

TOWN OF HANOVER, NH

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES
FOR THE HANOVER WATER WORKS CO.**

December 31, 2008

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES OVER ASSETS AND LIABILITIES RECORDED ON THE HANOVER WATER WORKS CO. BALANCE SHEET	1
SCHEDULE OF PROCEDURES AND RESULTS	3



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

102 Perimeter Road
Nashua, NH 03063-1301
Tel (603) 882-1111 • Fax (603) 882-9456
www.melansonheath.com

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES OVER ASSETS AND
LIABILITIES RECORDED ON THE HANOVER WATER
WORKS CO. BALANCE SHEET

To the Board of Selectmen
Town of Hanover, New Hampshire

We have performed the procedures detailed in the accompanying Schedule of Procedures and Results, which were agreed to by the Selectmen of the Town of Hanover, New Hampshire, solely to assist you in determining the reasonableness of the assets and liabilities recorded on the Hanover Water Works Co. (HWWCo.) balance sheet, as of December 31, 2008. HWWCo. is responsible for all balances recorded on the balance sheet. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report identified above. Consequently, we make no representation regarding the sufficiency of the procedures described in the accompanying schedule, either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the specified elements, accounts or items referred to above. Accordingly, we do not express such an opinion. Had we performed additional procedures, additional matter might have come to our attention that would have been reported to you.

This report relates only to the accounts and items specified above. This report is intended solely for the information and use of the specified users listed above

and is not intended to be, and should not be, used by anyone other than those specified parties.

We are presenting for your consideration in the accompanying Schedule of Procedures and Results, the results of our tracing of December 31, 2008 assets and liabilities of the HWWCo. to supporting documentation, as well as the results of our inquiries and confirmations regarding the existence of other unrecorded liabilities, loss contingencies, or violations of laws or regulations.

Melanson, Heath + Company P.C.

Nashua, New Hampshire
August 31, 2009

SCHEDULE OF PROCEDURES AND RESULTS:

1. Trace all assets on the Hanover Water Works Co. (HWWCo.) reviewed balance sheet at December 31, 2008 to supporting documentation.

A. Cash – Balance \$ 282,970.60

Procedure: We traced the balance reported in each cash account to bank statements and/or reconciliations.

Results: Through comparison of the balance sheet amounts to the reconciled bank statements we determined that there are no variances in the amounts recorded as cash. We did not test petty cash, which had a balance of \$ 75.00.

B. Property/ Plant/ Equipment – Balance \$ 12,860,308.84

Procedure: We traced the property, plant, and equipment balances to fixed asset/depreciation schedules. We also reviewed the depreciation calculation for reasonableness and consistency.

Results: We reviewed the depreciation schedule provided by HWWCo. and determined that there were minor differences (totaling \$ 128) between the amounts recorded on the depreciation schedules and the amounts being reported on the balance sheet. Also, depreciation calculations appeared reasonable and consistent.

C. Accounts Receivable – Balance \$ 534,475.30

Procedure: There are three different categories of accounts receivable being recorded on the balance sheet; water, fire protection, and other. For each we compared the balances to the appropriate supporting documentation.

Results: For water accounts receivable, we were able to tie the balance per the balance sheet to a detailed aging report. The aging report was broken down into outstanding balances, prepayments, and current billing. The 4th quarter billing was mailed out on December 31 and therefore the entire balance of the billing was considered a receivable. As of December 31, 2008, the reported balance of \$ 374,045.55 agreed to supporting documentation.

For fire protection accounts receivable, there was no detailed aging report. This receivable is due directly from the Town of Hanover to HWWCo. for fire hydrant billing. The amount recorded as a receivable was for 2008 fourth quarter billing was issued to the Town on January 1, 2009. Payment was received in full on January 26, 2009. As of December 31, 2008, the reported balance of \$ 159,700.16 appeared to be accurate. The balance in other accounts receivable was only \$ 729.59 and was not tested.

D. Inventory – Balance \$ 23,234.31

Procedure: Requested detailed inventory listing in order to compare the balance to the balance sheet.

Results: HWWCo. was unable to provide us with a detailed inventory listing.

As a result of this we inquired as to how the balance was recorded. Per inquiry with John Dumas (Department Superintendent) we were told that the balance is recorded through the submittal of invoices and stock slips. When an item is purchased the invoice is entered into the general ledger and paid. When items are taken out of inventory and used on a project a stock slip must be filled out. The stock slip is used to credit the inventory account for all items taken for use.

Without a detailed inventory list we were unable to test the accuracy of the recorded \$ 23,234.31 inventory balance.

E. Prepaid Real Estate Taxes – Balance \$ 62,220.56

Procedure: Traced prepaid real estate taxes to actual tax bills and to calculation of prepaid portion.

Results: Of the total amount recorded as prepaid real estate taxes, \$ 1,323.80 was for an overpayment of the 2008 New Hampshire Utility Property tax. It appears this is a legitimate prepaid expense.

The remaining balance of \$ 60,896.75 represents twenty-five percent of the total FY08 tax due to the Town of Hanover. This prepaid expense is based on the real estate tax assessment year of April 1 – March 31 and appears reasonable.

F. Prepaid Insurance – Balance \$ 10,217.39

Procedure: Verified the calculation of prepaid insurance and traced to supporting insurance policy.

Results: The prepaid insurance account appears to be legitimate and accurately stated on the reviewed balance sheet.

G. Prepaid Salaries – Balance \$ 501.55

Procedure: We compared the balance per the reviewed balance sheet to the balance recorded on the general ledger.

Results: The balance of \$ 501.55 was tied from the reviewed balance sheet to the general ledger.

H. Prepaid Other – Balance \$ 15,067.86

Procedure: Determined what the prepaid expenses account consists of and traced to prepaid calculations and support.

Results: Determined that the account balance was made up of four different prepaid expenses:

- An annual contract with New England Municipal Resource Center,
- An annual contract for meter reading software,
- A prepaid fuel expense, and
- A payment to Vactron

Three of the four were determined to be actual prepaid expenses. The total amount for the two contracts was appropriately pro-rated. The amount of prepaid fuel was calculated based on the amount originally paid for on 9/12/08, less what had been used as of December 31, 2008.

The Vactron payment was recorded as a prepaid expense in error and was actually a 2008 expense. This payment was for \$ 1,500.

Of the \$ 15,067.86 recorded on the reviewed balance sheet, we were able to determine that \$ 13,567.86 were legitimate prepaid expenses.

I. Misc. Deferred Assets – Balance \$ 121,290.08

Procedure: Inquired as to the history and purpose of the Miscellaneous Deferred Assets. Since most of these were recorded several years ago, we did not obtain support for the original costs.

Results: Deferred Reg Mapping – This asset was established to amortize the costs associated with mapping the water shed area. We were told the HWWCo. obtained approval by New Hampshire Public Utilities Commission (PUC) to amortize the costs over a 20 year period.

Deferred Reg Analysis – This asset was established to amortize the costs incurred while exploring various water supply options. We were told the HWWCo. obtained approval by PUC to amortize the costs over a 5 year period.

Deferred Financing SRF – This asset was established to amortize the loan financing costs. The costs consisted mostly of legal and accounting fees in pursuing PUC approval of the loan and state bank. The costs are being amortized over 20 years, the term of the loan.

2004 Financing and Step Increase – This asset was established to amortize the loan financing costs of the SRF loan. The costs are being amortized over 20 years, the term of the loan.

2005 Refinance Petition – This asset was established to amortize the loan refinancing costs, primarily in pursuing approval by PUC. These costs are being amortized over 10 years, the term of the Citizen Bank loan.

J. Deferred Tax Asset – Balance \$ 80,311.00

Procedure: Trace the balance of deferred tax asset to a HWWCo. calculation. This asset was established in order to record temporary timing differences between tax calculations and book calculations, and, according to HWWCo.'s estimates, will have a future benefit of \$ 80,311 in tax savings.

Results: We were able to trace the reported balance to a tax calculation worksheet prepared by HWWCo., however, we did not test the components of that calculation.

K. Cost of Annuity – Brink – Balance \$ 37,186.80

Procedure: Trace the balance per the balance sheet to the supporting statement. We were told that this asset represents the present value of a ten-year annuity purchased in 1995 related to a past employee.

Results: We received two different statements that show different balances for the present value of the annuity.

We received the original statement of the annuity that showed the draw-down schedule. The annuity was established in 1995 in the amount of \$ 58,058.15. The amount is being drawn down at a rate of \$ 449.95 per month. According to the draw down schedule, the balance as of December 31, 2008 should be \$ 33,713.26.

We also received a statement from HWWCo. that records the balance as \$ 37,186.80. Per HWWCo. it was determined that the previous balance no longer accurately represented the expected life of the annuity. The life of the annuity was revised and it was calculated that the balance should be \$ 37,186.80.

We did not determine which balance correctly represented the balance of the annuity.

2. Trace all liabilities on the Hanover Water Works Co. reviewed balance sheet at December 31, 2008 to supporting documentation.

A. Accounts Payable – Balance \$ 289,300.37

Procedure: Traced accounts payable to Town of Hanover, which represented 85 percent of the balance, to invoices to determine if they were legitimate accounts payable. We also verified the balance due with the Town of Hanover.

Results: It appears that the balance in accounts payable is correct. The accounts payable tested were in agreement with Town of Hanover records and agreed with actual vendor invoices.

B. Kinsmen Escrow Interest – Balance \$ 143,909.22

Procedure: Compared the amount recorded on the reviewed balance sheet to the related bank statement. This liability consists of money being held for a contractor by HWWCo. as a security deposit.

Results: The balance per the bank statement matches the amount being recorded as a liability on the reviewed balance sheet.

C. Accrued Sick Pay – Balance \$ 94,765.64

Procedure: Reviewed reports used by HWWCo. to determine the accuracy of amounts reported.

Results: The total amounts being accrued on the reviewed balance sheet were traceable to supporting schedules, and the accrued amounts did not exceed vesting policies.

D. NHBPT Current Year – Balance \$ 125.00

Procedure: Compared the balance per the reviewed balance sheet to the balance per the general ledger.

Results: The balances traced between the general ledger and the reviewed balance sheet were the same.

E. Deferred Compensation – Balance \$ 113,233.37

Procedure: Per inquiry, it was determined that the deferred compensation liability was established in order to record a liability for future payouts to two employees who retired about 10 years ago and receive monthly payments from HWWCo. The asset “cost of annuity” is a partial offset to this liability.

Results: We were able to trace this balance to a schedule prepared by HWWCo., and is based on the expected length of the remaining payouts.

We did not test the calculations of this schedule.

F. Long Term Debt – Balance \$ 9,785,852.30

Procedure: Traced balances to loan statements.

Results: Reported amounts agreed with related loan statements.

G. Deferred Income Tax – Balance \$ 533,658.50

Procedure: Trace the balance of the deferred income tax liability to a HWWCo. calculation. This liability was established for similar reasons as the deferred tax asset. The deferred tax credit was established in order to represent temporary timing differences between tax calculations and book calculations. According to calculations made by HWWCo., they will be responsible for \$ 533,659.00 in future tax costs.

Results: We were able to trace the reported balance to a tax calculation prepared by HWWCo., however, we did not test the components of that calculation.

H. Accumulated Deferred Income Tax Credit – Balance \$ 18,067.94

Procedure: Inquired as to the purpose of this liability.

Results: HWWCo. was unable to give a description as to what this liability was, however, this account is being amortized (reduced) at a rate of \$ 869.04 per month.

I. Contributions In Aid of Construction – Balance \$ 1,247,009.15

Procedure: Traced balances recorded on the reviewed balance sheet to amortization schedules. Contributions in aid of construction represent amounts of money or other property contributed to a utility to provide for expansion, improvement, or replacement of the facility. The amounts get amortized (reduced) to correspond with the useful lives of related fixed assets.

Results: In tracing the reviewed balance sheet balances to the amortization schedule balances, we found a variance of \$ 198,000.94, whereby the amortization schedule balance was higher than the general ledger balance.

J. Deferred Forestry Credit – Balance \$ 26,522.29

Procedure: Determined purpose of this liability and traced the balance per the balance sheet to the general ledger.

Results: Through inquiry it was determined that this liability represents proceeds of timber clearing revenue which are used for capital expenses. We were told that HWWCo. and PUC had an agreement several years ago that required HWWCo. to record this money as a liability and not as revenue.

The balance reported in the reviewed financial statements agrees to the general ledger records.

3. Confirm to the extent possible that there are no violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for a loss contingency at June 30, 2009.

Procedure: We inquired of HWWCo.'s management and outside attorneys whether they were aware of any violations of laws or regulations that would require disclosure or reporting as a liability. We also reviewed attorney invoices to identify potential loss contingencies.

Results: Through review of the questionnaire it was determined that HWWCo. does not have any knowledge of any legal matters with respect to violations of laws or environmental regulations.

Through review of the legal letter received from McLane, Graf, Raulerson, & Middleton, P.A. there did not appear to be any violations of laws or environmental regulations.

Through review of all legal invoices received from HWWCo. there was no discussion of any legal matters regarding the possibility of violations of laws or environmental regulations.

4. **Confirm to the extent possible that there are no other liabilities or loss contingencies that are required to be accrued or to be disclosed at June 30, 2009.**

Procedure: We reviewed 2008 and 2009 board minutes, performed a search for unrecorded accounts payable liabilities, and obtained and reviewed a copy of the "Status of Infrastructure" report prepared by HWWCo.

Results: Per the April 14, 2009 drafted Board Minutes, the Board decided to proceed on the project of removing about 150 acres of an invasive plant. The estimated cost of this removal would approximate \$ 52,500.

Through review of an undated "Status of Infrastructure" report, we found that there were two other reports that discussed future capital improvements in depth. A December 1997 report prepared by Dufresne-Henry summarized \$ 7,941,000 of capital expenses projected for water system distribution and storage, and a July 2002 report by Provan & Lorber, Inc. recommended infrastructure improvements of \$ 20,307,990. We were told that many of these capital improvements have already been made.

We did not identify any other possible liabilities that were not recorded as of December 31, 2008.