

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE PETITION OF )  
AMERICAN SUBURBAN UTILITIES, INC FOR ) CAUSE NO. 45649-U  
A NEW SCHEDULE OF RATES AND CHARGES. )**

**PUBLIC'S EXHIBIT NO. 1**

**REDACTED TESTIMONY OF SHAWN DELLINGER**

**ON BEHALF OF**

**THE INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**April 11, 2022**

Respectfully submitted,

INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR



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**CERTIFICATE OF SERVICE**

This is to certify that, except for OUCC Attachments SD-1, SD-2. And SD-3, which were served by hand delivery on CD due to their size, a copy of the *Redacted Testimony of Shawn Dellinger (Redacted Public's Exhibit No. 1)* has been served upon the following in the captioned proceeding by electronic service on April 11, 2022.

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**REDACTED TESTIMONY OF OUCC WITNESS SHAWN DELLINGER**  
**CAUSE NO. 45649-U**  
**AMERICAN SUBURBAN UTILITIES, INC.**

**I. INTRODUCTION**

1 **Q: Please state your name and business address.**

2 A: My name is Shawn Dellinger, and my business address is 115 W. Washington St., Suite  
3 1500 South, Indianapolis, IN 46204.

4 **Q: By whom are you employed and in what capacity?**

5 A: I am employed by the Indiana Office of Utility Consumer Counselor ("OUCC") as a Utility  
6 Analyst in the Water/Wastewater division. My focus is on financial issues. I describe my  
7 formal education, my relevant professional experience and other qualifications in  
8 Appendix A.

9 **Q: What is the purpose of your testimony?**

10 A: I discuss financial aspects of American Suburban Utilities, Inc. ("ASU" or "Applicant")  
11 including its debt and its capital structure. I discuss ASU's relationship with its affiliate, L  
12 3 Corp. (hereafter "L 3," "L3" or L-3") as it relates to ASU's capital structure and this  
13 application for a rate increase.<sup>1</sup> I adjust ASU's capital structure to reflect the amount of  
14 debt for which ASU is effectively responsible. Where ASU has proposed a return on equity  
15 of 12%, I recommend a return on equity ("ROE") of 9.75%, and I incorporate my proposed  
16 ROE into a Weighted Average Cost of Capital ("WACC") that includes the debt that  
17 encumbers ASU's assets.

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<sup>1</sup> I refer to the affiliate L 3 Corp. (registered name with the secretary of state) as L 3 in my testimony. In attachments it is often referred to as L3 or L-3, and in cites or direct quotes I will use those alternative spellings on the name.

1 **Q: What did you do to prepare your testimony?**

2 A: I reviewed ASU's Small Utility Application. I prepared discovery questions and reviewed  
3 ASU's responses to discovery. I participated in informal meetings with ASU's  
4 representatives prior to the filing. I obtained bond transcripts directly from the Indiana  
5 Finance Authority ("IFA"). I reviewed previous ASU filings with the Commission. I  
6 reviewed the documents that are attached to my testimony.

7 **Q: What attachments are included in your testimony?**

8 A: I listed my attachments in Appendix B of this testimony.

## II. BACKGROUND SUMMARY

9 **Q: What entities do you discuss in your testimony?**

10 A: ASU is a domestic for-profit corporation that provides wastewater utility services to  
11 approximately 3,200 customers in Tippecanoe County, Indiana. ASU is a "public utility"  
12 as defined in Ind. Code § 8-1-2-1 and is subject to the jurisdiction of this Commission.  
13 Scott Lods, the President of ASU, is the sole shareholder of ASU's stock.<sup>2</sup> Mr. Lods is  
14 also President and sole owner of L 3 Corp. a domestic for-profit corporation organized  
15 under the laws of the State of Indiana. L 3 is an affiliate of ASU due to its common  
16 ownership and financial transactions discussed below. ASU has not listed L 3 as an affiliate  
17 on its IURC annual reports since 2015. L 3 "is engaged in borrowing and providing capital

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<sup>2</sup> See Attachment SD-3, page 71 of 356, Stock Pledge Agreement dated December 1, 2017 between L 3 Corp. and Horizon Bank . See also OUCC Attachment SD-7, Note F, page 11.

1 to [ASU], as well as providing management services to First Time Development  
2 Corporation.”<sup>3</sup>

### III. CAPITAL STRUCTURE

#### A. Overview of issues

3 **Q: What does ASU propose as its capital structure and its weighted average cost of**  
4 **capital?**

5 A: ASU proposes to base rates on a capital structure of 76.3% equity and 23.7% debt.<sup>4</sup> ASU's  
6 application indicated it has \$16,401,918 in Common Equity and \$5,100,000 in Long-Term  
7 Debt. ASU proposes to base rates on a cost of equity of 12%. A capital structure finding of  
8 76.3% equity at 12% ROE and 23.7% debt at an annual cost of 4.68% would result in a  
9 weighted average cost of capital of 10.26%.

10 **Q: Do you agree with ASU's proposed capital structure finding?**

11 A: No. ASU's proposed capital structure only recognizes the \$5.1 Million of debt that was  
12 approved by the Commission in consolidated Cause Nos. 44676 and 44700. However,  
13 ASU's capital structure should recognize \$12.7 Million of debt incurred by its affiliate (L  
14 3), which debt was guaranteed by ASU and resulted in the encumbering of ASU's utility  
15 assets. According to the bond transcripts, which I discuss in greater detail below, L 3  
16 indicated the purpose of a significant portion of the borrowings was to fund capital projects  
17 for ASU, specifically, the Carriage Estates III, Cumberland, Klondike, and Big 3 projects.  
18 ASU's proposed capital structure treats as equity money received through a borrowing for

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<sup>3</sup> See Attachment SD-7, page 14 of 19, note F “Related Parties”, section “L3 Corporation Transactions”.

<sup>4</sup> The final order in ASU's last rate case (Cause Nos. 44676/44700), states “The Commission finds that Petitioner's capital structure is not sufficiently far off from what is required by the settlement agreement in Cause No. 41254. Achievement of a 40% debt level cannot happen immediately, and Petitioner is progressing in the proper direction. We expect the Petitioner to continue to do so and achieve a 40% debt level.” Page 35 of Order. ASU has not, in fact, continued to move in the “proper direction” based on their filing.

1 which ASU is ultimately responsible, and for the purpose of procuring projects included in  
2 ASU's rate base.

3 **Q: How should such borrowing be treated for ratemaking purposes?**

4 A: For purposes of establishing ASU's capital structure, this debt should be recognized as  
5 ASU's debt resulting in a capital structure that is 17% equity, 81% debt and 2%  
6 Accumulated Deferred Income Taxes, which is discussed by OUCC witness Margaret  
7 Stull.

8 **Q: How does classifying the money borrowed to complete the construction of ASU's**  
9 **capital projects as equity affect ASU's customers?**

10 A: Because equity is authorized a higher return than the cost of debt, it results in a higher  
11 weighted average cost of capital and higher monthly rates for sewer service. A utility's  
12 recognized capital structure determines the weighted average cost of capital for ratemaking  
13 purposes. Because the cost of debt is almost always significantly lower than the cost of  
14 equity, ASU would be authorized a higher return because of this misclassification. A  
15 capital structure for ratemaking purposes that portrays debt as equity would result in a  
16 monthly transfer of wealth from the regulated ratepayers to the owner of ASU while rates  
17 are based on this incorrect capital structure. Mr. Lods owns both ASU and L 3, the affiliate  
18 that serves as a financing vehicle for ASU. It is by using both entities in conjunction that  
19 capital originating from debt costing between 1.28% and 4.25% in 2020 was classified by  
20 ASU as equity to justify a return of 9.5% (the return on equity from the last rate case, Cause  
21 No. 44676/44700), even though it is functionally debt of ASU and not equity.

1 **Q: How much has L 3 borrowed?**

2 A: L 3 has total borrowing of \$12,710,000 as of the end of 2020.<sup>5</sup> In 2013 L 3 borrowed  
3 \$6,500,000 from Fifth Third Bank. In 2017 L 3 converted this \$6,500,000 loan, the lender  
4 became Horizon bank, and L 3 borrowed an additional \$2,820,000 term loan with Horizon  
5 Bank. These two loans total \$9,320,000. L 3 has other debt of \$3,390,000 (the difference  
6 between \$12,710,000 and \$9,320,000) that were not part of those borrowings.

7 **Q: Are public utilities such as ASU required to obtain approval of the Commission to**  
8 **encumber its used and useful property or business?**

9 A: Yes. Ind. Code § 8-1-2-84(f), establishes that public utilities must receive Commission  
10 authority before encumbering any of its used and useful property:

11 No such public utility shall encumber its used and useful property or  
12 business or any part thereof without the approval of the commission and the  
13 consent, authority, and approval of the owners of three-fourths (3/4) of its  
14 voting stock.

15 **Q: Did ASU request authority from the Commission to encumber ASU's assets, or enter**  
16 **into any portion of this \$12,710,000 debt?**

17 A: No.

**B. L 3's borrowings is functionally the debt of ASU.**

18 **Q: How is L 3's borrowing functionally the debt of ASU?**

19 A: Payments on the L 3 debt depend on cash generated by ASU, and ASU guarantees this  
20 debt. ASU's audited financial statements for the year ending December 31, 2017, were  
21 prepared after the 2017 bonds had been issued and reflect the auditor's opinion regarding

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<sup>5</sup> Per the 2020 ASU unaudited financial statements found in OUCC Attachment SD-7 (filed with the Commission on December 22, 2021, as "Submission of Supplemental Information for Addenda to Application"). Page 12, Note F-Related Parties, L3 Corporation Transactions.

1 the debts in existence at that time. In accordance with the final order in Cause Nos.  
2 44676/44700, ASU filed its 2017 audited financial statements on November 13, 2018. The  
3 2017 audited financial statements acknowledge L 3's debt is functionally ASU's debt - "In  
4 order for L3 to service its debt, the Company [ASU] pays dividends to Scott Lods, who  
5 then makes capital contributions to L3 which are used to pay interest, principal and other  
6 expenses on the debt."<sup>6</sup> (OUCC Attachment SD-4, page 14.) The statement set forth below  
7 also notes that the debt is secured by guaranteed from ASU:<sup>7</sup>

8 L3 Corporation (L3) is engaged in borrowing and providing capital to the  
9 Company, as well as providing management services to First Time  
10 Development Corporation. The Company utilizes the capital to construct  
11 wastewater treatment facilities. In order for L3 to service its debt, the  
12 Company pays dividends to Scott Lods, who then makes capital  
13 contributions to L3 which are used to pay interest, principal and other  
14 expenses on the debt. The debt is secured by guaranties from American  
15 Suburban Utilities, Inc., as well as a personal guaranty from the Company's  
16 100% shareholder. As of the year ended December 31, 2017, L3 had a total  
17 amount of debt outstanding of \$12,300,000 with principal payments  
18 commencing November 1, 2020 and ending on November 1, 2034. The  
19 interest rates on the debt as of December 31, 2017 ranged from 2.21 % to  
20 2.97%. The rates are reset on a monthly basis.

21 (Emphasis added by the OUCC.)

22 **Q: Is this same language present in ASU's more recent audited statements?**

23 A: The wording may differ, but ASU remains responsible for the debts of L 3. ASU's 2020  
24 Unaudited Statements<sup>8</sup> explains that ASU uses the money borrowed to construct its plant,

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<sup>6</sup> See OUCC Attachment SD-7, page 14 of 19, Note F-Related Parties.

<sup>7</sup> Please see OUCC Attachment SD-4 - 2017 Audited Financial Statements for American Suburban Utilities, Inc. prepared by Thieme & Adair CPAs, Note F-Related Parties, subsection on "L3 Corporations Transactions" found on page 14 of 19.

<sup>8</sup> Despite the filing being labelled as the ASU Audited Financial Statements, the 2020 statements were unaudited according to OUCC Attachment SD-7, page 4 of 19 "Report of 2019 Financial Statements."



1 and L3 services its debt by the process of ASU issuing dividends to Scott Lods, who then  
2 makes "capital contributions to L3":

3 L3 Corporation (L3) is engaged in borrowing and providing capital to the  
4 Company, as well as providing management services to First Time  
5 Development Corporation. The Company utilizes the capital to construct  
6 wastewater treatment facilities. In order for L3 to service its debt, the  
7 Company pays dividends to Scott Lods, who then makes capital  
8 contributions to L3 which are used to pay interest, principal and other  
9 expenses on the debt. L3's debt is secured by (i) assignment of enterprise  
10 value and cash flows/utility payments of L3; (ii) a first-priority UCC lien  
11 on all of L3's existing and future acquired assets, excluding real estate, but  
12 including accounts receivable, inventory, vehicles, machinery and  
13 equipment, subsidiary capital stock, chattel paper, documents, instruments,  
14 deposit accounts, contract rights, general intangibles and intellectual  
15 property; (iii) a negative pledge of all commercial real estate used in the  
16 operation of L3; (iv) an unlimited and secured personal guaranty of Scott  
17 Lods, supported by an assignment of life insurance in the amount of  
18 \$2,800,000 and further a secured by a pledge of Mr. Lods' stock in ASU;  
19 (v) an unlimited and unsecured guaranty of ASU which includes a negative  
20 covenant prohibiting ASU from granting any liens on any of ASU's assets  
21 and (vi) an unlimited and unsecured corporate guaranty of First Time  
22 Development Corporation, which is only to be released upon satisfactory  
23 completions of CE-3.

24 As of the year ended December 31, 2020, L3 had a total amount of debt  
25 outstanding of \$12,710,000 with principal payments commencing  
26 November 1, 2020 and ending on November 19, 2040. The interest rates on  
27 the debt as of December 31, 2020 ranged from 1.28% to 4.25%. The rates  
28 are reset on a monthly basis.

29 (Emphasis added by the OUCC.)  
30

31 **Q: Has ASU paid dividends equal or greater than the amount needed to pay the debt**  
32 **service on these loans?**

33 A: Yes. Each of ASU's audited financial statements for years 2016-2019 show the total  
34 amount of dividends ASU paid were sufficient to pay the debt service on the loans. Also,  
35 the ASU General Ledger shows dividends in 2020 (the unaudited financial statements do  
36 not give dividend information as was given in the audited financials for 2016-2019.) Over

1 the five years for which the OUCC has this data, ASU issued a little less than \$4,000,000  
2 in dividends, which is comfortably above the amount needed to pay the debt service on L  
3 3's borrowings for those five years. OUCC Attachment SD-13 shows the dividends derived  
4 from the general ledger in 2020 and the relevant general ledger account transactions.

5 **Q: Did ASU disclose the dividends it paid out in its IURC annual reports?**

6 A: No. ASU's IURC Annual Reports from 2016 through 2020 represent that no dividends  
7 were paid. Thus, there was a significant discrepancy in the amount of dividends ASU  
8 reported in its IURC Annual Reports and the dividends disclosed in the ASU audited  
9 financial statements or general ledger reviews. The table below compares dividends  
10 information ASU provided in its financial statements with its IURC reports:

**Table 1**  
**Dividend Payments indicated in ASU's Financial Statements**  
**and ASU's IURC Annual Reports**

Year	Dividends per Audited	
	financial statements*	Per IURC Annual Reports
2016	\$696,969.00	\$0.00
2017	\$1,162,294.00	\$0.00
2018	\$1,578,032.00	\$0.00
2019	\$150,000.00	\$0.00
2020	\$378,947.37	\$0.00
Average	\$793,248.47	\$0.00

\*-unaudited in 2020

In a review back to 2012, there were no dividends declared in the IURC Annual Reports

**C. Components of L 3 Debt**

11 **Q: Has the amount of debt increased since the 2017 audited financial statements?**

12 A: According to the 2020 unaudited statements, the amount of L 3 debt that had been listed in  
13 the ASU audited financial statements had increased from \$12,300,000 to \$12,710,000.

1 (These financial statements are included as OUCC Attachments SD-4 (2017), SD-5 (2018),  
2 SD-6 (2019) and SD-7 (2020)).

3 **Q: What loans make up the \$12,710,000 of L 3 debt?**

4 A: This debt consists of a \$6,500,000 loan transacted in 2013 and modified in 2017. It also  
5 consists of a \$2,820,000 term loan transacted in 2017. Despite our efforts to obtain this  
6 information, the loan or loans making up the remaining balance of approximately \$3.4  
7 Million is not visible to the OUCC. Other than the note in ASU's audited financial  
8 statements, ASU has not provided information to the OUCC about the \$12,710,000 of L 3  
9 debt.

10 **Q: Did the OUCC ask ASU to breakdown the debt currently held by L 3 Corp?**

11 A: Yes. The OUCC in Data Request 11-1 sought a breakdown of the debt currently held by L  
12 3, including what year it was entered, the balance, the interest rate and the lender. ASU did  
13 not provide the requested information "on the grounds and to the extent that the information  
14 is irrelevant and not reasonably calculated to lead to the discovery of admissible evidence."  
15 (See OUCC Attachment SD-9.)

16 **Q: Did the OUCC ask ASU for L 3's audited financial statements?**

17 A: Yes. Pursuant to the Commission's order in Cause No. 44676/44700, ASU was to provide  
18 to the Commission and the OUCC a copy of the annual reviewed financial statements  
19 required to be provided to ASU's lender. In the current case, the OUCC asked ASU to  
20 provide L 3's audited financial statements for the years 2017, 2018, 2019 and 2020 (OUCC  
21 Data Request 4-1(b)). ASU did not provide the OUCC with L 3's audited financial  
22 statements and objected to providing the financial statements "on the grounds that it is  
23 irrelevant and not reasonably calculated to lead to the discovery of admissible evidence,"

1 adding that "L3 has no ownership interest in ASU, but is a separate corporation owned by  
2 Mr. Lods." (See OUCC Attachment SD-9.)

3 **Q: Was ASU required to provide the audited financial statements of L 3 to the lender**  
4 **(Horizon Bank)?**

5 A: Yes. According to Exhibit D (Section V. d.) of the December 1, 2017, Bond Purchase and  
6 Loan Agreement, the lender required ASU to provide annually the audited financial  
7 statements for L 3.<sup>9</sup> However, in response to OUCC discovery, ASU stated that the  
8 document speaks for itself, and denied that the intent of the Commission's order was to  
9 require this reporting. I set forth the response to OUCC Data Request 6-4 below:

**Information Requested:**

Admit that pursuant to Exhibit D (Section V. d.) of the December 1, 2017 Bond Purchase and Loan Agreement (included as Attachment A to OUCC DR 4), the lender required the audited financial statements for L3 to be submitted annually. If not an unqualified admission, explain why that submission was not required by the lender in that document.

**Information Provided:**

The December 1, 2017 Bond Purchase and Loan Agreement speaks for itself. Deny that this document is identifying the "annual reviewed financial statements required to be provided to the lender in connection with the financing authorized" as described in the Commission's November 30, 2016 Order because the December 1, 2017 Agreement did not exist at the time of the Commission's Order. The Commission's Order is referring to the Term sheet discussed in Response to OUCC Q 6-3, which was placed in the record in that Cause.

10 In summary, the OUCC issued discovery to get information regarding the \$12,710,000 debt  
11 of L 3 from ASU, but ASU refused to provide any details of L 3's debt, which is used for  
12 the benefit of ASU and which debt ASU secures through a guarantee.

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<sup>9</sup> This may be found on page 122 of 418 of attachment SD-2.

1 **Q: How did the OUCC secure documentation of the \$6,500,000 loan from 2013 and the**  
2 **\$2,820,000 term loan entered into in 2017?**

3 A: The OUCC obtained the Bond Transcripts for L 3's issuances in 2013 and 2017 directly  
4 from the Indiana Finance Authority.

5 **Q: How did you become aware of the existence of the L 3 loans?**

6 A: On the Indiana Finance Authority's website I noticed a listed L 3 loan from IFA.<sup>10</sup>

7 **Q: What was the interest rate and other basic terms for the \$6,500,000 2013 loan?**

8 A: The interest rate at the time of issuance was 0.21%.<sup>11</sup> In 2013, L 3 borrowed \$6,500,000  
9 using ASU's assets as collateral and ASU as a guarantor. This borrowing was described as  
10 the Indiana Finance Authority Adjustable Rate Demand Revenue Bonds, Series 2013 (L 3  
11 Corp Project), dated December 23, 2013. I have attached the bond transcript for this  
12 borrowing as OUCC Attachment SD-1. The loan was issued on December 23, 2013, and  
13 the interest rate was to be reset monthly. (In 2017, this \$6,500,000 2013 loan was converted  
14 from a variable rate mode to a flex private placement mode,<sup>12</sup> and the lender changed from  
15 Fifth Third Bank to Horizon Bank.)

16 **D. The L 3 debt was explicitly for the purpose of financing ASU projects**

17 **Q: What reason was given to IFA for the need to borrow the \$6,500,000?**

18 A: IFA's application asks the borrower (L 3) to describe the new or existing facility for which  
19 the borrowing was needed. The November 22, 2013, application for volume cap financing

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<sup>10</sup> <https://www.in.gov/ifa/project-locations-by-county/tippecanoe-county/>

<sup>11</sup> Please see page 541 of 585 of OUCC Attachment SD-1.

<sup>12</sup> This may be seen in the "Credit Agreement" section found in attachment SD-3, page 8 of 356.

1 signed by Scott Lods on behalf of the borrower (L 3)<sup>13</sup> stated the purpose was to finance  
2 “Big 3, Klondike, Cumberland and Phase 1 Carriage Estates.” OUCC Attachment SD-1  
3 pages 425-434. These are all projects constructing plant that are included in ASU’s utility  
4 plant in service. Thus, the application requested \$7,000,000 of Volume Cap financing to  
5 complete ASU projects. L 3’s description of the facility added that “American Suburban  
6 Utilities is a 50 year old wastewater treatment facility located in Tippecanoe County.”

7 **Q: Are there any other indications in this IFA Application that L 3 was acting on ASU’s**  
8 **behalf with this financing?**

9 A: Yes. The Application also noted Mr. Lods bought ASU in 1997, ASU’s number of  
10 customers, and how many sewer main/lift stations currently exist. There is a page included  
11 in the bond transcript that is an alternative application that states “L3 is a privately owned  
12 public waste water [sic] treatment utility. It has been in Business since 1963 and currently  
13 has 2,231 customers in West Lafayette, Indiana.”<sup>14</sup> Further, the Report of the Indiana  
14 Finance Authority regarding this project (located on page 434 of the 2013 L 3 Bond  
15 Transcript (Attachment SD-1)) described L 3 Corporation or its affiliates as “the  
16 Applicant” and states that the project shall be owned and operated by the Applicant. Also,  
17 the jobs listed for line items 7, 8 and 9 of the application (page 428 of Attachment SD-1)  
18 appear to reference ASU employees. All these examples show that L 3 was acting as if  
19 ASU and L 3 were essentially the same entity.

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<sup>13</sup> This application gives Mr. Lods e-mail as [asu-inc@hotmail.com](mailto:asu-inc@hotmail.com), and lists the address for L 3 as 3350 W 250 N, which is the address for ASU.

<sup>14</sup> This page is included in the bond transcript on page 436, but it is unclear if this page was part of an ultimate application, or part of an application that was subsequently discarded.

1 **Q: Is there any other indication that L 3 was borrowing money on behalf of ASU to**  
2 **complete ASU's projects?**

3 A: Yes. In 2017, ASU borrowed \$5.1 million.<sup>15</sup> This is the debt that is currently shown on the  
4 books for ASU and was originally reported to the Commission through a December 28,  
5 2017, compliance filing. I have included this one-page compliance filing as OUCC  
6 Attachment SD-12. This loan is tax-exempt financing via IFA, and there is an application  
7 included with the ASU 2017 bond transcript, which ASU had not included in the 2017  
8 report to the Commission. I obtained the application directly from IFA, and I have included  
9 it as OUCC Attachment SD-2. ASU's application to IFA dated August 23, 2017 (page 222  
10 of Attachment SD-2) shows that a source of funds to be used to construct the Carriage  
11 Estates III Treatment plant was not only ASU's \$5.1 Million tax-exempt financing, but also  
12 the money L 3 had borrowed:

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<sup>15</sup> The Commission, in its Order in consolidated Cause Nos. 44676 and 44700, dated November 30, 2016, approved ASU's request to issue long-term debt of up to \$5,100,000 with a maturity of up to 30 years from the date of closing at a fixed rate of interest of up to 7%. The debt ASU actually issued was only fixed until 2024.





1           2017 to L 3. ASU had no declared debt as of 2013, so this funding could only refer to the  
2           L 3 bond offerings.

**E. ASU guaranteed payment of the L 3 Debt**

3   **Q: Did ASU guarantee payment of the borrowing of L 3 (\$6.5 million and \$2.82 million)?**

4   A: Yes. Below I set forth several excerpts from the bond transcripts in which ASU backed the  
5       debt through guarantees and other promises. I included these bond transcripts as OUCC  
6       Attachment SD-1 (L 3 2013), SD-2 (ASU 2017), and SD-3 (L 3 2017). The 2013 bond  
7       transcript includes a continuing guaranty agreement by ASU as well as a Security  
8       Agreement by American Suburban Utilities. (Howard County Utilities, a regulated utility  
9       owned by Mr. Lods at the time, is also a guarantor and had similar security agreements.)  
10      The continuing guaranty agreement notes that the funds L 3 borrowed will be used to  
11      finance four separate sewer/wastewater projects in West Lafayette. As a Guarantor, ASU  
12      guarantees payment of the Borrower's (L 3's) bond to the Fifth Third Bank as the  
13      Beneficiary. It notes ASU is an affiliate of the borrower (L 3) and as such will be benefited  
14      directly by this borrowing and adds that because of this ASU is willing to guaranty this  
15      borrowing to induce the lender to make the loan to L 3. ASU makes the commitment to  
16      "absolutely and irrevocably" guarantee the lender the full and prompt payment of the loan  
17      by L 3. (See OUCC Attachment SD-1, page 323-331.)

12/16/13

### CONTINUING GUARANTY AGREEMENT

THIS CONTINUING GUARANTY AGREEMENT (the "Guaranty") made as of December 1, 2013, by and between **American Suburban Utilities, Inc.**, an Indiana corporation (the "Guarantor"), and **Fifth Third Bank**, an Ohio banking corporation (the "Beneficiary").

#### WITNESSETH

WHEREAS, the Indiana Finance Authority (the "Issuer") has issued its Adjustable Rate Demand Revenue Bonds, Series 2013 (L 3 Corp. Project) (the "Bonds") for the benefit of L 3 Corp., an Indiana corporation (the "Borrower"); such Bonds were issued pursuant to a Trust Indenture dated as of December 1, 2013 (the "Indenture") between the Issuer and Regions Bank, as trustee (the "Trustee"); and

WHEREAS, the proceeds derived from the issuance of the Bonds will be lent to Borrower pursuant to a Loan Agreement of even date between Issuer and Borrower (the "Loan Agreement") and will be used to finance four separate sewer/wastewater projects in West Lafayette, Indiana; and

WHEREAS, Beneficiary has agreed, subject to certain terms and conditions, to extend credit and financial accommodations (including without limitation the issuance of letters of credit) to the Borrower, pursuant to the terms and conditions of a Reimbursement Agreement dated as of December 1, 2013 between Borrower and Beneficiary, as amended or supplemented from time to time (the "Agreement"); and

WHEREAS, Guarantor is an entity affiliated with the Borrower and as such will be benefited directly by the credit and financial accommodations extended to Borrower by Beneficiary, and is willing to execute this Guaranty in order to induce Beneficiary to extend such credit and accommodations.

NOW, THEREFORE, the Guarantor hereby guarantees, promises and undertakes as follows:

1. (a) Guarantor hereby absolutely and irrevocably guarantees to Beneficiary (i) the full and prompt payment and performance when due of all present and future indebtedness and liabilities of Borrower to Beneficiary of every kind, nature and character whatsoever, including, without limitation, any and all Rate Management Obligations, and the full and prompt payment when due of all amounts to which the Beneficiary is entitled pursuant to the terms of the Agreement and all extensions, renewals and refinancings thereof whether now outstanding or hereafter advanced, plus such further amounts sufficient to cover the costs and expenses of collection; and (ii) the full and timely performance and observance of all representations, obligations, covenants and agreements contained herein and in the Agreement and all amendments, restatements and renewals thereof. All of the above are collectively called the "Obligations"; provided, however, any Excluded Swap Obligations are specifically excluded from the Obligations.

(b) This Guaranty is a continuing guaranty of payment and not merely of collection which shall remain effective during the term of the Agreement and relates to any Obligations, including those which arise under successive transactions which shall continue the Obligations from time to time, or which constitute future advances, whether obligatory or not, or which constitute refinancing of Obligations, or that may cause Borrower to renew them after they have been satisfied, until this Guaranty

*Highlighting added by the OUCC.*

1 **Q: Did ASU also enter into a security agreement in the 2013 L 3 loan document?**

2 A: Yes. ASU also entered into a security agreement with Fifth Third Bank whereby ASU  
3 provided to Fifth Third Bank (as the "Secured Party") an assignment of collateral and grant  
4 of security interest in and to all items of property described in paragraph 2 of the Security  
5 Agreement, regardless of where it is located, including all accounts, all inventory, all  
6 equipment (specifically including all machinery, equipment and motor vehicles, among  
7 other items), contracts or other property, all assets, and all resulting rents or profits from  
8 this collateral. A portion of this security agreement is set forth below:<sup>18</sup>

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<sup>18</sup> Page 350-357 of Attachment SD-1, Security Agreement between ASU and Fifth Third Bank.

**A FIFTH THIRD BANCORP BANK**

**SECURITY AGREEMENT**

The Security Agreement (the "Security Agreement") is made as of December 1, 2013 between **AMERICAN SUBURBAN UTILITIES, INC.**, an Indiana corporation located at 3350 West 250 North, West Lafayette, Indiana 47906 (hereinafter the "Debtor") and **FIFTH THIRD BANK**, an Ohio banking corporation, for itself and as agent for any affiliate of Fifth Third Bancorp (hereinafter the "Secured Party"). Debtor hereby assigns to Secured Party as collateral and grants to Secured Party a security interest in and to all items of property described in paragraph 2 of this Security Agreement (the "Agreement"). Debtor and Secured Party hereby agree as follows:

**1. OBLIGATIONS:** This assignment of collateral and grant of security interest shall secure all loans, advances, indebtedness and each and every other obligation or liability of Debtor or L 3 Corp., an Indiana corporation (the "Borrower") owed to Secured Party or any affiliate of Fifth Third Bancorp, however created, of every kind and description, whether now existing or hereafter arising and whether direct or indirect, primary or as guarantor or surety, absolute or contingent, due or to become due, liquidated or unliquidated, matured or unmatured, participated in whole or in part, created by trust agreement, lease, overdraft, agreement, or otherwise, whether or not secured by additional collateral, whether originated with Secured Party or owed to others and acquired by Secured Party by purchase, assignment or otherwise, and including, without limitation, all loans, advances, indebtedness and each and every other obligation or liability arising under a Reimbursement Agreement of even date between Borrower and Secured Party (the "Reimbursement Agreement"), a Continuing Guaranty Agreement of even date from Debtor to Secured Party (the "Guaranty"), letters of credit now issued of or at the request of Debtor, any and all Rate Management Obligations (as defined in the Reimbursement Agreement) but specifically excluding any and all Excluded Swap Obligations (as defined in the Reimbursement Agreement), all obligations to perform or forbear from performing acts, and all agreements, instruments and documents evidencing, guarantying, securing or otherwise executed in connection with any of the foregoing, together with any amendments, modifications, and restatements thereof, and all expenses and attorneys' fees incurred or other sums disbursed by Secured Party under this Agreement or any other document, instrument or agreement related to any of the foregoing (collectively, the "Obligations").

**2. COLLATERAL:** Debtor hereby grants to Secured Party a security interest in and to that collateral now existing and hereafter arising or acquired by Debtor, regardless of where it is located, and defined as follows (together with all proceeds and products thereof and all additions and accessions thereto, replacements thereof, supporting obligations therefor, guaranties thereof, insurance or condemnation proceeds thereof, documents related thereto, all sales of accounts constituting a right to payment therefrom, all tort or other claims against third parties arising out of damage thereto or destruction thereof, all property received wholly or partly in trade or exchange therefor, all fixtures attached or appurtenant thereto, all leases thereof, and all rents, revenues, issues, profits and proceeds arising from the sale, lease, license, encumbrance, collection, or any other temporary or permanent disposition thereof, or any other interest therein, collectively, the "Collateral"):

(a) all Accounts, all Inventory, all Equipment, all General Intangibles, all Investment Property; and

(b) all instruments, chattel paper, electronic chattel paper, documents, securities, moneys, cash, letters of credit, letter of credit rights, promissory notes, warrants, dividends, distributions, contracts, agreements, contract rights or other property, owned by Debtor or in which Debtor has an interest, including but not limited to, those which now or hereafter are in the possession or control of Secured Party or in transit by mail or carrier to or in the possession of any third party acting on behalf of Secured Party, without regard to whether Secured Party received the same in pledge, for safekeeping, as agent for collection or transmission or otherwise or whether Secured Party had conditionally released the same, and the proceeds thereof, all rights to payment from, and all claims against Secured Party, and any deposit accounts of Debtor with Secured Party, including all demand, time, savings, passbook or other accounts and all deposits therein; and

(c) all assets and all personal property now owned or hereafter acquired; all now owned and hereafter acquired inventory, equipment, fixtures, goods, accounts, chattel paper, documents, instruments, farm products, general intangibles, supporting obligations, software, and all rents, issues, profits, products and proceeds thereof, wherever any of the foregoing is located.

3. **DEFINITIONS:** Capitalized terms not otherwise defined in this Agreement shall have the meanings attributed thereto in the Reimbursement Agreement and in the applicable version of the Uniform Commercial Code adopted in the jurisdiction in the State of Indiana, as such definitions may be enlarged or expanded from time to time by legislative amendment thereto or judicial decision (the "Uniform Commercial Code"). As used herein, the following capitalized terms shall have the following meanings:

(a) "Accounts" means all accounts, accounts receivable, health-care insurance receivables, credit card receivables, contract rights, instruments, documents, chattel paper, tax refunds from federal, state or local governments and all obligations in any form including without limitation those arising out of the sale or lease of goods or the rendition of services by Debtor; all guaranties, letters of credit and other security and support obligations for any of the above; all merchandise returned to or reclaimed by Debtor; and all books and records (including computer programs, tapes and data processing software) evidencing an interest in or relating to the above; all winnings in a lottery or other game of chance operated by a governmental unit or person licensed to operate such game by a governmental unit and all rights to payment therefrom; and all "Accounts" as same is now or hereinafter defined in the Uniform Commercial Code.

(b) "Equipment" means all goods (excluding inventory, farm products or consumer goods), all machinery, machine tools, equipment, fixtures, office equipment, furniture, furnishings, motors, motor vehicles, tools, dies, parts, jigs, goods; (including, without limitation, each of the items of equipment set forth on any schedule which is either now or in the future attached to Secured Party's copy of this Agreement), and all attachments, accessories, accessions, replacements, substitutions, additions and improvements thereto, all supplies used or useful in connection therewith, and all "Equipment" as same is now or hereinafter defined in the Uniform Commercial Code.

*Highlighting added by the OUCC.*

1 **Q: Did these agreements impair ASU's ability to borrow money?**

2 **A:** Yes. ASU agreed it shall not sell, lease or encumber the collateral until this debt is paid.

3 Note K under the Debtor's Responsibilities portion of the security agreement located on

4 page 353 of Attachment SD-1 provides as follows:<sup>19</sup>

(k) Not sell, contract to sell, lease, encumber, or otherwise transfer the Collateral (other than inventory and obsolete or worn-out equipment) until the Obligations have been paid and performed, Debtor acknowledging nonetheless that Secured Party has a security interest in the proceeds of such Collateral; and

*Highlighting added by the OUCC.*

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<sup>19</sup> The security agreement refers to ASU as "Debtor."

1 **Q: Under the security agreement, were ASU's assets subject to forfeiture in the event of**  
2 **default?**

3 A: Yes. According to the document, in the event of a default by L 3, the lender acquired the  
4 right to take possession of and sell the collateral of ASU. Section 9, Remedies found on  
5 page 354 of Attachment SD-1, states the following rights of the lender in relation to the  
6 Collateral that ASU is encumbering:

**9. REMEDIES.** Upon the occurrence and until the waiver of an Event of Default, Secured Party may, without further notice to Debtor, at Secured Party's option, declare the Reimbursement Agreement, the Guaranty and all of the Obligations to become due and payable in its aggregate amount; provided that the Obligations shall be accelerated automatically and immediately if the Event of Default is a filing under the Bankruptcy Code. Secured Party may resort to the rights and remedies of a secured party under the Uniform Commercial Code, including but not limited to the right of a secured party to (a) enter any premises of Debtor, with or without legal process and take possession of the Collateral and remove it and any records pertaining thereto and/or remain on such premises and use it for the purpose of collecting, preparing and disposing of the Collateral; (b) ship, reclaim, recover, store, finish, maintain and repair the Collateral; and (c) sell the Collateral at public or private sale. Debtor will be credited with the net proceeds of any such sale only when they are actually received by Secured Party, and any requirement of reasonable notice of any disposition of the Collateral will be satisfied if such notice is sent to Debtor 10 days prior to such disposition. Debtor will, upon request, assemble the Collateral and any records pertaining thereto and make them available at a place designated by Secured Party. Secured Party may use, in connection with any assembly or disposition of the Collateral, any trademark, tradename, tradestyle, copyright, patent right, trade secret or technical process used or utilized by Debtor. No remedy set forth herein is exclusive of any other available remedy or remedies, but each is cumulative and in addition to every other remedy given under this Agreement, any of the Obligations, or now or hereafter existing at law or in equity or by statute. Secured Party may proceed to protect and enforce its rights by an action at law, in equity or by any other appropriate proceedings. No failure on the part of Secured Party to enforce any of the rights hereunder shall be deemed a waiver of such rights or of any Event of Default and no waiver of any Event of Default shall be deemed to be a waiver of any subsequent Event of Default.

*Highlighting added by the OUCC.*

**5. WARRANTIES AS TO THE COLLATERAL:**

Debtor hereby represents and warrants to Secured Party that:

- (a) Except for the security interest hereby granted, Debtor is, and as to any property which at any time forms a part of the Collateral, shall be, the sole owner of, with good and marketable title in, each and every item of the Collateral, or otherwise shall have the full right and power to grant a security interest in the Collateral, free from any lien, security interest or encumbrance whatsoever;
- (b) Each item of Collateral is, and shall be, valid, and all information furnished to Secured Party with regard thereto is, and shall be, accurate and correct in all respects when furnished;
- (c) None of the Collateral shall be sold, assigned, transferred, discounted, hypothecated or otherwise subjected to any lien, encumbrance or security interest, and Debtor shall defend such Collateral and each and every part thereof against all claims of all persons at any time claiming such Collateral or claiming any interest therein adverse to Secured Party; and
- (d) The provisions of this Agreement are sufficient to create in favor of Secured Party a valid and continuing lien on, and first security interest in, the types of Collateral in which a security interest may be perfected by the filing of UCC Financing Statements, and when such UCC Financing Statements are filed in the appropriate filing offices, and the requisite filing fees are paid, such filings shall be sufficient to perfect such security interests (other than Equipment affixed to real property so as to become fixtures).

1 **Q: Was the 2013 L 3 loan converted in 2017?**

2 A: Yes. In 2017 this \$6.5 million loan was converted by L 3 from a variable rate mode to a  
3 flex private placement mode, and the lender became Horizon Bank, which purchased the  
4 2013 Bond. At this time, Horizon Bank required L 3 Corp as the borrower to enter into a  
5 new credit agreement. (See page 8 of OUCC Attachment SD-3.).

6 **Q: Does ASU guarantee the debt on the \$6.5 Million 2017 Bond?**

7 A: Yes. The Continuing Guaranty Agreement for ASU is on page 43-52 of Attachment SD-3.  
8 ASU continues to guarantee L 3's debt. In the definition section for the \$6.5 Million bond,  
9 the following are still in the definitions (page 11 of Attachment SD-3):

*"Guarantor"* means each of American Suburban Utilities, First Time Development, and  
Lods.

*"Guaranties"* means each Unconditional Guaranty executed by a Guarantor in favor of  
the Bank, collectively, and each a "Guaranty."

*"Negative Pledge Agreement"* means the Negative Pledge Agreement in favor of the Bank, executed and delivered by American Suburban Utilities on December 1, 2017, as from time to time supplemented or amended.

1 **Q: Did the 2017 credit agreement combine the loans for ASU and L 3 for purposes of**  
2 **determining a loan to value ratio?**

3 A: Yes. As can be seen on page 29 of Attachment SD-3 (Credit Agreement, Section 9,  
4 Covenants, Section 9.6 "Loan to Value"), the Loan to Value section requires the total  
5 amount of all loans provided to L 3 (the borrower) and ASU, collectively, shall not exceed  
6 70% of the aggregate enterprise value of the L 3 and ASU.

Section 9.6. **Loan to Value.** The total amount of all loans provided to the Borrower and American Suburban Utilities, collectively, shall not exceed seventy percent (70%) of the aggregate Enterprise Value of the Borrower and American Suburban Utilities. As used herein, "Enterprise Value" shall mean the market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents for the business organization at issue.

*Highlighting added by the OUCC.*

7 **Q: Is ASU currently a guarantor for the benefit of L 3 in the 2017 L 3 bond documents?**

8 A: Yes. Specifically, the continuing guaranty agreement between ASU and Horizon Bank  
9 states that this loan is to be used to finance four separate sewer/wastewater projects in West  
10 Lafayette, that ASU is affiliated with L 3 and as such is directly benefited by this loan and  
11 is willing to offer guarantees to induce the lender to make the loan. It further states that  
12 ASU "absolutely and irrevocably guarantees" the full and prompt payment of these  
13 borrowings. (The Continuing Guaranty Agreement page 43 of Attachment SD-3):



### CONTINUING GUARANTY AGREEMENT

THIS CONTINUING GUARANTY AGREEMENT (the "Guaranty") made as of December 1, 2017, by and between American Suburban Utilities Inc, an Indiana corporation (the "Guarantor"), and Horizon Bank, an Indiana banking corporation (the "Beneficiary").

#### WITNESSETH

WHEREAS, on December 23, 2013, the Indiana Finance Authority (the "Issuer") issued its \$6,500,00 Adjustable Rate Demand Revenue Bonds, Series 2013 (L 3 Corp. Project) (the "Bonds") for the benefit of L 3 Corp., an Indiana corporation (the "Borrower"); such Bonds were issued pursuant to a Trust Indenture dated as of December 1, 2013 (the "2013 Indenture") by and between the Issuer and Regions Bank, as trustee (the "2013 Trustee"); and

WHEREAS, the proceeds derived from the issuance of the Bonds were lent to Borrower pursuant to a Loan Agreement dated as of December 1, 2013 between Issuer and Borrower (the "2013 Loan Agreement") and will be used to finance four separate sewer/wastewater projects in West Lafayette, Indiana; and

WHEREAS, the Bonds were originally publicly offered, and are now outstanding in an aggregate amount equal to \$6,500,000; and

WHEREAS, on the date hereof, Borrower is converting the Bonds from a Variable Rate Mode to a Flex Private Placement Mode, and has caused the 2013 Trustee to give notice of mandatory tender of the Bonds; and

WHEREAS, the Beneficiary has agreed to purchase the Bonds and, as a condition to such purchase of the Bonds, the Beneficiary has required that Borrower enter into the Credit Agreement dated as of December 1, 2017 between Borrower and Beneficiary, as amended or supplemented from time to time (the "Agreement"); and

WHEREAS, the Beneficiary has agreed, subject to certain terms and conditions, to extend additional credit and financial accommodations to Borrower, pursuant to the terms of the Agreement; and

WHEREAS, Guarantor is an entity affiliated with the Borrower and as such will be benefited directly by the credit and financial accommodations extended to the Borrower by Beneficiary, and is willing to execute this Guaranty in order to induce Beneficiary to extend such credit and accommodations.

NOW, THEREFORE, the Guarantor hereby guarantees, promises and undertakes as follows:

#### 1. THE GUARANTY.

(a). Guarantor hereby absolutely and irrevocably guarantees to Beneficiary (i) the full and prompt payment and performance when due of all present and future indebtedness|and

liabilities of the Borrower to Beneficiary of every kind, nature and character whatsoever, and the full and prompt payment when due of all amounts to which the Beneficiary is entitled pursuant to the terms of the Agreement and all extensions, renewals and refinancings thereof whether now outstanding or hereafter advanced, plus such further amounts sufficient to cover the costs and expenses of collection; and (ii) the full and timely performance and observance of all representations, obligations, covenants and agreements contained herein and in the Agreement and all amendments, restatements and renewals thereof. All of the above are collectively called the "Obligations"; provided, however, any Excluded Swap Obligations are specifically excluded from the Obligations.

*Highlighting added by the OUCC.*

1 **Q: Is there a negative covenant included as part of the continuing guaranty agreement**  
2 **by ASU on behalf of L 3?**

3 A: Yes. This negative covenant states that as long as any obligations of the borrower regarding  
4 multiple items remain, ASU may not incur any indebtedness without the bank consenting  
5 in writing (Please see page 47 of attachment SD-3).

4. **NEGATIVE COVENANTS.**

(a). For so long as any obligations of the Borrower in connection with the 2013 Bonds, 2013 Indenture, the Agreement, and the Obligations of Guarantor remain outstanding, the

Guarantor shall not, unless the Beneficiary otherwise consents in writing:

(i) Except for any Permitted Encumbrances, create, incur, assume, or permit to exist any Indebtedness except: (a) Indebtedness under this Agreement or permitted by this Agreement; (b) Indebtedness otherwise owing to the Beneficiary; (c) Indebtedness for trade debt incurred in the ordinary course of the Guarantor's business; or (d) to the extent and in the amounts existing on the date hereof, as disclosed in financial statements;

(ii) Guarantee or otherwise in any way be responsible for the indebtedness or obligations of any other person, contingently or otherwise, except, however, for the endorsement of negotiable instruments for collection by the Guarantor in the ordinary course of business; or

(iii) Make loans or advances to anyone or any entity, including, but not limited to, the officers, directors, or shareholders of the Guarantor.

*Highlighting added by the OUCC.*

1 **Q: Do the 2017 L 3 Loan documents allow ASU to secure additional debt without the**  
2 **banks consent?**

3 A: No. Other than some exceptions for short-term debt as described below, ASU is not  
4 permitted to borrow additional funds without the bank's written consent. Please see page  
5 30 of Attachment SD-3 (Credit Agreement, Section 9, Covenants, Section 9.13 "No Other  
6 Debt").

Section 9.13. **No Other Debt.** Neither the Borrower nor American Suburban Utilities shall incur any indebtedness (secured or unsecured) without the Bank's written consent, other than the Loans, short term unsecured indebtedness incurred in the ordinary course of business, which indebtedness may not be evidenced by a note, may not be outstanding for more than sixty (60) days and may not exceed \$500,000 in the aggregate. In addition, neither the Borrower nor American Suburban Utilities shall grant a mortgage to any third party without the prior written consent of the Bank.

*Highlighting added by the OUCC.*

7 **Q: Does the 2017 bond include a negative pledge agreement by ASU?**

8 A: Yes.

9 **Q: Was a negative pledge agreement entered into by ASU as part of the 2017 L 3 bonds?**

10 A: Yes. A negative pledge agreement prevents a borrower from pledging any assets if  
11 doing so would jeopardize the lender's security. When a bond indenture includes a  
12 negative pledge clause, it prevents the bond issuer from taking on future debt that could  
13 compromise its ability to meet obligations to existing bondholders. A negative pledge  
14 clause also limits the likelihood that a particular asset will be pledged more than once,  
15 preventing conflict over which lending institution has the right to the asset if the  
16 borrower defaults. On pages 87-93 of OUCC Attachment SD-3, ASU pledges not to  
17 transfer or grant a lien on any of the property described without the written consent of the  
18 bank. The negative pledge agreement included an explanation that the bank would have

1           been unwilling to make this loan to L 3 without the negative pledge agreement from ASU.  
2           The property described is County Home WWTP and Carriage Estates WWTP.<sup>20</sup>

#### NEGATIVE PLEDGE AGREEMENT

THIS NEGATIVE PLEDGE AGREEMENT (as amended from time to time, this "Agreement") dated as of the 1<sup>st</sup> day of December, 2017, by American Suburban Utilities Inc (the "Company") in favor of HORIZON BANK, an Indiana state-chartered commercial bank (the "Bank").

#### WITNESSETH:

WHEREAS, L 3 Corp. (the "Borrower") and the Bank have entered into a certain Credit Agreement dated December 1, 2017 (as amended from time to time, the "Credit Agreement"), pursuant to which, subject to the terms and conditions set forth therein, the Bank has agreed to make the Loans (as defined in the Credit Agreement) to Borrower; and

WHEREAS, the Company is the record and beneficial owner of the real property set forth and described on Exhibit A attached hereto, together with all buildings, structures and improvements thereon (the "Property"); and

WHEREAS, as a condition to the Bank's obligation to provide the Loans, Company entered into a Continuing Guaranty Agreement dated December 1, 2017 (the "Guaranty"), pursuant to which Company guaranteed to the Bank the full and prompt payment and fulfillment of all of Borrower's Obligations (as such term is defined in the Guaranty); and

WHEREAS, another condition to the Bank's obligation to provide the Loans is the Company's execution and delivery to the Bank of this Agreement with respect to the Property; and

WHEREAS, the Bank would be unwilling to provide the Loans in the absence of the execution and delivery of this Agreement by the Company.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. *Negative Pledge.*

(a) So long as (i) the Loans remain outstanding, (ii) any other Obligations (as such term is defined in the Guaranty) are unpaid, unperformed, or outstanding, or (iii) any commitment of the Bank to extend credit is in effect, the Company hereby covenants and agrees with the Bank that, except for Permitted Encumbrances (as defined herein): (a) it will not assign, transfer or convey any of the Property; (b) it will not pledge, assign or grant a security interest in, or lien on, any of the Property, or grant any deed of trust or mortgage lien with respect to the Property, with any person or entity other than Bank without the express prior written consent of Bank, in each such instance; (c) any assignment, transfer, conveyance, pledge, grant of security interest in, or lien on, any of the Property, or grant of any deed of trust or mortgage lien with respect to the Property shall be void and of no force and effect; and (d) if the Company shall breach the covenants set forth in (a) or (b) above, such breach shall be an Event of Default under the Credit Agreement and the Guaranty, and the Bank shall be entitled to cause: (i) the Loans, at

*Highlighting added by the OUCC.*

1 **Q: Did ASU claim that ASU's assets are not encumbered by any other entity's debt?**

2 A: Yes. In OUCC Data Request 6-8, the OUCC asked ASU to identify all loans of ASU or  
3 any other person or entity that encumbers any assets of ASU. ASU's response indicated  
4 that "other than the loan evidenced by the financing approved in Cause No. 44700" there  
5 were none. (The Response to OUCC Data Request 6-8 is included in OUCC Attachment  
6 SD-9.)

7 **Q: Are the assets of ASU encumbered by the \$6,500,000 or \$2,820,000 L 3 loan in 2017?**

A: Yes. For example, in the Continuing Guaranty Agreement, ASU guaranteed the payments  
of the debt "absolutely and irrevocably."<sup>21</sup> In the Negative Pledge Agreement, ASU  
encumbered its assets by agreeing "it will not assign, transfer or convey any of the property,  
and it will not pledge, assign or grant a security interest in, or lien on, any of the property"  
without the express prior written consent of the bank.<sup>22</sup> ASU also agreed it cannot incur  
any additional indebtedness, unless the bank agrees in writing.<sup>23</sup>

**F. The Lender required reporting from ASU.**

8 **Q: Did the lender (Horizon Bank) appear to consider this loan to L 3 to functionally be**  
9 **a loan to ASU?**

10 A: Yes. Though the loans described in the 2017 L 3 Bond Transcripts are nominally loans to  
11 L 3, the Lender (Horizon Bank) required audited financial statements from ASU as well as  
12 combined financial statements for ASU and L 3. Similarly, with respect to the 2017 ASU

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<sup>21</sup> See the Continuing Guaranty Agreement in OUCC Attachment SD-3, page 43.

<sup>22</sup> See the Negative Pledge Agreement in OUCC Attachment SD-3, page 87.

<sup>23</sup> See the Continuing Guaranty Agreement in OUCC Attachment SD-3, page 47-48 (Section 4).

1 Bond, Horizon Bank required information on L 3, and combined financial statements on  
2 ASU and L 3. The lender seemingly views both entities as in essence one and the same  
3 from a financing standpoint. The level of information required on the loan to L 3 even  
4 extended to ASU's operations, as Horizon Bank also required "quarterly reports  
5 evidencing customer counts and effluent test results of each of the Borrower [L 3] and  
6 American Suburban Utilities" (page 28 of 356, 2017 L 3 Bond transcript, Attachment  
7 SD-3).

8 Section 9.4. General and Financial Reporting. The Borrower and all  
9 Guarantors shall furnish to the Bank and its duly authorized  
10 representatives such information respecting the business and financial  
11 condition of the Borrower and all Guarantors as the Bank may reasonably  
12 request; and without any request, shall furnish to the Bank:

13 (a) no later than forty-five (45) days following the end of each calendar  
14 quarter:

- 15 (i) the unaudited quarterly company prepared Financial Statements  
16 of the Borrower and American Suburban Utilities, prepared on  
17 a cash basis, and certified as true and correct by the applicable  
18 Chief Financial Officer of Borrower and American Suburban  
19 Utilities, respectively; and  
20 (ii) quarterly reports evidencing customer counts and effluent test  
21 results of each of the Borrower and American Suburban  
22 Utilities in form reasonably satisfactory to the Bank;

23 (b) no later than ninety (90) days following the end of each fiscal year:

- 24 (i) unaudited annual company prepared Financial Statements of the  
25 Borrower and American Suburban Utilities, with respect to the  
26 combined financials of the Borrower and American Suburban  
27 Utilities, certified as true and correct by the applicable Chief  
28 Financial Officer of Borrower and American Suburban Utilities,  
29 respectively;  
30 (ii) unaudited annual company prepared Financial Statements of First  
31 Time Development, certified as true and correct by the applicable Chief  
32 Financial Officer of First Time Development;  
33 (iii) audited annual Financial Statements of the Borrower; and  
34 (iv) audited annual Financial Statements of American Suburban  
35 Utilities;

1 (c) within thirty (30) days following filing, the annual tax returns  
2 (including actual and all K1 schedules) of each of the Borrower,  
3 American Suburban Utilities, First Time Development and Lods;  
4 provided, that, should a request for any extension with a taxing  
5 agency be filed, copies of such annual tax returns shall be due within  
6 thirty (30) days following the filing in accordance with any such  
7 extended deadline;  
8

9 *Highlighting by the OUCC*

10 The similar reporting requirements for the \$5.1 million ASU bond from 2017 is as follows  
11 (page 122 of Bond transcript, Attachment SD-2):

12 d. The Borrower and all Guarantors shall furnish to the Purchaser and its duly  
13 authorized representatives such information respecting the business and  
14 financial condition of the Borrower and all Guarantors as the Purchaser may  
15 reasonably request; and without any request, shall furnish to the Purchaser:

16 i. no later than forty-five (45) days following the end of each calendar quarter:

17 i. the unaudited quarterly company prepared Financial  
18 Statements of the Borrower and L 3, prepared on a cash basis,  
19 and certified as true and correct by the applicable Chief  
20 Financial Officer of Borrower and L 3, respectively; and

21 ii. quarterly reports evidencing customer counts and effluent test results  
22 of each of the Borrower and L 3 in form reasonably satisfactory to the  
23 Purchaser;

24 ii. no later than ninety (90) days following the end of each fiscal year:

25 1. unaudited annual company prepared Financial Statements of the  
26 Borrower and L 3, with respect to the combined financials of the  
27 Borrower and L 3, certified as true and correct by the applicable Chief  
28 Financial Officer of Borrower and L 3, respectively;

29 2. unaudited annual company prepared Financial Statements of First  
30 Time Development, certified as true and correct by the applicable  
31 Chief Financial Officer of First Time Development;

32 3. audited annual Financial Statements of the Borrower; and

33 4. audited annual Financial Statements of L 3;

1           iii. within thirty (30) days following filing, the annual tax returns (including  
2           actual and all K1 schedules) of each of the Borrower, L 3, First Time  
3           Development and Lods; provided, that, should a request for any extension  
4           with a taxing agency be filed, copies of such annual tax returns shall be  
5           due within thirty (30) days following the filing in accordance with any  
6           such extended deadline;

7                           *Highlighting by the OUCC*

8   **Q: Did the OUCC request the annual reporting documents required by the lender?**

9   A: Yes. The OUCC requested all the annual reporting requirements as provided for in the  
10 order for Cause No. 44676/44700, first as informal requests prior to the filing of the  
11 case, and then in discovery questions and responses included as OUCC Attachment  
12 SD-9. I previously discussed the discovery responses regarding the components of the  
13 \$12,710,000 of L 3 loans. However, distinct from these questions, I also asked  
14 discovery regarding the combined financial statements required by the lender. In its  
15 response to OUCC Data Request 4-1(c), ASU stated that there are no combined  
16 financial statements of L 3 and ASU. In follow-up discovery (Data Request 6-3), ASU  
17 stated that the Commission's order requiring these reports was based on a term sheet  
18 proposal from 2015, although the letter included in this attachment (originally  
19 provided as Attachment JRS-4, p.3 in Cause No. 44700 is addressed to Scott L. Lods,  
20 L 3 Corp, and American Suburban Utilities, and no reference to this term sheet was  
21 made in the Commission's order. In response to OUCC Data Request 6-5, ASU further  
22 stated that these requirements (the combined financial statements of L 3 and ASU)  
23 were an "oversight," and the concept of combined financial statements is "not  
24 applicable to L 3 and ASU". However, ASU's response to OUCC Data Request 6-6



1 stated that Mr. Lods and ASU employee Ms. Neal prepared documents utilizing the  
2 audited (or unaudited) financial statements for ASU and L 3 and they “combined” the  
3 line items into a total. These documents were submitted to the lender. Attachment Data  
4 Request 6-6 was marked confidential and is included as OUCC Attachment SD-8  
5 (Confidential). I discuss this document in more detail below.

**G. ASU’s Weighted Average Cost of Capital is weighted toward debt.**

6 **Q: What amount of debt on L 3’s books should be considered debt of ASU?**

7 A: According to ASU’s unaudited financial statements from 2020, as of December 31,  
8 2020, L 3 Loans total \$12,710,000.<sup>24</sup> Although we do not have information on a  
9 portion of the loan balance (\$3,390,000), it is reasonable to conclude the entire amount  
10 was borrowed for the benefit of ASU’s operations. The balances provided in the  
11 audited (2017-2019) or unaudited (2020) statements of ASU seem to bear this out.  
12 There would be no reason for the auditor to clarify this amount of debt outstanding if  
13 it did not apply to ASU. No other numbers regarding debt or balance sheet items were  
14 included in the audit for any other affiliate.

15 **Q: Ultimately, what impact does this have on the capital structure?**

16 A: ASU has provided guarantees for the loans and provides cash for debt service on the  
17 loans through dividend payments to Scott Lods. Although I have detail on only  
18 \$9,320,000 of the debt, I suggest the entirety of the \$12,710,000 of L 3 debt  
19 outstanding described in ASU’s 2020 unaudited financial statements should be

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<sup>24</sup> Per the unaudited financial statements for ASU in 2020, OUCC Attachment SD-7, Note F “Related Parties”, “L 3 Corporations Transactions”, page 14 of 19.

1 counted as debt of ASU and should therefore replace equity. The Capital Structure  
2 should be adjusted as shown in the table below:

**Table 2**

	<u>Proposed by Applicant</u>	<u>Percentage</u>	<u>Adjusted by OUCC</u>	<u>Percentage</u>
Debt	\$ 5,100,000	23.72%	\$ 17,810,000	82.83%
Equity	<u>\$ 16,401,918</u>	76.28%	<u>\$ 3,691,918</u>	17.17%
Total	\$ 21,501,918		\$ 21,501,918	

3 **Q: Do you agree with the cost of debt proposed by ASU?**

4 A: No. The L 3 loans have adjustable interest rates, but the most recent data we have is that  
5 the rates ranged from 1.28%-4.25%. I do not know whether this range represents the  
6 interest rate for various loans at a specific moment in time, or the average interest expense  
7 by month as a range. I propose to use the midway point of these numbers as the  
8 representative interest rate for the \$12,710,000 of total debt for L 3/ASU, or 2.77%.  
9 Combined with the existing \$5,100,000 of debt, this results in a weighted interest cost of  
10 3.305%.

**Table 3**

	<u>Amount</u>	<u>Interest Rate</u>	<u>Interest Cost</u>	<u>Interest Rate</u>
Debt-ASU	\$ 5,100,000.00	4.65%	\$ 237,150.00	
Debt-L3	<u>\$ 12,710,000.00</u>	2.77%	<u>\$ 351,431.50</u>	
Total	\$ 17,810,000.00		\$ 588,581.50	3.305%

11 **Q: What is the Weighted Average Cost of Capital based on 82.8% debt and 17.2%**  
12 **equity?**

13 A: Based on a capital structure of 82.8% debt and 17.2% equity, a cost of equity of 9.75% and  
14 a cost of debt of 3.305%, ASU's weighted average cost of capital considering only debt  
15 and equity is 4.41%

**Table 4**

	<u>Adjusted by OUCC</u>	<u>Percentage</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	\$ 17,810,000	82.830%	3.30%	2.74%
Equity	<u>\$ 3,691,918</u>	17.170%	9.75%	<u>1.67%</u>
Total	\$ 21,501,918			4.41%

1 **Q: Are there any other adjustments that should be made to the capital structure?**

2 A: Yes. OUCC witness Margaret Stull has determined a portion of the assets are zero cost  
3 accumulated deferred income taxes. The WACC should incorporate this source of capital  
4 as well. Please see Ms. Stull's testimony for a discussion of this asset.

**Table 5**

	<u>Proposed by Applicant</u>	<u>Percentage</u>	<u>Adjusted by OUCC</u>	<u>Percentage</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	\$ 5,100,000	23.72%	\$ 17,810,000	80.90%	3.30%	2.67%
Equity	\$ 16,401,918	76.28%	\$ 3,691,918	16.77%	9.75%	1.64%
Accumulated Deferred Income Taxes	<u>\$ -</u>		<u>\$ 511,744</u>	2.32%	0.00%	<u>0.00%</u>
Total	\$ 21,501,918		\$ 22,013,662			4.31%

5 **Q: What is your final proposed WACC?**

6 A: 4.31%.

**H. Effect of inaccurate capital structure on existing rates**

7 **Q: For how long has ASU's weighted average cost of capital been overstated?**

8 A: ASU's capital structure and weighted average cost of capital should have reflected the  
9 encumbering of ASU's assets with L 3 debt in the November 30, 2016, final order in Cause  
10 Nos. 44676/44700. During the pendency of that case, ASU had already guaranteed  
11 payment of the 2013 Loan of \$6.5 million to L 3. Also in existence was a loan of \$2.35  
12 million from 2004 (Page 24-25 and page 134 of 2017 L 3 Bond Transcript, Attachment

1 SD-3), and a loan of \$470,000 from 2002 (Page 24 of 2017 L 3 Bond Transcript,  
2 Attachment SD-3). Therefore, there were at least \$9.32 million in loans to L 3 at that time.  
3 Nonetheless, the capital structure in that cause was set at 33.27% debt and 66.73% common  
4 equity. I found nothing in the record of that case indicating ASU had secured its capital by  
5 guaranteeing repayment of L 3 debt. It is only by happenstance that I learned of the loans  
6 to L 3, through bond documents only, which were not provided to the OUCC by ASU but  
7 were obtained by the OUCC as public documents from the Indiana Finance Authority. The  
8 capital structure used in the order in Cause No. 44676/44700 is below:

<u>Class of Capital</u>	<u>Pro Forma Amount</u>	<u>% of Total</u>	<u>(%) Cost</u>	<u>Weighted Cost</u>
Long-term debt (as authorized herein)	\$5,100,000	33.27%	5.91%	1.97%
Common equity (as of March 31, 2015)	<u>10,230,394</u>	<u>66.73%</u>	9.50%	<u>6.34%</u>
Total	<u>\$15,330,394</u>	<u>100.00%</u>		<u>8.31%</u>

9 **Q: How would the \$9.32 million of debt have been reflected in ASU's capital structure in**  
10 **the last rate case?**

11 A: If the \$9.32 million of debt had been recognized as debt in ASU's capital structure, then  
12 the capital structure would have been 94% debt to 6% equity:

**Table 6**

<u>2016 Order 44676/44700</u>	<u>Amount</u>	<u>% of Total</u>
ASU Debt	\$ 5,100,000	
L 3 Debt	\$ 9,320,000	
Adjusted Debt (Sum of ASU and L 3 Debt)	\$ 14,420,000	94.1%
Equity	<u>\$ 910,394</u>	5.9%
Total	\$ 15,330,394	

1 **Q: What would have been ASU's Weighted Average Cost of Capital if the debt in**  
2 **existence at that time had been recognized as ASU's debt for ratemaking purposes?**

3 A: We do not have enough information at this time to answer the question precisely because  
4 we don't have any interest expense estimates for 2016. However, we do have interest  
5 expense estimates for 2017 based on ASU's 2017 audited financial statements. As interest  
6 rates were generally higher in 2017 than in 2016, rates based on 2016 interest rates should  
7 be no higher than rates based on 2017 interest rates. The range of interest rates on L 3 debt  
8 in 2017 was between 2.21% and 2.97%.<sup>25</sup> If we use the average of the interest rates  
9 provided by ASU for L 3 debt in 2017, that results in an interest rate of 2.59% (the average  
10 of 2.21% and 2.91%). In the final order in Cause Nos. 44676/44700, the cost of debt was  
11 set at 5.91% subject to true-up and the actual cost of debt was ultimately reported as  
12 4.65%.<sup>26</sup> Using those rates, the WACC would have been 3.69% instead of 8.31%:

**Table 7**

2016 Order 44676/44700	Amount	% of Total	Cost	Weighted Cost
ASU Debt	\$ 5,100,000	33.3%	4.65%	1.55%
L 3 Debt	\$ 9,320,000	60.8%	2.59%	1.57%
Adjusted Debt (Sum of ASU and L 3 Debt)	\$ 14,420,000			
Equity	\$ 910,394	5.9%	9.50%	0.56%
Total	\$ 15,330,394			3.69%

13 This WACC should have been applied to rate base since the final order in Cause Nos.  
14 44676/44700. Simply by treating the \$9,320,000 borrowed at a cost of 2.59% as a

<sup>25</sup> From the audited financial statements for ASU, Note F-Related Parties, L3 Corporations Transactions, submitted to the Commission under Cause No. 44676/44700 dated 11/13/2018.

<sup>26</sup> Submission of financing report for Cause No. 44676/44700 dated 12/28/17

1       \$9,320,000 equity infusion at a cost of 9.5%, ASU has burdened its captive ratepayers with  
2       an additional \$644,012 annual revenue requirement.<sup>27</sup>

3               (Note: Table 7 is based on L 3 having debt of \$9.32 million. If the actual debt L 3  
4       owed was \$12.3 million, as reflected in the 2017 audited financial statements of ASU (see  
5       OUCC Attachment SD-4, note F, page 14 of 19), then the capital structure would have had  
6       a negative equity balance in 2016.)

#### IV. DISCUSSION OF CONFIDENTIAL DOCUMENTS

7       **Q: What information did ASU provide about L 3's and ASU's combined financials?**

8       A: OUCC Data Request 6-6 asked ASU whether Horizon Bank ever received combined  
9       financial statements of L 3 and ASU, and if not, why not. ASU responded by objecting to  
10       providing financial information about L 3, which it considered irrelevant. ASU also  
11       objected to the extent it called for confidential information. However, ASU responded by  
12       providing a confidential document and explained that Mr. Lods and another employee  
13       prepared documents showing the audited financial information for ASU and L 3 and they  
14       “combined” the line items into a total, which was submitted to the bank but were never  
15       certified by anyone:

16               ASU has not ever provided audited or reviewed or certified combined  
17       financial statements of L3 and ASU. ASU has provided audited or reviewed  
18       financial statements, and L3 has provided audited or reviewed financial  
19       statements. Mr. Lods and ASU employee Toni Neal have prepared  
20       documents showing the audited financial information for ASU and L3 and  
21       they “combined” the line items into a total. These were submitted to the  
22       bank but were never certified by anyone. The combination of ASU values  
23       with L3 values has neither been audited, reviewed, nor compiled by a  
24       certified public accountant. Nevertheless, they are provided herewith  
25       pursuant to the nondisclosure agreement between the parties.

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<sup>27</sup> 9.5% (ROE for ASU) - 2.59% (Cost of Debt for the \$9,320,000)=6.91% times \$9,320,000=\$644,012.

1 I have provided the documents referenced as confidential OUCC Attachment SD-8.

2 **Q: What is in the confidential document ASU provided?**

3 A: The confidential documents appear to be the "combined" financial statements required by  
4 Horizon Bank as part of the financing for the \$5.1 million in borrowings for ASU in 2017  
5 and for the \$6.5 million in borrowings for L 3 in 2017. <CONFIDENTIAL> [REDACTED]

6 [REDACTED] <CONFIDENTIAL>

7 **Q:** <CONFIDENTIAL> [REDACTED] <CONFIDENTIAL>

8 A: <CONFIDENTIAL> [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED] <CONFIDENTIAL>

12 **Q:** <CONFIDENTIAL> [REDACTED] <CONFIDENTIAL>

13 A: <CONFIDENTIAL> [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED] <CONFIDENTIAL>

19 **Q:** <CONFIDENTIAL> [REDACTED] <CONFIDENTIAL>

20 A: <CONFIDENTIAL> [REDACTED]

21 [REDACTED]

22 [REDACTED]

1 [REDACTED] <CONFIDENTIAL> (ASU's audited financial statements indicate L  
2 3 collects Management Fees from another affiliate of ASU, First Time Development.)

3 <CONFIDENTIAL> [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED] <CONFIDENTIAL>

18 Q: <CONFIDENTIAL> [REDACTED]

19 [REDACTED] <CONFIDENTIAL>

20 A: <CONFIDNEITAL> [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]



1 [REDACTED]  
2 [REDACTED] <CONFIDENTIAL><sup>28</sup>  
3 Q: <CONFIDENTIAL> [REDACTED] <CONFIDENTIAL>  
4 A: <CONFIDENTIAL> [REDACTED]  
5 [REDACTED]  
6 [REDACTED]  
7 [REDACTED]  
8 [REDACTED]  
9 [REDACTED]  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED] <CONFIDENTIAL>

<CONFIDENTIAL> **Table 8** <CONFIDENTIAL>

[REDACTED]

<CONFIDENTIAL> **Table 9** <CONFIDENTIAL>

[REDACTED]

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<sup>28</sup> <CONFIDENTIAL> [REDACTED] <CONFIDENTIAL>

**V. RETURN ON EQUITY**

1 **Q: Please describe ASU's proposed Return on Equity ("ROE").**

2 A: ASU requests 12% for its ROE.

3 **Q: Did ASU's application include any support for its requested 12% ROE?**

4 A: No.

5 **Q: Do you agree that a 12% ROE is appropriate?**

6 A: No. ASU's ROE is excessive and inconsistent with other utilities' ROEs in Indiana. In  
7 determining what ROE would be appropriate for ASU, I have looked at other recent cases  
8 in which the Commission has issued orders in that involved an ROE. I also considered the  
9 ROE the Commission set for ASU in its last rate case in light of circumstances that have  
10 changed since that case.

11 **Q: What ROE's have been determined in Indiana recently?**

12 A: Over the past three years (Orders dated 2019, 2020, 2021), the Commission issued three  
13 final orders that included a determination of ROEs for wastewater or water/wastewater  
14 utilities in Indiana.<sup>29</sup> The following table includes the cause and approved ROE.

**Table 10**

<u>Utility</u>	<u>Date of Order</u>	<u>Cause No.</u>	<u>ROE</u>
Indiana American	June-19	45142	9.80%
Aqua Indiana	May-20	45314-U	9.80%
LMH	July-20	45307-U	9.00%
Average			• 9.53%
Range			9.0%-9.8%

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<sup>29</sup> Reviewing the list of jurisdictional wastewater and water/wastewater utilities on the Commission website, and then reviewing the last rate case for each IOU listed. Only cases with an order date since Jan 1, 2019, are included.

1 **Q: What is the average of these ROE's?**

2 A: The average of the above numbers is 9.53% The range is 9%-9.8%.

3 **Q: What is the current ROE for ASU?**

4 A: ASU's ROE is 9.5%, which was approved by the Commission in its order in Cause No.  
5 44676/44700, dated Nov 30, 2016.

6 **Q: What was the situation for ASU and for interest rates generally at the time this ROE**  
7 **was set?**

8 A: At the time of its last rate order,<sup>30</sup> ASU had revenues of \$3,250,758,<sup>31</sup> an asserted capital  
9 structure of 33.27% debt and 66.73% equity,<sup>32</sup> and external risk-free interest rates of 2.37%  
10 (using the 10-year treasury as a proxy for the risk-free rate.)

11 **Q: How have conditions changed since ASU's ROE was last set?**

12 A: ASU's proposed revenues are \$7,272,160, which is more than twice the revenues used in  
13 ASU's last rate order. ASU asserts it has a capital structure of 23.7% debt and 76.3%  
14 equity. All things being equal, higher revenues would generally lead to a slightly lower  
15 ROE,<sup>33</sup> and a less leveraged and higher percentage equity in capital structure would also  
16 tend to lead to a lower ROE. The 10-year treasury rate was 1.71%. A lower interest rate  
17 would generally lead to a lower ROE.<sup>34</sup> Volatility in the bond markets has been extreme  
18 since ASU filed this cause, and interest rates were 1.43% when the case was initially filed

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<sup>30</sup> As of the end of the test year for this cause, or March 31, 2015. Interest rates are as of the date of the order, or November 30, 2016.

<sup>31</sup> Phase 1 Proposed Rates, Operating Revenues. Cause 44676/44700 Order, page 39.

<sup>32</sup> Ibid, page 35

<sup>33</sup> As of the end of the test year December 31, 2020 (Application, "Total Wastewater Operating Revenues), revenues were \$4,417,618. Additional requested revenues of \$2,108,884 would total \$7,272,160.

1 (November 30, 2021), 1.71% when it was considered complete (January 5, 2022) and  
2 2.32% on March 31, 2022, so broadly interest rates are equivalent to what they were at the  
3 time of the last ROE determination. ASU currently has more revenues since its last rate  
4 case, interest rates are similar as of the end of the first quarter, and the requested capital  
5 structure is less leveraged. Together, these things indicate there should be no increase to  
6 ASU's ROE, and that the ROE should be slightly lower than the last determination. I would  
7 propose a ROE of 9.25% under these circumstances.

8 **Q: How is an ROE affected by a more leveraged capital structure?**

9 A: Theoretically, a more leveraged capital structure should result in a higher ROE than a less  
10 leveraged capital structure. An ROE is meant to compensate an investor for risk. A more  
11 leveraged capital structure (i.e., higher percentage of debt) is inherently riskier than a less  
12 leveraged capital structure, therefore ROEs should be higher. Although in reality, the  
13 capital structure is less leveraged today than it was in 2016. As has been shown above, the  
14 capital structure is significantly more leveraged than we *believed* it was in 2016. Therefore,  
15 looking at the capital structure we believed was in place in 2016, and the ROE that was  
16 based on that capital structure of 9.5%, it is reasonable to state the current OUCC proposal  
17 is for a more leveraged capital structure (less equity in the capital structure). To reiterate,  
18 the amount of equity in the OUCC proposal is 17% as opposed to the 67% used in ASU's  
19 2016 rates. Therefore, all things being equal this leveraging of the capital structure should  
20 increase the ROE by some amount. I assumed a 50-basis point increase for this additional  
21 leverage based on the percentage of equity and debt in the capital structure resulting from  
22 incorporating L 3 debts into ASU's capital structure as discussed previously. This results  
23 in a higher ROE of 9.75%.

1 **Q: Should ASU receive a higher rate of return because of IDEM fines and because ASU**  
2 **was required to issue a refund in the Cause No. 44676-S1 subdocket?**

3 A: No. A Utility should not be rewarded with a higher profit for its shareholders due to its  
4 taking actions that unnecessarily expose the utility to risk. The ROE is meant to compensate  
5 a utility for risks run in the normal course of business, and there is nothing that has occurred  
6 in this context that I consider justifies ASU to have a higher rate of return. Moreover, the  
7 Commission may exercise its discretion to set ROE's based on the considerations it  
8 described in Cause No. 43526, and recently cited in Cause No. 45253 "The Commission  
9 has a unique role in regulating its jurisdictional utilities, which at times requires us to send  
10 a clear and direct message to utility management concerning the need for improvement in  
11 the provision of its utility service. Our determination of the authorized cost of common  
12 equity capital can be a very direct means to incent improved service".

13 **Q: What is your recommended ROE?**

14 A: If ASU is found to have a capital structure that is 17% equity, 81% debt, and 2%  
15 accumulated deferred income taxes, I recommend an ROE of 9.75%. If the Commission  
16 considers ASU to have a capital structure that is predominantly equity, the Commission  
17 should reflect that less leveraged capital structure with a significantly lower ROE.

## **VI. SUMMARY OF RECOMMENDATIONS**

18 **Q: Please summarize your recommendations to the Commission in this Cause.**

19 A: I recommend the Commission find ASU's capital structure consists of 81% debt, 17%  
20 equity and 2% accumulated deferred income taxes.

21 I recommend that based on that capital structure, the Commission find that ASU has a  
22 weighted average cost of capital of 4.31%.

1 I recommend the Commission require ASU to make L 3' cost of debt transparent.

2 I recommend the Commission require ASU to file a cause seeking permission to  
3 encumber its assets with respect to L 3's borrowings.

4 **Q: Does this conclude your testimony?**

5 **A: Yes.**

## **Appendix A**

1 **Q: Please describe your educational background.**

2 A: I graduated from Indiana University with a degree in Biology, a minor in Economics and  
3 a certificate from the Liberal Arts and Management Program (LAMP), which is an honors  
4 certificate program through the Kelley School of Business and the College of Arts and  
5 Sciences that at the time was restricted to twenty-five (25) students per year. I received my  
6 MBA from Indiana University with a concentration in finance. I am a member of Phi Beta  
7 Kappa honor society for my undergraduate studies and Beta Gamma Sigma honor society  
8 for my masters program. Although not specifically related to my educational background,  
9 I have been a member of Mensa for a number of years.

10 **Q: Please describe your work experience.**

11 A: My first jobs after graduating with my undergraduate degree were in New York in finance  
12 at Grant's Interest Rate Observer, which is a financial newsletter and Lebenthal and Co.,  
13 which was a municipal bond brokerage. I worked at RCI Sales in Indianapolis, which was  
14 a manufacturer's representative/distributor in the commercial and institutional plumbing  
15 space, as the owner for a number of years, leaving when I sold the company and merged it  
16 into a competitor. After receiving my MBA, I worked at Amazon as a financial analyst in  
17 their fulfillment division.

18 **Q: How long have you been at the OUCC?**

19 A: I have been a Utility Analyst II in the water division at the OUCC since December of 2019.  
20 My focus is financial issues, such as ROE's, capital structures, etc.

21 **Q: Have you previously testified before the Indiana Utility Regulatory Commission**  
22 **("IURC")?**

23 A: Yes, I have testified before the IURC regarding various aspects of finance.

## **Appendix B**

<b>Attachment</b>	<b>Description</b>
SD-1	Bond Transcript 2013 L 3 Bond, \$6,500,000
SD-2	Bond Transcript 2017 L 3 Bond, \$6,500,000 and L 3 Term Loan, \$2,820,000
SD-3	Bond Transcript 2017 ASU Bond, \$5,100,000
SD-4	Audited Financial Statements-ASU 2017 (1)
SD-5	Audited Financial Statements-ASU 2018 (1)
SD-6	Audited Financial Statements-ASU 2019 (1)
SD-7	Unaudited Financial Statements-ASU 2020 (1)
SD-8	Confidential Attachment, Data Response 6-6
SD-9	Discovery Responses 4, 6, 11 (Finance Only)
SD-10	Discovery Response DR-10 (Confidential)
SD-11	Attachment JRS-4
SD-12	Financing Report, ASU \$5.1 Million Loan, December 28, 2017.
SD-13	Dividends and GL 2020

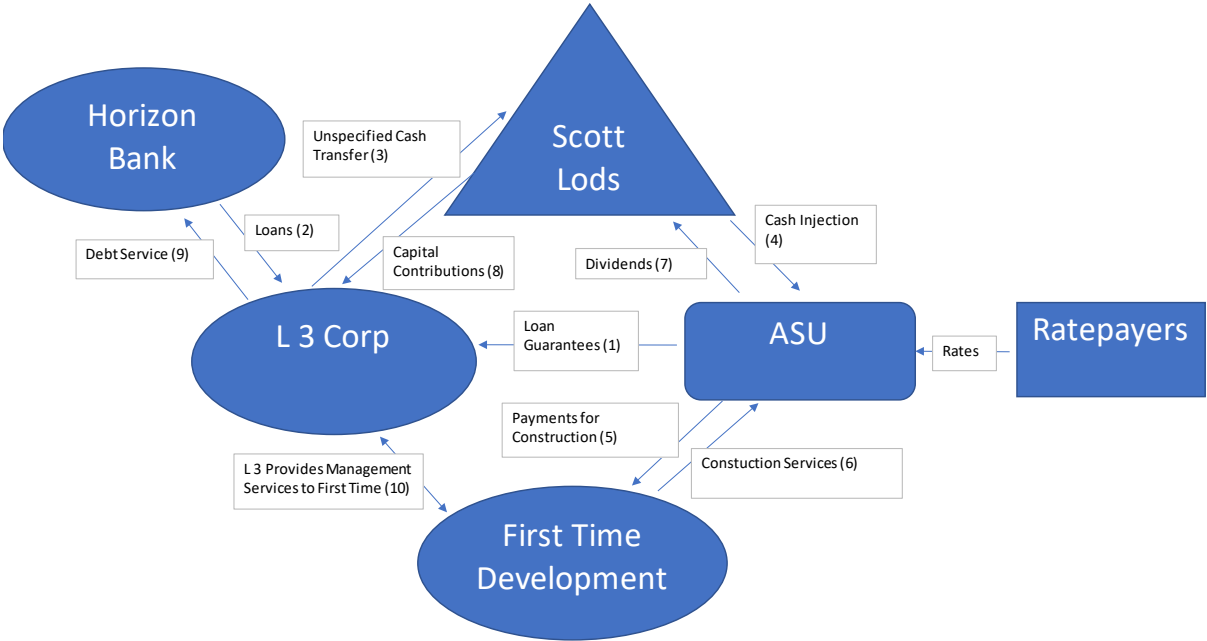
(1) These documents are provided for convenience. They were submitted by ASU as follows:

2017	11/13/2018	Cause 44676/44700 Submission of Audited Financial Statements
2018	12/21/2021	Cause 45649-U Amended Application Part 5 of 5, 1E Attachment 1
2019	12/21/2021	Cause 45649-U Amended Application Part 5 of 5, 1E Attachment 2
2020	12/22/2021	Cause 45649-U Submission of Supplemental Information for Addenda to Application



**Appendix C**

Summary of cash flows and selected activities among affiliates for construction projects for ASU



Sources:

- |   |                       |
|---|-----------------------|
| 1 Bond Transcript-L 3 2017, ASU Audited Financial Statement-2017, Note F  | Attachment SD-3, SD-4 |
| 2 Bond Transcript-L 3 2017, ASU Audited Financial Statement-2017, Note F  | Attachment SD-3, SD-4 |
| 3 Unclear what mechanism L 3 uses for "providing capital" to ASU          | Attachment SD-4       |
| 4 Unclear what mechanism L 3 uses for "providing capital" to ASU          | Attachment SD-4       |
| 5 Previous Causes, specifically 44676/44676-S1                            |                       |
| 6 Previous Causes, specifically 44676/44676-S2                            |                       |
| 7 ASU Audited Financial Statements-2017, Note F                           | Attachment SD-4       |
| 8 ASU Audited Financial Statements-2017, Note F                           | Attachment SD-4       |
| 9 Bond Transcript-L 3 2017, ASU Audited Financial Statement-2017, Note F  | Attachment SD-3, SD-4 |
| 10 Bond Transcript-L 3 2017, ASU Audited Financial Statement-2017, Note F | Attachment SD-3, SD-4 |

## Appendix D

### DISCUSSION OF L 3

1 **Q: What is the relationship of L 3 to American Suburban Utilities?**

2 A: L 3 is owned by the same owner as ASU.

3 **Q: Does ASU consider L 3 to be an affiliate of ASU?**

4 A: L 3 has not been listed as an affiliate of ASU on the IURC annual reports since 2016.<sup>35</sup>

5 Prior to that (going back to 2010) L 3 was listed in three places of the annual report, but it  
6 was not listed as having any business arrangements with ASU. It was stated in the  
7 Parent/Affiliate Organization Chart section in the annual reports from 2010-2013 that Scott  
8 L. Lods was the sole shareholder of L 3, ASU, Howard County Utilities, L-5, L-7 and First  
9 Time Development Corporation. In 2014-2015, the language was altered, but only to  
10 remove the reference to L-7. Beginning with ASU's 2016 Annual Report to the IURC ASU  
11 stopped including any reference to L 3. Beginning in 2017, ASU no longer referenced First-  
12 Time Development. In bond documents dated to 2013 (Exhibit A of Pledge Agreement ,  
13 found as OUCC Attachment SD-1, page 411), common stock for L 3 is listed as collateral  
14 separately from the common stock of ASU or Howard County, which is incompatible with  
15 a holding company structure, and in bond documents from 2017 (Exhibit A, Pledged  
16 Interests, found as OUCC Attachment SD-3, page 84), Scott L. Lods is listed as the owner  
17 of ASU with 100% ownership represented by 142.5 shares. In discovery related to this

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<sup>35</sup> The report for the year 2015 included language in the section regarding the affiliation of officers and directors listed L 3 as a holding corporation, and the affiliation as "owner", but L 3 was not listed as having a business arrangement with ASU. For the Parent/Affiliate organization chart, it was stated that Scott L. Lods is the sole shareholder of L 3 corporation. This was the same language in 2014. Beginning in 2016 the annual reports are silent regarding L 3.

1 case, it was stated that L 3 “has no ownership interest in ASU, but is a separate corporation  
2 owned by Mr. Lods.”<sup>36</sup>

3 However, it was stated in testimony in cause 44676, dated September 4, 2015, by  
4 Mr. Ed Serowka that “ASU’s common stock has since been transferred to a holding  
5 company, L3 Corp., which is owned by Mr. Lods.”<sup>37</sup>

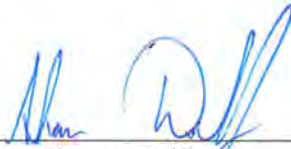
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<sup>36</sup> See Data Request Response 4-1(b), found in OUCC Attachment SD-9.

<sup>37</sup> Please see direct testimony of Mr. Serowka, Cause No. 44676, page 5.

**AFFIRMATION**

I affirm the representations I made in the foregoing testimony are true to the best of my knowledge, information, and belief.



By: Shawn Dellinger  
Cause No. 45649-U  
Office of Utility Consumer Counselor (OUCC)

Date: Apr 11 2022

CAUSE NO. 45649-U

The following documents were filed separately  
due to length and file size.

OUCG ATTACHMENT SD-1

OUCG ATTACHMENT SD-2

OUCG ATTACHMENT SD-3

**Thieme  
& Adair  
CPAs**

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Certified Public Accountants

**John F. Thieme  
Richard G. Adair**

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Lafayette, IN 47901  
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Fax (765) 742-2412**

**AMERICAN SUBURBAN UTILITIES, INC.  
Financial Statements  
Year Ended December 31, 2017 and 2016**

**AMERICAN SUBURBAN UTILITIES, INC.**

**TABLE OF CONTENTS**

<b>Independent Auditor's Report on the Financial Statements and Supplementary Schedules .....</b>	<b>Page 1-2</b>
<b>Financial Statements</b>	
Balance Sheets .....	3
Statements of Operations .....	4
Statements of Stockholder's Equity .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7-15
<b>Supplementary Schedules</b>	
Schedules of Operation and Maintenance Expenses .....	16
Schedules of General and Administrative Expenses .....	17

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& Adair  
CPAs**



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## **Independent Auditor's Report**

### **To Management**

**AMERICAN SUBURBAN UTILITIES, INC.**

**West Lafayette, Indiana**

We have audited the accompanying financial statements of **AMERICAN SUBURBAN UTILITIES, INC.** (an Indiana Corporation), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, stockholder's equity and cash flows for the year ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, where due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **AMERICAN SUBURBAN UTILITIES, INC.** as of December 31, 2017 and 2016, and the results of its operation and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



**Thieme  
& Adair  
CPAs**



Certified Public Accountants

**John F. Thieme  
Richard G. Adair**

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***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Operation and Maintenance Expenses and Schedules of General and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*John F. Thieme CPA, PC*

September 20, 2018  
Thieme & Adair CPAs

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Balance Sheets**  
**December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 4,201,747	\$ 27,960
Accounts receivable	136,403	88,241
Prepaid federal and state income taxes	<u>94,678</u>	<u>17,283</u>
Total Current Assets	4,432,828	133,484
<b>Noncurrent Assets</b>		
Property and equipment, net	19,182,371	16,611,176
Construction in process	1,896,815	1,862,193
Capitalized rate case expenditures, net	<u>361,231</u>	<u>459,750</u>
Total Noncurrent Assets	21,440,417	18,933,119
Total Assets	<u>\$ 25,873,245</u>	<u>\$ 19,066,603</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accrued payroll and withheld taxes	\$ 951	\$ 1,297
Advances for construction	7,759	2,250
Accrued expenses	110,144	-
Current maturities of long-term debt	<u>-</u>	<u>-</u>
Total Current Liabilities	118,854	3,547
<b>Long-term Liabilities</b>		
Deferred incomes Taxes	189,441	189,441
Bonds payable, net of current maturities	<u>5,100,000</u>	<u>-</u>
Total Long-term Liabilities	5,289,441	189,441
Total Liabilities	5,408,295	192,988
<b>Contributions in Aid of Construction</b>	8,852,686	7,430,744
<b>Shareholders' Equity</b>	<u>11,612,264</u>	<u>11,442,871</u>
Total Liabilities and Shareholders' Equity	<u>\$ 25,873,245</u>	<u>\$ 19,066,603</u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Income**  
**For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Revenues		
Residential and multi family	\$ 3,237,288	\$ 2,831,155
Commercial and industrial	321,087	277,663
Other	149,567	105,528
	<u>3,707,942</u>	<u>3,214,346</u>
Operating Expenses		
Operation and maintenance	787,169	633,299
General and administrative	709,351	484,887
Salaries and wages	602,343	632,974
Depreciation and amortization	1,150,593	784,095
Taxes other than income taxes	220,342	222,242
	<u>3,469,798</u>	<u>2,757,497</u>
Total Operating Expenses	<u>3,469,798</u>	<u>2,757,497</u>
Income from Operations	<u>238,144</u>	<u>456,849</u>
Other Income (Expense)		
Interest income	2,755	0
Interest expense	(17,901)	0
	<u>(15,146)</u>	<u>0</u>
Total Other Income (Expense)	<u>(15,146)</u>	<u>0</u>
Income before Income Taxes	222,998	456,849
Income Tax Expense	78,605	214,718
<b>Net Income</b>	<u>\$ 144,393</u>	<u>\$ 242,131</u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Stockholders' Equity**  
**For the Years Ended December 31, 2017 and 2016**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2015	\$ 15,814	\$ 7,337,357	\$ 1,997,569	\$ 9,350,740
Capital Contribution - Scott Lods		1,850,000		1,850,000
Net Income			242,131	242,131
Balance, December 31, 2016	15,814	9,187,357	2,239,700	11,442,871
Capital Contribution - Scott Lods		25,000		25,000
Net Income			144,393	144,393
Balance, December 31, 2017	<u>\$ 15,814</u>	<u>\$ 9,212,357</u>	<u>\$ 2,384,093</u>	<u>\$ 11,612,264</u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 144,393	\$ 242,131
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	1,150,593	751,255
Provision for deferred income taxes	-	189,441
(Increase) decrease in accounts receivable	(48,162)	(6,509)
(Increase) decrease in prepaid income taxes	(77,395)	8,064
Increase (decrease) in accounts payable	(346)	(1,781)
Increase (decrease) in accrued expenses	110,144	-
<b>Total Adjustments</b>	<b>1,134,834</b>	<b>940,470</b>
<b>Net cash provided by operating activities</b>	<b>1,279,227</b>	<b>1,182,601</b>
<b>Cash Flows from Investing Activities</b>		
Utility plant additions	(2,444,984)	(2,561,217)
Rate case expenditures	-	(459,750)
<b>Net cash used in investing activities</b>	<b>(2,444,984)</b>	<b>(3,020,967)</b>
<b>Cash Flows from Financing Activities</b>		
Contributions in aid of construction	209,035	44,487
Repayments of customer advances	5,509	(38,950)
Proceeds from borrowings on long-term debt	5,100,000	-
Capital contributions from shareholder	25,000	1,850,000
<b>Net cash provided by financing activities</b>	<b>5,339,544</b>	<b>1,855,537</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>4,173,787</b>	<b>17,171</b>
Cash and Cash Equivalents, Beginning of Year	27,960	10,789
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 4,201,747</b>	<b>\$ 27,960</b>
<b>Supplemental Cash Flow Disclosures</b>		
Income taxes paid	\$ 171,000	\$ 43,177

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note A – Nature of Operations and Summary of Significant Accounting Policies:**

**Nature of Operations**

American Suburban Utilities, Inc. (the "Company") is 100% owned by Scott Lods. The Company is engaged in providing wastewater sewage services to residential and commercial customers within its Certificate of Territorial Authority (CTA). The CTA encompasses parts of Tippecanoe and Wabash Townships (excluding the City of West Lafayette), Tippecanoe County, Indiana. The Company operates and maintains wastewater sewage lines and wastewater sewage treatment facilities within the CTA. These facilities have been constructed for American Suburban Utilities, Inc. with the assistance of L3 Corporation and by land developers, which then remit ownership of the wastewater sewage lines and facilities to the Company. The Company has been operating as a utility since 1963. Scott Lods purchased the Company in 1997.

**Concentration of Credit Risk**

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and receivables. The Company places its cash with primarily one financial institution. At times, such amounts may be in excess of the FDIC insured limit. The Company has never experienced any losses related to these balances.

Essentially all trade receivables are concentrated within the portions of Tippecanoe County, Indiana encompassed by the CTA. Therefore, the Company is exposed to certain economic variables within this area and repayment is ultimately depended upon the financial stability of the area.

**Regulation**

The Company's regulated utilities are subject to economic regulation by the Indiana Utility Regulatory Commission (the "IURC"). The IURC generally authorizes revenue at levels intended to recover the estimated costs of providing services, plus a return on net investments, or rate base. The IURC may also impose certain penalties or grant certain incentives. Due to timing and other differences in the collection of utility revenue, an incurred cost that would otherwise be charged to expense by a non-regulated entity is to be deferred as a regulatory asset if it is probable that the cost is recoverable in future rates. Conversely, GAAP requires recording of a regulatory liability for amounts collected in rates to recover costs expected to be incurred in the future or amounts collected in excess of costs incurred and refundable to customers.

**Use of Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition**

Revenues are recognized when the utility services are rendered to the customer.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Accounts Receivable**

Accounts receivable include regulated utility customer accounts receivable, which represent amounts billed to wastewater customers on a cycle basis. Allowances for uncollectible accounts are maintained for estimated losses resulted from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company generally writes off accounts when they become uncollectible or are over a certain number of days outstanding. The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts currently is provided.

**Property, Equipment and Depreciation**

Property and Equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. For rate making purposes, the utility plant is depreciated on an annual basis by utilizing a composite rate of 2.5%. The estimated useful lives are as follows:

Utility plants and facilities	15 – 50 years
Vehicles	3 - 7 years
Office equipment	5-10 years

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. The cost of property or equipment retired or otherwise disposed of and the related accumulated depreciated are removed from the accounts in the year of disposal with the resulting gain or loss reflected in earnings.

The provision for depreciation amounted to \$1,052,074 and \$751,255 for the years ended December 31, 2017 and 2016, respectively.

**Impairment of Long-lived Assets**

The Company identifies and records impairment losses on long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows attributable to such assets to their carrying value. If the carrying value of the assets exceed the forecasted undiscounted cash flows, then the assets are written down to their fair values.

**Cash Flows**

For purposes of the Statements of Cash Flows, the Company considers all highly liquid instruments that are purchased within three months of their maturity date to be cash equivalents.

The Company received \$1,212,907 and \$38,200 in contributed sewer lines from land developers during the years ended December 31, 2017 and 2016, respectively. These figures are included within the total of Contributions in Aid of Construction on the Balance Sheets; however, is a non-cash transaction for purposes of the Statements of Cash Flows.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Income Taxes**

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes liabilities for uncertain income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition of measurement are reflected in the period in which the change in judgment occurs.

The Company recognizes interest and penalties related to income tax liabilities as a component of income tax expense when they are incurred. The income tax liabilities and accrued interest and penalties are presented as current liabilities.

**Fair Value Measurements**

Accounting Standards Codification (ASC) 820 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined as the exchange prices that would be received for an asset or paid to transfer a liability (or exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimizing the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Union. Unobservable inputs are inputs that reflect the Union's assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

The fair value hierarchy input levels are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Union has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in inactive markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.



**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Fair Value Measurements (Continued)**

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers", which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States of America. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle, and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing accounting principles generally accepted in the United States of America. The standard is effective for annual periods beginning after December 15, 2018, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on the financial statements and has not yet determined the method by which the Company will adopt the standard in 2019.

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases". This new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard also requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Union is currently evaluating the impact of this accounting standards update.

In August 2016, the FASB issued Accounting Standards Update 2016-15, "Statement of Cash Flows". Stakeholders have indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this Update apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the impact of this accounting standards update.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note B – Advances for Construction and Contributions in Aid of Construction**

Regulated utility companies may receive advances for construction and contributions in aid of construction from customers, home builders, and real estate developers to fund construction necessary to extend service to new areas.

Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. As of December 31, 2017, and 2016 estimated refunds of advances are \$7,760 and \$2,250, respectively. Those amounts represent expected refunds during the next 12-month period.

Advances that are no longer refundable are reclassified to contributions. Contributions are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serve as a rate base reduction since the contributions represent non-investor supplied funds.

Land developers that wish to develop certain real estate lying within the Company's CTA will enter into agreements with the Company to construct sewage lines. These lines will become the property of the Company, and will generate revenues from commercial and residential hookups, as well as from monthly service fees. The Company will incur costs for monitoring and maintenance of these lines. For instance, a developer will construct a new subdivision and the developer will pay construction companies to install wastewater sewage lines in the subdivision in order to allow the new homeowners to hook their homes to the wastewater sewer. Throughout the construction phase, the Company will inspect the wastewater sewage lines as they are installed. Upon completion of the subdivision the wastewater sewer lines become property of the Company. The new homeowners will then remit payment to the Company based on a monthly rate.

**Note C – Property, Equipment and Depreciation:**

As summary of property and equipment at December 31, is a follows:

	<u>2017</u>	<u>2016</u>
Utility plants in service	\$ 26,915,757	\$ 23,449,726
Furniture and equipment	839,736	733,132
Vehicles	383,802	333,167
	<u>28,139,295</u>	<u>24,516,025</u>
Less accumulated depreciation	<u>(8,956,924)</u>	<u>(7,904,849)</u>
	<u>\$ 19,182,371</u>	<u>\$ 16,611,176</u>

**Note D – Common Stock:**

The following summarizes the Company's shares of common stock as of December 31,:

	<u>2017</u>	<u>2016</u>
Par value per share	\$ 0	\$ 0
Authorized	1,000	1,000
Issued	1,000	1,000
Outstanding	142.5	142.5

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note E – Leases:**

The Company's operating leases consist primarily of facilities; however, the Company enters into month-to-month equipment leasing arrangements from time to time. During 2017 and 2016, the Company leased its facilities on a month-to-month basis from Scott Lods at a rate of \$4,500 per month. This resulted in a total lease expense of \$54,000 for both years ended December 31, 2017 and 2016.

Rental expense for operating leases amounted to \$58,927 and \$58,520 in 2017 and 2016, respectively.

**Note F – Related Parties**

A summary of the Company's related parties is as follows:

**Scott Lods** – 100% owner of the Company.

**First Time Development Corporation** – 100% owned by Scott Lods and provides construction and maintenance services to the Company.

**Howard County Utilities, Inc.** – 100% owned by Scott Lods and provides wastewater treatment to residential and commercial customers located in Howard County, Indiana.

**L3 Corporation** – 100% owned by Scott Lods, borrows monies and provides capital to the Company for the construction of new wastewater treatment plants.

**Transactions between the Company and Scott Lods** – As discussed within Note E, the Company rents its office facilities from Scott Lods. Additionally, in his capacity as the Company's President and Chief Operating Officer, Scott Lods received annual salaries of \$194,000 during each of 2017 and 2016.

During 2017, Scott Lods contributed capital to the Company in the amount of \$1,187,294 and the Company remitted to Scott Lods dividend payments of \$1,162,294. During 2016, Scott Lods contributed capital to the Company in the amount of \$2,546,969 and the Company remitted to Scott Lods dividend payments of \$696,969.

**Howard County Utilities, Inc. Transactions** – There were no transactions between the Company and Howard County Utilities, Inc. during 2017 and 2016.

**First Time Development Corporation Transactions** – The Company has contracted with First Time Development Corporation, which is 100% owned by Scott Lods, for certain construction projects to build wastewater sewage facilities. During 2017 and 2016, First Time Development was paid \$2,174,697 and \$1,206,386 respectively, for construction and maintenance of wastewater lines and wastewater sewage treatment facilities.

**L3 Corporation Transactions** – L3 Corporation (L3) is engaged in borrowing and providing capital to the Company, as well as providing management services to First Time Development Corporation. The Company utilizes the capital to construct wastewater treatment facilities. In order for L3 to service its debt, the Company pays dividends to Scott Lods, who then makes capital contributions to L3 which are used to pay interest, principal and other expenses on the debt. The debt is secured by guaranties from American Suburban Utilities, Inc., as well as a personal guaranty from the Company's 100% shareholder. As of the year ended December 31, 2017, L3 had a total amount of debt outstanding of \$12,300,000 with principal payments commencing November 1, 2020 and ending on November 1, 2034. The interest rates on the debt as of December 31, 2017 ranged from 2.21% to 2.97%. The rates are reset on a monthly basis.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note F – Income Taxes**

Federal and state income tax liability for the year ended December 31, 2017, is summarized as follows:

Current:		
Federal	\$	64,857
State		13,748
		<u>78,605</u>
Deferred:		
Federal		0
State		0
		<u>0</u>
Income tax expense	\$	<u>78,605</u>

Accounting principles generally accepted in the United States of America require the Company to examine its tax positions for uncertain positions. Management is not aware of any tax positions that are more likely than not to change in the next twelve months or that would not sustain an examination by applicable taxing authorities.

The Company's federal and state tax income tax returns for 2015 through 2017 are subject to examination by the applicable taxing authorities, generally for the three years after the later of the original or extended due date.

**Note G – Long-term Debt**

\$5,100,000 Tax-Exempt Fixed Rate Permanent Loan

The loan was issued at a tax-exempt fixed rate for seven years and will be reset thereafter. The interest rate on the loan as of December 31, 2017 was 4.68%. The first principal payment is due on November 1, 2034 with the final principal payment set to occur on November 1, 2037.

		<u>as of 12/31/2017</u>
Note payable	\$	5,100,000
Less: Current Maturities		-
Total Long-term Bonds Payable	\$	<u>5,100,000</u>
December 31,		
2018	\$	-
2019		-
2020		-
2021		-
2022		-
Thereafter		5,100,000
Total	\$	<u>5,100,000</u>

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note H – 401 (K) Profit Sharing Plan**

The Company sponsors a defined contribution plan (401k) that covers substantially all of its full time hourly and salaried employees. The Company's discretionary contributions were \$108,237 and \$17,957 for the years ended December 31, 2017 and 2016, respectively.

**Note I - Reclassification**

Certain amounts included in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications have no effect on total assets, total liabilities, shareholder's equity, or net income as previously reported.

**Note J – Management Evaluation of Subsequent Events:**

The Company continues to undertake construction projects to increase the capacity and maintain compliance with regulatory standards. These projects are required by the Environmental Protection Agency (EPA) to comply with new phosphorus treatment regulations. All projects have been approved by the IURC. The outcome and effect of these future transactions is unknown at this time and has not been reflected in the financial statements.

Pending the completion of the Carriage Estates 3 Plant Expansion construction project, the Company plans to make effective the third and final phase of rate increases that have been approved by the IURC. Management expects for the construction completion date to occur in the Fall of 2018. The phased in rate increases were scheduled as follows:

	<u>Phase 1</u>		<u>Phase 2</u>		<u>Phase 3</u>	
First date rates are to be charged to customers:	January 1, 2017		June 1, 2017		Pending	
<b>Non-metered Flat Rate</b>						
Residential	\$	48.89	\$	57.40	\$	76.92
Mobile Home		31.78		37.31		50.00
Multi-Family (per unit)		39.60		46.49		62.31
Service Stations		126.12		148.06		198.44
Schools/Stud., Staff, Faculty		2.45		2.88		3.85
<b>Metered</b>						
First 10,000 Gallons	\$	61.24	\$	71.90	\$	96.35
Next 10,000 Gallons		6.08		7.13		9.56
Next 100,000 Gallons		5.63		6.60		8.85
Next 200,000 Gallons		5.06		5.94		7.96
Next 200,000 Gallons		4.42		5.19		6.95
Next 500,000 Gallons		3.40		3.99		5.34
Over 1,020,000 Gallons		2.66		3.12		4.19

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2017 and 2016**

**Note J – Management Evaluation of Subsequent Events (Continued):**

Management has evaluated subsequent events through September 20, 2018, the date on which the financial statements were available to be issued.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Schedules of Operation and Maintenance Expenses**  
**For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>%</u>	<u>2016</u>	<u>%</u>
Operations and Maintenance:				
Repairs and maintenance	\$ 143,736	18.3	\$ 157,839	24.9
Legal and professional fees	362,683	46.1	196,407	31.0
Materials and supplies	53,568	6.8	46,629	7.4
Chemicals	28,757	3.7	36,722	5.8
Engineering and treatment costs	198,425	25.2	195,702	30.9
Total Operations and Maintenance Expenses	<u>\$ 787,169</u>	<u>100.0</u>	<u>\$ 633,299</u>	<u>100.0</u>

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Schedules of General and Administrative Expenses**  
**For the Years Ended December 31, 2017 and 2016**

	<u>2017</u>	<u>%</u>	<u>2016</u>	<u>%</u>
Operations and Maintenance:				
Bank charges	\$ 46,150	6.5	\$ 6,494	1.3
Board of directors fees	1,796	0.3	600	0.1
Building rent	55,794	7.9	57,486	11.9
Company 401(k) contributions	108,237	15.3	17,957	3.7
Computer and software	5,474	0.8	1,354	0.3
Contributions	1,269	0.2	2,500	0.5
Dues and subscriptions	5,910	0.8	4,118	0.8
Education and training	3,357	0.5	4,286	0.9
Employee relations	3,300	0.5	2,850	0.6
Equipment rental	3,133	0.4	1,034	0.2
IDEM fees	20,261	2.9	11,744	2.4
Insurance	63,692	9.0	31,273	6.4
Licenses and fees	13,247	1.9	10,221	2.1
Office equipment and supplies	13,505	1.9	15,220	3.1
Office utilities expense	14,970	2.1	13,361	2.8
Postage	20,668	2.9	18,159	3.7
Purchased power, sewer	197,432	27.8	172,113	35.5
Repairs and maintenance	3,716	0.5	15,864	3.3
Safety equipment	5,444	0.8	292	0.1
Shop supplies	10,333	1.5	5,232	1.1
Small tools	11,268	1.6	12,388	2.6
Telephone	19,912	2.8	19,216	4.0
Travel and meetings	34,537	4.9	7,717	1.6
Uniforms	6,290	0.9	6,790	1.4
Vehicle and fuel	39,656	5.6	46,618	9.6
<b>Total Operations and Maintenance Expenses</b>	<b>\$ 709,351</b>	<b>100.0</b>	<b>\$ 484,887</b>	<b>100.0</b>



Certified Public Accountants

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**AMERICAN SUBURBAN UTILITIES, INC.**  
**Financial Statements**  
**Year Ended December 31, 2018 and 2017**

**AMERICAN SUBURBAN UTILITIES, INC.**

**TABLE OF CONTENTS**

<b>Independent Auditor's Report on the Financial Statements and Supplementary Schedules.....</b>	<b>Page 1-2</b>
<b>Financial Statements</b>	
Balance Sheets.....	3
Statements of Operations.....	4
Statements of Stockholder's Equity.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements .....	7-15
<b>Supplementary Schedules</b>	
Schedules of Operation and Maintenance Expenses .....	16
Schedules of General and Administrative Expenses .....	17

## Independent Auditor's Report

To Management  
AMERICAN SUBURBAN UTILITIES, INC.  
West Lafayette, Indiana

We have audited the accompanying financial statements of AMERICAN SUBURBAN UTILITIES, INC. (an Indiana Corporation), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, stockholder's equity and cash flows for the year ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, where due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AMERICAN SUBURBAN UTILITIES, INC. as of December 31, 2018 and 2017, and the results of its operation and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public Accountants

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**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Operation and Maintenance Expenses and Schedules of General and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Thieme & Adair CPAs*

September 30, 2019  
Thieme & Adair CPAs

Certified Public Accountants

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**AMERICAN SUBURBAN UTILITIES, INC.**  
**Balance Sheets**  
**December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,906	\$ 4,201,747
Accounts receivable	29,757	136,403
Payroll advances	400	0
Prepaid federal and state income taxes	<u>0</u>	<u>94,678</u>
Total Current Assets	32,063	4,432,828
<b>Noncurrent Assets</b>		
Property and equipment, net	19,257,011	19,182,371
Construction in process	7,521,355	1,896,815
Capitalized rate case expenditures, net	<u>262,712</u>	<u>361,231</u>
Total Noncurrent Assets	27,041,078	21,440,417
Total Assets	<u>\$ 27,073,141</u>	<u>\$ 25,873,245</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accrued expenses	\$ 183,958	\$ 110,144
Advances for construction	26,172	7,760
Accrued payroll and withheld taxes	<u>0</u>	<u>950</u>
Total Current Liabilities	210,130	118,854
<b>Long-term Liabilities</b>		
Deferred incomes Taxes	189,441	189,441
Bonds payable, net of current maturities	<u>5,100,000</u>	<u>5,100,000</u>
Total Long-term Liabilities	5,289,441	5,289,441
Total Liabilities	5,499,571	5,408,295
Contributions in Aid of Construction	8,852,686	8,852,686
Shareholders' Equity	<u>12,720,884</u>	<u>11,612,264</u>
Total Liabilities and Shareholders' Equity	<u>\$ 27,073,141</u>	<u>\$ 25,873,245</u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Income**  
**For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Revenues</b>		
Residential and multi family	\$ 3,331,414	\$ 3,237,288
Commercial and industrial	321,043	321,087
Other	94,301	149,567
	<u>3,746,758</u>	<u>3,707,942</u>
<b>Operating Expenses</b>		
Operation and maintenance	658,913	787,169
General and administrative	663,183	709,351
Salaries and wages	639,488	602,343
Depreciation and amortization	796,956	1,150,593
Taxes other than income taxes	250,247	220,342
	<u>3,008,787</u>	<u>3,469,798</u>
<b>Total Operating Expenses</b>	<u>3,008,787</u>	<u>3,469,798</u>
<b>Income from Operations</b>	<u>737,971</u>	<u>238,144</u>
<b>Other Income (Expense)</b>		
Contributions in aid of construction	482,841	0
Gain on sale of asset	1,000	0
Interest income	23,864	2,755
Interest expense	(238,680)	(17,901)
	<u>269,025</u>	<u>(15,146)</u>
<b>Total Other Income (Expense)</b>	<u>269,025</u>	<u>(15,146)</u>
<b>Income before Income Taxes</b>	1,006,996	222,998
<b>Income Tax Expense</b>	<u>258,376</u>	<u>78,605</u>
<b>Net Income</b>	<u>\$ 748,620</u>	<u>\$ 144,393</u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Stockholders' Equity**  
**For the Years Ended December 31, 2018 and 2017**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2016	\$ 15,814	\$ 9,187,357	\$ 2,141,962	\$ 11,345,133
Capital Contribution - Scott Lods		25,000		25,000
Net Income			242,131	242,131
Balance, December 31, 2017	15,814	9,212,357	2,384,093	11,612,264
Capital Contribution - Scott Lods		360,000		360,000
Net Income			748,620	748,620
Balance, December 31, 2018	<u>\$ 15,814</u>	<u>\$ 9,572,357</u>	<u>\$ 3,132,713</u>	<u>\$ 12,720,884</u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities</b>		
Net income	<u>\$ 748,620</u>	<u>\$ 144,393</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	796,956	1,150,593
(Gain) on disposal of assets	(1,000)	0
(Increase) decrease in accounts receivable	106,646	(48,162)
(Increase) decrease in prepaid income taxes	94,678	(77,395)
(Increase) decrease in payroll advances	(400)	0
Increase (decrease) in accrued expenses	73,814	(346)
Increase (decrease) in accrued payroll and withheld taxes	<u>(950)</u>	<u>110,144</u>
<b>Total Adjustments</b>	<u>1,069,744</u>	<u>1,134,834</u>
<b>Net cash provided by operating activities</b>	<u>1,818,364</u>	<u>1,279,227</u>
<b>Cash Flows from Investing Activities</b>		
Utility plant additions	(6,505,305)	(2,444,984)
Proceeds from the sale of equipment	<u>1,000</u>	<u>0</u>
<b>Net cash used in investing activities</b>	<u>(6,504,305)</u>	<u>(2,444,984)</u>
<b>Cash Flows from Financing Activities</b>		
Contributions in aid of construction	107,688	209,035
Advances for construction	18,412	5,509
Proceeds from borrowings on long-term debt	0	5,100,000
Capital contributions from shareholder	<u>360,000</u>	<u>25,000</u>
<b>Net cash provided by financing activities</b>	<u>486,100</u>	<u>5,339,544</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<u>(4,199,841)</u>	<u>4,173,787</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>4,201,747</u>	<u>27,960</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,906</u>	<u>\$ 4,201,747</u>
<b>Supplemental Cash Flow Disclosures</b>		
Income taxes paid	<u>\$ 222,280</u>	<u>\$ 171,000</u>

See accompanying notes.



**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note A – Nature of Operations and Summary of Significant Accounting Policies:**

**Nature of Operations**

American Suburban Utilities, Inc. (the "Company") is 100% owned by Scott Lods. The Company is engaged in providing wastewater sewage services to residential and commercial customers within its Certificate of Territorial Authority (CTA). The CTA encompasses parts of Tippecanoe and Wabash Townships (excluding the City of West Lafayette), Tippecanoe County, Indiana. The Company operates and maintains wastewater sewage lines and wastewater sewage treatment facilities within the CTA. These facilities have been constructed for American Suburban Utilities, Inc. with the assistance of L3 Corporation and by land developers, which then remit ownership of the wastewater sewage lines and facilities to the Company. The Company has been operating as a utility since 1963. Scott Lods purchased the Company in 1997.

**Concentration of Credit Risk**

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and receivables. The Company places its cash with primarily one financial institution. At times, such amounts may be in excess of the FDIC insured limit. The Company has never experienced any losses related to these balances.

Essentially all trade receivables are concentrated within the portions of Tippecanoe County, Indiana encompassed by the CTA. Therefore, the Company is exposed to certain economic variables within this area and repayment is ultimately depended upon the financial stability of the area.

**Regulation**

The Company's regulated utilities are subject to economic regulation by the Indiana Utility Regulatory Commission (the "IURC"). The IURC generally authorizes revenue at levels intended to recover the estimated costs of providing services, plus a return on net investments, or rate base. The IURC may also impose certain penalties or grant certain incentives. Due to timing and other differences in the collection of utility revenue, an incurred cost that would otherwise be charged to expense by a non-regulated entity is to be deferred as a regulatory asset if it is probable that the cost is recoverable in future rates. Conversely, GAAP requires recording of a regulatory liability for amounts collected in rates to recover costs expected to be incurred in the future or amounts collected in excess of costs incurred and refundable to customers.

**Use of Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition**

Revenues are recognized when the utility services are rendered to the customer.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Accounts Receivable**

Accounts receivable include regulated utility customer accounts receivable, which represent amounts billed to wastewater customers on a cycle basis. Allowances for uncollectible accounts are maintained for estimated losses resulted from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company generally writes off accounts when they become uncollectible or are over a certain number of days outstanding. The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts currently is provided.

**Property, Equipment and Depreciation**

Property and Equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. For rate making purposes, the utility plant is depreciated on an annual basis by utilizing a composite rate of 2.5%. The estimated useful lives are as follows:

Utility plants and facilities	15 – 50 years
Vehicles	3 - 7 years
Office equipment	5-10 years

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. The cost of property or equipment retired or otherwise disposed of and the related accumulated depreciated are removed from the accounts in the year of disposal with the resulting gain or loss reflected in earnings.

The provision for depreciation amounted to \$698,437 and \$1,052,074 for the years ended December 31, 2018 and 2017, respectively.

**Impairment of Long-lived Assets**

The Company identifies and records impairment losses on long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows attributable to such assets to their carrying value. If the carrying value of the assets exceed the forecasted undiscounted cash flows, then the assets are written down to their fair values.

**Cash Flows**

For purposes of the Statements of Cash Flows, the Company considers all highly liquid instruments that are purchased within three months of their maturity date to be cash equivalents.

The Company received \$107,688 and \$1,212,907 in contributed sewer lines from land developers during the years ended December 31, 2018 and 2017, respectively. These figures are included within the total of Contributions in Aid of Construction on the Balance Sheet for the year ended December 31, 2017. However, as a result of the Tax Cuts and Jobs Act of 2017 the contributed sewer lines began to be classified as a component of taxable income effective January 1, 2018. These transactions are non-cash transactions for purposes of the Statements of Cash Flows.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Income Taxes**

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes liabilities for uncertain income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition of measurement are reflected in the period in which the change in judgment occurs.

The Company recognizes interest and penalties related to income tax liabilities as a component of income tax expense when they are incurred. The income tax liabilities and accrued interest and penalties are presented as current liabilities.

**Fair Value Measurements**

Accounting Standards Codification (ASC) 820 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined as the exchange prices that would be received for an asset or paid to transfer a liability (or exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimizing the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Union. Unobservable inputs are inputs that reflect the Union's assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

The fair value hierarchy input levels are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Union has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in inactive markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Fair Value Measurements (Continued)**

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers", which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States of America. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle, and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing accounting principles generally accepted in the United States of America. The standard is effective for annual periods beginning after December 15, 2018, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company is currently evaluating the impact of its pending adoption of ASU 2014-09 on the financial statements and has not yet determined the method by which the Company will adopt the standard in 2019.

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases". This new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard also requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Union is currently evaluating the impact of this accounting standards update.

In August 2016, the FASB issued Accounting Standards Update 2016-15, "Statement of Cash Flows". Stakeholders have indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this Update apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the impact of this accounting standards update.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note B – Advances for Construction and Contributions in Aid of Construction**

Regulated utility companies may receive advances for construction and contributions in aid of construction from customers, home builders, and real estate developers to fund construction necessary to extend service to new areas.

Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. As of December 31, 2018, and 2017 estimated refunds of advances are \$26,172 and \$7,760, respectively. Those amounts represent expected refunds during the next 12-month period.

Advances that are no longer refundable are reclassified to contributions. Contributions are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serve as a rate base reduction since the contributions represent non-investor supplied funds.

Land developers that wish to develop certain real estate lying within the Company's CTA will enter into agreements with the Company to construct sewage lines. These lines will become the property of the Company, and will generate revenues from commercial and residential hookups, as well as from monthly service fees. The Company will incur costs for monitoring and maintenance of these lines. For instance, a developer will construct a new subdivision and the developer will pay construction companies to install wastewater sewage lines in the subdivision in order to allow the new homeowners to hook their homes to the wastewater sewer. Throughout the construction phase, the Company will inspect the wastewater sewage lines as they are installed. Upon completion of the subdivision the wastewater sewer lines become property of the Company. The new homeowners will then remit payment to the Company based on a monthly rate.

**Note C – Property, Equipment and Depreciation:**

As summary of property and equipment at December 31, is a follows:

	2018	2017
Utility plants in service	\$ 27,296,803	\$ 26,915,757
Furniture and equipment	1,047,577	839,736
Vehicles	567,993	383,802
	28,912,373	28,139,295
Less accumulated depreciation	(9,655,362)	(8,956,924)
	\$ 19,257,011	\$ 19,182,371

**Note D – Common Stock:**

The following summarizes the Company's shares of common stock as of December 31,:

	2018	2017
Par value per share	\$ 0	\$ 0
Authorized	1,000	1,000
Issued	1,000	1,000
Outstanding	142.5	142.5

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note E – Leases:**

The Company's operating leases consist primarily of facilities; however, the Company enters into month-to-month equipment leasing arrangements from time to time. During 2018 and 2017, the Company leased its facilities on a month-to-month basis from Scott Lods at a rate of \$4,500 per month. This resulted in a total facilities lease expense of \$54,000 for both years ended December 31, 2018 and 2017.

Rental expense for operating leases amounted to \$59,851 and \$58,927 in 2018 and 2017, respectively.

**Note F – Related Parties**

A summary of the Company's related parties is as follows:

**Scott Lods** – 100% owner of the Company.

**First Time Development Corporation** – 100% owned by Scott Lods and provides construction and maintenance services to the Company.

**Howard County Utilities, Inc.** – 100% owned by Scott Lods and provides wastewater treatment to residential and commercial customers located in Howard County, Indiana.

**L3 Corporation** – 100% owned by Scott Lods, borrows monies and provides capital to the Company for the construction of new wastewater treatment plants.

**Transactions between the Company and Scott Lods** – As discussed within Note E, the Company rents its office facilities from Scott Lods. Additionally, in his capacity as the Company's President and Chief Operating Officer, Scott Lods received annual salaries of \$194,000 during each of 2018 and 2017.

During 2018, Scott Lods contributed capital to the Company in the amount of \$1,938,032 and the Company remitted to Scott Lods dividend payments of \$1,578,032. During 2017, Scott Lods contributed capital to the Company in the amount of \$1,187,294 and the Company remitted to Scott Lods dividend payments of \$1,162,294.

**Howard County Utilities, Inc. Transactions** – There were no transactions between the Company and Howard County Utilities, Inc. during 2018 and 2017.

**First Time Development Corporation Transactions** – The Company has contracted with First Time Development Corporation, which is 100% owned by Scott Lods, for certain construction projects to build wastewater sewage facilities. During 2018 and 2017, First Time Development was paid \$5,657,526 and \$2,174,697 respectively, for construction and maintenance of wastewater lines and wastewater sewage treatment facilities.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note F – Related Parties (Continued):**

**L3 Corporation Transactions** – L3 Corporation (L3) is engaged in borrowing and providing capital to the Company, as well as providing management services to First Time Development Corporation. The Company utilizes the capital to construct wastewater treatment facilities. In order for L3 to service its debt, the Company pays dividends to Scott Lods, who then makes capital contributions to L3 which are used to pay interest, principal and other expenses on the debt. L3's debt is secured by (i) assignment of enterprise value and cash flows / utility payments of L3; (ii) a first-priority UCC lien on all of L3's existing and future acquired assets, excluding real estate, but including accounts receivable, inventory, vehicles, machinery and equipment, subsidiary capital stock, chattel paper, documents, instruments, deposit accounts, contract rights, general intangibles and intellectual property; (iii) a negative pledge of all commercial real estate used in the operation of L3; (iv) an unlimited and secured personal guaranty of Scott Lods, supported by an assignment of life insurance in the amount of \$2,800,000 and further a secured by a pledge of Mr. Lods' stock in ASU; (v) an unlimited and unsecured guaranty of ASU which includes a negative covenant prohibiting ASU from granting any liens on any of ASU's assets and (vi) an unlimited and unsecured corporate guaranty of First Time Development Corporation, which is only to be released upon satisfactory completions of CE-3.

As of the year ended December 31, 2018, L3 had a total amount of debt outstanding of \$12,300,000 with principal payments commencing November 1, 2020 and ending on November 1, 2034. The interest rates on the debt as of December 31, 2018 ranged from 2.84% to 3.93%. The rates are reset on a monthly basis.

**Note F – Income Taxes**

Federal and state income tax liability for the year ended December 31, 2018, is summarized as follows:

Current:		
Federal	\$	199,148
State		59,228
		<u>258,376</u>
Deferred:		
Federal		0
State		0
		<u>0</u>
Income tax expense	\$	<u>258,376</u>

Accounting principles generally accepted in the United States of America require the Company to examine its tax positions for uncertain positions. Management is not aware of any tax positions that are more likely than not to change in the next twelve months or that would not sustain an examination by applicable taxing authorities.

The Company's federal and state tax income tax returns for 2016 through 2018 are subject to examination by the applicable taxing authorities, generally for the three years after the later of the original or extended due date.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note G – Long-term Debt**

**\$5,100,000 Tax-Exempt Fixed Rate Permanent Loan**

The loan was issued at a tax-exempt fixed rate for seven years and will be reset thereafter. The interest rate on the loan as of December 31, 2018 was 4.68%. The first principal payment is due on November 1, 2034 with the final principal payment set to occur on November 1, 2037.

	<u>as of 12/31/2018</u>	
Note payable	\$	5,100,000
Less: Current Maturities		-
Total Long-term Bonds Payable	\$	<u>5,100,000</u>

December 31,		
2018	\$	-
2019		-
2020		-
2021		-
2022		-
Thereafter		5,100,000
Total	\$	<u>5,100,000</u>

**Note H – 401(K) Profit Sharing Plan**

The Company sponsors a defined contribution plan (401k) that covers substantially all of its full time hourly and salaried employees. The Company's discretionary contributions were \$85,599 and \$108,237 for the years ended December 31, 2018 and 2017, respectively.

**Note I - Reclassification**

Certain amounts included in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications have no effect on total assets, total liabilities, shareholder's equity, or net income as previously reported.

**Note J – Management Evaluation of Subsequent Events:**

The Company continues to undertake construction projects to increase the capacity and maintain compliance with regulatory standards. These projects are required by the Environmental Protection Agency (EPA) to comply with new phosphorus treatment regulations. All projects have been approved by the IURC. The outcome and effect of these future transactions remains unknown at this time and has not been reflected in the financial statements.

Pending the completion of the Carriage Estates 3 Plant Expansion ("CE-3") construction project, the Company plans to make effective the third and final phase of rate increases that have been approved by the IURC. Management expects for the construction completion date to occur in the Fall of 2019. The phased in rate increases were scheduled as follows:



**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2018 and 2017**

**Note J – Management Evaluation of Subsequent Events:**

	<u>Phase 1</u>		<u>Phase 2</u>		<u>Phase 3</u>
First date rates are to be charged to customers:	January 1, 2017		June 1, 2017		Pending
<b>Non-metered Flat Rate</b>					
Residential	\$ 48.89	\$	53.19	\$	66.49
Mobile Home	31.78		34.58		43.23
Multi-Family (per unit)	39.60		43.09		53.86
Motels and Hotel (per unit)	15.64		17.02		21.28
Service Stations	128.12		137.23		171.54
Schools/Stud., Staff, Faculty	2.45		2.66		3.33
<b>Metered</b>					
First 10,000 Gallons	\$ 6.12	\$	6.66	\$	8.33
Next 10,000 Gallons	6.08		6.61		8.26
Next 100,000 Gallons	5.63		6.12		7.65
Next 200,000 Gallons	5.06		5.51		6.89
Next 200,000 Gallons	4.42		4.81		6.01
Next 500,000 Gallons	3.40		3.70		4.63
Over 1,020,000 Gallons	2.66		2.47		3.09

Management has evaluated subsequent events through September 30, 2019, the date on which the financial statements were available to be issued.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Schedules of Operation and Maintenance Expenses**  
**For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
Operations and Maintenance:				
Repairs and maintenance	\$ 96,535	14.7	\$ 143,736	18.3
Legal and professional fees	193,477	29.4	362,683	46.1
Materials and supplies	73,999	11.2	53,568	6.8
Chemicals	49,173	7.5	28,757	3.7
Engineering and treatment costs	245,729	37.3	198,425	25.2
<b>Total Operations and Maintenance Expenses</b>	<b>\$ 658,913</b>	<b>100.0</b>	<b>\$ 787,169</b>	<b>100.0</b>

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Schedules of General and Administrative Expenses**  
**For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
<b>Operations and Maintenance:</b>				
Bank charges	\$ 5,252	0.8	\$ 46,150	6.5
Board of directors fees	1,797	0.3	1,798	0.3
Building rent	56,006	8.4	55,794	7.9
Company 401(k) contributions	85,599	12.9	108,237	15.3
Computer and software	3,770	0.6	5,474	0.8
Contributions	1,000	0.2	1,269	0.2
Dues and subscriptions	8,600	1.3	5,910	0.8
Education and training	3,600	0.5	3,357	0.5
Employee relations	3,770	0.6	3,300	0.5
Equipment rental	3,845	0.6	3,133	0.4
Employee health reimbursements	22,702	3.4	0	0.0
IDEM fees	7,700	1.2	20,261	2.9
Insurance	66,483	10.0	63,692	9.0
Licenses and fees	13,517	2.0	13,247	1.9
Office equipment and supplies	19,584	3.0	13,505	1.9
Office utilities expense	14,636	2.2	14,970	2.1
Postage	21,846	3.3	20,668	2.9
Purchased power, sewer	187,445	25.2	197,432	27.8
Repairs and maintenance	38,705	5.8	3,716	0.5
Safety equipment	2,774	0.4	5,444	0.8
Shop supplies	10,429	1.6	10,333	1.5
Small tools	15,129	2.3	11,266	1.6
Telephone	21,640	3.3	19,912	2.8
Travel and meetings	14,228	2.1	34,537	4.9
Uniforms	7,041	1.1	6,290	0.9
Vehicle and fuel	46,285	7.0	39,656	5.6
<b>Total Operations and Maintenance Expenses</b>	<b>\$ 663,183</b>	<b>100.0</b>	<b>\$ 709,351</b>	<b>100.0</b>

**Thieme  
& Adair  
CPAs**



Certified Public Accountants

**John F. Thieme  
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**AMERICAN SUBURBAN UTILITIES, INC.  
Financial Statements  
Year Ended December 31, 2019 and 2018**

**AMERICAN SUBURBAN UTILITIES, INC.**

**TABLE OF CONTENTS**

<b>Independent Auditor's Report on the Financial Statements and Supplementary Schedules .....</b>	<b>Page 1-2</b>
<b>Financial Statements</b>	
Balance Sheets.....	3
Statements of Income .....	4
Statements of Stockholder's Equity .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7-15
<b>Supplementary Schedules</b>	
Schedules of Operation and Maintenance Expenses.....	16
Schedules of General and Administrative Expenses.....	17

**Thieme  
& Adair  
CPAs**



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**Independent Auditor's Report**

**To Management  
AMERICAN SUBURBAN UTILITIES, INC.  
West Lafayette, Indiana**

We have audited the accompanying financial statements of AMERICAN SUBURBAN UTILITIES, INC. (an Indiana Corporation), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income, stockholder's equity and cash flows for the year ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, where due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AMERICAN SUBURBAN UTILITIES, INC. as of December 31, 2019 and 2018, and the results of its operation and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Thieme  
& Adair  
CPAs**



Certified Public Accountants

**John F. Thieme  
Richard G. Adair**

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***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Operation and Maintenance Expenses and Schedules of General and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

September 17, 2020  
Thieme & Adair CPAs

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Balance Sheets**  
**December 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 4,591	\$ 1,906
Accounts receivable	34,756	29,757
Payroll advances	0	400
Prepaid federal and state income taxes	195,189	0
<b>Total Current Assets</b>	<b>234,536</b>	<b>32,063</b>
<b>Noncurrent Assets</b>		
Property and equipment, net	28,588,534	19,257,011
Construction in process	277,551	7,521,355
Capitalized rate case expenditures, net	164,194	262,712
<b>Total Noncurrent Assets</b>	<b>29,030,279</b>	<b>27,041,078</b>
<b>Total Assets</b>	<b>\$ 29,264,815</b>	<b>\$ 27,073,141</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accrued expenses	\$ 164,646	\$ 183,958
Advances for construction	16,207	26,172
<b>Total Current Liabilities</b>	<b>180,853</b>	<b>210,130</b>
<b>Long-term Liabilities</b>		
Deferred incomes Taxes	189,441	189,441
Bonds payable, net of current maturities	5,100,000	5,100,000
<b>Total Long-term Liabilities</b>	<b>5,289,441</b>	<b>5,289,441</b>
<b>Total Liabilities</b>	<b>5,470,294</b>	<b>5,499,571</b>
<b>Contributions in Aid of Construction</b>	<b>8,852,686</b>	<b>8,852,686</b>
<b>Shareholders' Equity</b>	<b>14,941,835</b>	<b>12,720,884</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 29,264,815</b>	<b>\$ 27,073,141</b>

See accompanying notes.



**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Income**  
**For the Years Ended December 31, 2019 and 2018**

	2019	2018
Revenues		
Residential and multi family	\$ 3,284,680	\$ 3,331,414
Commercial and industrial	292,468	321,043
Other	152,610	94,301
	3,729,758	3,746,758
Operating Expenses		
Operation and maintenance	593,560	658,913
General and administrative	816,729	663,183
Salaries and wages	775,762	639,488
Depreciation and amortization	1,047,798	796,956
Taxes other than income taxes	281,560	250,247
	3,515,409	3,008,787
Total Operating Expenses	3,515,409	3,008,787
Income from Operations	214,349	737,971
Other Income (Expense)		
Contributions in aid of construction	259,500	482,841
Gain on sale of asset	8,004	1,000
Interest income	0	23,864
Interest expense	(218,790)	(238,680)
	48,714	269,025
Total Other Income	48,714	269,025
Income before Income Taxes	263,063	1,006,996
Income Tax Expense	67,112	258,376
<b>Net Income</b>	<b>\$ 195,951</b>	<b>\$ 748,620</b>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Stockholders' Equity**  
**For the Years Ended December 31, 2019 and 2018**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2017	\$ 15,814	\$ 9,212,357	\$ 2,384,093	\$ 11,612,264
Capital Contribution - Scott Lods		360,000		360,000
Net Income			748,620	748,620
Balance, December 31, 2018	15,814	9,572,357	3,132,713	12,720,884
Capital Contribution - Scott Lods		2,025,000		2,025,000
Net Income			195,951	195,951
Balance, December 31, 2019	<u>\$ 15,814</u>	<u>\$ 11,597,357</u>	<u>\$ 3,328,664</u>	<u>\$ 14,941,835</u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 195,951	\$ 748,620
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,047,798	796,956
(Gain) on disposal of assets	(8,004)	(1,000)
(Increase) decrease in accounts receivable	(4,999)	106,646
(Increase) decrease in prepaid income taxes	(195,189)	94,678
(Increase) decrease in payroll advances	400	(400)
Increase (decrease) in accrued expenses	(19,312)	73,814
Increase (decrease) in accrued payroll and withheld taxes	0	(950)
Total Adjustments	<u>820,694</u>	<u>1,069,744</u>
Net cash provided by operating activities	<u>1,016,645</u>	<u>1,818,364</u>
<b>Cash Flows from Investing Activities</b>		
Utility plant additions	(3,036,999)	(6,505,305)
Proceeds from the sale of equipment	<u>8,004</u>	<u>1,000</u>
Net cash used in investing activities	<u>(3,028,995)</u>	<u>(6,504,305)</u>
<b>Cash Flows from Financing Activities</b>		
Contributions in aid of construction	0	107,688
Advances for construction	(9,965)	18,412
Capital contributions from shareholder	<u>2,025,000</u>	<u>360,000</u>
Net cash provided by financing activities	<u>2,015,035</u>	<u>486,100</u>
<b>Net Increase in Cash and Cash Equivalents</b>	2,685	(4,199,841)
Cash and Cash Equivalents, Beginning of Year	<u>1,906</u>	<u>4,201,747</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 4,591</u>	<u>\$ 1,906</u>
<b>Supplemental Cash Flow Disclosures</b>		
Income taxes paid	<u>\$ 263,000</u>	<u>\$ 222,280</u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note A – Nature of Operations and Summary of Significant Accounting Policies:**

**Nature of Operations**

American Suburban Utilities, Inc. (the "Company") is 100% owned by Scott Lods. The Company is engaged in providing wastewater sewage services to residential and commercial customers within its Certificate of Territorial Authority (CTA). The CTA encompasses parts of Tippecanoe and Wabash Townships (excluding the City of West Lafayette), Tippecanoe County, Indiana. The Company operates and maintains wastewater sewage lines and wastewater sewage treatment facilities within the CTA. These facilities have been constructed for American Suburban Utilities, Inc. with the assistance of L3 Corporation and by land developers, which then remit ownership of the wastewater sewage lines and facilities to the Company. The Company has been operating as a utility since 1963. Scott Lods purchased the Company in 1997.

**Concentration of Credit Risk**

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and receivables. The Company places its cash with primarily one financial institution. At times, such amounts may be in excess of the FDIC insured limit. The Company has never experienced any losses related to these balances.

Essentially all trade receivables are concentrated within the portions of Tippecanoe County, Indiana encompassed by the CTA. Therefore, the Company is exposed to certain economic variables within this area and repayment is ultimately depended upon the financial stability of the area.

**Regulation**

The Company's regulated utilities are subject to economic regulation by the Indiana Utility Regulatory Commission (the "IURC"). The IURC generally authorizes revenue at levels intended to recover the estimated costs of providing services, plus a return on net investments, or rate base. The IURC may also impose certain penalties or grant certain incentives. Due to timing and other differences in the collection of utility revenue, an incurred cost that would otherwise be charged to expense by a non-regulated entity is to be deferred as a regulatory asset if it is probable that the cost is recoverable in future rates. Conversely, GAAP requires recording of a regulatory liability for amounts collected in rates to recover costs expected to be incurred in the future or amounts collected in excess of costs incurred and refundable to customers.

**Use of Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. The Company adopted the standard on January 1, 2019 and has concluded that no changes to its current revenue recognition model are necessary in order to conform with the new standard. The Company's revenue is generated substantially from fees charges to customers which predominately contain a single delivery element. Therefore, revenues is recognized at a single point in time when ownership, risks and rewards transfer to the Company's customers.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Accounts Receivable**

Accounts receivable include regulated utility customer accounts receivable, which represent amounts billed to wastewater customers on a cycle basis. Allowances for uncollectible accounts are maintained for estimated losses resulted from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company generally writes off accounts when they become uncollectible or are over a certain number of days outstanding. The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts currently is provided.

**Property, Equipment and Depreciation**

Property and Equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. For rate making purposes, the utility plant is depreciated on an annual basis by utilizing a composite rate of 2.5%. The estimated useful lives are as follows:

Utility plants and facilities	15 – 50 years
Vehicles	3 - 7 years
Office equipment	5-10 years

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. The cost of property or equipment retired or otherwise disposed of and the related accumulated depreciated are removed from the accounts in the year of disposal with the resulting gain or loss reflected in earnings.

The provision for depreciation amounted to \$942,280 and \$698,437 for the years ended December 31, 2019 and 2018, respectively.

**Impairment of Long-lived Assets**

The Company identifies and records impairment losses on long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows attributable to such assets to their carrying value. If the carrying value of the assets exceed the forecasted undiscounted cash flows, then the assets are written down to their fair values.

**Cash Flows**

For purposes of the Statements of Cash Flows, the Company considers all highly liquid instruments that are purchased within three months of their maturity date to be cash equivalents.

The Company received \$86,570 and \$107,688 in contributed sewer lines from land developers during the years ended December 31, 2019 and 2018, respectively. As a result of the Tax Cuts and Jobs Act of 2017 the contributed sewer lines began to be classified as a component of taxable income effective January 1, 2018. These transactions are non-cash transactions for purposes of the Statements of Cash Flows.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Income Taxes**

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes liabilities for uncertain income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition of measurement are reflected in the period in which the change in judgment occurs.

The Company recognizes interest and penalties related to income tax liabilities as a component of income tax expense when they are incurred. The income tax liabilities and accrued interest and penalties are presented as current liabilities.

**Fair Value Measurements**

Accounting Standards Codification (ASC) 820 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined as the exchange prices that would be received for an asset or paid to transfer a liability (or exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimizing the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Union. Unobservable inputs are inputs that reflect the Union's assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

The fair value hierarchy input levels are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Union has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in inactive markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Fair Value Measurements (Continued)**

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases". This new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard also requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Union is currently evaluating the impact of this accounting standards update.

**Note B – Advances for Construction and Contributions in Aid of Construction**

Regulated utility companies may receive advances for construction and contributions in aid of construction from customers, home builders, and real estate developers to fund construction necessary to extend service to new areas.

Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. As of December 31, 2019, and 2018 estimated refunds of advances are \$16,207 and \$26,172, respectively. Those amounts represent expected refunds during the next 12-month period.

Advances that are no longer refundable are reclassified to contributions. Contributions are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serve as a rate base reduction since the contributions represent non-investor supplied funds.

Land developers that wish to develop certain real estate lying within the Company's CTA will enter into agreements with the Company to construct sewage lines. These lines will become the property of the Company, and will generate revenues from commercial and residential hookups, as well as from monthly service fees. The Company will incur costs for monitoring and maintenance of these lines. For instance, a developer will construct a new subdivision and the developer will pay construction companies to install wastewater sewage lines in the subdivision in order to allow the new homeowners to hook their homes to the wastewater sewer. Throughout the construction phase, the Company will inspect the wastewater sewage lines as they are installed. Upon completion of the subdivision the wastewater sewer lines become property of the Company. The new homeowners will then remit payment to the Company based on a monthly rate.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note C – Property, Equipment and Depreciation:**

As summary of property and equipment at December 31, is a follows:

	<u>2019</u>	<u>2018</u>
Utility plants in service	\$ 36,602,217	\$ 27,296,803
Furniture and equipment	1,513,933	1,047,577
Vehicles	865,569	567,993
	<u>38,981,719</u>	<u>28,912,373</u>
Less accumulated depreciation	<u>(10,393,185)</u>	<u>(9,655,362)</u>
	<u>\$ 28,588,534</u>	<u>\$ 19,257,011</u>

**Note D – Common Stock:**

The following summarizes the Company's shares of common stock as of December 31,:

	<u>2019</u>	<u>2018</u>
Par value per share	\$ 0	\$ 0
Authorized	1,000	1,000
Issued	1,000	1,000
Outstanding	142.5	142.5

**Note E – Leases:**

The Company's operating leases consist primarily of facilities; however, the Company enters into month-to-month equipment leasing arrangements from time to time. During 2019 and 2018, the Company leased its facilities on a month-to-month basis from Scott Lods at a rate of \$4,500 per month. This resulted in a total facilities lease expense of \$54,000 for both years ended December 31, 2019 and 2018.

Rental expense for operating leases amounted to \$59,599 and \$59,851 in 2019 and 2018, respectively.

**Note F – Related Parties**

A summary of the Company's related parties is as follows:

**Scott Lods** – 100% owner of the Company.

**First Time Development Corporation** – 100% owned by Scott Lods and provides construction and maintenance services to the Company.

**Howard County Utilities, Inc.** – 100% owned by Scott Lods and provides wastewater treatment to residential and commercial customers located in Howard County, Indiana.

**L3 Corporation** – 100% owned by Scott Lods, borrows monies and provides capital to the Company for the construction of new wastewater treatment plants.



**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note F – Related Parties (Continued)**

**Transactions between the Company and Scott Lods** – As discussed within Note E, the Company rents its office facilities from Scott Lods. Additionally, in his capacity as the Company's President and Chief Operating Officer, Scott Lods received annual salaries of \$194,000 during each of 2019 and 2018.

During 2019, Scott Lods contributed capital to the Company in the amount of \$2,175,000 and the Company remitted to Scott Lods dividend payments of \$150,000. During 2018, Scott Lods contributed capital to the Company in the amount of \$1,938,032 and the Company remitted to Scott Lods dividend payments of \$1,578,032.

**Howard County Utilities, Inc. Transactions** – There were no transactions between the Company and Howard County Utilities, Inc. during 2019 and 2018.

**First Time Development Corporation Transactions** – The Company has contracted with First Time Development Corporation, which is 100% owned by Scott Lods, for certain construction projects to build wastewater sewage facilities. During 2019 and 2018, First Time Development was paid \$1,689,114 and \$5,657,526 respectively, for construction and maintenance of wastewater lines and wastewater sewage treatment facilities.

**L3 Corporation Transactions** – L3 Corporation (L3) is engaged in borrowing and providing capital to the Company, as well as providing management services to First Time Development Corporation. The Company utilizes the capital to construct wastewater treatment facilities. In order for L3 to service its debt, the Company pays dividends to Scott Lods, who then makes capital contributions to L3 which are used to pay interest, principal and other expenses on the debt. L3's debt is secured by (i) assignment of enterprise value and cash flows / utility payments of L3; (ii) a first-priority UCC lien on all of L3's existing and future acquired assets, excluding real estate, but including accounts receivable, inventory, vehicles, machinery and equipment, subsidiary capital stock, chattel paper, documents, instruments, deposit accounts, contract rights, general intangibles and intellectual property; (iii) a negative pledge of all commercial real estate used in the operation of L3; (iv) an unlimited and secured personal guaranty of Scott Lods, supported by an assignment of life insurance in the amount of \$2,800,000 and further secured by a pledge of Mr. Lods' stock in ASU; (v) an unlimited and unsecured guaranty of ASU which includes a negative covenant prohibiting ASU from granting any liens on any of ASU's assets and (vi) an unlimited and unsecured corporate guaranty of First Time Development Corporation, which is only to be released upon satisfactory completions of CE-3.

As of the year ended December 31, 2019, L3 had a total amount of debt outstanding of \$12,300,000 with principal payments commencing November 1, 2020 and ending on November 1, 2034. The interest rates on the debt as of December 31, 2019 ranged from 2.84% to 3.93%. The rates are reset on a monthly basis.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note F – Income Taxes**

Federal and state income tax liability for the year ended December 31, 2019, is summarized as follows:

Current:		
Federal	\$	52,193
State		14,919
		<u>67,112</u>
Deferred:		
Federal		0
State		0
		<u>0</u>
Income tax expense	\$	<u>67,112</u>

Accounting principles generally accepted in the United States of America require the Company to examine its tax positions for uncertain positions. Management is not aware of any tax positions that are more likely than not to change in the next twelve months or that would not sustain an examination by applicable taxing authorities.

The Company's federal and state tax income tax returns for 2017 through 2019 are subject to examination by the applicable taxing authorities, generally for the three years after the later of the original or extended due date.

**Note G – Long-term Debt**

\$5,100,000 Tax-Exempt Fixed Rate Permanent Loan

The loan was issued at a tax-exempt fixed rate for seven years and will be reset thereafter. The interest rate on the loan as of December 31, 2018 was 4.68%. The first principal payment is due on November 1, 2034 with the final principal payment set to occur on November 1, 2037.

	<u>as of 12/31/2019</u>	
Note payable	\$	5,100,000
Less: Current Maturities		-
Total Long-term Bonds Payable	\$	<u>5,100,000</u>
December 31,		
2019	\$	-
2020		-
2021		-
2022		-
2023		-
Thereafter		5,100,000
Total	\$	<u>5,100,000</u>

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note H – 401(K) Profit Sharing Plan**

The Company sponsors a defined contribution plan (401k) that covers substantially all of its full time hourly and salaried employees. The Company's discretionary contributions were \$117,709 and \$85,599 for the years ended December 31, 2019 and 2018, respectively.

**Note I - Reclassification**

Certain amounts included in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications have no effect on total assets, total liabilities, shareholder's equity, or net income as previously reported.

**Note J – Management Evaluation of Subsequent Events**

The Company continues to undertake construction projects to increase the capacity and maintain compliance with regulatory standards. These projects are required by the Environmental Protection Agency (EPA) to comply with new phosphorus treatment regulations. All projects have been approved by the IURC. The outcome and effect of these future transactions remains unknown at this time and has not been reflected in the financial statements.

Upon the substantial completion of the Carriage Estates 3 Plant Expansion ("CE-3") construction project, the Company put into effect the third and final phase of rate increases that have been approved by the IURC. The third phase of the approved rate increases became effective subsequent to year end on January 29, 2020. The effective dates and rates of the phased in rate increases are as follows:

	<u>Phase 1</u>		<u>Phase 2</u>		<u>Phase 3</u>
First date rates are to be charged to customers:	January 1, 2017		June 1, 2017		January 29, 2020
<b>Non-metered Flat Rate</b>					
Residential	\$ 48.89		\$ 53.19		\$ 64.82
Mobile Home	31.78		34.58		42.14
Multi-Family (per unit)	39.60		43.09		52.51
Motels and Hotel (per unit)	15.64		17.02		20.74
Service Stations	126.12		137.23		167.24
Schools/Stud., Staff, Faculty	2.45		2.66		3.24
<b>Metered</b>					
First 10,000 Gallons	\$ 6.12		\$ 6.66		\$ 8.12
Next 10,000 Gallons	6.08		6.61		8.06
Next 100,000 Gallons	5.63		6.12		7.46
Next 200,000 Gallons	5.06		5.51		6.71
Next 200,000 Gallons	4.42		4.81		5.86
Next 500,000 Gallons	3.40		3.70		4.50
Over 1,020,000 Gallons	2.66		2.47		3.01

On January 30, 2020, the World Health Organization declared a global health emergency over the novel coronavirus known as COVID-19. The outbreak has caused a global supply-chain disruption, which is expected to have an impact on the Company's financial results and operations. The ultimate impact of the outbreak to the Company's financial results and operations cannot be determined at this time; however, management is taking actions to mitigate the impact of the outbreak to the Company.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

**Note J – Management Evaluation of Subsequent Events (Continued)**

On March 27, 2020, the CARES Act was enacted in response to the COVID-19 pandemic crisis. The CARES Act contains provisions relating to refundable tax credits, deferment of certain social security payments, as well as funding for SBA programs. As of September 17, 2020, the Company is actively participating in certain SBA programs, though the Company cannot accurately predict the impact of these programs on its financial position, results of operations and cash flows.

Management has evaluated subsequent events through September 17, 2020, the date on which the financial statements were available to be issued.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Schedules of Operation and Maintenance Expenses**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>%</u>	<u>2018</u>	<u>%</u>
Operations and Maintenance:				
Repairs and maintenance	\$ 87,492	14.7	\$ 96,535	14.7
Legal and professional fees	164,434	27.7	193,477	29.4
Materials and supplies	81,872	13.8	73,999	11.2
Chemicals	115,224	19.4	49,173	7.5
Engineering and treatment costs	144,538	24.4	245,729	37.3
Total Operations and Maintenance Expenses	<u>\$ 593,560</u>	<u>100.0</u>	<u>\$ 658,913</u>	<u>100.0</u>

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Schedules of General and Administrative Expenses**  
**For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>%</u>	<u>2018</u>	<u>%</u>
Operations and Maintenance:				
Bank charges	\$ 7,516	0.9	\$ 5,252	0.8
Board of directors fees	1,797	0.2	1,797	0.3
Building rent	56,055	6.9	56,006	8.4
Company 401(k) contributions	117,709	14.4	85,599	12.9
Computer and software	4,568	0.6	3,770	0.6
Contributions	2,000	0.2	1,000	0.2
Dues and subscriptions	7,174	0.9	8,600	1.3
Education and training	3,935	0.5	3,600	0.5
Employee relations	10,941	1.3	3,770	0.6
Equipment rental	3,544	0.4	3,845	0.6
Employee health reimbursements	21,164	2.6	22,702	3.4
IDEM fees	7,045	0.9	7,700	1.2
Insurance	76,209	9.3	66,483	10.0
Licenses and fees	16,971	2.1	13,517	2.0
Office equipment and supplies	16,397	2.0	19,584	3.0
Office utilities expense	13,817	1.7	14,636	2.2
Postage	27,896	3.4	21,646	3.3
Purchased power, sewer	219,406	26.9	167,445	25.2
Repairs and maintenance	68,720	8.4	38,705	5.8
Safety equipment	3,160	0.4	2,774	0.4
Shop supplies	8,136	1.0	10,429	1.6
Small tools	13,347	1.6	15,129	2.3
Telephone	25,399	3.1	21,640	3.3
Travel and meetings	10,881	1.3	14,228	2.1
Uniforms	8,103	1.0	7,041	1.1
Vehicle and fuel	64,839	7.9	46,285	7.0
Total Operations and Maintenance Expenses	<u>\$ 816,729</u>	<u>100.0</u>	<u>\$ 663,183</u>	<u>100.0</u>

Thieme, Adair  
& Riley  
CPAs



Certified Public Accountants

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**AMERICAN SUBURBAN UTILITIES, INC.**  
**Financial Statements**  
**Year Ended December 31, 2020 and 2019**

**AMERICAN SUBURBAN UTILITIES, INC.**

**TABLE OF CONTENTS**

<b>Independent Accountant's Report on the Financial Statements and Supplementary Schedules .....</b>	<b>Page 1-2</b>
<b>Financial Statements</b>	
Balance Sheets.....	3
Statements of Income .....	4
Statements of Stockholder's Equity .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7-15
<b>Supplementary Schedules</b>	
Schedules of Operation and Maintenance Expenses.....	16
Schedules of General and Administrative Expenses .....	17



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## Independent Accountant's Review Report

### To Management

**AMERICAN SUBURBAN UTILITIES, INC.**

**West Lafayette, Indiana**

We have reviewed the accompanying financial statements of American Suburban Utilities, Inc. (a corporation), which comprise the balance sheet as of December 31, 2020, and the related statements of income and stockholder's equity and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

### *Accountant's Responsibility*

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether I am (we are) aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### *Accountant's Conclusion*

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2020 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

### *Report on Supplementary Information*

The supplementary information included in the Schedules of Operation and Maintenance Expenses and Schedules of General and Administrative Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management. We have not audited or reviewed such information and we do not express an opinion, a conclusion, nor provide any assurance on it.

Thieme, Adair  
& Riley  
CPAs



Certified Public Accountants

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**Report on 2019 Financial Statements**

The 2019 financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated September 17, 2020. We have not performed any auditing procedures since that date.

*Thieme, Adair & Riley, CPAs*

December 1, 2021  
Lafayette, Indiana  
Thieme, Adair & Riley CPAs

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Balance Sheets**  
**December 31, 2020 and 2019**

	<u>(Reviewed)</u> <u>2020</u>	<u>(Audited)</u> <u>2019</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 21,446	\$ 4,591
Accounts receivable	88,551	34,756
Prepaid federal and state income taxes	0	195,189
	<hr/>	<hr/>
Total Current Assets	109,997	234,536
<b>Noncurrent Assets</b>		
Property and equipment, net	31,436,899	28,588,534
Construction in process	0	277,551
Capitalized rate case expenditures, net	65,678	164,196
	<hr/>	<hr/>
Total Noncurrent Assets	31,502,577	29,030,281
	<hr/>	<hr/>
Total Assets	<u>\$ 31,612,574</u>	<u>\$ 29,264,817</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accrued expenses	\$ 148,771	\$ 164,648
Accrued income taxes	410,692	0
Advances for construction	25,138	16,207
	<hr/>	<hr/>
Total Current Liabilities	584,601	180,855
<b>Long-term Liabilities</b>		
Deferred incomes Taxes	189,441	189,441
Payroll Protection Program loan	168,880	0
Bonds payable, net of current maturities	5,100,000	5,100,000
	<hr/>	<hr/>
Total Long-term Liabilities	5,458,321	5,289,441
Total Liabilities	6,042,922	5,470,296
<b>Contributions in Aid of Construction</b>	8,852,686	8,852,686
<b>Shareholders' Equity</b>	<hr/>	<hr/>
	16,716,966	14,941,835
	<hr/>	<hr/>
Total Liabilities and Shareholders' Equity	<u>\$ 31,612,574</u>	<u>\$ 29,264,817</u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Income**  
**For the Years Ended December 31, 2020 and 2019**

	<u>(Reviewed)</u> <u>2020</u>	<u>(Audited)</u> <u>2019</u>
Revenues		
Residential and multi family	\$ 4,273,157	\$ 3,425,280
Commercial and industrial	255,737	292,468
Other	1,787	12,010
	<u>4,530,681</u>	<u>3,729,758</u>
Operating Expenses		
Operation and maintenance	778,009	593,560
General and administrative	824,278	816,729
Salaries and wages	821,930	775,762
Depreciation and amortization	1,147,297	1,047,798
Taxes other than income taxes	342,931	281,560
	<u>3,914,445</u>	<u>3,515,409</u>
Total Operating Expenses	<u>3,914,445</u>	<u>3,515,409</u>
Income from Operations	<u>616,236</u>	<u>214,349</u>
Other Income (Expense)		
Contributions in aid of construction	1,713,025	259,500
Gain(Loss) on sale of assets	(45,042)	8,004
Miscellaneous income	3,750	0
Interest expense	(238,680)	(218,790)
	<u>1,433,053</u>	<u>48,714</u>
Total Other Income	<u>1,433,053</u>	<u>48,714</u>
Income before Income Taxes	2,049,289	263,063
Income Tax Expense	<u>517,288</u>	<u>67,112</u>
<b>Net Income</b>	<u><u>\$ 1,532,001</u></u>	<u><u>\$ 195,951</u></u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Stockholders' Equity**  
**For the Years Ended December 31, 2020 and 2019**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance, December 31, 2018	\$ 15,814	\$ 9,572,357	\$ 3,132,713	\$ 12,720,884
Capital Contribution - Scott Lods		2,025,000		2,025,000
Net Income			195,951	195,951
Balance, December 31, 2019	15,814	11,597,357	3,328,664	14,941,835
Capital Contribution - Scott Lods		243,130		243,130
Net Income			1,532,001	1,532,001
Balance, December 31, 2020	<u>\$ 15,814</u>	<u>\$ 11,840,487</u>	<u>\$ 4,860,665</u>	<u>\$ 16,716,966</u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2020 and 2019**

	<u>(Reviewed)</u> <u>2020</u>	<u>(Audited)</u> <u>2019</u>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 1,532,001	\$ 195,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,147,297	1,047,798
(Gain) on disposal of assets	45,042	(8,004)
(Increase) decrease in accounts receivable	(53,795)	(4,999)
(Increase) decrease in prepaid income taxes	195,189	(195,189)
(Increase) decrease in payroll advances	0	400
Increase (decrease) in accrued expenses	(15,877)	(19,312)
Increase in accrued income taxes	410,692	0
Total Adjustments	<u>1,728,548</u>	<u>820,694</u>
Net cash provided by operating activities	<u>3,260,549</u>	<u>1,016,645</u>
<b>Cash Flows from Investing Activities</b>		
Utility plant additions	(3,789,635)	(3,036,999)
Proceeds from the sale of equipment	125,000	8,004
Net cash used in investing activities	<u>(3,664,635)</u>	<u>(3,028,995)</u>
<b>Cash Flows from Financing Activities</b>		
Advances for construction	8,931	(9,965)
Capital contributions from shareholder	243,130	2,025,000
Net cash provided by financing activities	<u>420,941</u>	<u>2,015,035</u>
<b>Net Increase in Cash and Cash Equivalents</b>	16,855	2,685
Cash and Cash Equivalents, Beginning of Year	<u>4,591</u>	<u>1,906</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 21,446</u>	<u>\$ 4,591</u>
<b>Supplemental Cash Flow Disclosures</b>		
Income taxes paid	<u>\$ 246,037</u>	<u>\$ 263,000</u>

See accompanying notes.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

**Note A – Nature of Operations and Summary of Significant Accounting Policies:**

**Nature of Operations**

American Suburban Utilities, Inc. (the "Company") is 100% owned by Scott Lods. The Company is engaged in providing wastewater sewage services to residential and commercial customers within its Certificate of Territorial Authority (CTA). The CTA encompasses parts of Tippecanoe and Wabash Townships (excluding the City of West Lafayette), Tippecanoe County, Indiana. The Company operates and maintains wastewater sewage lines and wastewater sewage treatment facilities within the CTA. These facilities have been constructed for American Suburban Utilities, Inc. with the assistance of L3 Corporation and by land developers, which then remit ownership of the wastewater sewage lines and facilities to the Company. The Company has been operating as a utility since 1963. Scott Lods purchased the Company in 1997.

**Concentration of Credit Risk**

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and receivables. The Company places its cash with primarily one financial institution. At times, such amounts may be in excess of the FDIC insured limit. The Company has never experienced any losses related to these balances.

Essentially all trade receivables are concentrated within the portions of Tippecanoe County, Indiana encompassed by the CTA. Therefore, the Company is exposed to certain economic variables within this area and repayment is ultimately dependent upon the financial stability of the area.

**Regulation**

The Company's regulated utilities are subject to economic regulation by the Indiana Utility Regulatory Commission (the "IURC"). The IURC generally authorizes revenue at levels intended to recover the estimated costs of providing services, plus a return on net investments, or rate base. The IURC may also impose certain penalties or grant certain incentives. Due to timing and other differences in the collection of utility revenue, an incurred cost that would otherwise be charged to expense by a non-regulated entity is to be deferred as a regulatory asset if it is probable that the cost is recoverable in future rates. Conversely, GAAP requires recording of a regulatory liability for amounts collected in rates to recover costs expected to be incurred in the future or amounts collected in excess of costs incurred and refundable to customers.

**Use of Estimates**

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This guidance outlines a single, comprehensive model for accounting for revenue from contracts with customers. The Company adopted the standard on January 1, 2019 and has concluded that no changes to its current revenue recognition model are necessary in order to conform with the new standard. The Company's revenue is generated substantially from fees charges to customers which predominately contain a single delivery element. Therefore, revenues is recognized at a single point in time when ownership, risks and rewards transfer to the Company's customers.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Accounts Receivable**

Accounts receivable include regulated utility customer accounts receivable, which represent amounts billed to wastewater customers on a cycle basis. Allowances for uncollectible accounts are maintained for estimated losses resulted from the Company's inability to collect receivables from customers. Accounts that are outstanding longer than the payment terms are considered past due. A number of factors are considered in determining the allowance for uncollectible accounts, including the length of time receivables are past due and previous loss history. The Company generally writes off accounts when they become uncollectible or are over a certain number of days outstanding. The Company considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts currently is provided.

**Property, Equipment and Depreciation**

Property and Equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. For rate making purposes, the utility plant is depreciated on an annual basis by utilizing a composite rate of 2.5%. The estimated useful lives are as follows:

Utility plants and facilities	15 – 50 years
Vehicles	3 - 7 years
Office equipment	5-10 years

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. The cost of property or equipment retired or otherwise disposed of and the related accumulated depreciated are removed from the accounts in the year of disposal with the resulting gain or loss reflected in earnings.

The provision for depreciation amounted to \$1,048,779 and \$942,280 for the years ended December 31, 2020 and 2019, respectively.

**Impairment of Long-lived Assets**

The Company identifies and records impairment losses on long-lived assets whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Recoverability of these assets is determined by comparing the forecasted undiscounted cash flows attributable to such assets to their carrying value. If the carrying value of the assets exceed the forecasted undiscounted cash flows, then the assets are written down to their fair values.

**Cash Flows**

For purposes of the Statements of Cash Flows, the Company considers all highly liquid instruments that are purchased within three months of their maturity date to be cash equivalents.

The Company received \$1,406,462 and \$86,570 in contributed sewer lines from land developers during the years ended December 31, 2020 and 2019, respectively. As a result of the Tax Cuts and Jobs Act of 2017 the contributed sewer lines began to be classified as a component of taxable income effective January 1, 2018. These transactions are non-cash transactions for purposes of the Statements of Cash Flows.



**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Income Taxes**

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes liabilities for uncertain income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition of measurement are reflected in the period in which the change in judgment occurs.

The Company recognizes interest and penalties related to income tax liabilities as a component of income tax expense when they are incurred. The income tax liabilities and accrued interest and penalties are presented as current liabilities.

**Fair Value Measurements**

Accounting Standards Codification (ASC) 820 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined as the exchange prices that would be received for an asset or paid to transfer a liability (or exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimizing the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Union. Unobservable inputs are inputs that reflect the Union's assumptions about the inputs that market participants would use in pricing the asset or liability and are developed based on the best information available in the circumstances.

The fair value hierarchy input levels are as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Union has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in inactive markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

**Note A – Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Fair Value Measurements (Continued)**

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases". This new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard also requires a lessor to classify leases as either sales-type, finance or operating. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, an operating lease results. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of this accounting standards update.

**Note B – Advances for Construction and Contributions in Aid of Construction**

Regulated utility companies may receive advances for construction and contributions in aid of construction from customers, home builders, and real estate developers to fund construction necessary to extend service to new areas.

Advances are refundable for limited periods of time as new customers begin to receive service or other contractual obligations are fulfilled. As of December 31, 2020, and 2019 estimated refunds of advances are \$25,138 and \$16,207, respectively. Those amounts represent expected refunds during the next 12-month period.

Advances that are no longer refundable are reclassified to contributions. Contributions are permanent collections of plant assets or cash for a particular construction project. For ratemaking purposes, the amount of such contributions generally serve as a rate base reduction since the contributions represent non-investor supplied funds.

Land developers that wish to develop certain real estate lying within the Company's CTA will enter into agreements with the Company to construct sewage lines. These lines will become the property of the Company, and will generate revenues from commercial and residential hookups, as well as from monthly service fees. The Company will incur costs for monitoring and maintenance of these lines. For instance, a developer will construct a new subdivision and the developer will pay construction companies to install wastewater sewage lines in the subdivision in order to allow the new homeowners to hook their homes to the wastewater sewer. Throughout the construction phase, the Company will inspect the wastewater sewage lines as they are installed. Upon completion of the subdivision the wastewater sewer lines become property of the Company. The new homeowners will then remit payment to the Company based on a monthly rate.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

**Note C – Property, Equipment and Depreciation:**

As summary of property and equipment at December 31, is a follows:

	(Reviewed) 2020	(Audited) 2019
Utility plants in service	\$ 39,965,477	\$ 36,602,217
Furniture and equipment	1,997,857	1,513,933
Vehicles	911,168	865,569
	42,874,502	38,981,719
Less accumulated depreciation	(11,437,603)	(10,393,185)
	<u>\$ 31,436,899</u>	<u>\$ 28,588,534</u>

**Note D – Common Stock:**

The following summarizes the Company's shares of common stock as of December 31,:

	2020	2019
Par value per share	\$ 0	\$ 0
Authorized	1,000	1,000
Issued	1,000	1,000
Outstanding	142.5	142.5

**Note E – Leases:**

The Company's operating leases consist primarily of facilities; however, the Company enters into month-to-month equipment leasing arrangements from time to time. During 2020 and 2019, the Company leased its facilities on a month-to-month basis from Scott Lods at a rate of \$4,500 per month. This resulted in a total facilities lease expense of \$54,000 for both years ended December 31, 2020 and 2019.

Rental expense for operating leases amounted to \$62,190 and \$59,599 in 2020 and 2019, respectively.

**Note F – Related Parties**

A summary of the Company's related parties is as follows:

**Scott Lods** – 100% owner of the Company.

**First Time Development Corporation** – 100% owned by Scott Lods and provides construction and maintenance services to the Company.

**Howard County Utilities, Inc.** – 100% owned by Scott Lods and provides wastewater treatment to residential and commercial customers located in Howard County, Indiana. This entity and all related assets were disposed of in a fully taxable transaction on December 30, 2020.

**L3 Corporation** – 100% owned by Scott Lods, borrows monies and provides capital to the Company for the construction of new wastewater treatment plants.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

**Note F – Related Parties (Continued)**

**Transactions between the Company and Scott Lods** – As discussed within Note E, the Company rents its office facilities from Scott Lods. Additionally, in his capacity as the Company's President and Chief Operating Officer, Scott Lods received annual salaries of \$194,000 during each of 2020 and 2019.

During 2020 and 2019, Scott Lods contributed capital to the Company in the amount of \$243,127 and \$2,025,000, respectively.

**Howard County Utilities, Inc. Transactions** – There were no transactions between the Company and Howard County Utilities, Inc. during 2020 and 2019.

**First Time Development Corporation Transactions** – The Company has contracted with First Time Development Corporation, which is 100% owned by Scott Lods, for certain construction projects to build wastewater sewage facilities. During 2020 and 2019, First Time Development was paid \$447,750 and \$1,689,114 respectively, for construction and maintenance of wastewater lines and wastewater sewage treatment facilities. Additionally, during 2020, the Company purchased used machinery and equipment items from First Time Development totaling \$220,000.

**L3 Corporation Transactions** – L3 Corporation (L3) is engaged in borrowing and providing capital to the Company, as well as providing management services to First Time Development Corporation. The Company utilizes the capital to construct wastewater treatment facilities. In order for L3 to service its debt, the Company pays dividends to Scott Lods, who then makes capital contributions to L3 which are used to pay interest, principal and other expenses on the debt. L3's debt is secured by (i) assignment of enterprise value and cash flows / utility payments of L3; (ii) a first-priority UCC lien on all of L3's existing and future acquired assets, excluding real estate, but including accounts receivable, inventory, vehicles, machinery and equipment, subsidiary capital stock, chattel paper, documents, instruments, deposit accounts, contract rights, general intangibles and intellectual property; (iii) a negative pledge of all commercial real estate used in the operation of L3; (iv) an unlimited and secured personal guaranty of Scott Lods, supported by an assignment of life insurance in the amount of \$2,800,000 and further a secured by a pledge of Mr. Lods' stock in ASU; (v) an unlimited and unsecured guaranty of ASU which includes a negative covenant prohibiting ASU from granting any liens on any of ASU's assets and (vi) an unlimited and unsecured corporate guaranty of First Time Development Corporation, which is only to be released upon satisfactory completions of CE-3.

As of the year ended December 31, 2020, L3 had a total amount of debt outstanding of \$12,710,000 with principal payments commencing November 1, 2020 and ending on November 19, 2040. The interest rates on the debt as of December 31, 2020 ranged from 1.28% to 4.25%. The rates are reset on a monthly basis.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

**Note F – Income Taxes**

Federal and state income tax liability for the year ended December 31, 2020, is summarized as follows:

Current:		
Federal	\$	407,241
State		110,047
		<u>517,288</u>
Deferred:		
Federal		0
State		0
		<u>0</u>
Income tax expense	\$	<u>517,288</u>

Accounting principles generally accepted in the United States of America require the Company to examine its tax positions for uncertain positions. Management is not aware of any tax positions that are more likely than not to change in the next twelve months or that would not sustain an examination by applicable taxing authorities.

The Company's federal and state tax income tax returns for 2018 through 2020 are subject to examination by the applicable taxing authorities, generally for the three years after the later of the original or extended due date.

**Note G – Long-term Debt**

\$5,100,000 Tax-Exempt Fixed Rate Permanent Loan

The loan was issued at a tax-exempt fixed rate for seven years and will be reset thereafter. The interest rate on the loan as of December 31, 2020 was 4.68%. The first principal payment is due on November 1, 2034 with the final principal payment set to occur on November 1, 2037.

		<u>as of 12/31/2020</u>
Note payable	\$	5,100,000
Less: Current Maturities		-
Total Long-term Bonds Payable	\$	<u>5,100,000</u>
December 31,		
2019	\$	-
2020		-
2021		-
2022		-
2023		-
Thereafter		5,100,000
Total	\$	<u>5,100,000</u>

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

**Note H – 401(K) Profit Sharing Plan**

The Company sponsors a defined contribution plan (401k) that covers substantially all of its full time hourly and salaried employees. The Company's discretionary contributions were \$120,881 and \$85,599 for the years ended December 31, 2020 and 2019, respectively.

**Note I - Reclassification**

Certain amounts included in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications have no effect on total assets, total liabilities, shareholder's equity, or net income as previously reported.

**Note J – Coronavirus Aid, Relief and Economic Security Act ("CARES Act")**

On April 14, 2020, the Company received loan proceeds in the amount of \$168,880 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provided for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. Under the terms of the PPP the loans and accrued interest were forgivable after eight weeks as long as the borrower used the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintained its payroll levels. If payroll levels were not maintained then the amount of loan forgiveness would be reduced accordingly based on the severity of reduction in payroll levels.

The Company was formally notified by the SBA on March 12, 2021 that the loan, along with accrued interest, was forgiven in full. In accordance with IRS guidelines, the loan proceeds will not be taxed as cancellation of debt income.

**Note K – Management Evaluation of Subsequent Events**

On September 30, 2021, the Indiana Utility Regulatory Commission (IURC) issued a new set of Phase 3 tariffs which effectively cancelled all previously approved tariffs. The decrease in tariffs was due to the IURC decreasing ASU's utility plant in service costs by \$1,237,000, which negatively impacted ASU's overall rate base. The end result of the decrease in ASU's rate base led to an approximate 9% decrease in Phase 3 rates from the previously approved rates which ASU began charging customers on January 29, 2020.

In addition to the rate decrease discussed above, the IURC also ruled that ASU began charging customers the previously allowed Phase 3 rates prematurely. The IURC came to the conclusion that the construction project tied to the Phase 3 rates had not been completed by the time these rates began being billed to customers. As a result of this decision on behalf of the IURC, ASU is required to reimburse its customer base an amount of \$922,642 which is payable over a 12-month period beginning on October 31, 2021.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Notes to Financial Statements**  
**December 31, 2020 and 2019**

**Note K – Management Evaluation of Subsequent Events (Continued)**

The following schedule illustrates the decrease rates across the board for the Company as a result of the new Phase 3 tariffs:

	(Previous Rates) <u>Phase 3</u>		(Current Rates) <u>Phase 3</u>
First date rates are to be charged to customers:	January 29, 2020		September 30, 2021
<b>Non-metered Flat Rate</b>			
Residential	\$ 64.82	\$	59.08
Mobile Home	42.14		38.41
Multi-Family (per unit)	52.51		47.86
Motels and Hotel (per unit)	20.74		18.91
Service Stations	167.24		152.44
Schools/Stud., Staff, Faculty	3.24		2.95
<b>Metered</b>			
First 10,000 Gallons	\$ 8.12	\$	7.40
Next 10,000 Gallons	8.06		7.40
Next 100,000 Gallons	7.46		6.80
Next 200,000 Gallons	6.71		6.12
Next 200,000 Gallons	5.86		5.34
Next 500,000 Gallons	4.50		4.11
Over 1,020,000 Gallons	3.01		2.74

Management has evaluated subsequent events through December 1, 2021, the date on which the financial statements were available to be issued.

**AMERICAN SUBURBAN UTILITIES, INC.**  
**Schedules of Operation and Maintenance Expenses**  
**For the Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>%</u>	<u>2019</u>	<u>%</u>
Operations and Maintenance:				
Repairs and maintenance	\$ 155,442	20.0	\$ 104,622	17.6
Legal and professional fees	211,163	27.1	164,434	27.7
Materials and supplies	150,506	19.3	81,872	13.8
Chemicals	60,545	7.8	115,224	19.4
Engineering and treatment costs	200,353	25.8	127,408	21.5
Total Operations and Maintenance Expenses	<u>\$ 778,009</u>	<u>100.0</u>	<u>\$ 593,560</u>	<u>100.0</u>



**AMERICAN SUBURBAN UTILITIES, INC.**  
**Schedules of General and Administrative Expenses**  
**For the Years Ended December 31, 2020 and 2019**

	<u>2020</u>	<u>%</u>	<u>2019</u>	<u>%</u>
Operations and Maintenance:				
Bank charges	\$ 7,852	1.0	\$ 7,516	0.9
Board of directors fees	1,797	0.2	1,797	0.2
Building rent	60,083	7.3	56,055	6.9
Company 401(k) contributions	120,881	14.7	117,709	14.4
Computer and software	7,820	0.9	4,568	0.6
Contributions	208	0.0	2,000	0.2
Dues and subscriptions	9,180	1.1	7,174	0.9
Education and training	1,545	0.2	3,935	0.5
Employee relations	14,678	1.8	10,151	1.2
Equipment rental	2,107	0.3	3,544	0.4
Employee health reimbursements	20,580	2.5	21,164	2.6
IDEM fees	20,900	2.5	7,045	0.9
Insurance	65,690	8.0	76,209	9.3
Licenses and fees	15,383	1.9	16,971	2.1
Office equipment and supplies	15,033	1.8	16,397	2.0
Office utilities expense	12,881	1.6	13,817	1.7
Postage	28,608	3.5	27,896	3.4
Purchased power, sewer	253,419	30.7	219,406	26.9
Repairs and maintenance	39,040	4.7	68,720	8.4
Safety equipment	8,783	1.1	3,160	0.4
Shop supplies	9,170	1.1	8,136	1.0
Small tools	15,112	1.8	13,347	1.6
Telephone	22,745	2.8	25,399	3.1
Travel and meetings	19,592	2.4	11,671	1.4
Uniforms	7,903	1.0	8,103	1.0
Vehicle and fuel	43,288	5.3	64,839	7.9
	<u>\$ 824,278</u>	<u>100.0</u>	<u>\$ 816,729</u>	<u>100.0</u>
Total Operations and Maintenance Expenses	<u>\$ 824,278</u>	<u>100.0</u>	<u>\$ 816,729</u>	<u>100.0</u>

*"EXCLUDED FROM PUBLIC ACCESS PER ACCESS TO COURT RECORDS RULE 5."*

**CONFIDENTIAL**  
**OUCG ATTACHMENT SD-8**  
**CAUSE NO. 45649-U**

**OUCC DR 4-1**

**DATA INFORMATION REQUEST  
American Suburban Utilities, Inc.**

**Cause No. 45649-U**

**Information Requested:**

Please See Attachment A, which is an excerpt from Exhibit D (Section V. d.) of the December 1, 2017 Bond Purchase and Loan Agreement (Indiana Finance Authority, Horizon Bank, and American Suburban Utilities, Inc. as parties thereto), which sets forth the annual financial reporting ASU is required to provide to the lender, Horizon Bank.

In its Order in Cause No. 44676/44700, dated November 30, 2016, the Commission ordered American Suburban Utilities, Inc. (“ASU”) to comply with the following reporting requirement (page 44 of 45):

7. Within 30 days after issuance of the long-term debt, Petitioner shall submit a report to the Commission with a copy to the OUCC describing the terms of the financing. Petitioner shall also provide the Commission and the OUCC a copy of the annual reviewed financial statements required to be provided to Petitioner's lender in connection with the financing authorized herein.

(emphasis added.)

- a. Please provide the audited statements for 2020. (Note: A document was filed with the IURC on December 22, 2021 (“Submission of Supplemental Information for Addenda to Application”) represented to be the audited financial statements for 2020 that were supplied to ASU’s lender. However, the document itself indicated it was not audited, but was a reviewed statement.
- b. Please provide the “audited financial statements of L3” for the years 2017, 2018, 2019 and 2020.
- c. Please provide the combined financial statements of ASU and L3, certified as true and correct by the applicable CFO of ASU and L3 for the years 2017, 2018, 2019 and 2020.

- d. Please provide the unaudited annual company prepared financial statements of First Time Development, certified as true and correct by the applicable CFO of First Time Development for the years 2017, 2018, 2019 and 2020.

**Information Provided:**

- a. The materials submitted on December 22, 2021 are the materials that were supplied to the lender. Audited financials for 2020 have not been provided to the lender.
- b. Petitioner objects to providing financial statements for L3 on the grounds that it is irrelevant and not reasonably calculated to lead to the discovery of admissible evidence. L3 has no ownership interest in ASU, but is a separate corporation owned by Mr. Lods.
- c. There are no combined financial statements of L3 and ASU, as L3 has no ownership interest in ASU.
- d. See attached letter indicating that financial statements from First Time Development were not required from the bank.

**Attachments:**

OUCG DR 4-1(d).pdf

Attachment A

- d. The Borrower and all Guarantors shall furnish to the Purchaser and its duly authorized representatives such information respecting the business and financial condition of the Borrower and all Guarantors as the Purchaser may reasonably request; and without any request, shall furnish to the Purchaser:
- i. no later than forty-five (45) days following the end of each calendar quarter:
    - 1. the unaudited quarterly company prepared Financial Statements of the Borrower and L 3, prepared on a cash basis, and certified as true and correct by the applicable Chief Financial Officer of Borrower and L 3, respectively; and
    - 2. quarterly reports evidencing customer counts and effluent test results of each of the Borrower and L 3 in form reasonably satisfactory to the Purchaser;
  - ii. no later than ninety (90) days following the end of each fiscal year:
    - 1. unaudited annual company prepared Financial Statements of the Borrower and L 3, with respect to the combined financials of the Borrower and L 3, certified as true and correct by the applicable Chief Financial Officer of Borrower and L 3, respectively;
    - 2. unaudited annual company prepared Financial Statements of First Time Development, certified as true and correct by the applicable Chief Financial Officer of First Time Development;
    - 3. audited annual Financial Statements of the Borrower; and
    - 4. audited annual Financial Statements of L 3;
  - iii. within thirty (30) days following filing, the annual tax returns (including actual and all K1 schedules) of each of the Borrower, L 3, First Time Development and Lods; provided, that, should a request for any extension with a taxing agency be filed, copies of such annual tax returns shall be due within thirty (30) days following the filing in accordance with any such extended deadline;
  - iv. other information as reasonably requested by the Purchaser.
- e. Beginning with the calendar year ended December 31, 2018 and throughout the remainder of the term of the Loans, each of the Borrower and L 3 shall maintain an Annual Post Distribution Debt Service Coverage Ratio of not less than 1.10 to 1.00.



January 18, 2022

American Suburban Utilities, Inc.

Attention: Scott Lods

3350 W 250 N

West Lafayette, IN 47906

Re: The Collecting of First Time Development Financials

Dear Mr. Lods:

I am writing you with regards to your bring to my attention the collecting of the unaudited annual company prepared financial statement of First Time Development. I have reviewed the Bank's internal approval memo for American Suburban Utilities, Inc., the bond purchase and loan agreement prepared by legal counsel. Our approval memo did not include the collecting of the unaudited annual company prepared financial statement of First Time Development. It was mistakenly included into the loan agreement by legal counsel.

I appreciate you bring this to our attention and will get corrected at our first opportunity.

Best Regards,

A handwritten signature in dark ink, appearing to read "Timothy Schooler", written in a cursive style.

Timothy Schooler

Market President

**OUCC DR 6-1**

**DATA INFORMATION REQUEST  
American Suburban Utilities, Inc.**

**Cause No. 45649-U**

**Information Requested:**

ASU's response to OUCC DR 4-1 a. indicated audited financials for 2020 for ASU have not been provided to the lender.

- a. Please explain why ASU's audited financials for 2020 were not provided to the lender.
- b. Please include any documents that affected ASU's decision not to provide the audited financial statements for 2020 to the lender.
- c. Does ASU *have* audited financial statements for 2020?
- d. Does ASU anticipate providing Audited Financials for 2020 to the lender? If so, when?
- e. Will ASU provide audited financials for 2021 to the lender? Please explain why or why not.

**Information Provided:**

a-e Petitioner's certified public accountant (John Thieme), who has provided audited financial statements in prior years, indicated he simply lacks the time to prepare fully audited financial statements, which would have necessitated securing another accountant just to perform the audit. This would have come at considerable expense. Mr. Thieme contacted the bank and asked whether reviewed financial statements would be acceptable, and the bank indicated to him they would be. ASU does not have audited financial statements for 2020 and will not be providing audited financial statements to the lender for 2021.

**OUCG DR 6-2**

**DATA INFORMATION REQUEST  
American Suburban Utilities, Inc.**

**Cause No. 45649-U**

**Information Requested:**

Admit that in its Order in Cause No. 44676/44700, dated November 30, 2016, the Commission authorized American Suburban Utilities, Inc. (“ASU”) to borrow the money ASU ultimately borrowed from the Horizon Bank as memorialized in the December 1, 2017 Bond Purchase and Loan Agreement.

**Information Provided:**

Admit.



**OUCG DR 6-3**

**DATA INFORMATION REQUEST  
American Suburban Utilities, Inc.**

**Cause No. 45649-U**

**Information Requested:**

See page 44 of the November 30, 2016 order in Cause No. 44676/44700. Admit that in its November 30, 2016 order in Cause No. 44676/44700 (p.44), the Commission required ASU to “provide the Commission and the OUCG a copy of the annual reviewed financial statements required to be provided to the lender in connection with the financing authorized” by the order.

**Information Provided:**

Admit with clarification. The “annual reviewed financial statements required to be provided to the lender in connection with the financing authorized” was referring to the Term Sheet Proposal which was filed with the Commission as Attachment JRS-4, p. 3 in Cause No. 44700.

**OUCC DR 6-4**

**DATA INFORMATION REQUEST  
American Suburban Utilities, Inc.**

**Cause No. 45649-U**

**Information Requested:**

Admit that pursuant to Exhibit D (Section V. d.) of the December 1, 2017 Bond Purchase and Loan Agreement (included as Attachment A to OUCC DR 4), the lender required the audited financial statements for L3 to be submitted annually. If not an unqualified admission, explain why that submission was not required by the lender in that document.

**Information Provided:**

The December 1, 2017 Bond Purchase and Loan Agreement speaks for itself. Deny that this document is identifying the “annual reviewed financial statements required to be provided to the lender in connection with the financing authorized” as described in the Commission’s November 30, 2016 Order because the December 1, 2017 Agreement did not exist at the time of the Commission’s Order. The Commission’s Order is referring to the Term sheet discussed in Response to OUCC Q 6-3, which was placed in the record in that Cause.

**OUCG DR 6-5**

**DATA INFORMATION REQUEST  
American Suburban Utilities, Inc.**

**Cause No. 45649-U**

**Information Requested:**

If there are no combined financial statements of L3 and ASU, as indicated by ASU in its response to OUCG DR 4-1(c.), why did ASU sign an agreement with Horizon Bank promising to provide combined financial statements of L3 and ASU?

**Information Provided:**

L3 has no ownership interest in ASU. The concept of consolidated or combined financial statements is not applicable to L3 and ASU. It was oversight. See Response to OUCG DR 6-6.

**OUCG DR 6-6**

**DATA INFORMATION REQUEST  
American Suburban Utilities, Inc.**

**Cause No. 45649-U**

**Information Requested:**

Has Horizon Bank ever received combined financial statements of L3 and ASU? If not, why not?

**Objection:**

Petitioner objects to OUCG DR 6-6 on the grounds and to the extent that it seeks financial information of L3 in that such information is irrelevant and not reasonably calculated to lead to the discovery of admissible evidence. Petitioner further objects on the grounds and to the extent it seeks information that is confidential and proprietary. Confidential information is provided pursuant to the nondisclosure agreement between the parties.

**Information Provided:**

ASU has not ever provided audited or reviewed or certified combined financial statements of L3 and ASU. ASU has provided audited or reviewed financial statements, and L3 has provided audited or reviewed financial statements. Mr. Lods and ASU employee Toni Neal have prepared documents showing the audited financial information for ASU and L3 and they "combined" the line items into a total. These were submitted to the bank but were never certified by anyone. The combination of ASU values with L3 values has neither been audited, reviewed, nor compiled by a certified public accountant. Nevertheless, they are provided herewith pursuant to the nondisclosure agreement between the parties.

**Attachment:**

CONFIDENTIAL OUCG DR 6-6.pdf

**OUCG DR 6-7**

**DATA INFORMATION REQUEST  
American Suburban Utilities, Inc.**

**Cause No. 45649-U**

**Information Requested:**

Please admit that the loan agreement between ASU and Horizon Bank required the Borrower and all Guarantors to provide “unaudited annual company prepared financial statements of the Borrower [ASU] and L 3, with respect to the combined financials of Borrower and L 3, certified as true and correct by the applicable chief financial officer of Borrower and L 3, respectively.”

**Information Provided:**

The document speaks for itself.

**OUCG DR 6-8**

**DATA INFORMATION REQUEST  
American Suburban Utilities, Inc.**

**Cause No. 45649-U**

**Information Requested:**

Please identify all loans of ASU or any other person or entity that encumbers any assets of ASU.

**Information Provided:**

Other than the loan evidenced by the financing approved in Cause No. 44700, none.

**OUCG DR 11-1**

**DATA INFORMATION REQUEST  
American Suburban Utilities, Inc.**

**Cause No. 45649-U**

**Information Requested:**

Please breakdown the debt currently held by L-3 Corp. Specifically, the year it was entered into, the year it matures, the balance, the lender, and the interest rate (if the interest rate is a formula, please explain).

**Objection:**

Petitioner objects to OUCG DR 11-1 on the grounds and to the extent that it is irrelevant and not reasonably calculated to lead to the discovery of admissible evidence.

**Information Provided:**

See objection.

**OUCG DR 11-2**

**DATA INFORMATION REQUEST  
American Suburban Utilities, Inc.**

**Cause No. 45649-U**

**Information Requested:**

ASU's response to data request 6-1 said that the long-time accountant for ASU, John Thieme, "contacted the bank and asked whether reviewed financial statements would be acceptable, and the bank indicated to him they would be".

- a. Please provide any documentation of the substance of this communication.
- b. Please confirm that audited statements for L-3 are also no longer being provided to the lender.
- c. Please explain why Mr. Thieme contacted the bank to ask whether reviewed financial statements would be acceptable. Was ASU aware that Mr. Thieme would be contacting the bank to ask the question before he did so. Please explain.

**Information Provided:**

- a. No documentation.
- b. Confirm; audited statements are no longer provided.
- c. The Company feels that its response in data request 6-1 explains why Mr. Thieme contacted the bank. Scott Lods was aware that Mr. Thieme was contacting the bank.



*"EXCLUDED FROM PUBLIC ACCESS PER ACCESS TO COURT RECORDS RULE 5."*

**CONFIDENTIAL**  
**OUCG ATTACHMENT SD-10**  
**CAUSE NO. 45649-U**



July 27, 2015

Scott L. Lods  
L 3 Corp  
American Suburban Utilities, Inc.  
3350 West 250 North  
West Lafayette, IN 47906

Dear Scott:

Fifth Third Bank ("Fifth Third") is pleased to provide American Suburban Utilities, Inc. (the "Borrower") with the financing proposal described in this letter and the attached Preliminary Term Sheet (collectively, this "Proposal Letter"). We propose to provide aggregate credit facilities of up to \$5,100,000 (the "Proposed Credit Facility").

The attached Preliminary Term Sheet is presented for discussion purposes only and constitutes a proposal and not a commitment by Fifth Third.

The terms and conditions of the attached Preliminary Term Sheet including, without limitation, the amounts, interest rates, amortization and fees, do not purport to summarize all of the terms that may be included in the definitive documentation and may be modified or supplemented by us in our sole discretion at any time during the course of our due diligence whether as a result of changed market conditions or otherwise.

This Proposal Letter is governed by, and construed in accordance with, the law of the State of Indiana. IF THIS PROPOSAL LETTER OR ANY ACT, OMISSION OR EVENT HEREUNDER BECOMES THE SUBJECT OF A DISPUTE, THE BORROWER AND FIFTH THIRD EACH HEREBY WAIVE TRIAL BY JURY.

If the attached Preliminary Term Sheet is satisfactory, please indicate your acceptance by signing the enclosed copy and returning it to Fifth Third Bank. Your acceptance of the terms of this Proposal Letter will constitute your agreement to pay costs and expenses incurred by the Bank in connection with any due diligence review, as well as the preparation, negotiation, and delivery of any related documents, even if the proposed credit not consummated for any reason.

We are pleased to have the opportunity to present this proposal to you and look forward to working with you on the Proposed Credit Facilities.

Sincerely,

A handwritten signature in blue ink that reads 'Corey D. Barnard'.

Corey D. Barnard  
Vice President  
Fifth Third Bank  
251 N. Illinois Street, Suite 1200  
Indianapolis, IN 46204

## Term Sheet Proposal prepared for American Suburban Utilities, Inc.

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**Borrower:** American Suburban Utilities, Inc.  
Scott L. Lods

**Guarantor:** Affiliated entities to be agreed upon by Borrower and Bank

**Lender:** Fifth Third Bank ("Fifth Third", the "Lender" or the "Bank")

### Term Loan

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**Term Loan Facility:** Term Credit Facility up to \$5,100,000 (the "Term Loan") made available to the Borrower on the closing date.

**Collateral:** Fifth Third Bank shall secure the Term Loan by the following:

- a first priority, valid, and perfected lien on All Business Assets, Machinery and Equipment of the Borrower and Guarantor;
- a first priority, valid, and perfected mortgage on real estate located at 3350 West 250 North, West Lafayette, IN
- a first priority, valid, and perfected lien on specific equipment financed under the proposed transaction.
- Term Loan to be cross collateralized and cross defaulted with all other debt with the Bank

**Purpose:** Construction of various sewer projects.

**Maturity Date:** 10 years from the date of closing (the "Term Loan Maturity Date")

**Repayment:** Up to a 10 year amortization, with Principal and Interest payment frequency (annual, semi-annual, quarterly, or monthly) at the option of the Borrower. Final amortization to be mutually agreed upon by Borrower and Bank.

**Interest Rate:** Fixed Rate of 5.91% (as of 7/15/15). The indicative rate is a projected forward start.  
\*Interest Rate is indicative only and subject to market change.

**Financial Covenants:** Outlined below are the proposed covenants and are subject to final due diligence.

**Debt Service Coverage Ratio** Borrower shall maintain a minimum Debt Service Coverage Ratio of 1.10x calculated as of the last day of each fiscal quarter for the trailing twelve months.  
*"Debt Service Coverage Ratio" means with respect to the Borrower and affiliated entities, on a consolidated basis, the ratio of (a) the sum of the net income for a twelve month period before taxes, interest expense, depreciation and amortization expense for such twelve months less distributions or dividends (net of contributions) to shareholders of the Borrower and affiliated entities and less changes in the shareholder receivables to (b) the sum of interest expense for such twelve month period plus all principal payments of Funded Indebtedness that were paid or were due and payable by the Borrower and affiliated entities during such twelve month period.*

**Limit on Distributions** Distributions to Shareholders limited to 40% of prior year's Net Income.

## **Term Sheet Proposal prepared for American Suburban Utilities, Inc.**

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- Reporting Requirements:** The loan documentation will contain reporting requirements the Borrower shall provide including, without limitation, the following:
- Annual Reviewed financial statements of Borrower
  - Quarterly internal statements within 45 days after each fiscal quarter end
  - Annual personal financial statements, tax returns and brokerage statements for verification of liquidity of the Scott L. Lods.
  - Quarterly compliance certificate within 45 days after fiscal quarter's end.
  - Any other financial information requested by the Bank.
- Events of Default:** The loan documentation will contain events of default including, without limitation, the following:
- Failure to make payments when due of interest and/or principal of any advance, loan or drawing under the Proposed Credit Facilities or any fee there under after a 10 day cure period.
  - Breaches of representations and warranties.
  - Any violation in any respect of any covenant.
  - Any of the security interest or liens granted to the Lender for the benefit of the Lender in the definitive documentation ceases to be a valid, binding, and enforceable first priority security interest including any impairment of the loan documentation and change of ownership or control.
  - Any default related to other material indebtedness by the Borrower and/or Guarantor that has continued beyond the grace period or for a period of time sufficient to permit the acceleration of such indebtedness.
  - Any failure to satisfy or stay execution of judgments in excess of specified amounts.
  - Any material adverse change as defined in the definitive documentation.
  - Occurrence of default with any other capital provider to the Borrower.
- Conditions Precedent to the Closing and Funding:** The loan documentation will contain customary conditions to the closing of the Proposed Credit Facilities, including the following:
- Due Diligence:** In order for the Lender to be able to issue a commitment for the proposal outlined herein, Fifth Third will need satisfactory resolution of the following, but not limited to:
- Receipt and satisfactory review of construction budget for the Waste Water Treatment Plant projects.
  - Receipt and satisfactory review of the Rate Increase approved by the Indiana Utility Regulatory Commission.
  - Receipt and satisfactory review of one, two, and three year financial projections based on the approved Rate Increase.
  - Receipt and satisfactory review of most recent Year End reviewed financials statements and interim financial statements.
  - Receipt and satisfactory review of most recent Covenant Compliance Certificate.
  - Receipt and satisfactory review of updated personal financial statements, tax returns and brokerage statements for verification of liquidity of the Individual Guarantor.
  - Delivery of Guarantees to be determined by the Bank.
  - Satisfactory Credit Approval.
  - Other items deemed necessary at the Bank's discretion.

## **Term Sheet Proposal prepared for American Suburban Utilities, Inc.**

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- Legal Conditions:** In addition to the preceding due diligence, Fifth Third will need satisfactory resolution of the following, but not limited to:
- o The Borrowers shall have executed and delivered satisfactory definitive financing documentation with respect to the Proposed Credit Facilities, including a credit agreement, pledge and maintenance agreements, security documents, and subordination and stock certificates of the Borrower's Subsidiaries and related stock powers and other customary legal documentation
  - o All governmental and third-party approvals necessary in connection with the Proposed Credit Facility and the continuing operations of the Borrower, including shareholder approvals, if any, shall have been obtained on satisfactory terms and shall be in full force and effect.
  - o Receipt of Title Report and Mortgagee's Title Insurance policy if applicable
  - o Liens creating a first priority security interest in the collateral shall have been perfected including but not limited to Bailee and Landlord waivers.
  - o Evidence that Borrower is in compliance with all pertinent federal, state and local regulations including, but not limited to, those with respect to EPA, OSHA and ERISA.
  - o The Lender shall have entered into a subordination agreement with the junior creditor, containing terms and conditions, such as full standstill rights, blockage rights, and inability to block senior lender from exercising any and all rights within documentation. All other conditions will be satisfactory in all respects to the Lender.
  - o The Lender shall be satisfied that since the most recent Quarterly financial statement review and covenant compliance test there has been no material adverse change in the business, assets, liabilities, properties, condition (financial or otherwise), results of operations or prospects of the Borrower.
  - o No material threatened or pending litigation or material contingent obligations.
  - o The Lender shall have received all fees required to be paid and reimbursement of all expenses on or before the Closing Date.
- Closing Fee:** To Be Determined
- Expenses:** The Borrower shall pay all reasonable and documented costs and expenses of Fifth Third.
- Representations & Warranties:** The loan documentation will contain customary representations and warranties.
- Confidentiality:** This proposal is made exclusively to the named Borrower, and it cannot be disclosed to any third parties, other than directors and personnel of the Borrower and its affiliates, and the Borrower's accountants and attorneys to advise it with respect to the Proposal, without the express written consent of the Bank. Any attempt to disclose the Proposal without the Bank's prior written consent will terminate this Proposal. In the event of such termination, the Borrower shall pay any fees or otherwise reimburse the Bank for costs incurred.
- Assignment:** Neither this Proposal nor the proceeds of the Loans are assignable by Borrower without the prior written consent of the Bank, and any purported attempted assignment without such consent shall be void and of no force or effect.
- Integration:** This Proposal contains the entire understanding between the Bank and Borrower, and supersedes in its entirety any prior understandings, agreements, and correspondence between them respecting the subject matter thereof.
- Waiver of Jury Trial:** To the extent permitted by applicable law, the Borrower, Guarantors, and Bank knowingly, voluntarily, and irrevocably waive any right they may have to trial by jury in any action or proceeding between the Borrower and the Bank in connection with, or arising out of, this Proposal.

**Term Sheet Proposal prepared for American Suburban Utilities, Inc.**

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**Indemnification:**

The Borrower and Guarantors shall indemnify and hold harmless the Lender, each of its affiliates, and each of its officers, directors, employees, agents, advisors, attorneys and representatives for each (an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses in connection with the transactions contemplated herein to the extent specified in the definitive documentation.

ACCEPTED this \_\_\_\_ day of \_\_\_\_\_, 2015

**American Suburban Utilities, Inc.**

Name:

\_\_\_\_\_

Title:

\_\_\_\_\_

**Scott L. Lods**

Name:

\_\_\_\_\_

Title:

\_\_\_\_\_

**From:** "Barnard, Corey" <[Corey.Barnard@53.com](mailto:Corey.Barnard@53.com)>  
**Date:** August 28, 2015 at 4:08:22 PM EDT  
**To:** "'[tleffew@aol.com](mailto:tleffew@aol.com)'" <[tleffew@aol.com](mailto:tleffew@aol.com)>  
**CC:** "'[slods@msn.com](mailto:slods@msn.com)'" <[slods@msn.com](mailto:slods@msn.com)>  
**Subject:** **Proposal for ASU dated 7/27/15**

Terry,

Per our conversation earlier this week with regards to the Confidentiality Section of the Proposal Date 7/27/15 (see below), the Bank gives consent to American Suburban Utilities, Inc. and Scott Lods to use this proposal in its case as a public record.

**Confidentiality:**

This proposal is made exclusively to the parties, other than directors and person accountants and attorneys to advise it ' consent of the Bank. Any attempt to disc will terminate this Proposal. In the even otherwise reimburse the Bank for costs ir

Please call me if you have any questions.

Thanks!

Corey D. Barnard  
Fifth Third Bank  
Vice President, Commercial Banking  
251 N. Illinois Street, Suite 1200  
Indianapolis, Indiana 46204  
Office: 317-383-2510  
Cell: 317-625-0393  
Fax: 317-383-2509  
Email: [corey.barnard@53.com](mailto:corey.barnard@53.com)

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assistance in correcting this error is appreciated.





AMERICAN SUBURBAN UTILITIES  
FINANCING REPORT – CAUSE NO. 44676/44700

Pursuant to the Order dated November 30, 2016 in this Cause, on December 1, 2017 American Suburban Utilities Inc (“ASU”) has borrowed funds as described below pursuant to a Bond Purchase and Loan Agreement dated December 1, 2017 with the Indiana Finance Authority and Horizon Bank.

Amount: \$5,100,000

Interest Rate: 4.65% until December 1, 2024; thereafter, at a fixed rate per annum equal to the total of (A) the then applicable seven (7) year LIBOR Swap Rate plus 4.53%, multiplied by (B) 66%, plus (C) 0.25%

Maturity Date: December 1, 2037

Security from ASU: (1) A security interest in and lien upon all of ASU’s existing and future acquired assets, excluding real property; (2) a negative pledge with respect to the real property owned by ASU utilized in connection with the operations of ASU.

Purpose: To finance the acquisition, construction, installation and equipping of certain wastewater facilities located in Tippecanoe County, Indiana, including increasing the capacity of the Carriage Estates Wastewater Treatment Facility from 1,500,000 gallons per day to 3,000,000 gallons per day, and eliminating chlorine and other chemicals and converting to an ultraviolet process in the killing of e coli bacteria.

Account (All)

Row Labels	Sum of Debits
Account Description	0
Dividends Paid	-378947.37
Loan From Shareholder Cur	2507518.15
Loan to Shareholder	0
Paid in Capital	-2371698.13
<b>Grand Total</b>	<b>-243127.35</b>

<u>Account</u>	<u>USoA</u>	<u>Account Description</u>	<u>Date</u>	<u>FY</u>	<u>Description</u>	<u>Customer/Vendor</u>	<u>Debits</u>
2036	211.00	Loan From Shareholder Cur	1/23/2020	2020	Scott Lods	Equity	25,000.00
2036	211.00	Loan From Shareholder Cur	12/31/2020	2020	Scott Lods	Equity	48,000.00
2036	211.00	Loan From Shareholder Cur	2/24/2020	2020	Scott Lods	Equity	25,000.00
2036	211.00	Loan From Shareholder Cur	4/23/2020	2020	Scott Lods	Equity	100,000.00
2036	211.00	Loan From Shareholder Cur	4/23/2020	2020	Scott Lods	Equity	100,000.00
2036	211.00	Loan From Shareholder Cur	4/23/2020	2020	Scott Lods	Equity	100,000.00
2036	211.00	Loan From Shareholder Cur	4/28/2020	2020	Scott Lods	Equity	50,000.00
2036	211.00	Loan From Shareholder Cur	6/4/2020	2020	Scott Lods	Equity	50,000.00
1966	211.00	Loan to Shareholder	6/30/2020	2020	Adj Loan to SH per DI	Equity	10,000.00
2036	211.00	Loan From Shareholder Cur	6/22/2020	2020	Scott Lods	Equity	50,000.00
1966	211.00	Loan to Shareholder	7/14/2020	2020	Scott Lods	Equity	50,000.00
1966	211.00	Loan to Shareholder	7/30/2020	2020	Scott Lods	Equity	10,000.00
1966	211.00	Loan to Shareholder	10/7/2020	2020	Deposit	Equity	(2,693.36)
1966	211.00	Loan to Shareholder	10/7/2020	2020	Deposit	Equity	(433.99)
1966	211.00	Loan to Shareholder	11/3/2020	2020	Deposit	Equity	(10,000.00)
1966	211.00	Loan to Shareholder	11/4/2020	2020	Deposit	Equity	(183,000.00)
1966	211.00	Loan to Shareholder	8/5/2020	2020	Scott Lods	Equity	20,000.00
1966	211.00	Loan to Shareholder	12/9/2020	2020	Deposit	Equity	(318,872.65)
2036	211.00	Loan From Shareholder Cur	1/1/2020	2020	YE Adj Thieme PC	Equity	2,025,000.00
2036	211.00	Loan From Shareholder Cur	2/12/2020	2020	SL Deposit	Equity	(150,000.00)
1966	211.00	Loan to Shareholder	8/18/2020	2020	Scott Lods	Equity	75,000.00
2036	211.00	Loan From Shareholder Cur	3/4/2020	2020	SL Deposit	Equity	(40,000.00)
2036	211.00	Loan From Shareholder Cur	4/8/2020	2020	SL Deposit	Equity	(300,000.00)
1966	211.00	Loan to Shareholder	9/28/2020	2020	Scott Lods	Equity	40,000.00
1966	211.00	Loan to Shareholder	10/29/2020	2020	Scott Lods	Equity	300,000.00
1966	211.00	Loan to Shareholder	12/1/2020	2020	Scott Lods	Equity	10,000.00
2036	211.00	Loan From Shareholder Cur	6/30/2020	2020	Adj Loan to SH per DI	Equity	(10,000.00)
2036	211.00	Loan From Shareholder Cur	12/9/2020	2020	SL Deposit	Equity	(181,127.35)
2036	211.00	Loan From Shareholder Cur	12/18/2020	2020	SL Deposit	Equity	(400,000.00)
2036	211.00	Loan From Shareholder Cur	12/31/2020	2020	Scott Lods	Equity	290,000.00
2036	211.00	Loan From Shareholder Cur	12/31/2020	2020	YE 20 Paid in Capital	Equity	243,127.35
2605	211.00	Loan From Shareholder Cur	1/1/2020	2020	YE Adj Thieme PC	Equity	482,518.15
3460	211.00	Dividends Paid	1/1/2020	2020	Adjustment	Equity	(378,947.37)
3480	211.00	Paid in Capital	1/1/2020	2020	YE Adj Thieme PC	Equity	(2,025,000.00)
3480	211.00	Paid in Capital	1/1/2020	2020	YE Adj Thieme PC	Equity	(482,518.15)
3480	211.00	Paid in Capital	1/1/2020	2020	Adjustment	Equity	378,947.37
3480	211.00	Paid in Capital	12/31/2020	2020	YE 20 Paid in Capital	Equity	(243,127.35)