewer Filing	82
Total adjustment	(196)	Water Filing	(98)	Sewer Filing	(98)

Company's Response

The Company agrees with the recommendation.

Audit's Response

The Audit Staff concurs with the Company.

AUDIT ISSUE #8

Overstated Power Expenses

Background

Purchase Power Expense contains Public Service Company of NH (PSNH). The account contained only 12 charges for the year, however, the January 2009 billing contained usage from 11/21/08 – 1/27/09.

Issue

The total charges represented usage for the period of 11/21/08 – 12/22/09; a thirteen month period.

Audit Recommendation

Half of the January 2009 billing, \$214 (\$428/2), should be removed from the Water filing.

Company's Response

The Company agrees with the recommendation.

Audit's Response

The Audit Staff concurs with the Company.

AUDIT ISSUE #9

SS STACK KIT FOR PUMP A

Background

Maint of Pumping Equipment contains a C&C invoice for \$560 that states it took two C&C employees 5 hours each to replace booster A suction piping and install new stack in A; following that in August, was an invoice for an SS stack kit for pump A, \$1,859.

Issue

The SS stack kit for pump A and its installation should have been capitalized.

Audit Recommendation

The C&C charges to purchase and install the SS stack kit for pump A, totaling \$2,419 (\$560+1,859), should be reclassified to Plant in Service in the Water filing.

Company's Response

The Company disagrees with the recommendation.

The portion of piping replaced was approximately 2 feet, not long enough or expensive enough to warrant capitalizing.

The SS stack is the guts of the pump and is the new way of repairing a pump. Before stacks, pumps were taken apart and the impellers, diffusers and shaft were replaced. Now, it comes in one kit called the stack. It allows for simpler repairs. The Company replaced parts of the pump not the pump and thus charged such costs to maintenance.

Audit's Response

The Audit Staff accepts the Company's Response and withdraws its Recommendation.

AUDIT ISSUE #10

CONTRACT WITH THE CITY OF LACONIA

Background

Audit requested copies of all contractual agreements but was not provided a copy of any written agreements between the City of Laconia and Lakeland Management for sewage treatment. Follow up conversations with Lakeland Management confirmed that no written contracts exist between the City of Laconia and Lakeland Management with respects to the sewage treatment or Rates.

Issue

The City of Laconia and Lakeland Management have no written contract regarding sewage treatment by the City of Laconia or payment terms by Lakeland Management. This creates major risks for Lakeland Management. Two of which are; (1) If the City of Laconia were to back out of the current agreement, the Company would have no immediate way of disposing or treating its sewage waste. (2) If the City of Laconia were to decide to raise its billing rate, the sudden rise in expense would jeopardize the Company's profitability.

Audit Recommendation

Lakeland Management should draft and bind a written contract with the City of Laconia detailing the terms of agreement.

Company's Response

The Company will contact the City of Laconia to discuss such a contract.

Audit's Response

The Audit Staff concurs with the Company.

AUDIT ISSUE #11

OVERPAYMENT TO THE CITY OF LACONIA

Background

During Audit's review of the payment support, Audit discovered that one payment to the City of Laconia had been incorrectly calculated. The Usage was miscalculated at \$4,299 when it should have been \$3,991.

Issue

An overpayment to the City of Laconia of \$309 was made during the test year.

Audit Recommendation

Due to the miscalculation of the City of Laconia billing, \$309 should be removed from the Sewer filing.

Company's Response

The Company agrees with the recommendation.

Audit's Response

The Audit Staff concurs with the Company.