



5640 Lancaster-Newark Road  
Pleasantville, OH 43148

May 26, 2016

Betty McCauley  
Public Utilities Commission of Ohio  
180 East Broad Street, 11<sup>th</sup> 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 1<sup>st</sup> quarter 2016.

Sincerely,

A handwritten signature in blue ink, appearing to read "Stephanie Patton", written in a cursive style.

Stephanie A. Patton

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

ENTER DATE OF CERTIFICATE

3/31/16

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

\$ 9,656,175

b. Consolidated Annual Interest Charges

\$ 3,486,627

Ratio = a ÷ b

2.77x

Minimum Required

2.0x

a. Obligors EBITDA Available for Interest Charges

\$ 4,508,396

b. Obligors Annual Interest Charges

\$ 1,572,167

Ratio = a ÷ b

2.87x

Minimum Required

2.0x

**B. Section 10.4 Debt to Capitalization Ratio**

a. Consolidated Funded Debt

\$ 61,074,301

b. Consolidated Capitalization

\$ 159,277,189

Ratio = a ÷ b

38%

Maximum Allowable

60%

a. Obligors Funded Debt

\$ 25,569,781

b. Obligors Capitalization

\$ 60,064,408

Ratio = a ÷ b

43%

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)

\$ -

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

\$ (1,459,417)

Ratio = a ÷ b

0.0%

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 3/31/16

\$ 948,217

Estimated Interest payable for next 12 months

\$ 947,976

Covenant met

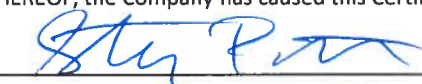
Yes

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

By:

Name:

Title:



Stephanie Patton

Controller

**SUN LIFE OBLIGORS**  
**Condensed Consolidated Balance Sheet**  
**March 31, 2016**

ASSETS

**CURRENT ASSETS**

Cash and cash equivalents	\$ 1,321,855
Accounts receivable	
Trade, less allowance for doubtful accounts of \$224,870	3,419,868
Related parties	181,440
Unbilled gas	1,671,567
Intercompany Receivable, Current	1,247,212
Inventory	
Natural gas and propane	819,010
Materials and supplies	865,393
Prepaid income taxes	(152,425)
Prepayments and other	853,657
Regulatory assets, current	
Recoverable cost of gas purchases	2,077,986
Assets held for sale	35,115
Total current assets	<u>12,340,678</u>

**PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment	64,416,804
Less accumulated depreciation, depletion and amortization	<u>(11,018,606)</u>
PROPERTY, PLANT AND EQUIPMENT, net	53,398,198

**OTHER ASSETS**

Intercompany Receivable, non current	2,505,552
Debt issuance costs, net of amortization	19,985
Goodwill	14,815,476
Customer relationships	2,548,959
Investment in unconsolidated subsidiary	(9,360,368)
Restricted cash	948,217
Other assets	745,458
Total other assets	<u>12,223,279</u>

TOTAL ASSETS	<u><u>\$ 77,962,155</u></u>
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The accompanying notes are an integral part of these consolidated financial statements.

**SUN LIFE OBLIGORS**  
**Condensed Consolidated Balance Sheet**  
**March 31, 2016**

<u>LIABILITIES AND CAPITALIZATION</u>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	
Trade	\$ 3,603,325
Related parties	1,614,185
Notes payable, current portion	6,413
Contingent consideration, current portion	696,462
Accrued liabilities	
Taxes other than income	1,739,758
Vacation	48,573
Employee benefit plans	10,901
Deferred payments received from levelized billing	1,156,682
Customer deposits	118,740
Related parties	170,644
Obligation under capital lease - current	3,329,473
Deferred tax liability	454,886
Other current liabilities	661,253
Over-recovered gas purchases	17,989
Discontinued operations	1,424
Total current liabilities	<u>13,630,708</u>
<b>LONG-TERM LIABILITIES</b>	
Deferred tax liability	6,215,086
Asset retirement obligation	179,232
Regulatory liabilities, current	
Asset retirement costs	1,208,607
Long-term obligation under capital lease, less current portion	4,069,655
Total long-term liabilities	<u>11,672,580</u>
NOTES PAYABLE, less current portion	18,164,240
<b>COMMITMENTS AND CONTINGENCIES (see Note 12)</b>	
<b>STOCKHOLDERS' EQUITY</b>	
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 shares Issued: 10,511,520 shares Outstanding: 10,511,520 shares	1,575,660
Capital in excess of par value	64,019,418
Accumulated other comprehensive income	-
Retained earnings	(31,100,451)
Total stockholders' equity	<u>34,494,627</u>
<b>TOTAL CAPITALIZATION</b>	<u>52,658,867</u>
<b>TOTAL LIABILITIES AND CAPITALIZATION</b>	<u>\$ 77,962,155</u>

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

**SUN LIFE OBLIGORS**  
**Condensed Consolidated Statement of Income**  
**For the 12 Months Ended March 31, 2016**

REVENUES	
Natural gas operations	\$ 27,947,398
Total revenues	<u>27,947,398</u>
COST OF SALES	
Natural gas purchased	15,491,436
Total cost of sales	<u>15,491,436</u>
GROSS MARGIN	12,455,962
OPERATING EXPENSES	
Distribution, general, and administrative	10,720,701
Maintenance	432,648
Depreciation and amortization	2,925,271
Accretion	(8,613)
Loss (gain) on contingent consideration liability	(75,362)
Taxes other than income	1,668,354
Total operating expenses	<u>15,662,998</u>
OPERATING INCOME (LOSS)	(3,207,036)
OTHER INCOME, NET	198,775
INTEREST EXPENSE	<u>(1,572,167)</u>
INCOME (LOSS) BEFORE INCOME TAXES	(4,580,428)
INCOME TAX BENEFIT (EXPENSE)	<u>1,848,415</u>
INCOME FROM CONTINUING OPERATIONS	(2,732,014)
Discontinued operations, net of income taxes	(34,517)
NET INCOME	<u><u>(2,766,531)</u></u>

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

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**5/26/2016 9:16:06 AM**

**in**

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

Summary: Report of Financials and Certification of Compliance for the 1st Quarter of 2016 electronically filed by Ms. Stephanie A Patton on behalf of Northeast Ohio Natural Gas Corp. and Brainard Gas Corp. and Orwell Natural Gas Co.