



5640 Lancaster-Newark Road
Pleasantville, OH 43148

May 25, 2016

Betty McCauley
Public Utilities Commission of Ohio
180 East Broad Street, 11th Floor
Columbus, OH 43215

RE: In the Matter of the Joint Application of Brainard Gas, Northeast Ohio Natural Gas Corporation, and Orwell Natural Gas Company for Approval of Long-Term Financing Arrangements, PUCO Case No. 10-2330-GA-AIS and 12-1792-GA-AIS.

Dear Ms. McCauley:

On March 30, 2011, the Public Utilities Commission of Ohio entered its Finding and Order in Case No. 10-2330-GA-AIS approving the Joint Application to issue a Senior Secured Note as joint and several obligors to Sun Life Assurance Company for a term loan of up to \$15,334,000. Findings 16 and 17 therein required Brainard Gas Company, Northeast Ohio Natural Gas Corporation, and Orwell Natural Gas Company to file copies of quarterly and annual financial statements and quarterly reports demonstrating that their coverage ratio and total indebtedness as a percent of their capitalization complies with the coverage ratio requirements of their Note Purchase Agreement and all Subsequent Agreements with Sun Life Assurance Company.

Please find enclosed for filing the required financial reports and certification of compliance with the coverage ratio covenants for December 31, 2015.

Sincerely,

Stephanie A. Patton

Sun Life Assurance Company - Senior Secured Guaranteed Notes: Debt Covenant Calculations

ENTER DATE OF CERTIFICATE 12/31/15

1. Financial Tests: The Company hereby certifies and warrants that the following is a true and correct computation of the following ratios and/or financial restrictions, and that no other event of default exists pursuant to the Note Purchase Agreement, dated May 3, 2011, together with its subsequent amendments, other than those noted herein.

A. Section 10.4 Coverage Ratio (Net Income to Interest Expense)

a. Consolidated EBITDA Available for Interest Charges **\$ 12,446,392**

b. Consolidated Annual Interest Charges **\$ 3,604,075**

Ratio = a ÷ b **3.45x**
 Minimum Required 2.0x

a. Obligors EBITDA Available for Interest Charges **\$ 3,817,697**

b. Obligors Annual Interest Charges **\$ 1,521,590**

Ratio = a ÷ b **2.51x**
 Minimum Required 2.0x

B. Section 10.4 Debt to Capitalization Ratio

a. Consolidated Funded Debt **\$ 67,565,679**

b. Consolidated Capitalization **\$ 163,054,964**

Ratio = a ÷ b **41%**
 Maximum Allowable 60%

a. Obligors Funded Debt **\$ 29,550,068**

b. Obligors Capitalization **\$ 63,116,045**

Ratio = a ÷ b **47%**
 Maximum Allowable 60%

C. Section 10.5 Restrictions on Dividends and Distributions

a. Obligors Dividends/Distributions (August 28, 2015 - only dividend in last 4 quarters) **\$ 155,000**

b. Obligors Net Income - June 30, 2015 (Latest 4 Fiscal Quarters at time of dividend) **\$ 484,693**

Ratio = a ÷ b **32.0%**
 Maximum Allowable 70.0%

D. Section 9.1 Debt Service Reserve Fund

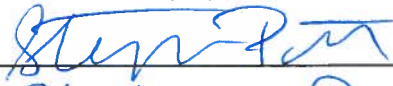
The company shall maintain a debt service reserve fund equal to the interest payable on the Notes for a 12 month period maintained in a blocked interest bearing account at PNC Bank.

Debt Service Reserve Fund Balances at 12/31/15 **\$ 948,166**

Estimated Interest payable for next 12 months **\$ 947,976**

Covenant met **Yes**

IN WITNESS WHEREOF, the Company has caused this Certificate to be executed and delivered by:

By: 
 Name: Stephanie Patton
 Title: Controller

SUN LIFE OBLIGORS
Condensed Consolidated Balance Sheets
December 31, 2015 and 2014

	December 31,	
	2015	2014
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,133,501	\$ 733,604
Marketable securities	-	-
Accounts receivable		
Trade, less allowance for doubtful accounts of \$146,243 and \$63,271, respectively	2,261,649	2,860,533
Related parties	187,169	234,610
Unbilled gas	2,902,222	2,666,880
Intercompany Receivable, Current	408,095	-
Inventory		
Natural gas and propane	537,149	819,787
Materials and supplies	777,882	735,036
Prepaid income taxes	-	-
Prepayments and other	743,836	167,561
Regulatory assets, current		
Recoverable cost of gas purchases	1,344,676	260,570
Derivative assets	-	-
Rate case costs	-	-
Unrecoverable costs	-	-
Deferred tax asset	-	-
Assets held for sale	35,115	802,436
Discontinued operations	-	155
Total current assets	10,331,294	9,281,172
PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	64,316,531	63,311,377
Less accumulated depreciation, depletion and amortization	(10,377,988)	(8,066,256)
PROPERTY, PLANT AND EQUIPMENT, net	53,938,543	55,245,121
OTHER ASSETS		
Intercompany Receivable, non current	3,555,812	1,287,439
Deferred tax assets, less current portion	-	334,951
Regulatory assets, non current		
Property taxes	-	-
Income taxes	-	-
Rate case costs	-	-
Unrecoverable costs	-	-
Debt issuance costs, net of amortization	274,820	333,833
Goodwill	14,815,476	14,815,476
Customer relationships	2,624,667	2,927,500
Investment in unconsolidated affiliate	-	-
Investment in unconsolidated subsidiary	(7,810,368)	(4,864,470)
Restricted cash	948,166	948,137
Other assets	502,775	8,959
Total other assets	14,911,348	15,791,825
TOTAL ASSETS	\$ 79,181,185	\$ 80,318,118
	\$ 79,181,185	
	\$ -	
	-	

The accompanying notes are an integral part of these consolidated financial statements.

SUN LIFE OBLIGORS
Condensed Consolidated Balance Sheets
December 31, 2015 and 2014

	December 31,	
	2015	2014
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES		
Checks in excess of amounts on deposit	\$ -	\$ -
Line of credit	-	-
Accounts payable		
Trade	3,780,660	4,768,438
Related parties	191,664	170,319
Notes payable, current portion	12,367	42,201
Notes payable - related parties, current portion	2,000,000	-
Contingent consideration, current portion	671,638	671,638
Accrued liabilities		
Income taxes	279,675	65,758
Taxes other than income	1,496,963	1,512,173
Vacation	32,989	-
Employee benefit plans	38,540	11,593
Interest	56,583	365
Deferred payments received from levelized billing	1,432,125	889,059
Customer deposits	102,988	126,689
Related parties	170,104	111,133
Obligation under capital lease - current	2,770,206	-
Deferred tax liability	433,279	187,972
Other current liabilities	260,372	263,142
Derivative liabilities	-	-
Over-recovered gas purchases	24,784	-
Build-to-suit liability	2,040,715	5,459,368
Liabilities held for sale	-	61,416
Discontinued operations	-	17,079
Total current liabilities	15,795,652	14,358,343
LONG-TERM LIABILITIES		
Deferred investment tax credits	-	-
Deferred tax liability	5,745,479	5,121,060
Asset retirement obligation	179,232	176,665
Customer advances for construction	-	-
Regulatory liabilities, current		
Income taxes	-	-
Gas costs		
Asset retirement costs	1,168,065	1,006,985
Customer deposits long term	-	-
Long-term obligation under capital lease, less current portion	4,392,763	-
Contingent consideration, less current portion	-	75,362
Total long-term liabilities	11,485,539	6,380,072
NOTES PAYABLE, less current portion	18,334,017	18,345,861
COMMITMENTS AND CONTINGENCIES (see Note 12)		
STOCKHOLDERS' EQUITY		
Preferred stock; \$0.15 par value, 1,500,000 shares authorized, no shares issued or outstanding	-	-
Common stock; \$0.15 par value, Authorized: 30,000,000 and 30,000,000 shares, respectively Issued: 10,504,734 and 10,492,511 shares, respectively Outstanding: 10,504,734 and 10,492,511 shares, respectively	1,575,210	1,573,127
Capital in excess of par value	63,985,466	63,826,341
Accumulated other comprehensive income	-	-
Retained earnings	(31,994,699)	(24,165,626)
Total stockholders' equity	33,565,977	41,233,842
TOTAL CAPITALIZATION	51,899,994	59,579,703
TOTAL LIABILITIES AND CAPITALIZATION	\$ 79,181,185	\$ 80,318,118

The accompanying notes are an integral part of these consolidated financial statements.

SUN LIFE OBLIGORS
Condensed Consolidated Statements of Comprehensive Income
For the Year Ended December 31, 2015 and 2014

	Year Ended December 31,	
	2015	2014
REVENUES		
Natural gas operations	\$ 32,559,463	\$ 41,675,124
Total revenues	<u>32,559,463</u>	<u>41,675,124</u>
COST OF SALES		
Natural gas purchased	18,737,368	27,371,293
Total cost of sales	<u>18,737,368</u>	<u>27,371,293</u>
GROSS MARGIN	13,822,095	14,303,831
OPERATING EXPENSES		
Distribution, general, and administrative	11,220,576	9,939,624
Maintenance	422,565	407,908
Depreciation and amortization	2,847,146	2,711,988
Accretion	2,567	6,856
Goodwill impairment	-	-
Loss (gain) on contingent consideration liability	(75,362)	62,000
Provision for doubtful accounts	10,897	-
Taxes other than income	1,640,542	1,418,659
Total operating expenses	<u>16,068,931</u>	<u>14,547,035</u>
OPERATING INCOME (LOSS)	(2,246,836)	(243,204)
LOSS FROM UNCONSOLIDATED AFFILIATE	-	-
OTHER INCOME, NET	164,820	452,878
(GAIN) ON SALE OF MARKETABLE SECURITIES	-	183,371
ACQUISITION EXPENSE	-	(7,197)
STOCK SALE EXPENSE	-	-
INTEREST EXPENSE	<u>(1,521,590)</u>	<u>(1,237,520)</u>
INCOME (LOSS) BEFORE INCOME TAXES	(3,603,606)	(851,672)
INCOME TAX BENEFIT (EXPENSE)	<u>1,474,313</u>	<u>248,960</u>
INCOME FROM CONTINUING OPERATIONS	(2,129,293)	(602,712)
Discontinued operations, net of income taxes	<u>(29,846)</u>	<u>(40,326)</u>
NET INCOME	(2,159,139)	(643,038)

The accompanying notes are an integral part of these consolidated financial statements.

This foregoing document was electronically filed with the Public Utilities

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Case No(s). 10-2330-GA-AIS, 12-1792-GA-AIS

Summary: Report of Financials and Certification of Compliance for the 4th Quarter of 2015 electronically filed by Ms. Stephanie A Patton on behalf of Northeast Ohio Natural Gas Corp. and Brainard Gas Corp. and Orwell Natural Gas Co.