

**FILED**  
March 27, 2020  
INDIANA UTILITY  
REGULATORY COMMISSION

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE PETITION OF LMH )  
UTILITIES, INC. FOR A NEW SCHEDULE OF ) CAUSE NO. 45307-U  
RATES AND CHARGES. )**

**PREFILED TESTIMONY**


**MARGARET A. STULL – PUBLIC’S EXHIBIT NO. 2**

**ON BEHALF OF THE**

**INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR**

**March 27, 2020**

Respectfully submitted,



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Daniel M. Le Vay, Atty. No. 22184-49  
Deputy Consumer Counselor

**CERTIFICATE OF SERVICE**

This is to certify that a copy of the foregoing *Office of Utility Consumer Counselor* ***Prefiled Testimony of Margaret A. Stull*** has been served upon the following counsel of record in the captioned proceeding by electronic service on March 27, 2020.

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**TESTIMONY OF OUCC WITNESS MARGARET A. STULL**  
**CAUSE NO. 45307-U**  
**LMH UTILITIES, INC.**

**I. INTRODUCTION**

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

2 A: My name is Margaret A. Stull, and my business address is 115 W. Washington St.,  
3 Suite 1500 South, Indianapolis, Indiana 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  
6 a Chief Technical Advisor in the Water/Wastewater Division. My qualifications are  
7 set forth in Appendix "A."

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

9 A: I present the OUCC's proposed rate base finding of \$1,116,795, including  
10 adjustments to remove unsupported additions, record plant retirements, eliminate  
11 double counting of assets, and reclassify software training costs. Further, I  
12 recommend including advances for construction in the determination of rate base.  
13 I present the OUCC's proposed capital structure and explain why deferred income  
14 taxes should be included. I also present the OUCC's proposed 6.7623% weighed  
15 cost of capital. Finally, I present the OUCC's operating expense adjustments for  
16 depreciation expense, amortization of contributions-in-aid of construction,  
17 amortization of software training costs, amortization of excess accumulated  
18 deferred income taxes, and income tax expense.

1 **Q: Please describe the review and analysis you performed.**

2 A: I reviewed LMH's small utility application and workpapers, both the original  
3 10/16/2019 filing and the updated 01/17/2020 filing. I reviewed LMH's IURC  
4 annual reports from 2006 through 2018. I prepared discovery questions and  
5 reviewed LMH's responses. I reviewed ratepayer comments. I participated in the  
6 OUCC's on-site accounting review conducted on December 18 and 19, 2019. I  
7 compiled attachments, which I discuss in my testimony and list in Appendix B.

## II. RATE BASE

8 **Q: What rate base finding does LMH propose?**

9 A: LMH initially proposed an original cost rate base of \$4,709,244. But on January  
10 17, 2020, LMH refiled its small utility application proposing an original cost rate  
11 base of \$1,252,447.<sup>1</sup> Table 1 compares LMH's rate base proposals.

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<sup>1</sup> To correct formulas and other errors, LMH refiled its small utility application on January 17, 2020 proposing an original cost rate base of \$1,252,447.

**Table 1: LMH Proposed Rate Base<sup>2</sup>**

	<b>10.16.19</b>	<b>01.17.20</b>
Utility Plant in Service	\$ 8,221,938	\$ 8,221,938
Disallowed Plant	2,851,700	(605,514)
Accumulated Depreciation	(3,984,678)	(3,984,678)
Contributions-in-aid of Construction	(2,441,750)	(2,441,750)
Advances for Construction	-	-
Working Capital	62,034	62,451
	<u>\$ 4,709,244</u>	<u>\$ 1,252,447</u>

1 **Q: How does LMH's rate base compare with the rate base it proposed in its last**  
2 **rate case on which its current rates were based?**

3 A: In its last rate case (Cause No. 43431), LMH ultimately proposed a rate base as of  
4 September 30, 2007 of \$2,611,831. In that case, the Commission found LMH's rate  
5 base to be \$1,615,113. LMH's current proposed rate base is roughly 75% of what  
6 its rates are based upon.

7 **Q: What is the indicated value of LMH's additions to utility plant in service since**  
8 **September 30, 2007?**

9 A: According to the asset register provided in response to OUCG discovery, LMH  
10 seeks to include \$548,228 of utility plant additions since September 30, 2007  
11 (OUCG Attachment MAS-1). Total additions included in the asset register were  
12 \$5,743,652, but this includes \$5,195,424 of transactions for the 2006 plant  
13 expansion and what appear to be a reclassification of utility plant.

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<sup>2</sup> Note that, due to formula errors, the value of disallowed plant in LMH's initial filing was calculated incorrectly and was added to (rather than subtracted from) its proposed rate base.

1 **Q: What rate base finding does the OUCC propose?**

2 A: The OUCC proposes an original cost rate base finding of \$1,116,795. The OUCC's  
 3 proposal is based on the following adjustments to LMH's December 31, 2018  
 4 general ledger: (1) reclassification of test year operating expenses that are capital  
 5 in nature; (2) removal of unsupported additions, (3) recognition of plant  
 6 retirements, (4) removal of additions that had already been included in rate base in  
 7 Cause No. 43431, and (5) elimination of costs not eligible for capitalization. Also,  
 8 the OUCC's proposed rate base recognizes customer advances for construction,  
 9 which had not been recognized in LMH's proposal. Both OUCC Schedule 6 and  
 10 Table 2 below compare the OUCC's proposed rate base to LMH's proposal.

**Table 2: Rate Base Comparison**

	<u>LMH</u>	<u>OUCC</u>	<u>OUCC More (Less)</u>
<b>Utility Plant in Service</b>	\$ 8,221,938	\$ 8,221,938	\$ -
Add: Capitalized Expenses	-	15,659	15,659
Less: Disallowed UPIS (CN 43431)	(5,949,842)	(5,949,842)	-
Rate Base Adjustments	-	(112,067)	(112,067)
<b>Gross Utility Plant in Service</b>	<u>2,272,096</u>	<u>2,175,688</u>	<u>(96,408)</u>
<b>Accumulated Depreciation</b>	(3,984,678)	(3,984,678)	-
Less: Disallowed UPIS (CN 43431)	3,392,325	3,392,325	-
Rate Base Adjustments	-	41,965	41,965
<b>Adjusted Accumulated Depreciation</b>	<u>(592,353)</u>	<u>(550,388)</u>	<u>41,965</u>
<b>Contributions-in-aid of Construction</b>	(4,450,742)	(4,450,742)	-
Less: Disallowed UPIS (CN 43431)	4,100,720	4,100,720	-
<b>Accumulated CIAC Amortization</b>	<u>(350,022)</u>	<u>(350,022)</u>	<u>-</u>
<b>Accumulated Amortization of CIAC</b>	(2,008,992)	(2,008,992)	-
Less: Disallowed UPIS (CN 43431)	2,148,717	2,148,717	-
<b>Accumulated CIAC Amortization</b>	<u>139,725</u>	<u>139,725</u>	<u>-</u>
<b>Net Utility Plant in Service</b>	1,189,996	1,135,553	(54,443)
Add: Working Capital	62,451	61,943	(508)
Less: Advances for Construction	-	(80,701)	(80,701)
<b>Total Original Cost Rate Base</b>	<u>\$ 1,252,447</u>	<u>\$ 1,116,795</u>	<u>\$ (135,652)</u>

**A. Utility Plant in Service**

**1. Capitalized Test Year Expenses**

1 **Q: Why do you propose an increase to rate base for capitalized expenses?**

2 A: During its review of LMH’s test year expenses, the OUCC identified \$15,659 of  
3 transactions that were capital in nature. These expenses were eliminated from test  
4 year operating expenses (See OUCC Schedule 5, Adjustment Nos. 1, 3, and 4) and  
5 should be included in the determination of rate base.

6 **Q: What transactions are included in the reclassification of capital costs?**

7 A: The reclassified transactions include additional test year tap costs (labor, materials  
8 and supplies, and contractual services) and pump replacements. Table 3 lists the  
9 costs reclassified as capital.

**Table 3: Transactions Reclassified as Capital Costs**

Additional Tap Labor costs			3,255	OUCC Sch. 5, Adj. 1
Additional Tap Materials and Supplies			3,210	OUCC Sch. 5, Adj. 4
Tap contractual services				
Hirt & Elco - Tap at 23041 Hartland Court	736.2	10.09.18	500	OUCC Sch. 5, Adj. 3
Hirt & Elco - Tap at 732 White Ridge	736.2	10.09.18	500	OUCC Sch. 5, Adj. 3
Other Capital Expenditures				
Hess Electric - Zoeller 15 HP 230 V 3 Phase Pump	720.4	11.13.18	3,589	OUCC Sch. 5, Adj. 3
Sludge Press Repair	720.4	12.31.18	4,605	OUCC Sch. 5, Adj. 3
			<u>15,659</u>	

**2. Unsupported UPIS Additions**

10 **Q: What utility plant in service asset additions were unsupported by LMH?**

11 A: In response to OUCC discovery, LMH stated it could not find any support for a  
12 \$3,023 rate base adjustment to account 354.2 “Structures and Improvements



1 Collection" recorded on 12/31/14. LMH acknowledged the \$3,023 should be  
2 removed from the rate base calculation. (OUCC Attachment MAS-2).

### 3. Plant Retirements

3 **Q: Does LMH record plant retirements properly?**

4 A: No. In most instances, LMH does not record plant retirements at all and simply  
5 adds the replacement asset into its utility plant in service without removing the asset  
6 being retired or replaced.

7 **Q: What is the proper transaction to record when retiring or replacing utility  
8 plant in service?**

9 A: When a utility uses the group or composite method of depreciation, as LMH does,  
10 the proper transaction to retire an asset is to remove the original cost of the asset  
11 from both utility plant in service and accumulated depreciation.

12 **Q: What assets were retired since LMH's last rate case?**

13 A: At least three assets were retired. According to LMH's 2016 IURC Report, a truck  
14 and trailer were replaced in 2016 with a combined original cost of \$18,673 (OUCC  
15 Attachment MAS-3). According to LMH's response to OUCC discovery, in 2018  
16 a sludge press MSD was replaced with an original cost of \$4,995 (OUCC  
17 Attachment MAS-4). I removed \$23,668 (\$18,673 + \$4,995) from both utility plant  
18 in service and accumulated depreciation.

**4. Plant Additions Already Included in 9/30/2007 Rate Base**

1 **Q: Did you find any items that should not have been added to rate base?**

2 A: Yes. LMH purchased a sludge press and building from LMH's affiliate Utility  
3 Construction Corporation on January 20, 2010 (OUCC Attachment MAS-6). The  
4 sludge press and building are identified in the asset register as follows:

Account No.	Group	Property Description	Date In-Service	Original Cost
354.7	General Plant	Building Storage	01-22-10	\$12,125
393.7	Tools Shop Garage	Tools	01-22-10	\$67,375

5 The cost of the sludge press and building should not be added to rate base.

6 **Q: Why should the value of the sludge press not be added to rate base?**

7 A: The sludge press is already included in LMH's rate base. In Cause No. 43431, I  
8 identified the sludge press owned by Utility Construction Corporation was being  
9 used entirely by LMH and recommended it be included in LMH's rate base (OUCC  
10 Attachment MAS-6). In its final order, the Commission agreed and included the  
11 sludge press in LMH's rate base (OUCC Attachment MAS-7). Because the sludge  
12 press has already been included in LMH's rate base, LMH's proposal to include the  
13 \$67,375 cost of the sludge press should be rejected.

14 **Q: Why should the value of the building not be added to rate base?**

15 A: In response to OUCC DR Q-9-1, LMH stated the building storage added to the asset  
16 register on January 22, 2010 was for the building in which the sludge press resides  
17 (OUCC Attachment MAS-8). The only documentation provided for the cost of this

1 building was an invoice with one line stating the total cost for the building was  
2 \$12,125 (OUCC Attachment MAS-15). No breakdown of costs or support for the  
3 purchase price was provided. The sludge press has been in this building at its  
4 current location since 2002 (OUCC Attachment MAS-9). Christopher A. Limcaco  
5 provided an estimate of \$7,848 for the original cost of this building in Attachment  
6 CAL-2<sup>3</sup> of his testimony in Cause No. 43431 (OUCC Attachment MAS-10). The  
7 sludge press building was in existence and presumably evaluated for inclusion in  
8 rate base as part of Cause No. 43431. Further, the cost of the sludge press included  
9 in rate base in Cause No. 43431 was \$83,000. The total of the sludge press and the  
10 building in this Cause is \$79,500 (\$67,375 + \$12,125). Presumably, the cost of the  
11 building in which the sludge press is housed was considered part of the total cost  
12 of the sludge press and already included in rate base. I recommend the Commission  
13 disallow the \$12,125 for the building that houses the sludge press.

5. **Elimination of Software Training Costs**

14 **Q: Why did you remove from rate base the \$5,875 for software training costs**  
15 **related to LMH's new billing software?**  
16 A: Software training costs are not properly capitalized under U.S. GAAP. According  
17 to Statement of Position 98-01 "Accounting for the Costs of Computer Software  
18 Developed or Obtained for Internal Use," these are period expenses, not investment  
19 in plant. (See OUCC Attachment MAS-11.)

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<sup>3</sup> See Page 4 of 4, towards the bottom of the list, last item listed under the heading "Sludge Processing."

1 **Q: What recovery, if any, do you propose for these software training**  
2 **expenditures?**

3 A: I propose these costs be amortized over the OUCC's estimated five year life of the  
4 rates being set in this Cause. Therefore, I increased *pro forma* operating expense  
5 by \$1,175 ( $\$5,875 / 5$ ) (OUCC Attachment MAS-16). (See OUCC Schedule 5,  
6 Adjustment No. 11.)

**B. Accumulated Depreciation**

7 **Q: Did you remove the accumulated depreciation for the rate base additions you**  
8 **excluded?**

9 A: Yes. I reduced utility plant in service by a total of \$98,408. This requires a  
10 reduction to accumulated depreciation of \$41,965, which results in a net decrease  
11 to net utility plant in service of \$54,443. The necessary calculations I performed are  
12 included in my workpapers (OUCC WP-2).

**C. Working Capital**

13 **Q: What is the definition of working capital for ratemaking purposes?**

14 A: Although accountants generally define working capital as a measure of liquidity  
15 based on a comparison of current assets to current liabilities, for ratemaking  
16 purposes working capital is generally defined as the average amount of capital  
17 provided by investors, over and above the investment in plant, to bridge the gap  
18 between the time expenditures are required to provide service and the time  
19 collections are received for that service. In other words, working capital is the  
20 money a utility must use to provide utility service before it receives payment for  
21 that service. Working capital is the net amount of money needed on an ongoing

1 basis to fund daily utility operations. Working capital is considered an investment  
2 necessary for providing utility service and is included in rate base for investor-  
3 owned utilities.

4 **Q: What method did LMH use to calculate its investment in working capital?**

5 A: LMH used the FERC 45-day formula method to calculate its proposed working  
6 capital of \$62,451. LMH adjusted its calculation to exclude purchased power costs.

7 **Q: What working capital do you propose to include in rate base?**

8 A: I accept LMH's use of the FERC 45-day formula method but, due to differences in  
9 *pro forma* operating expenses, I propose working capital of \$61,943, a decrease of  
10 \$508 from LMH's proposal. (See OUCC Schedule 6.)

11 **Q: Are there any differences in your calculation of working capital under the**  
12 **FERC 45-day method?**

13 A: Yes. My working capital calculation includes payroll tax expense. Normally, taxes  
14 are paid in arrears and aren't included in the determination of working capital.  
15 However, payroll taxes are generally paid on a weekly or bi-weekly basis and,  
16 therefore, should be included in the determination of working capital.

#### **D. Customer Advances for Construction**

17 **Q: Did LMH include customer advances for construction in its rate base?**

18 A: No.

19 **Q: Has the OUCC included advances for construction in its determination of rate**  
20 **base in this Cause?**

21 A: Yes. The OUCC has included \$81,000 of customer advances. Customer advances  
22 were located in two (2) accounts – (1) \$40,701 recorded to Account 105.7 – CWIP  
23 Bunkum 2017 and (2) \$40,000 recorded to Account 252.1 – Advances for

1 Construction-TDC. While it appears LMH may have recorded some transactions  
2 incorrectly as customer advances, I did not have enough information to “unwind”  
3 the errors. Therefore, I am reflecting the amount included in LMH’s 2018 IURC  
4 annual report for advances for construction.

### III. CAPITAL STRUCTURE

5 **Q: What capital structure and weighted average cost of capital did LMH**  
6 **propose?**

7 A: LMH proposed a capital structure with two (2) components – equity and long-term  
8 debt. LMH’s proposed capital structure consists of \$1,598,544 of equity and  
9 \$404,180 of long-term debt. This capital structure is weighted 80% equity and 20%  
10 debt. LMH proposes a 9% cost of equity and a 6.17% cost of long-term debt. The  
11 resulting weighted cost of capital is 8.43%.

12 **Q Does the OUCC accept LMH’s proposed capital structure and weighted cost**  
13 **of capital?**

14 A: No. The OUCC proposes the inclusion of three (3) components in its capital  
15 structure – equity, long-term debt, and deferred income taxes. The OUCC proposes  
16 an 8.5% cost of equity and a 6.42% cost of long-term debt yielding a weighted cost  
17 of capital of 6.723%. OUCC witness Shawn Dellinger discusses the OUCC’s  
18 proposals for cost of equity and long-term debt. Table 4 compares the capital  
19 structure proposed by OUCC with LMH’s proposal. (See also OUCC Schedule 7.)

**Table 4: Capital Structure Comparison**

	LMH		OUCC		OUCC More (Less)	
Equity	\$ 1,598,544	79.82%	\$ 1,598,544	66.80%	\$ -	-13.02%
Longt Term Debt	404,180	20.18%	404,180	16.89%	-	-3.29%
Deferred income Taxes	-	0.00%	390,200	16.31%	390,200	16.31%
	2,002,724		2,392,924		390,200	
	<u>Cost</u>	<u>WACC</u>	<u>Cost</u>	<u>WACC</u>	<u>Cost</u>	<u>WACC</u>
Equity	9.00%	7.18%	8.50%	5.68%	-0.50%	-1.50%
Longt Term Debt	6.17%	1.25%	6.42%	1.08%	0.25%	-0.17%
Deferred income Taxes	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
		8.43%		6.76%	-0.25%	-1.67%

1 **Q: Why does the OUCC include deferred income taxes in its proposed capital**  
2 **structure?**

3 A: Deferred taxes represent the temporary difference between depreciation expense  
4 recorded for book purposes and depreciation expense recorded for tax purposes.  
5 For ratemaking purposes, a utility is allowed to include its book depreciation  
6 expense in its revenue requirement. Therefore, a utility is allowed to recover more  
7 income tax than it actually pays to the IRS. The income taxes not paid to the  
8 government are a source of funds available to the utility and should be included as  
9 a component of its capital structure.

10 **Q: Why didn't LMH include deferred income taxes in its capital structure?**

11 A: LMH currently has a net operating loss ("NOL") carryforward for tax purposes and  
12 argues the NOL carryforward offsets any deferred taxes because the NOL  
13 carryforward will expire before LMH has been able to take advantage of it.  
14 Therefore, LMH has recorded a deferred tax asset in the same amount as its deferred  
15 tax liability. In response to OUCC discovery, LMH stated "since the deferred tax

1 accounts offset each other, the IURC application had nothing to import into the  
2 protected cell.” (See OUCC Attachment MAS-12 (DR 6-3).)

3 **Q: Has the Commission already ruled on LMH’s argument regarding its deferred**  
4 **taxes and its NOL carryforward?**

5 A: Yes. In Cause No. 45032, LMH used this same argument in its proposal to deny  
6 any benefit to customers of the reduction in the federal income tax rate to 21%. In  
7 that case, the Commission rejected LMH’s argument that it had no deferred income  
8 taxes because of its NOL carryforward. While the Commission acknowledged the  
9 US GAAP requirement to establish a valuation allowance in this situation, it was  
10 not bound to follow US GAAP for ratemaking purposes. The Commission also  
11 criticized LMH’s determination of the valuation allowance because LMH made no  
12 attempt to estimate future earnings. (See Final Order in Cause No. 45032-S17,  
13 December 27, 2018, pages 6 – 9.)

#### **IV. OPERATING EXPENSES**

##### **A. Depreciation Expense**

14 **Q: What *pro forma* depreciation expense did LMH propose?**

15 A: LMH proposed a *pro forma* depreciation expense of \$92,755, an increase of \$1 over  
16 test year depreciation expense. LMH’s test year depreciation expense of \$92,754 is  
17 composed of four accounts: (1) Account 403 – Depreciation Expense, (2) Account  
18 403.1 – Amortization of CIAC, (3) Account 403.5 – Depreciation Expense –  
19 Disallowed Assets, and (4) Account 403.6 – Amortization of CIAC on Disallowed  
20 Assets. Table 5 summarizes these accounts and their balances.



**Table 5: Depreciation and Amortization Accounts**

	<u>Depreciation</u>	<u>Amortization</u>	<u>Total</u>
403 Depreciation Expense	\$ 204,023		\$ 204,023
403.1 CIAC Amortization		(111,269)	(111,269)
403.5 Depreciation Expense - Disallowed Assets	(148,746)		(148,746)
403.6 CIAC Amortization - Disallowed Assets		148,746	148,746
	<u>\$ 55,277</u>	<u>\$ 37,477</u>	<u>\$ 92,754</u>

1 **Q: Do you accept LMH's proposed depreciation expense?**

2 A: No. While I agree with LMH's use of the 2.5% composite depreciation rate, LMH's  
3 *pro forma* depreciation expense is overstated as this rate is applied to depreciable  
4 utility plant of \$3,710,196.

5 **Q: What *pro forma* depreciation expense do you propose?**

6 A: I propose *pro forma* depreciation expense of \$52,867. I calculated this amount by  
7 removing \$61,000 of land and land rights from gross utility plant in service of  
8 \$2,175,688 to establish depreciable utility plant of \$2,114,688. I then multiplied  
9 depreciable utility plant by the 2.5% composite depreciation rate to determine *pro*  
10 *forma* depreciation expense of \$52,867. I propose a \$2,410 decrease to test year  
11 depreciation expense of \$55,277 (OUCC Schedule 5, Adjustment No. 9).

**B. CIAC Amortization Expense**

12 **Q: What *pro forma* CIAC amortization expense did LMH propose?**

13 A: LMH did not propose a separate adjustment for CIAC amortization expense. Its  
14 adjustment is included in its depreciation expense adjustment.

1 **Q: What *pro forma* CIAC amortization expense do you propose?**

2 A: I propose *pro forma* CIAC amortization expense of \$(8,751). I calculated this  
3 amount by applying the 2.5% composite depreciation rate to the \$(350,022) of net  
4 Contributions-in-aid of construction as reflected on OUCC Schedule 6. This yields  
5 a *pro forma* CIAC amortization expense of \$(8,751). I propose a \$46,229 decrease  
6 to test year CIAC amortization expense of \$37,478 (OUCC Schedule 5, Adjustment  
7 No. 10).

8 **Q: Is there anything unusual about LMH's test year CIAC amortization expense?**

9 A: Yes. Normally, CIAC amortization is a "negative" expense that offsets depreciation  
10 expense. Depreciation expense is calculated on total depreciable utility plant  
11 regardless of the source of the investment. CIAC amortization is an offset that  
12 removes depreciation expense on contributed plant. However, as Table 5 above  
13 explains, LMH's test year CIAC amortization expense is a "positive" expense and  
14 adds to, rather than offsetting, depreciation expense. For some reason, the amount  
15 recorded for amortization of disallowed CIAC is greater than the amortization of  
16 total CIAC. Based on the balances recorded in LMH's CIAC accounts, LMH's  
17 CIAC amortization expense is not correct. Therefore, a large adjustment is  
18 necessary to reflect the correct amounts of CIAC amortization expense.

**C. Amortization of Software Training Costs**

19 **Q: Why do you propose amortizing software training costs?**

20 A: As discussed earlier in my testimony under rate base adjustments, software training  
21 costs are considered operating expenses and should not be capitalized per U.S.  
22 GAAP. However, these are costs incurred by LMH and ratemaking treatment

1 should be allowed. Therefore, I propose amortizing these costs over five (5) years,  
2 the OUCC's proposed life of the rates being set in this case. I propose a \$1,175  
3 (\$5875 / 5 years) increase to test year amortization expense (OUCC Schedule 5,  
4 Adjustment No. 11).

#### **D. Present Rate Income Tax Expense**

5 **Q: What present rate income tax expense did LMH propose?**

6 A: LMH proposed a \$14,229 reduction to test year federal income tax expense and a  
7 \$3,362 reduction to test year state income tax expense.

8 **Q: Do you accept LMH's proposed income tax expense adjustment?**

9 A: No. While I generally agree with the methodology used by LMH to calculate its  
10 *pro forma* present rate income tax expenses, I propose different operating revenues  
11 and expenses. Based on the OUCC's *pro forma* operating revenues and expenses  
12 at present rates, I propose a \$12,362 increase to test year federal income tax expense  
13 and a \$4,029 increase to test year state income tax expense.

14 **Q: Is there any aspect of LMH's income tax expense calculation with which you  
15 disagree?**

16 A: Yes. LMH's calculation of *pro forma* income tax expense at present rates includes  
17 an adjustment to increase taxable income by \$111,269 for "Depreciation of CIAC."  
18 In response to OUCC discovery, LMH stated "On the Applicant's 2018 Form 1040,  
19 schedule M-1, the amortization of CIAC has not been added to taxable income; it  
20 is a reduction to taxable income and is a component of the book to tax depreciation  
21 adjustment." (See OUCC Attachment MAS-13 (DR 5-11).)

1 **Q: Do you agree with LMH's reasoning for its \$111,269 increase to taxable**  
2 **income?**

3 A: No. What is reflected on LMH's tax return is not relevant for determining its  
4 income tax revenue requirement. What is important is the depreciation and CIAC  
5 amortization recorded in LMH's general ledger and included on both LMH's and  
6 the OUCC's Schedule 4. For tax purposes, a utility has no basis in contributed  
7 plant (CIAC) and, therefore, cannot depreciate CIAC. In this case, depreciation  
8 expense has already been decreased by the amortization of CIAC to eliminate the  
9 depreciation of CIAC. No additional adjustment is necessary. Therefore, I  
10 recommend the Commission reject LMH's \$111,269 increase to taxable income.

**E. Amortization of Excess Accumulated Deferred Income**

11 **Q: Why is it necessary to include amortization of excess accumulated deferred**  
12 **income taxes to set LMH's rates?**

13 A: In the Commission's tax investigation (Cause No. 45032), the Commission  
14 required utilities to determine the amount of excess accumulated deferred income  
15 taxes ("EDIT") and calculate the annual amount to be returned to customers. EDIT  
16 represents the difference between the amount of deferred income taxes at the  
17 federal income tax rate in effect prior to the Tax Cuts and Jobs Act ("TCJA") and  
18 the amount of deferred income taxes at the new 21% tax rate per the TCJA. This  
19 difference must be returned to ratepayers based on an amortization period  
20 calculated using either the average rate assumption method ("ARAM") or the  
21 Reverse South Georgia method.

1 **Q: Did LMH include an amount to reflect amortization of excess accumulated**  
2 **deferred income taxes?**

3 A: Yes. LMH included \$17,997 as a reduction to *pro forma* operating expenses to  
4 reflect the annual amortization of EDIT.

5 **Q: Did LMH use the correct EDIT amortization amount?**

6 A: No. LMH picked up the amount of amortization proposed by the OUCC in its case-  
7 in-chief testimony in Cause No. 45032-S17. This was not the amount approved by  
8 the Commission in that case. LMH made a post-order compliance filing on  
9 February 2, 2019 reflecting an amortization period of 14.45 years yielding annual  
10 amortization of \$(7,253) before gross-up (OUCC Attachment MAS-14).

11 **Q: What EDIT amortization amount do you propose?**

12 A: I propose the amount reflected in LMH's February 1, 2019 post-order compliance  
13 filing, \$(7,253) (OUCC Schedule 5, Adjustment No. 16).

## V. RECOMMENDATIONS

14 **Q: Please summarize your recommendations.**

15 A: I recommend the Commission find LMH's original cost rate base to be \$1,116,795,  
16 including the OUCC's adjustments to reflect (1) additional test year capitalized  
17 expenses, (3) plant retirements, (4) elimination of sludge press and building, and  
18 (5) removal of software training costs. I further recommend the Commission  
19 approve the inclusion of advances for construction as a component of LMH's rate  
20 base.

21 I recommend the Commission find deferred income taxes should be  
22 included as a component of LMH's capital structure as a zero cost source of capital.

1 I further recommend the Commission find LMH's weighted cost of capital to be  
2 6.723%.

3 I recommend the Commission accept the following operating expense  
4 adjustments as discussed in my testimony:

- 5                   ▪ *Pro forma* depreciation expense of \$52,867 and a \$2,410 decrease  
6                   to test year depreciation expense;
- 7                   ▪ *Pro forma* CIAC amortization expense of \$(8,751) and a \$46,229  
8                   decrease to test year CIAC amortization expense;
- 9                   ▪ Amortization of software training costs over a five (5) year period  
10                  yielding an annual expense of \$1,175;
- 11                  ▪ Rejection of LMH's \$111,269 increase to taxable income;
- 12                  ▪ *Pro forma* federal income tax expense of \$12,362; and
- 13                  ▪ *Pro forma* state income tax expense of \$4,029
- 14                  ▪ \$7,253 amortization of excess accumulated deferred income taxes  
15                  per Cause No. 45032-S17.

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

17 A: Yes.

**APPENDIX A**

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

2 A: I graduated from the University of Houston at Clear Lake City in August 1982 with  
3 a Bachelor of Science degree in Accounting. From 1982 to 1985, I held the position  
4 of Gas Pipeline Accountant at Seagull Energy in Houston, Texas. From 1985 to  
5 2001, I worked for Enron in various positions of increasing responsibility and  
6 authority. I began in gas pipeline accounting, was promoted to a position in  
7 financial reporting and planning, for both the gas pipeline group and the  
8 international group, and finally was promoted to a position providing accounting  
9 support for infrastructure projects in Central and South America. In 2002, I moved  
10 to Indiana, where I held non-utility accounting positions in Indianapolis. In August  
11 2003, I accepted my current position with the OUCC. In 2011, I was promoted to  
12 Senior Utility Analyst. In 2018, I was promoted to Chief Technical Advisor.

13 Since joining the OUCC I have attended the National Association of  
14 Regulatory Utility Commissioners ("NARUC") Eastern Utility Rate School in  
15 Clearwater Beach, Florida, and the Institute of Public Utilities' Advanced  
16 Regulatory Studies Program in East Lansing, Michigan. I have also attended several  
17 American Water Works Association and Indiana Rural Water Association  
18 conferences as well as the National Association of Utility Consumer Advocates  
19 ("NASUCA") Water Committee Forums. I have participated in the NASUCA  
20 Water Committee and the NASUCA Tax and Accounting Committee. In March

1           2016 I was appointed chair of the NASUCA Tax and Accounting Committee and  
2           will be reappointed to an additional two-year term in November 2019.

3   **Q:   Have you previously testified before the Indiana Utility Regulatory**  
4   **Commission?**

5   A:   Yes. I have testified before the Commission as an accounting witness in various  
6       causes involving water, wastewater, electric, and gas utilities.

7   **Q:   Have you held any professional licenses?**

8   A:   Yes. I passed the CPA exam in 1984 and was licensed as a CPA in the State of  
9       Texas until I moved to Indiana in 2002.



**APPENDIX B**

- Attachment MAS-1** Asset register provided by LMH and list of additions since 2007.
- Attachment MAS-2** LMH Response to OUCC Data Request No. 9-1 regarding adjustment to be removed from rate base.
- Attachment MAS-3** LMH 2016 IURC Annual Report, page S-3(c)
- Attachment MAS-4** LMH Response to OUCC Data Request No. 9-1 regarding retirement of sludge press MSD in 2018
- Attachment MAS-5** LMH Response to OUCC Data Request No. 7-4 regarding sludge press purchase.
- Attachment MAS-6** Stull Testimony from Cause No. 43431, page 17, regarding inclusion of sludge press in 9/30/07 rate base
- Attachment MAS-7** Commission's Final Order in Cause No. 43431, pages 19-20, regarding assets included in 9/30/07 rate base
- Attachment MAS-8** LMH Response to OUCC Data Request No. 9-1 regarding sludge press building
- Attachment MAS-9** LMH Response to OUCC Data Request No. 10-1 and 10-2 regarding location of sludge press
- Attachment MAS-10** Exhibit CAL-2 (CN 43431) - Replacement Cost New Less Depreciation (RCNLD) Study prepared in Cause No. 43431 regarding value of sludge press building
- Attachment MAS-11** Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use"
- Attachment MAS-12** LMH Response to OUCC Data Request No. 6-4 regarding why advances for construction were not included in LMH's determination of rate base.
- Attachment MAS-13** LMH Response to OUCC Data Request No. 5-11 regarding LMH's adjustment to its taxable income
- Attachment MAS-14** LMH Compliance Filing in Cause No. 45032-S17 regarding calculation of amortization of excess accumulated depreciation
- Attachment MAS-15** Invoice from Utility Construction Corporation (affiliated company) to LMH for sale of sludge press building

**Attachment MAS-16** Invoice for Billing Software showing the amount of software training costs included

**OUCG WP-1** Reclassified Income Statement

**OUCG WP-2** Detail of Rate Base Adjustments

Utility Plant Additions by Year:

	<b>Through</b>													<b>Total</b>	<b>Total UPIs</b>
	<b>9/30/2007</b>	<b>4th Qtr 2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Additions</b>	<b>Per Asset Register</b>
353.0 - Land and Rights	-	-	-	-	-	1,000	-	-	-	-	-	-	-	1,000	1,000
353.1 - Land and Rights	60,000	-	-	-	-	-	-	-	-	-	-	-	-	-	60,000
354.2 - Structures/Improvements	1,091,261	-	-	-	-	-	-	-	44,605	-	-	94,800	-	139,405	1,230,666
354.3 - Pumping Plant	-	-	-	1,240	-	-	2,912	-	-	-	-	-	-	4,152	4,152
354.4 - Treatment Plant	-	-	-	-	-	-	4,995	1,105	-	-	-	-	-	6,100	6,100
354.7 - General Plant	9,200	-	-	-	12,125	-	-	-	-	-	-	-	-	12,125	21,325
360.2 - Force Sewer Mains	-	-	59,441	-	-	-	-	-	-	-	-	-	-	59,441	59,441
361.2 - Force Sewer Mains	981,987	-	4,786,197	-	-	-	-	-	-	-	-	-	-	4,786,197	5,768,184
361.2 - Gravity Sewer Mains	-	349,786	-	-	-	-	-	-	-	-	-	-	-	349,786	349,786
363.2 - Services	14,932	-	-	7,650	5,600	6,250	1,250	(5,000)	13,125	4,375	2,500	5,625	3,125	44,500	59,432
371.3 - Pump Equipment	210,835	-	-	-	-	-	-	-	8,896	-	8,442	-	6,895	24,233	235,068
380.4 - Treatment Plant	99,255	-	-	-	-	-	-	-	-	-	4,659	-	5,419	10,078	109,333
389.4 - OP ME Treatment	-	-	-	-	-	-	-	-	-	-	-	-	5,649	5,649	5,649
390.7 - Office Furniture	9,238	529	690	-	1,486	-	-	-	-	-	-	-	10,000	12,705	21,943
391.7 - Transportation	1,578	-	27,316	-	-	10,461	-	13	-	-	45,334	28,899	12,905	124,928	126,506
392.0 - Store Equipment	-	-	-	-	22,500	-	-	-	-	-	-	-	-	22,500	22,500
393.7 - Tools Shop Garage	-	-	-	500	67,375	-	-	-	-	-	-	-	-	67,875	67,875
394.7 - Lab Equipment	-	-	-	-	-	4,220	-	-	-	-	2,575	-	-	6,795	6,795
395.7 - Power Equipment	-	-	-	-	-	58,800	-	-	-	-	-	-	-	58,800	58,800
397.7 - Miscellaneous Equipment	-	-	-	-	-	-	-	-	-	-	3,750	3,633	-	7,383	7,383
Sub-total - Utility Plant Additions	2,478,286	350,315	4,873,644	9,390	109,086	80,731	9,157	(3,882)	66,626	4,375	67,260	132,957	43,993	5,743,652	8,221,938
														(349,786)	
														(59,441)	
														(4,786,197)	
														<b>548,228</b>	
															Total UPIs Additions since 2007

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**Tax Group Summary 1/01/18 - 12/31/18**

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Group	Cost Beginning	Cost Acquisitions	Cost Disposals	Cost Ending	Depreciation Prior	Depreciation Additions	Depreciation Reductions	Depreciation Ending
353.0 Land and Rights	1,000.00	0.00	0.00	1,000.00	0.00	0.00	0.00	0.00
353.4 Land-Treatment/I	60,000.00	0.00	0.00	60,000.00	0.00	0.00	0.00	0.00
354.2 S/I Collection	1,230,665.57	0.00	0.00	1,230,665.57	1,149,453.02	8,267.50	0.00	1,157,720.52
354.3 Sys Pumping Plar	4,152.23	0.00	0.00	4,152.23	3,639.20	157.61	0.00	3,796.81
354.4 Treatment Plant	6,100.05	0.00	0.00	6,100.05	5,642.42	272.22	0.00	5,914.64
354.7 General Plant	21,325.00	0.00	0.00	21,325.00	17,376.11	649.07	0.00	18,025.18
360.2 Collect Sewers Fc	59,440.96	0.00	0.00	59,440.96	45,518.12	1,325.98	0.00	46,844.10
361.2 Collect Sewers Fc	5,768,184.24	0.00	0.00	5,768,184.24	3,153,645.97	257,348.70	0.00	3,410,994.67
361.2 Collect Sewers Gt	349,785.59	0.00	0.00	349,785.59	201,530.92	15,605.75	0.00	217,136.67
363.2 Services	56,307.00	3,125.00	0.00	59,432.00	38,429.67	4,495.37	0.00	42,925.04
371.3 Pump Equipment	228,173.00	6,895.00	0.00	235,068.00	224,199.29	8,030.35	0.00	232,229.64
380.4 Treatment Equip	103,913.80	5,419.12	0.00	109,332.92	102,487.64	5,826.59	0.00	108,314.23
389.4 OP ME Treatmen	0.00	5,648.93	0.00	5,648.93	0.00	5,648.93	0.00	5,648.93
390.7 Office Furniture	11,943.68	10,000.00	0.00	21,943.68	11,942.68	10,000.00	0.00	21,942.68
391.7 Transportation	113,600.50	12,905.00	0.00	126,505.50	68,720.59	30,857.42	0.00	99,578.01
392.0 Store Equipment	22,500.00	0.00	0.00	22,500.00	22,500.00	0.00	0.00	22,500.00
393.7 Tools Shop Garag	67,875.00	0.00	0.00	67,875.00	67,875.00	0.00	0.00	67,875.00
394.7 Lab Equip	6,794.97	0.00	0.00	6,794.97	6,006.79	225.19	0.00	6,231.98
395.7 Power Op Equipn	58,800.00	0.00	0.00	58,800.00	58,800.00	0.00	0.00	58,800.00
397.7 Misc Equipment	7,383.00	0.00	0.00	7,383.00	6,235.04	327.99	0.00	6,563.03
<b>Grand Total</b>	<u>8,177,944.59</u>	<u>43,993.05</u>	<u>0.00</u>	<u>8,221,937.64</u>	<u>5,184,002.46</u>	<u>349,038.67</u>	<u>0.00</u>	<u>5,533,041.13</u>

## Tax Asset Detail 1/01/18 - 12/31/18

Asset Id	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
<b>Group: 353.0 Land and Rights</b>											
106	Land & Land Rights	7/01/11	1,000.00	0.00	0.00	0.00	0.00	0.00	1,000.00	Land	0.00
	<b>353.0 Land and Rights</b>		<b>1,000.00</b>	<b>0.00c</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>1,000.00</b>		
<b>Group: 353.4 Land-Treatment/Disp</b>											
92	Land and Land	7/01/08	60,000.00	0.00	0.00	0.00	0.00	0.00	60,000.00	Land	0.00
	<b>353.4 Land-Treatment/Disp</b>		<b>60,000.00</b>	<b>0.00c</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>60,000.00</b>		
<b>Group: 354.2 S/I Collection</b>											
3	Manhole	9/01/90	5,867.00	0.00	0.00	5,867.00	0.00	5,867.00	0.00	150DB	20.0
4	Manholes	5/01/94	1,722.00	0.00	0.00	1,722.00	0.00	1,722.00	0.00	150DB	20.0
5	Plant #1	11/01/89	24,051.00	0.00	0.00	24,051.00	0.00	24,051.00	0.00	150DB	20.0
6	Plant #2	1/01/91	113,128.00	0.00	0.00	113,128.00	0.00	113,128.00	0.00	150DB	20.0
7	Plant #2	1/01/91	10,106.00	0.00	0.00	10,106.00	0.00	10,106.00	0.00	150DB	20.0
8	Plant #3	1/01/94	8,354.00	0.00	0.00	8,354.00	0.00	8,354.00	0.00	150DB	20.0
9	Plant #3	2/01/94	21,367.00	0.00	0.00	21,367.00	0.00	21,367.00	0.00	150DB	20.0
10	Plant #3	5/01/94	11,960.00	0.00	0.00	11,960.00	0.00	11,960.00	0.00	150DB	20.0
11	New Plant #3	7/01/94	57,177.00	0.00	0.00	57,177.00	0.00	57,177.00	0.00	150DB	20.0
12	New Plant #3	8/01/94	24,673.00	0.00	0.00	24,673.00	0.00	24,673.00	0.00	150DB	20.0
13	New Plant #3	9/01/94	107,587.00	0.00	0.00	107,587.00	0.00	107,587.00	0.00	150DB	20.0
14	New Plant #3	9/01/94	25,203.00	0.00	0.00	25,203.00	0.00	25,203.00	0.00	150DB	20.0
15	New Plant #3	10/01/94	124,522.00	0.00	0.00	124,522.00	0.00	124,522.00	0.00	150DB	20.0
16	New Plant #3	11/01/94	26,914.00	0.00	0.00	26,914.00	0.00	26,914.00	0.00	150DB	20.0
17	New Plant #3	12/01/94	5,988.00	0.00	0.00	5,988.00	0.00	5,988.00	0.00	150DB	20.0
18	New Plant #3	7/01/95	62,381.00	0.00	0.00	62,381.00	0.00	62,381.00	0.00	150DB	20.0
19	New Plant #3	1/15/96	6,750.00	0.00	0.00	6,750.00	0.00	6,750.00	0.00	150DB	20.0
20	Engineer Fee	9/01/94	12,650.00	0.00	0.00	12,650.00	0.00	12,650.00	0.00	150DB	20.0
21	Engineer Fee	12/01/94	7,460.00	0.00	0.00	7,460.00	0.00	7,460.00	0.00	150DB	20.0
22	Engineer Fee	10/01/94	5,212.00	0.00	0.00	5,212.00	0.00	5,212.00	0.00	150DB	20.0
37	Lift Station	11/19/94	407.00	0.00	0.00	407.00	0.00	407.00	0.00	200DB	7.0
45	Sewers and Mai	6/01/90	28,301.00	0.00	0.00	28,301.00	0.00	28,301.00	0.00	150DB	20.0
46	Sewers and Mai	3/01/91	1,765.00	0.00	0.00	1,765.00	0.00	1,765.00	0.00	150DB	20.0
47	Sewers and Mai	6/01/91	1,305.00	0.00	0.00	1,305.00	0.00	1,305.00	0.00	150DB	20.0
48	Sewers and Mai	9/01/91	37,376.00	0.00	0.00	37,376.00	0.00	37,376.00	0.00	150DB	20.0
49	Sewers and Mai	12/01/91	24,547.00	0.00	0.00	24,547.00	0.00	24,547.00	0.00	150DB	20.0
50	Sewers and Mai	3/01/91	40,797.00	0.00	0.00	40,797.00	0.00	40,797.00	0.00	150DB	20.0
51	Sewers and Mai	6/01/91	11,296.00	0.00	0.00	11,296.00	0.00	11,296.00	0.00	150DB	20.0
52	Sewers and Mai	12/01/91	235.00	0.00	0.00	235.00	0.00	235.00	0.00	150DB	20.0
53	Sewers and Mai	3/01/92	5,549.00	0.00	0.00	5,549.00	0.00	5,549.00	0.00	150DB	20.0
54	Sewers and Mai	6/01/92	12,743.00	0.00	0.00	12,743.00	0.00	12,743.00	0.00	150DB	20.0
55	Sewers and Mai	9/01/92	14,854.00	0.00	0.00	14,854.00	0.00	14,854.00	0.00	150DB	20.0
56	Sewers and Mai	12/01/92	8,777.00	0.00	0.00	8,777.00	0.00	8,777.00	0.00	150DB	20.0
57	Sewers and Mai	11/19/92	2,734.00	0.00	0.00	2,734.00	0.00	2,734.00	0.00	150DB	20.0
58	Sewers and Mai	11/19/93	30,770.00	0.00	0.00	30,770.00	0.00	30,770.00	0.00	150DB	20.0
59	Sewers and Mai	2/01/93	8,837.00	0.00	0.00	8,837.00	0.00	8,837.00	0.00	150DB	20.0
60	Sewers and Mai	3/01/93	5,009.00	0.00	0.00	5,009.00	0.00	5,009.00	0.00	150DB	20.0

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**Tax Asset Detail 1/01/18 - 12/31/18**

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Asset Id	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period	
<b>Group: 354.2 S/I Collection (continued)</b>												
61	Sewers and Mai	4/01/93	21,756.00	0.00	0.00	21,756.00	0.00	21,756.00	0.00	150DB	20.0	
62	Sewers and Mai	5/01/93	19,902.00	0.00	0.00	19,902.00	0.00	19,902.00	0.00	150DB	20.0	
63	Sewers and Mai	6/01/93	10,858.00	0.00	0.00	10,858.00	0.00	10,858.00	0.00	150DB	20.0	
64	Sewers and Mai	7/01/93	27,152.00	0.00	0.00	27,152.00	0.00	27,152.00	0.00	150DB	20.0	
65	Sewers and Mai	8/01/93	4,157.00	0.00	0.00	4,157.00	0.00	4,157.00	0.00	150DB	20.0	
66	Sewers and Mai	9/01/93	4,993.00	0.00	0.00	4,993.00	0.00	4,993.00	0.00	150DB	20.0	
67	Sewers and Mai	6/01/93	740.00	0.00	0.00	740.00	0.00	740.00	0.00	150DB	20.0	
68	Sewers and Mai	10/01/93	27,681.00	0.00	0.00	27,681.00	0.00	27,681.00	0.00	150DB	20.0	
69	Sewers and Mai	11/01/93	2,473.00	0.00	0.00	2,473.00	0.00	2,473.00	0.00	150DB	20.0	
70	Sewers and Mai	12/01/93	513.00	0.00	0.00	513.00	0.00	513.00	0.00	150DB	20.0	
71	Sewers and Mai	3/01/94	9,661.00	0.00	0.00	9,661.00	0.00	9,661.00	0.00	150DB	20.0	
84	Rodeo's Main E	7/01/07	22,288.60	0.00	0.00	12,841.71	994.41	13,836.12	8,452.48	150DB	20.0	
85	Mt. Meadows	7/01/07	2,712.63	0.00	0.00	1,562.89	121.03	1,683.92	1,028.71	150DB	20.0	
87	Hidden Acres	7/01/07	38,000.00	0.00	0.00	21,893.93	1,695.38	23,589.31	14,410.69	150DB	20.0	
116	S/I Collection	1/01/14	41,580.70	0.00	20,790.35	35,086.42	1,855.51	36,941.93	4,638.77	200DB	7.0	
119	Adjustment	12/31/14	3,023.64	0.00	0.00	630.57	179.48	810.05	2,213.59	150DB	20.0	
132	Stateline Extension	6/30/17	94,800.00	0.00	47,400.00	49,177.50	3,421.69	52,599.19	42,200.81	150DB	20.0	
			<b>354.2 S/I Collection</b>	<b>0.00c</b>	<b>68,190.35</b>	<b>1,149,453.02</b>	<b>8,267.50</b>	<b>1,157,720.52</b>	<b>72,945.05</b>			
<b>Group: 354.3 Sys Pumping Plant</b>												
93	Lamplight Liftstation	8/13/09	1,240.00	0.00	620.00	921.90	27.66	949.56	290.44	150DB	20.0	
110	S/I System	7/01/12	2,912.23	0.00	1,456.12	2,717.30	129.95	2,847.25	64.98	200DB	7.0	
			<b>354.3 Sys Pumping Plant</b>	<b>0.00c</b>	<b>2,076.12</b>	<b>3,639.20</b>	<b>157.61</b>	<b>3,796.81</b>	<b>355.42</b>			
<b>Group: 354.4 Treatment Plant</b>												
111	S/I Treatment	7/01/12	4,995.10	0.00	2,497.55	4,660.74	222.91	4,883.65	111.45	200DB	7.0	
113	S/I Treatment	7/01/13	1,104.95	0.00	552.48	981.68	49.31	1,030.99	73.96	200DB	7.0	
			<b>354.4 Treatment Plant</b>	<b>0.00c</b>	<b>3,050.03</b>	<b>5,642.42</b>	<b>272.22</b>	<b>5,914.64</b>	<b>185.41</b>			
<b>Group: 354.7 General Plant</b>												
75	Paving	10/01/99	9,200.00	0.00	0.00	8,632.11	378.59	9,010.70	189.30	150DB	20.0	
98	Building Storage	1/22/10	12,125.00	0.00	6,062.50	8,744.00	270.48	9,014.48	3,110.52	150DB	20.0	
			<b>354.7 General Plant</b>	<b>0.00c</b>	<b>6,062.50</b>	<b>17,376.11</b>	<b>649.07</b>	<b>18,025.18</b>	<b>3,299.82</b>			
<b>Group: 360.2 Collect Sewers Forc</b>												
88	Plant Additions	7/01/08	59,440.96	0.00	29,720.48	45,518.12	1,325.98	46,844.10	12,596.86	150DB	20.0	
			<b>360.2 Collect Sewers Forc</b>	<b>0.00c</b>	<b>29,720.48</b>	<b>45,518.12</b>	<b>1,325.98</b>	<b>46,844.10</b>	<b>12,596.86</b>			
<b>Group: 361.2 Collect Sewers Forc</b>												
77	Plant Additions	7/01/06	981,986.80	0.00	0.00	609,588.72	43,811.54	653,400.26	328,586.54	150DB	20.0	

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35-1713176  
FYE: 12/31/2018

**Tax Asset Detail 1/01/18 - 12/31/18**

Asset Id	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
89	Plant Additions	7/01/08	4,786,197.44	0.00	2,393,098.72	2,544,057.25	213,537.16	2,757,594.41	2,028,603.03	150DB	20.0
	<b>361.2 Collect Sewers Forc</b>		<u>5,768,184.24</u>	<u>0.00c</u>	<u>2,393,098.72</u>	<u>3,153,645.97</u>	<u>257,348.70</u>	<u>3,410,994.67</u>	<u>2,357,189.57</u>		
	<b>Group: 361.2 Collect Sewers Forc (continued)</b>										
83	Plant Additions	7/01/07	349,785.59	0.00	0.00	201,530.92	15,605.75	217,136.67	132,648.92	150DB	20.0
	<b>361.2 Collect Sewers Gray</b>		<u>349,785.59</u>	<u>0.00c</u>	<u>0.00</u>	<u>201,530.92</u>	<u>15,605.75</u>	<u>217,136.67</u>	<u>132,648.92</u>		
	<b>Group: 363.2 Services</b>										
72	Taps	6/01/91	14,932.00	0.00	0.00	14,932.00	0.00	14,932.00	0.00	150DB	20.0
94	Sewer Tap	3/25/09	625.00	0.00	312.50	464.67	13.94	478.61	146.39	150DB	20.0
95	Sewer Taps	8/13/09	6,400.00	0.00	3,200.00	4,758.17	142.77	4,900.94	1,499.06	150DB	20.0
96	Sewer Tap	9/01/09	625.00	0.00	312.50	464.67	13.94	478.61	146.39	150DB	20.0
99	Tap Fee	5/12/10	4,375.00	0.00	2,187.50	3,155.05	97.60	3,252.65	1,122.35	150DB	20.0
100	Tap Fee	9/20/10	600.00	0.00	600.00	600.00	0.00	600.00	0.00	150DB	20.0
101	Tap Fee	11/17/10	625.00	0.00	625.00	625.00	0.00	625.00	0.00	150DB	20.0
105	Service Taps	7/01/11	6,250.00	0.00	6,250.00	6,250.00	0.00	6,250.00	0.00	150DB	20.0
112	Service Taps - 2	7/01/12	1,250.00	0.00	625.00	842.63	30.55	873.18	376.82	150DB	20.0
114	Collected Tap Fees	7/01/13	-5,000.00	0.00	0.00	-1,476.80	-264.24	-1,741.04	-3,258.96	150DB	20.0
118	Services-2014	12/31/14	13,125.00	0.00	0.00	2,737.19	779.09	3,516.28	9,608.72	150DB	20.0
120	Services-2015	6/30/15	4,375.00	0.00	0.00	772.01	270.22	1,042.23	3,332.77	150DB	20.0
128	New Services - 4	6/30/16	2,500.00	0.00	1,250.00	1,387.11	83.47	1,470.58	1,029.42	150DB	20.0
129	New Services - 9	6/30/17	5,625.00	0.00	2,812.50	2,917.97	203.03	3,121.00	2,504.00	150DB	20.0
133	New Services - 5	6/30/18	3,125.00	0.00c	3,125.00	0.00	3,125.00	3,125.00	0.00	150DB	20.0
	<b>363.2 Services</b>		<u>59,432.00</u>	<u>0.00c</u>	<u>21,300.00</u>	<u>38,429.67</u>	<u>4,495.37</u>	<u>42,925.04</u>	<u>16,506.96</u>		
	<b>Group: 371.3 Pump Equipment</b>										
25	Pumps	11/01/93	515.00	0.00	0.00	515.00	0.00	515.00	0.00	200DB	7.0
26	Pumps	11/01/93	3,223.00	0.00	0.00	3,223.00	0.00	3,223.00	0.00	200DB	7.0
27	Pumps	12/01/93	1,050.00	0.00	0.00	1,050.00	0.00	1,050.00	0.00	200DB	7.0
28	Pumps	5/01/94	5,173.00	0.00	0.00	5,173.00	0.00	5,173.00	0.00	200DB	7.0
29	Pumps	7/01/94	799.00	0.00	0.00	799.00	0.00	799.00	0.00	200DB	7.0
30	Pumps	7/01/94	2,730.00	0.00	0.00	2,730.00	0.00	2,730.00	0.00	200DB	7.0
31	Pumps	8/01/94	613.00	0.00	0.00	613.00	0.00	613.00	0.00	200DB	7.0
32	Pumps	7/01/94	133,116.00	0.00	0.00	133,116.00	0.00	133,116.00	0.00	150DB	20.0
33	Pumps	6/01/96	6,183.00	0.00	0.00	6,183.00	0.00	6,183.00	0.00	200DB	7.0
34	Pumps	11/01/98	27,921.00	0.00	0.00	27,921.00	0.00	27,921.00	0.00	200DB	7.0
35	Pumps	11/01/99	29,512.00	0.00	0.00	29,512.00	0.00	29,512.00	0.00	200DB	7.0
117	Pump Equipment	3/31/14	8,896.00	0.00	0.00	7,506.58	396.98	7,903.56	992.44	200DB	7.0
121	Myers Pump 3PH 230V	3/31/16	8,442.00	0.00	4,448.00	5,857.71	738.37	6,596.08	1,845.92	200DB	7.0
134	Myers pump Park Place	4/19/18	6,895.00	0.00c	6,895.00	0.00	6,895.00	6,895.00	0.00	200DB	7.0
	<b>371.3 Pump Equipment</b>		<u>235,068.00</u>	<u>0.00c</u>	<u>15,564.00</u>	<u>224,199.29</u>	<u>8,030.35</u>	<u>232,229.64</u>	<u>2,838.36</u>		

Asset Id	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
<b>Group: 380.4 Treatment Equip</b>											
24	Machinery	6/01/93	3,862.00	0.00	0.00	3,862.00	0.00	3,862.00	0.00	200DB	7.0
36	Sludge Dryer	11/01/93	24,650.00	0.00	0.00	24,650.00	0.00	24,650.00	0.00	200DB	7.0
38	Equipment	2/01/94	1,658.00	0.00	0.00	1,658.00	0.00	1,658.00	0.00	200DB	7.0
39	Equipment	7/01/94	265.00	0.00	0.00	265.00	0.00	265.00	0.00	200DB	7.0
40	Equipment	7/01/94	162.00	0.00	0.00	162.00	0.00	162.00	0.00	200DB	7.0
41	Equipment	9/01/94	15,341.00	0.00	0.00	15,341.00	0.00	15,341.00	0.00	200DB	7.0
42	Equipment	10/01/94	5,268.00	0.00	0.00	5,268.00	0.00	5,268.00	0.00	200DB	7.0
43	Equipment	7/01/95	1,065.00	0.00	0.00	1,065.00	0.00	1,065.00	0.00	200DB	7.0
44	Meter	7/01/95	47.00	0.00	0.00	47.00	0.00	47.00	0.00	200DB	7.0
80	Generator	10/11/05	8,000.00	0.00	0.00	8,000.00	0.00	8,000.00	0.00	200DB	5.0
81	Control Panel	10/14/05	38,937.00	0.00	0.00	38,937.00	0.00	38,937.00	0.00	200DB	7.0
122	Gardner Denver Sutorbilt 6M Blow Transfer Switch (plant generator)	10/25/16	4,658.80	0.00	2,329.40	3,232.64	407.47	3,640.11	1,018.69	200DB	7.0
135	Transfer Switch (plant generator)	9/18/18	5,419.12	0.00c	5,419.12	0.00	5,419.12	5,419.12	0.00	200DB	7.0
<b>380.4 Treatment Equip</b>			<b>109,332.92</b>	<b>0.00c</b>	<b>7,748.52</b>	<b>102,487.64</b>	<b>5,826.59</b>	<b>108,314.23</b>	<b>1,018.69</b>		
<b>Group: 389.4 OP ME Treatment</b>											
136	Sludge Press	2/09/18	5,648.93	0.00c	5,648.93	0.00	5,648.93	5,648.93	0.00	200DB	7.0
<b>389.4 OP ME Treatment</b>			<b>5,648.93</b>	<b>0.00c</b>	<b>5,648.93</b>	<b>0.00</b>	<b>5,648.93</b>	<b>5,648.93</b>	<b>0.00</b>		
<b>Group: 390.7 Office Furniture</b>											
1	Software	2/01/92	894.00	0.00	0.00	893.00	0.00	893.00	1.00	200DB	5.0
2	Software	3/01/98	4,500.00	0.00	0.00	4,500.00	0.00	4,500.00	0.00	200DB	7.0
73	Printer	10/01/98	1,404.00	0.00	0.00	1,404.00	0.00	1,404.00	0.00	200DB	7.0
74	Fax/Copier	9/01/99	1,794.00	0.00	0.00	1,794.00	0.00	1,794.00	0.00	200DB	7.0
82	Office Furniture	7/01/06	646.17	0.00	0.00	646.17	0.00	646.17	0.00	200DB	7.0
86	Office Furniture	7/01/07	529.38	0.00	0.00	529.38	0.00	529.38	0.00	200DB	7.0
90	Office Furniture	7/01/08	690.20	0.00	345.10	690.20	0.00	690.20	0.00	200DB	5.0
102	Computer	7/21/10	1,485.93	0.00	742.97	1,485.93	0.00	1,485.93	0.00	200DB	5.0
137	Ampstun Web Based Billing	4/06/18	10,000.00	0.00c	10,000.00	0.00	10,000.00	10,000.00	0.00	Amort	3.00
<b>390.7 Office Furniture</b>			<b>21,943.68</b>	<b>0.00c</b>	<b>11,088.07</b>	<b>11,942.68</b>	<b>10,000.00</b>	<b>21,942.68</b>	<b>1.00</b>		
<b>Group: 391.7 Transportation</b>											
76	Truck Winch	2/01/00	1,578.00	0.00	0.00	1,578.00	0.00	1,578.00	0.00	200DB	5.0
91	Transportation	7/01/08	27,315.80	0.00	13,657.90	27,315.80	0.00	27,315.80	0.00	200DB	5.0
107	Transportation	7/01/11	10,461.00	0.00	10,461.00	10,461.00	0.00	10,461.00	0.00	200DB	5.0
115	Auto Repairs	5/21/13	13.16	0.00	6.58	12.40	0.76	13.16	0.00	200DB	5.0
125	2013 Ford F150	4/04/16	32,834.00	0.00	0.00	17,073.68	6,304.13	23,377.81	9,456.19	200DB	5.0
126	2000 Ford	1/14/16	12,500.00	0.00	0.00	6,500.00	2,400.00	8,900.00	3,600.00	200DB	5.0
131	2015 F250	1/23/17	28,898.54	0.00	0.00	5,779.71	9,247.53	15,027.24	13,871.30	200DB	5.0
138	2006 Ford F350	3/16/18	12,905.00	0.00c	12,905.00	0.00	12,905.00	12,905.00	0.00	200DB	5.0
<b>391.7 Transportation</b>			<b>126,505.50</b>	<b>0.00c</b>	<b>37,030.48</b>	<b>68,720.59</b>	<b>30,857.42</b>	<b>99,578.01</b>	<b>26,927.49</b>		



## Tax Asset Detail 1/01/18 - 12/31/18

Asset Id	Property Description	Date In Service	Tax Cost	Sec 179 Exp Current = c	Tax Bonus Amt	Tax Prior Depreciation	Tax Current Depreciation	Tax End Depr	Tax Net Book Value	Tax Method	Tax Period
<b>Group: 392.0 Store Equipment</b>											
103	1998 International	7/01/10	22,500.00	0.00	11,250.00	22,500.00	0.00	22,500.00	0.00	200DB	5.0
	<b>392.0 Store Equipment</b>		<u>22,500.00</u>	<u>0.00c</u>	<u>11,250.00</u>	<u>22,500.00</u>	<u>0.00</u>	<u>22,500.00</u>	<u>0.00</u>		
<b>Group: 393.7 Tools Shop Garage</b>											
97	Steel Pipe Saw	1/06/09	500.00	0.00	250.00	500.00	0.00	500.00	0.00	200DB	7.0
104	Tools	1/22/10	67,375.00	0.00	33,687.50	67,375.00	0.00	67,375.00	0.00	200DB	7.0
	<b>393.7 Tools Shop Garage</b>		<u>67,875.00</u>	<u>0.00c</u>	<u>33,937.50</u>	<u>67,875.00</u>	<u>0.00</u>	<u>67,875.00</u>	<u>0.00</u>		
<b>Group: 394.7 Lab Equip</b>											
108	Lab Equipment	7/01/11	4,220.25	0.00	4,220.25	4,220.25	0.00	4,220.25	0.00	200DB	7.0
123	Dissolved Oxygen Meter & Probes	12/29/16	2,574.72	0.00	1,287.36	1,786.54	225.19	2,011.73	562.99	200DB	7.0
	<b>394.7 Lab Equip</b>		<u>6,794.97</u>	<u>0.00c</u>	<u>5,507.61</u>	<u>6,006.79</u>	<u>225.19</u>	<u>6,231.98</u>	<u>562.99</u>		
<b>Group: 395.7 Power Op Equipment</b>											
109	Power Operator Equipment	7/01/11	58,800.00	0.00	58,800.00	58,800.00	0.00	58,800.00	0.00	200DB	7.0
	<b>395.7 Power Op Equipment</b>		<u>58,800.00</u>	<u>0.00c</u>	<u>58,800.00</u>	<u>58,800.00</u>	<u>0.00</u>	<u>58,800.00</u>	<u>0.00</u>		
<b>Group: 397.7 Misc Equipment</b>											
124	2015 Gator Made Trailer	4/06/16	3,750.00	0.00	1,875.00	2,602.04	327.99	2,930.03	819.97	200DB	7.0
130	Locator	12/01/17	3,633.00	0.00	3,633.00	3,633.00	0.00	3,633.00	0.00	200DB	7.0
	<b>397.7 Misc Equipment</b>		<u>7,383.00</u>	<u>0.00c</u>	<u>5,508.00</u>	<u>6,235.04</u>	<u>327.99</u>	<u>6,563.03</u>	<u>819.97</u>		
	<b>Grand Total</b>		<u>8,221,937.64</u>	<u>0.00c</u>	<u>2,715,581.31</u>	<u>5,184,002.46</u>	<u>349,038.67</u>	<u>5,533,041.13</u>	<u>2,688,896.51</u>		

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE PETITION OF LMH            )**  
**UTILITIES, INC. FOR A NEW SCHEDULE OF        )** **CAUSE NO. 45307-U**  
**RATES AND CHARGES                                )**

**PETITION OF LMH UTILITIES CORPORATION RESPONSES TO THE INDIANA**  
**OFFICE OF UTILITY CONSUMER COUNSELOR'S**  
**NINTH SET OF DATA REQUESTS**

Comes now LMH Utilities, Inc., by counsel, and submits to the Indiana Office of the Utility Consumer Counselor ("OUCC") its responses to the OUCC's Ninth Set of Data Requests dated February 13, 2020, as follows:

**II. Data Request.**

**Q-9-1:** The attached list contains projects that have been identified as asset additions LMH is asking be included in rate base. Please provide an explanation of need for each project.

A. See Response to OUCC DR 9-1 Attachment.

Document Provided by LMH in responses to OUC Data Request No. 9.1

Account	Account Description	Asset Addition Description	In-Service	Original Cost	
354.2	S/I Collection	Smokey Mt Meadow Ext	01.01.14	26,000.00	Customer requested line extension
		Hidden Lane Extension	01.01.14	8,600.00	Customer requested line extension
		Unlocated	01.01.14	5,290.00	
		Bright Country extension	01.01.14	1,690.70	
		Adjustment	12.31.14	3,023.64	Cannot locate support for adjustment. Remove from rate base.
354.3	System Pumping Plant	Pump Old Orchard	07.01.12	2,250.74	Rebuilt Pump - This was replaced by Meyer Pump Old Orchard in service date 3/31/16
		S/I System	07.01.12	661.49	
354.4	Treatment Plant	Sludge Press MSD	07.01.12	4,995.10	As explained in DR#3 and DR#7, should have been retired in 2018 and should be removed from the rate base.
354.7	General Plant	Sludge Press Building	01.22.10	12,125.00	Building for sludge press
360.2	Collection Sewers - Force	Plant Additions	07.01.08	59,440.96	As explained in DR#3 and DR#7, this addition was disallowed in Cause 43431 and not included in the rate base.
371.3	Pump Equipment	Pump Equipment	03.31.14	8,896.00	Old Orchard LS - This would have replaced a pump included in Cause 43431
		Meter Pump 2PH 230V	03.31.16	8,442.00	Old Orchard LS - This would have replaced a pump included in Cause 43431
		Myers Pump Park Place	04.19.18	6,895.00	Park Place LS - This would have replaced a pump included in Cause 43431
		Gardner Denver Sutorbilt 6M Blower	10.25.16	4,658.80	Blower replaced - This would have replaced one of the blowers included in Cause 43431.
380.4	Treatment Equipment	Transfer Switch (plant generator)	09.18.18	5,419.12	Back up power for plant - This replaced the existing switch included in Cause 43431
		Sludge Press	02.09.18	5,648.93	EIH-1024 Sludge Press Pump - This would have replaced a pump on the sludge press that is included in 393.7 Sludge Press
389.4	OP ME Treatment	Ampstun Web Based Billing	04.06.18	10,000.00	Upgraded our billing software to web-based billing. 1. All of our customer records are now stored by Ampstun. This eliminated the need for LMH to backup/store our data on our server. 2. Set up on-line account access for all of our customers. This makes it easier for our customers to view their account, pay their bill on line and set up auto draft information. 3. Enables LMH to send E-bills.
391.7	Transportation	2006 Ford F350	07.01.08	27,315.80	Plant operator's truck used daily for plant operations.
		1992 Ford LN800 Dump Truck	07.01.11	7,277.22	Haul gravel to LS roads and collection system repair and connections.
		1992 Trail King Trailer	07.01.11	3,183.78	We just retired this trailer this year. We still have it and are working selling it.
		2013 Ford F150	04.04.16	32,834.00	Utility owner's vehicle used for general business for LMH.
		2000 Ford	01.14.16	12,500.00	Tool body to haul tools and parts for collection system repairs and maintenance. This truck is used for daily lift station checks.
		2015 F250	01.23.17	28,898.54	Plant operator's truck used daily for plant operations.
		2006 Ford F350	03.16.18	12,905.00	Crane truck for lift station maintenance, pump repair and material handling.
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392.0	Stores Equipment	Sludge Press	01.22.10	67,375.00	Dewater sludge from treatment process.
393.7	Tools Shop Garage	Spectrophotometer	07.01.11	4,220.25	Lab equipment required for testing by NPDES permit.
		Dissolved Oxygen Meter & Probes	12.29.16	2,574.72	Lab equipment required for testing by NPDES permit.
395.7	Power Op Equipment	Kubota Mini Excavator	07.01.11	25,760.00	Making sewer taps, repairing collection system and maintaining lift station roads.
		Yutani Excavator	07.01.11	14,000.00	Making sewer taps, repairing collection system and maintaining lift station roads.
		Case Loader/Backhoe	07.01.11	19,040.00	Load materials for collection system repairs and maintenance.
397.7	Misc. Equipment	2015 Gator Made Trailer	04.06.16	3,750.00	Trailer for hauling the Kubota Mini Excavator.
		Locator	12.01.17	3,633.00	Locating equipment for locating collection system required for 811 Call Before You Dig.
				461,804.79	

**LMH Utilities, Inc.**  
NAME OF UTILITY

**YEAR OF REPORT**  
December 31, 2016

**ADDITIONS/(RETIREMENTS) DETAIL**

Provide the following information for each addition or retirement greater than \$10,000. Please insert additional rows where necessary.

ACCT. NO. (a)	FUNCTION BY SUB-ACCOUNT (b)	TOTAL ADDITIONS/ (RETIREMENTS) (c)	DESCRIPTION OR TYPE OF ASSET (d)	IN SERVICE DATE (e)	RETIREMENT DATE* (f)	AMOUNT (g)
351						
352						
353						
354						
355						
360						
361						
362						
363	363	2,500	2016 Services	various		2,500
364						
365						
370						
371	371	8,442	Myers Pump	3/31/2016		8,442
380	380	4,659	Blower	10/25/2016		4,659
	380	(2,000)	Mower	6/1/1993	5/10/2016	(2,000)
381						
382						
389						
390						
391	391	45,334	Trucks	various		45,334
	391	(18,673)	Trucks and trailer	various	various	(18,673)
392						
393						
394	394	2,575	Oxygen meter	12/29/2016		2,575
395						
396						
397	397	3,750	Trailer	4/6/2016		3,750
398						
		\$46,587				\$46,587

\*Please provide the reason for an asset retirement, if it occurred prior to its expected useful life.

NOTE: In-service dates for each retirement should be provided.

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE PETITION OF LMH            )  
UTILITIES, INC. FOR A NEW SCHEDULE OF        ) CAUSE NO. 45307-U  
RATES AND CHARGES                                )**

**PETITION OF LMH UTILITIES CORPORATION RESPONSES TO THE INDIANA  
OFFICE OF UTILITY CONSUMER COUNSELOR'S  
NINTH SET OF DATA REQUESTS**

Comes now LMH Utilities, Inc., by counsel, and submits to the Indiana Office of the Utility Consumer Counselor ("OUCC") its responses to the OUCC's Ninth Set of Data Requests dated February 13, 2020, as follows:

**II. Data Request.**

**Q-9-1:** The attached list contains projects that have been identified as asset additions LMH is asking be included in rate base. Please provide an explanation of need for each project.

A. See Response to OUCC DR 9-1 Attachment.

Document Provided by LMH in responses to OUC Data Request No. 9.1

Account	Account Description	Asset Addition Description	In-Service	Original Cost	
354.2	S/I Collection	Smokey Mt Meadow Ext	01.01.14	26,000.00	Customer requested line extension
		Hidden Lane Extension	01.01.14	8,600.00	Customer requested line extension
		Unlocated	01.01.14	5,290.00	
		Bright Country extension	01.01.14	1,690.70	
		Adjustment	12.31.14	3,023.64	Cannot locate support for adjustment. Remove from rate base.
354.3	System Pumping Plant	Pump Old Orchard	07.01.12	2,250.74	Rebuilt Pump - This was replaced by Meyer Pump Old Orchard in service date 3/31/16
		S/I System	07.01.12	661.49	
354.4	Treatment Plant	Sludge Press MSD	07.01.12	4,995.10	As explained in DR#3 and DR#7, should have been retired in 2018 and should be removed from the rate base.
354.7	General Plant	Sludge Press Building	01.22.10	12,125.00	Building for sludge press
360.2	Collection Sewers - Force	Plant Additions	07.01.08	59,440.96	As explained in DR#3 and DR#7, this addition was disallowed in Cause 43431 and not included in the rate base.
371.3	Pump Equipment	Pump Equipment	03.31.14	8,896.00	Old Orchard LS - This would have replaced a pump included in Cause 43431
		Meter Pump 2PH 230V	03.31.16	8,442.00	Old Orchard LS - This would have replaced a pump included in Cause 43431
		Myers Pump Park Place	04.19.18	6,895.00	Park Place LS - This would have replaced a pump included in Cause 43431
380.4	Treatment Equipment	Gardner Denver Sutorbilt 6M Blower	10.25.16	4,658.80	Blower replaced - This would have replaced one of the blowers included in Cause 43431.
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389.4	OP ME Treatment	Sludge Press	02.09.18	5,648.93	EIH-1024 Sludge Press Pump - This would have replaced a pump on the sludge press that is included in 393.7 Sludge Press
		Ampstun Web Based Billing	04.06.18	10,000.00	Upgraded our billing software to web-based billing. 1. All of our customer records are now stored by Ampstun. This eliminated the need for LMH to backup/store our data on our server. 2. Set up on-line account access for all of our customers. This makes it easier for our customers to view their account, pay their bill on line and set up auto draft information. 3. Enables LMH to send E-bills.
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461,804.79

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF LMH )  
UTILITIES, INC. FOR A NEW SCHEDULE OF ) CAUSE NO. 45307-U  
RATES AND CHARGES )

**PETITION OF LMH UTILITIES CORPORATION RESPONSES TO THE INDIANA  
OFFICE OF UTILITY CONSUMER COUNSELOR'S  
SEVENTH SET OF DATA REQUESTS**

Comes now LMH Utilities Corporation, by counsel, and submits to the Indiana Office of the Utility Consumer Counselor ("OUCC") its responses to the OUCC's Seventh Set of Data Requests dated February 7, 2020, as follows:

**II. Data Request.**

**Q-7-1:** The attached "UPIS Additions since CN 43431 – Version 2" file has the items since the last rate case that are over \$2,000 that we couldn't match to the invoices sent in response to DR3. Per DR Q-3-1, please provide the following for any capital project LMH is requesting to add to rate base, that costs \$2,000 or more:

- a. A brief description of the project.
- b. The in-service date.
- c. The cost
- d. Documentation for the cost (e.g. invoices).

A. See attachments Q7-1.

**Q-7-2:** We could not match the invoices in attachments "Q3-1.04 Pump Old Orchard" and "Q3-1.24 loan assumption for 2006 F-150" to the items on the asset register. Please identify to which items these correspond.

A. See response and attachments to Q-7-1 above.

**Q-7-3:** We could not identify the corresponding items on the asset register for the dump truck, plow truck, and two flatbed trailers included in the invoice in "Q-3-4 gallivan auction list." Please identify to which items these correspond.

A. See attachment Q7-1H.

**Q-7-4:** The invoice for the sludge press (Q-3-3 Sludge Press) gives a date of 04/04/2002 for the unit. However, in response to DR Q-3-3 LMH stated the sludge press corresponded to the item listed as "Tools" for \$67,375 under account 393.7 of the asset register which has an in service date of 01/22/2010. Based on the invoice date these should not be the same items. Also, based on the invoice date the sludge press should already be included in the plant in service. Please explain the difference in the dates and why the press is not already included in plant in service. If the 01/22/2010 date is for something else, please describe the project including cost and provide documentation (e.g. invoices) for the cost.

**A.** The sludge press was originally purchased by Utility Construction Corp. (an affiliated entity) in 2002. UCC went out of business in 2010 and sold the press to LMH on 1/22/10.

**Q-7-5:** In testimony for rate case Cause No. 43431, LMH stated it sent a letter to ~60 customers suspected to have sump pumps hooked up to the sewer. These letter told customers they needed to stop this practice.


- a. What has been the result of these letters?
- b. What steps has LMH taken to follow up on these letters?

A. .

- a. We believe our efforts have been able to minimize the infiltration from sump pumps.
- b. If we believe there is an issue, we contact the homeowner for an inspection.



Respectfully submitted,



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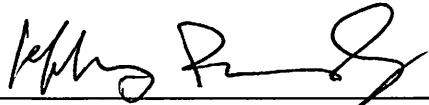
L. Parvin Price (Atty. No. 5827-49)  
Jeffrey M. Peabody (Atty. No. 28000-53)  
Barnes & Thornburg LLP  
11 S. Meridian Street  
Indianapolis, IN 46204  
Telephone: (317) 231-7721  
Facsimile: (317) 231-7433  
parvin.price@btlaw.com  
jeffrey.peabody@btlaw.com

Counsel for Petitioner,  
LMH Utilities Corporation

**CERTIFICATE OF SERVICE**

The undersigned certifies that a copy of the foregoing was served upon the following via electronic email, hand delivery or First Class, United States Mail, postage prepaid this 17th day of February, 2020 to:

Indiana Office of Utility Consumer Counselor  
Daniel Le Vay  
115 West Washington Street  
Suite 1500 South  
Indianapolis, IN 46204  
dlevay@oucc.in.gov  
infomgt@oucc.in.gov

  
\_\_\_\_\_  
Jeffrey M. Peabody

L. Parvin Price (Atty. No. 5827-49)  
Jeffrey M. Peabody (Atty. No. 28000-53)  
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parvin.price@btlaw.com  
jeffrey.peabody@btlaw.com

Counsel for Petitioner,  
LMH Utilities Corporation

1 **Q: More specifically, what items does your calculation of rate base include other**  
2 **than the 2006/2007 plant expansion?**

3 A: I included \$60,000 for the land where the plant is located at the value calculated in  
4 Mr. Limcaco's engineering study. I also included a total of \$208,200 for office  
5 equipment, transportation equipment, and other equipment and machinery. Virtually  
6 all utilities have some level of non-utility plant assets and it is less likely that these  
7 types of assets would have been contributed. Therefore, it is reasonable to include  
8 these items in the calculation of rate base in this cause. The value used was the  
9 amount recorded in Petitioner's general ledger at 9/30/07 since no other verifiable  
10 value was available. Finally, I included two assets that are owned by Petitioner's  
11 affiliate, Utility Construction Corp., but used by Petitioner for the provision of utility  
12 service. These items are a sludge press and a vacuum truck. Per Petitioner, the  
13 sludge press is used 100% of the time by the utility and the vacuum truck is used  
14 approximately 75% of the time by the utility.

15 **Q: Did Petitioner include these items in its calculation of rate base?**

16 A: Yes. Petitioner included in its calculation of rate base all of the items described  
17 above.

18 **Q: Briefly describe how working capital should be calculated for an investor-**  
19 **owned utility such as LMH Utilities Corp.**

20 A: Working capital is the money a utility needs to pay its operating expenses necessary  
21 to provide service until the revenues from that service are collected. Some expenses  
22 are incurred and paid for before the related revenues are collected and other

failures in maintaining books and records, and recognizing Petitioner's current and future compliance through proper accounting practices.

Certainly, the Commission could again find that Petitioner's books and records are insufficient to be used for ratemaking; however, such a punitive finding would appear to yield no positive result—especially for Petitioner. As noted by OUCC witness Stull, “no misplaced stack of invoices or other support has materialized” (Stull Testimony at 6), and the Commission would not expect new information to appear in a subsequent proceeding.

While Petitioner cited to the Commission's Order in *In re Fountaintown Gas*, Cause No. 38517, 1989 Ind. PUC LEXIS 118 (March 8, 1989) to support the recreation of Petitioner's books and records, the facts of this Cause are significantly different from those we addressed in Cause No. 38517. While both cases involved the recreation of the valuation of UPIS, Fountaintown did not need to recreate CIAC in order to determine rate base. Thus, the Commission must address the recreation of Petitioner's books differently than simply determining the fair value of UPIS as the Commission did in Cause No. 38517.

Instead, the Commission finds that Petitioner's rate base should include the actual cost of its 2006 plant expansion for which Petitioner has records, as proposed by the OUCC, versus the reverse RCNLD study proposed by Mr. Limcaco. While Mr. Limcaco argued that the OUCC methodology fails to recognize “soft costs” for which no records were available, there is no reason that records for “soft costs” are not available. Where records are or should be available, there is no need to rely on a reverse RCNLD study to estimate the cost of plant. Petitioner made no attempt to support any plant values with accounting records.

While Petitioner points to the Commission's obligation under Indiana Code § 8-1-2-6 to “value all property of every public used and useful for the convenience for the public at its fair value,” Petitioner has not met its burden of proof on how much CIAC makes up Petitioner's rate base, which is an essential component of the utility's value. For the pre-2006 plant, Petitioner's 2005 annual report suggests that Petitioner had a negative rate base prior to the 2006 expansion, i.e., CIAC had a greater value than existing plant. In order to move forward from this impasse, for purposes of establishing rate base in this Cause, the Commission finds that the value of Petitioner's pre-2006 plant equal to its CIAC, whether from contributed plant or cash contributions, except to the extent outlined in Section 2. Accordingly, Petitioner's records support plant expansion investments of \$1,362,827 and CIAC of \$74,725.<sup>1</sup>

**2. Land/Miscellaneous Equipment.** Both Petitioner and the OUCC have included \$60,000 in Petitioner's rate base representing the land on which Petitioner's utility facilities sit. Additionally, both the Petitioner and the OUCC have included miscellaneous equipment such as: office equipment \$9,555, machinery and equipment \$179,381 and transportation equipment \$19,264. Finally, both parties included assets owned by affiliated companies, a sludge press \$62,250 and a vacuum truck \$21,000 (75% of value). Petitioner and the OUCC agree that all of these items are used and useful for the provision of service by the Petitioner to its customers. Accordingly, the Commission

---

<sup>1</sup> The Commission notes that it did not include the amortization of CIAC in its findings because no evidence was filed to determine the dates on which Petitioner collected \$74,725 in contributions during 2006 and 2007. Thus, Petitioner will not receive the rate base benefit of amortizing CIAC but will benefit in its depreciation expense calculation because the commission did not offset this adjustment with the CIAC amortization expense.

finds that the total value of land/miscellaneous equipment less accumulated depreciation is \$273,771 (\$351,450-\$77,679).

3. **Working Capital.** Both Petitioner and the OUCC proposed to include working capital as part of Petitioner's rate base. Both the Petitioner and the OUCC used the standard approach of starting with *pro forma* operating and maintenance ("O&M") expenses, and then applying the FERC 45-day factor to represent the lead/lag between the need to pay operating expenses and the revenue recovered from ratepayers to cover those costs. Working capital represents the cash needed to be invested in the utility to give the utility the financial wherewithal to pay reasonable O&M expenses in the ordinary course of business prior to recovery in rates. Historically, differences between parties on working capital are directly related to differences in *pro forma* O&M expenses that each suggests is reasonable. Here, through Petitioner's rebuttal filing, it is clear that the parties are now in agreement on all of the O&M expenses to be included in the working capital calculation except one- rate case amortization. We are not convinced by the OUCC that rate case expense should be eliminated from the working capital calculation. Rate case expense is an operating cost paid for by Petitioner yet a lag exists before it will recover this expense. Thus, rate case expense should be included in a working capital calculation. In addition to Petitioner's objection to the OUCC's reduction of rate case expense from its working capital calculation, Mr. Sommer explained that the unamortized portion of Petitioner's rate case expense should earn a return. Since we allowed rate case expense in the working capital calculation, we did not accept Mr. Sommer's rebuttal position.

As such, we find working capital of \$53,240 should be included in Petitioner's rate base.

O&M Expenses	\$	493,029
Less: Purchased Power		67,110
Sub-Total		425,919
Times: 45-Day Factor		0.125
Working Capital	\$	53,240

4. **Accumulated Depreciation.** We believe that the OUCC's methodology used to determine the amount of accumulated depreciation related to Petitioner office equipment, transportation equipment and other equipment and machinery is reasonable. Therefore, we find Petitioner's accumulated depreciation to be \$77,679.

5. **Fair Value Rate Base.** Based on our findings above, we find that the fair value of Petitioner's rate base as of September 30, 2007, and on which it will be allowed to earn a reasonable return, is \$1,615,113.

Account	Account Description	Asset Addition Description	In-Service	Original Cost	
354.2	S/I Collection	Smokey Mt Meadow Ext	01.01.14	26,000.00	Customer requested line extension
		Hidden Lane Extension	01.01.14	8,600.00	Customer requested line extension
		Unlocated	01.01.14	5,290.00	
		<del>Bright Country extension</del>	<del>01.01.14</del>	<del>1,690.70</del>	
		Adjustment	12.31.14	3,023.64	Cannot locate support for adjustment. Remove from rate base.
354.3	System Pumping Plant	Pump Old Orchard	07.01.12	2,250.74	<u>Rebuilt Pump</u> - This was replaced by Meyer Pump Old Orchard in service date 3/31/16
		<del>S/I System</del>	<del>07.01.12</del>	<del>661.49</del>	
354.4	Treatment Plant	Sludge Press MSD	07.01.12	4,995.10	As explained in DR#3 and DR#7, should have been retired in 2018 and should be removed from the rate base.
354.7	General Plant	<u>Sludge Press Building</u>	<u>01.22.10</u>	<u>12,125.00</u>	<u>Building for sludge press</u>
360.2	Collection Sewers - Force	Plant Additions	07.01.08	59,440.96	As explained in DR#3 and DR#7, this addition was disallowed in Cause 43431 and not included in the rate base.
371.3	Pump Equipment	Pump Equipment	03.31.14	8,896.00	<u>Old Orchard LS</u> - This would have replaced a pump included in Cause 43431
		Meter Pump 2PH 230V	03.31.16	8,442.00	<u>Old Orchard LS</u> - This would have replaced a pump included in Cause 43431
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380.4	Treatment Equipment	Gardner Denver Sutorbilt 6M Blower	10.25.16	4,658.80	<u>Blower replaced</u> - This would have replaced one of the blowers included in Cause 43431.
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389.4	OP ME Treatment	Sludge Press	02.09.18	5,648.93	<u>E1H-1024 Sludge Press Pump</u> - This would have replaced a pump on the sludge press that is included in 393.7 Sludge Press
		Ampstun Web Based Billing	04.06.18	10,000.00	Upgraded our billing software to web-based billing. 1. All of our customer records are now stored by Ampstun. This eliminated the need for LMH to backup/store our data on our server. 2. Set up on-line account access for all of our customers. This makes it easier for our customers to view their account, pay their bill on line and set up auto draft information. 3. Enables LMH to send E-bills.
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		1992 Ford LN800 Dump Truck	07.01.11	7,277.22	<u>Haul gravel</u> to LS roads and collection system repair and connections.
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		2015 F250	01.23.17	28,898.54	<u>Plant operator's truck</u> used daily for plant operations.
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394.7	Lab Equipment	Spectrophotometer	07.01.11	4,220.25	<u>Lab equipment</u> required for testing by NPDES permit.
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				461,804.79	

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE PETITION OF LMH            )  
UTILITIES, INC. FOR A NEW SCHEDULE OF        ) CAUSE NO. 45307-U  
RATES AND CHARGES                                )**

**PETITION OF LMH UTILITIES CORPORATION RESPONSES TO THE INDIANA  
OFFICE OF UTILITY CONSUMER COUNSELOR'S  
TENTH SET OF DATA REQUESTS**

Comes now LMH Utilities, Inc., by counsel, and submits to the Indiana Office of the Utility Consumer Counselor ("OUCC") its responses to the OUCC's Ninth Set of Data Requests dated February 21, 2020, as follows:

**II. Data Request.**

**Q-10-1:** For what did Utility Construction Corp. use the sludge press in 2002?

A. UCC purchased the press and built the building to hold the press in order to process sludge for LMH.

**Q-10-2:** From 2002 until it was sold to LMH in 2010, where was the sludge press located?

A. 2494 One Mile Road at our physical plant.

**Q-10-3:** The invoice provided in response to DR Q-3-1 is what Utility Construction Corp. paid in 2002. What did LMH pay in 2010?

A. Invoice is attached as OUCC DR 10-3, Attachment 1.

**CAL-2. Table 2 – Original Cost (Handy-Whitman Original Cost)**



TABLE 2: ORIGINAL COST

Calculation of original cost using the Handy-Whitman Index  
20,000 gpd plant  
100,000 gpd plant  
200,000 gpd expansion (300,000 gpd capacity)  
180,000 gpd expansion (480,000 gpd capacity)

Phase 1 1987  
Phase 2 1990  
Phase 3 1994  
Phase 4 2006

Item		Unit	Quantity	2007 Replacement Unit Cost Data	2007 Replacement Total Cost	Year Installed	HW Index Year Installed	HW Index 2007	Total Est. Original Cost	Useful Life Remaining	Accumulated Depreciation	Original Cost Net of Depr	
Lift Stations	Lift Station #1 - Picnic Woods/Big Water Dr/Apple Ct - 2 hp	ls	1	\$ 25,000	\$ 25,000	1989	296	557	\$ 13,275	0.28	\$ 9,558	\$ 3,717	
	Lift Station #2 - Bright Ridge Pump Station - 5 hp	ls	1	\$ 30,000	\$ 30,000	1993	334	557	\$ 17,978	0.44	10,068	7,911	
	Lift Station #3 - Pontiac/Carr Rd - 5 hp	ls	1	\$ 30,000	\$ 30,000	1995	374	557	\$ 20,135	0.52	9,665	10,470	
	Lift Station #4 - Lamplight/Picnic Wood Sec 10 - 2 hp	ls	1	\$ 25,000	\$ 25,000	1996	381	557	\$ 17,116	0.56	7,531	9,585	
	Lift Station #5 - Provident Development Downtown to American State Bank - 2	ls	1	\$ 25,000	\$ 25,000	1997	396	557	\$ 17,790	0.60	7,116	10,674	
	Lift Station #6 - Timber Ridge/Redwood Dr/Heartland Heights/Salt Ford Rd - 3	ls	1	\$ 30,000	\$ 30,000	1998	402	557	\$ 21,671	0.64	7,802	13,870	
	Lift Station #7 - Seldom Seen III/Hunters Crossing/Sandstone Dr - 5 hp	ls	1	\$ 30,000	\$ 30,000	1999	415	557	\$ 22,345	0.68	7,150	15,195	
	Lift Station #8 - Southpoint Condo's - 5 hp	ls	1	\$ 30,000	\$ 30,000	2000	431	557	\$ 23,235	0.72	6,506	16,729	
	Lift Station #9 - Old Orchard/Apple Blossom - 40 hp	ls	1	\$ 100,000	\$ 100,000	2002	444	557	\$ 79,784	0.80	15,957	63,827	
	Lift Station #10 - Brookstone - 20 hp	ls	1	\$ 80,000	\$ 80,000	2002	444	557	\$ 63,827	0.80	12,765	51,062	
	Lift Station #11 - Brookstone - 2 hp	ls	1	\$ 25,000	\$ 25,000	2002	444	557	\$ 19,946	0.80	3,989	15,957	
	Lift Station #12 - Saltfork to Brightwood Dr - 7 hp	ls	1	\$ 45,000	\$ 45,000	2002	444	557	\$ 35,903	0.80	7,181	28,722	
	Lift Station #13 - Park Place - 7 hp	ls	1	\$ 45,000	\$ 45,000	2003	462	557	\$ 37,358	0.84	5,977	31,381	
	Lift Station #14 - Ingham Mills/Hekk Dev - 5 hp	ls	1	\$ 30,000	\$ 30,000	2003	462	557	\$ 24,906	0.84	3,985	20,921	
	Lift Station #15 - Jamison Place Condo - 3 hp	ls	1	\$ 25,000	\$ 25,000	2005	519	557	\$ 23,315	0.92	1,865	21,450	
Gravity Sewer	4" pipe												
	timber ridge/redwood dr/heartland heights/salt ford rd	lf	2,900	\$ 25.00	\$ 72,500	1998	206	357	\$ 41,835	0.82	7,530	34,304	
	8" pipe leverage 7' depth												
	picnic woods dr, jamison dr to picnic woods dr, main to plant	lf	7,023	\$ 50.00	\$ 351,150	1987	158	357	\$ 155,411	0.60	62,164	93,247	
	picnic woods/reneck ct/siefferman ct	lf	1,420	\$ 50.00	\$ 71,000	1988	196	357	\$ 38,980	0.62	14,813	24,168	
	picnic woods/big water dr/apple ct	lf	7,964	\$ 50.00	\$ 398,200	1989	213	357	\$ 237,582	0.64	85,529	152,052	
	picnic woods/gabbard/gibson/vineyard	lf	3,670	\$ 50.00	\$ 183,500	1990	204	357	\$ 104,857	0.66	35,651	69,206	
	cedar ridge	lf	906	\$ 50.00	\$ 45,300	1991	191	357	\$ 24,236	0.68	7,756	16,481	
	picnic woods/judd/strother	lf	5,555	\$ 50.00	\$ 277,750	1992	174	357	\$ 135,374	0.70	40,612	94,762	
	bright ridge	lf	7,669	\$ 50.00	\$ 383,450	1993	184	357	\$ 197,632	0.72	55,337	142,295	
	lela	lf	3,260	\$ 50.00	\$ 163,000	1993	184	357	\$ 84,011	0.72	23,523	60,488	
	seldom seen and brightwood	lf	8,760	\$ 50.00	\$ 438,000	1994	182	357	\$ 223,294	0.74	58,056	165,238	
	pontiac/carr rd	lf	2,707	\$ 50.00	\$ 135,350	1995	196	357	\$ 74,310	0.76	17,834	56,475	
	lamplight/picnic wood sec 10	lf	1,450	\$ 50.00	\$ 72,500	1996	202	357	\$ 41,022	0.78	9,025	31,997	
	christian church/bright vet	lf	1,415	\$ 50.00	\$ 70,750	1996	202	357	\$ 40,032	0.78	8,807	31,225	
	picnic woods sec 10	lf	2,285	\$ 50.00	\$ 114,250	1997	207	357	\$ 66,246	0.80	13,249	52,997	
	provident development downtown bright to american state bank	lf	1,066	\$ 50.00	\$ 53,300	1997	207	357	\$ 30,905	0.80	6,181	24,724	
	bright business center	lf	1,865	\$ 50.00	\$ 93,250	1997	207	357	\$ 54,069	0.80	10,814	43,255	
	timber ridge/redwood dr/heartland heights/salt ford rd	lf	2,975	\$ 50.00	\$ 148,750	1998	206	357	\$ 85,833	0.82	15,450	70,383	
	seldom seen III/hunters crossing/sandstone dr	lf	2,061	\$ 50.00	\$ 103,050	1999	207	357	\$ 59,752	0.84	9,560	50,191	
	southpoint condos	lf	2,950	\$ 50.00	\$ 147,500	2000	217	357	\$ 89,657	0.86	12,352	77,105	
	grote/trading post	lf	220	\$ 50.00	\$ 11,000	2000	217	357	\$ 6,686	0.86	936	5,750	
	trade line	lf	750	\$ 50.00	\$ 37,500	2000	217	357	\$ 22,794	0.86	3,191	19,603	
	old orchard/apple blossom	lf	11,720	\$ 50.00	\$ 586,000	2002	237	357	\$ 389,025	0.90	38,903	350,123	
	brookstone	lf	9,980	\$ 50.00	\$ 499,000	2002	237	357	\$ 331,269	0.90	33,127	298,142	
	dawn paul dr/grubbs 3	lf	1,000	\$ 50.00	\$ 50,000	2002	237	357	\$ 33,193	0.90	3,319	29,874	
	saltfork to brightwood dr	lf	2,181	\$ 50.00	\$ 109,050	2002	237	357	\$ 72,395	0.90	7,239	65,155	
	park place	lf	6,278	\$ 50.00	\$ 313,900	2003	247	357	\$ 217,180	0.92	17,374	199,806	
	ingham mills/hekk dev	lf	20	\$ 50.00	\$ 1,000	2003	247	357	\$ 692	0.92	65	637	
	jamison place condo	lf	2,200	\$ 50.00	\$ 110,000	2005	270	357	\$ 83,193	0.96	3,328	79,866	
	Manholes	picnic woods dr, jamison dr to picnic woods dr, main to plant	ea	20	\$ 2,000.00	\$ 40,000	1987	158	357	\$ 17,703	0.60	7,081	10,622
		picnic woods/reneck ct/siefferman ct	ea	4	\$ 2,000.00	\$ 8,000	1988	196	357	\$ 4,392	0.62	1,669	2,723
		picnic woods/big water dr/apple ct	ea	20	\$ 2,000.00	\$ 40,000	1989	213	357	\$ 23,866	0.64	8,592	15,274
		picnic woods/gabbard/gibson/vineyard	ea	7	\$ 2,000.00	\$ 14,000	1990	204	357	\$ 8,000	0.66	2,720	5,280
		cedar ridge	ea	3	\$ 2,000.00	\$ 6,000	1991	191	357	\$ 3,210	0.68	1,027	2,183
		seldom seen and brightwood	ea	23	\$ 2,000.00	\$ 46,000	1994	182	357	\$ 23,451	0.74	6,097	17,354
		pontiac/carr rd	ea	7	\$ 2,000.00	\$ 14,000	1995	196	357	\$ 7,686	0.76	1,845	5,842
		lamplight/picnic wood sec 10	ea	12	\$ 2,000.00	\$ 24,000	1996	202	357	\$ 13,580	0.78	2,968	10,592
		christian church/bright vet	ea	7	\$ 2,000.00	\$ 14,000	1996	202	357	\$ 7,922	0.78	1,743	6,179
		provident development downtown bright to american state bank	ea	7	\$ 2,000.00	\$ 14,000	1997	207	357	\$ 8,118	0.80	1,624	6,494
		bright business center	ea	20	\$ 2,000.00	\$ 40,000	1997	207	357	\$ 23,193	0.80	4,439	18,555
		seldom seen III/hunters crossing/sandstone dr	ea	7	\$ 2,000.00	\$ 14,000	1999	207	357	\$ 8,118	0.84	1,299	6,819
		southpoint condos	ea	7	\$ 2,000.00	\$ 14,000	2000	217	357	\$ 8,510	0.86	1,191	7,318
		grote/trading post	ea	3	\$ 2,000.00	\$ 6,000	2000	217	357	\$ 3,647	0.86	511	3,136
		trade line	ea	2	\$ 2,000.00	\$ 4,000	2000	217	357	\$ 2,431	0.86	340	2,091
		old orchard/apple blossom	ea	36	\$ 2,000.00	\$ 72,000	2002	237	357	\$ 47,798	0.90	4,780	43,018
brookstone		ea	23	\$ 2,000.00	\$ 46,000	2002	237	357	\$ 30,538	0.90	3,054	27,484	
dawn paul dr/grubbs 3		ea	4	\$ 2,000.00	\$ 8,000	2002	237	357	\$ 5,311	0.90	531	4,780	
saltfork to brightwood dr		ea	7	\$ 2,000.00	\$ 14,000	2002	237	357	\$ 9,294	0.90	929	8,365	
park place		ea	20	\$ 2,000.00	\$ 40,000	2003	247	357	\$ 27,675	0.92	2,214	25,461	
jamison place condo		ea	7	\$ 2,000.00	\$ 14,000	2005	270	357	\$ 10,588	0.96	426	10,165	
1.5" force main													
		lamplight/picnic wood sec 10	lf	1,500	\$ 15.00	\$ 22,500	1996	202	357	\$ 12,731	0.78	2,801	9,930

TABLE 2: ORIGINAL COST

Calculation of original cost using the Handy-Whitman Index  
 20,000 gpd plant  
 100,000 gpd plant  
 200,000 gpd expansion (300,000 gpd capacity)  
 180,000 gpd expansion (480,000 gpd capacity)

Phase 1 1987  
 Phase 2 1990  
 Phase 3 1994  
 Phase 4 2006

	Item	Unit	Quantity	2007 Replacement Unit Cost Data	2007 Replacement Total Cost	Year Installed	HW Index Year Installed	HW Index 2007	Total Est. Original Cost	Useful Life Remaining	Accumulated Depreciation	Original Cost Net of Depr	
Force Mains	2" force main												
	mt meadows	lf	1,720	\$ 15.00	\$ 25,800	1993	184	357	\$ 13,297	0.72	3,723	9,574	
	pontiac/carr rd	lf	1,640	\$ 15.00	\$ 24,600	1995	196	357	\$ 13,506	0.76	3,241	10,264	
	brightwood/maple ridge/oak ridge/walnut grove	lf	770	\$ 15.00	\$ 11,550	1995	196	357	\$ 6,341	0.76	1,522	4,819	
	timber ridge/redwood dr/heartland heights/salt ford rd	lf	650	\$ 15.00	\$ 9,750	1998	206	357	\$ 5,626	0.82	1,013	4,613	
	seldom seen ill/hunters crossing/sandstone dr	lf	2,950	\$ 15.00	\$ 44,250	1999	207	357	\$ 25,658	0.84	4,105	21,552	
	southpoint condos	lf	1,350	\$ 15.00	\$ 20,250	2000	217	357	\$ 12,309	0.86	1,723	10,586	
	brookstone	lf	780	\$ 15.00	\$ 11,700	2002	237	357	\$ 7,767	0.90	777	6,991	
	banberry	lf	360	\$ 15.00	\$ 5,400	2002	237	357	\$ 3,585	0.90	358	3,226	
	park place	lf	1,180	\$ 15.00	\$ 17,700	2003	247	357	\$ 12,246	0.92	980	11,267	
	jenny lynne	lf	2,860	\$ 15.00	\$ 42,900	2003	247	357	\$ 29,682	0.92	2,375	27,307	
	ingham mills/hekk dev	lf	370	\$ 15.00	\$ 5,550	2003	247	357	\$ 3,840	0.92	307	3,533	
	hawley heights dr	lf	1,022	\$ 15.00	\$ 15,330	2003	247	357	\$ 10,606	0.92	849	9,758	
	rodeo's restaurant	lf	1,200	\$ 15.00	\$ 18,000	2004	250	357	\$ 12,605	0.94	756	11,849	
	bunkum dr	lf	1,431	\$ 15.00	\$ 21,465	2005	270	357	\$ 16,234	0.96	649	15,585	
	jamison place condo	lf	675	\$ 15.00	\$ 10,125	2005	270	357	\$ 7,658	0.96	306	7,351	
	2.5" force main												
	brightwood/maple ridge/oak ridge/walnut grove	lf	3,395	\$ 15.00	\$ 50,925	1995	196	357	\$ 27,959	0.76	6,710	21,249	
	3" force main												
	DHMC force main	lf	8,336	\$ 20.00	\$ 166,720	1991	191	357	\$ 89,198	0.68	28,543	60,654	
	bright ridge	lf	4,986	\$ 20.00	\$ 99,720	1993	184	357	\$ 51,396	0.72	14,391	37,005	
	seldom seen and brightwood	lf	8,760	\$ 20.00	\$ 175,200	1994	182	357	\$ 89,318	0.74	23,223	66,095	
	brightwood/maple ridge/oak ridge/walnut grove	lf	650	\$ 20.00	\$ 13,000	1995	196	357	\$ 7,137	0.76	1,713	5,424	
	timber ridge/redwood dr/heartland heights/salt ford rd	lf	2,355	\$ 20.00	\$ 47,100	1998	206	357	\$ 29,429	0.82	5,297	24,131	
	park place	lf	2,475	\$ 20.00	\$ 49,500	2003	247	357	\$ 34,248	0.92	2,740	31,508	
	4" force main												
	mt meadows	lf	2,480	\$ 25.00	\$ 62,000	1993	184	357	\$ 31,955	0.72	8,947	23,008	
	seldom seen and brightwood	lf	8,760	\$ 25.00	\$ 219,000	1994	182	357	\$ 111,647	0.74	29,028	82,619	
	timber ridge/redwood dr/heartland heights/salt ford rd	lf	4,850	\$ 25.00	\$ 121,250	1998	206	357	\$ 69,965	0.82	12,594	57,371	
	cumberland dr	lf	2,712	\$ 25.00	\$ 67,800	2000	217	357	\$ 41,212	0.86	5,770	35,442	
	saltfork to brightwood dr	lf	1,254	\$ 25.00	\$ 31,350	2002	237	357	\$ 20,812	0.90	2,081	18,731	
	6" force main												
	old orchard/apple blossom	lf	4,540	\$ 35.00	\$ 158,900	2002	237	357	\$ 105,488	0.90	10,549	94,939	
	brookstone	lf	4,100	\$ 35.00	\$ 143,500	2002	237	357	\$ 95,265	0.90	9,526	85,738	
	<b>SUB-TOTAL COLLECTION SYSTEM</b>					<b>\$ 7,823,735</b>				<b>\$ 4,673,801</b>		<b>\$ 960,927</b>	<b>\$ 3,712,874</b>
	WATER TREATMENT PLANT	1987 WWTP - 20,000 gpd Capacity (see attached worksheet)	LS	1	\$ 240,000	\$ 240,000	1987	257	486	\$ 126,797	0.00	126,797	0
		Main Lab & Blower Building (Approximately 50' x 30')		1	\$ 225,000	\$ 225,000	1994	295	474	\$ 140,032	0.35	91,021	49,011
		Headworks											
		Raw Sewage Pump Station (includes wet well/valve pit/pumps/rails/controls)		1	\$ 225,000	\$ 225,000	2006	482	497	\$ 218,209	0.95	10,910	207,299
		Building		1	\$ 10,000	\$ 10,000	1994	295	474	\$ 6,224	0.35	4,045	2,178
		Screening											
		Mechanically Cleaned Bar Screens		1	\$ 100,000	\$ 100,000	2006	482	497	\$ 96,982	0.95	4,849	92,133
		Manual Bar Screen		1	\$ 40,000	\$ 40,000	1994	328	497	\$ 26,398	0.35	17,159	9,239
		Building		1	\$ 5,000	\$ 5,000	1994	295	474	\$ 3,112	0.35	2,023	1,089
		Processing (Sequential Batch Reactors: SBR's)											
		Controls		1	\$ 100,000	\$ 100,000	2006	482	497	\$ 96,982	0.95	4,849	92,133
		Flow Splitter Box		1	\$ 5,000	\$ 5,000	1994	328	497	\$ 3,300	0.35	2,145	1,155
Actuated Flow Control Valves			1	\$ 100,000	\$ 100,000	2006	482	497	\$ 96,982	0.95	4,849	92,133	
Tanks													
Two (2) @ 57 ft long x 24 ft wide x 16.5 ft high (inside dim.)			1	\$ 224,500	\$ 224,500	1994	295	474	\$ 139,720	0.35	90,818	48,902	
Two (2) @ 57 ft long x 24 ft wide x 16.5 ft high (inside dim.)			1	\$ 224,500	\$ 224,500	2006	450	474	\$ 213,133	0.95	10,657	202,476	
Blowers			1	\$ 150,000	\$ 150,000	1994	328	497	\$ 98,994	0.35	64,346	34,648	
Diffusers													
			1	\$ 86,000	\$ 86,000	1994	328	497	\$ 56,757	0.35	36,892	19,865	
			1	\$ 86,000	\$ 86,000	2006	482	497	\$ 83,404	0.95	4,170	79,234	
Decanters													
			1	\$ 50,000	\$ 50,000	1994	328	497	\$ 32,998	0.35	21,449	11,549	
			1	\$ 50,000	\$ 50,000	2006	482	497	\$ 48,491	0.95	2,425	46,066	
Stainless Steel Air Piping													
			1	\$ 40,000	\$ 40,000	1994	328	497	\$ 26,398	0.35	17,159	9,239	
			1	\$ 40,000	\$ 40,000	2006	482	497	\$ 38,793	0.95	1,940	36,853	
Sludge Pumps & Controls													
			1	\$ 25,000	\$ 25,000	1994	328	497	\$ 16,499	0.35	10,724	5,775	
			1	\$ 25,000	\$ 25,000	2006	482	497	\$ 24,245	0.95	1,212	23,033	
RAS/WAS Flow Splitter Boxes													
			1	\$ 5,000	\$ 5,000	1994	328	497	\$ 3,300	0.35	2,145	1,155	
			1	\$ 5,000	\$ 5,000	2006	482	497	\$ 4,849	0.95	242	4,607	

TABLE 2: ORIGINAL COST

Calculation of original cost using the Handy-Whitman Index  
20,000 gpd plant  
100,000 gpd plant  
200,000 gpd expansion (300,000 gpd capacity)  
180,000 gpd expansion (480,000 gpd capacity)

Phase 1 1987  
Phase 2 1990  
Phase 3 1994  
Phase 4 2006

	Item	Unit	Quantity	2007 Replacement	2007 Replacement	Year	HW Index	HW Index	Total Est.	Useful Life	Accumulated	Original Cost	
				Unit Cost Data	Total Cost		Year Installed	Year Installed					Original Cost
WASTEWATE	Disinfection (Chlorination/Dechlorination)												
	Tank 1 (One [1] @ 20 ft long x 21.5 ft wide x 10.5 ft high (inside dim.))		1	\$ 36,153	\$ 36,153	1990	264	474	\$ 20,136	0.15	17,115	3,020	
	Tank 2 (One [1] @ 30 ft long x 30 ft wide x 8 ft high (inside dim.))		1	\$ 51,667	\$ 51,667	1990	264	474	\$ 28,776	0.15	24,460	4,314	
	Building Over Tank 2 (30 feet x 30 feet)		1	\$ 112,500	\$ 112,500	1990	264	474	\$ 62,658	0.15	53,259	9,399	
	Chlor/Dechlor Equipment		1	\$ 50,000	\$ 50,000	2006	482	497	\$ 48,491	0.95	2,425	46,066	
	Effluent Pumps & Controls		1	\$ 25,000	\$ 25,000	1994	328	497	\$ 16,499	0.35	10,724	5,775	
	Post Aeration (Cascade Aeration)		1	\$ 10,000	\$ 10,000	1994	328	497	\$ 6,600	0.35	4,290	2,310	
	Flow Metering		1	\$ 15,000	\$ 15,000	2006	482	497	\$ 14,547	0.95	727	13,820	
	Sludge Processing												
	Aerobic Digesters												
	Tanks (Two [2] @ 39 ft long x 13 ft wide x 16.5 ft high (inside dim.))		1	\$ 123,500	\$ 123,500	1990	264	474	\$ 68,785	0.15	58,467	10,318	
	Blowers		1	\$ 30,000	\$ 30,000	1990	299	497	\$ 18,048	0.15	15,341	2,707	
	Blowers		1	\$ 75,000	\$ 75,000	1994	328	497	\$ 49,497	0.35	32,173	17,324	
	Diffusers		1	\$ 80,000	\$ 80,000	1994	328	497	\$ 52,797	0.35	34,318	18,479	
	Stainless Steel Air Piping		1	\$ 20,000	\$ 20,000	1994	328	497	\$ 13,199	0.35	8,579	4,620	
	Sludge Transfer Pumps & Controls		1	\$ 25,000	\$ 25,000	1994	328	497	\$ 16,499	0.35	10,724	5,775	
	Belt Filter Press w/sump & Controls		1	\$ 150,000	\$ 150,000	2002	414	497	\$ 124,950	0.75	31,237	93,712	
	Belt Filter Press Sludge Pump & Controls		1	\$ 20,000	\$ 20,000	2002	414	497	\$ 16,660	0.75	4,165	12,495	
	Sludge Conveyor & Controls		1	\$ 25,000	\$ 25,000	2002	414	497	\$ 20,825	0.75	5,206	15,619	
	Roll-Off Container		1	\$ 2,500	\$ 2,500	2002	414	497	\$ 2,082	0.75	521	1,562	
	Building	***Sludge Press Building***	1	\$ 10,000	\$ 10,000	2002	372	474	\$ 7,848	0.75	1,962	5,886	
	Non-Potable Water System		1	\$ 5,000	\$ 5,000	1994	328	497	\$ 3,300	0.35	2,145	1,155	
	Laboratory Equipment		1	\$ 35,000	\$ 35,000	2006	482	497	\$ 33,944	0.95	1,697	32,246	
	Site fencing, access drives, and landscaping		1	\$ 100,000	\$ 100,000	2006	450	474	\$ 94,937	0.95	4,747	90,190	
	Plant Piping		1	\$ 100,000	\$ 100,000	2006	482	497	\$ 96,982	0.95	4,849	92,133	
	Plant Electrical		1	\$ 125,000	\$ 125,000	2006	482	497	\$ 121,227	0.95	6,061	115,166	
	Standby Power		1	\$ 100,000	\$ 100,000	2006	482	497	\$ 96,982	0.95	4,849	92,133	
		<b>SUB-TOTAL WASTEWATER TREATMENT PLANT</b>				<b>\$ 3,387,319</b>				<b>\$ 2,638,868</b>		<b>\$ 872,869</b>	<b>\$ 1,765,998</b>
LAND		acres	5	\$ 12,000	\$ 60,000				\$ 60,000			\$ 60,000	
	<b>TOTAL ORIGINAL COST</b>				<b>\$ 11,271,054</b>				<b>\$ 7,372,669</b>		<b>\$ 1,833,797</b>	<b>\$ 5,538,873</b>	

## Section 10,720

# **Statement of Position 98-1** **Accounting for the Costs of Computer Software** **Developed or Obtained for Internal Use**

March 4, 1998

### NOTE

Statements of Position on accounting issues present the conclusions of at least two-thirds of the Accounting Standards Executive Committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting. Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*, identifies AICPA Statements of Position that have been cleared by the Financial Accounting Standards Board as sources of established accounting principles in category *b* of the hierarchy of generally accepted accounting principles that it establishes. AICPA members should consider the accounting principles in this Statement of Position if a different accounting treatment of a transaction or event is not specified by a pronouncement covered by Rule 203 of the AICPA Code of Professional Conduct. In such circumstances, the accounting treatment specified by the Statement of Position should be used, or the member should be prepared to justify a conclusion that another treatment better presents the substance of the transaction in the circumstances.

## Summary

This Statement of Position (SOP) provides guidance on accounting for the costs of computer software developed or obtained for internal use. The SOP requires the following:

- Computer software meeting the characteristics specified in this SOP is internal-use software.
- Computer software costs that are incurred in the preliminary project stage should be expensed as incurred. Once the capitalization criteria of the SOP have been met, external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project (to the extent of the time spent directly on the project); and interest costs incurred when developing computer software for internal use should be capitalized. Training costs and data conversion costs, except as noted in paragraph .21, should be expensed as incurred.
- Internal costs incurred for upgrades and enhancements should be expensed or capitalized in accordance with paragraphs .20–.23. Internal costs incurred for maintenance should be expensed as incurred. Entities that cannot separate internal costs on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements should expense such costs as incurred.

- External costs incurred under agreements related to specified upgrades and enhancements should be expensed or capitalized in accordance with paragraphs .20–.23. However, external costs related to maintenance, unspecified upgrades and enhancements, and costs under agreements that combine the costs of maintenance and unspecified upgrades and enhancements should be recognized in expense over the contract period on a straight-line basis unless another systematic and rational basis is more representative of the services received.
- Impairment should be recognized and measured in accordance with the provisions of FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*.\*
- The capitalized costs of computer software developed or obtained for internal use should be amortized on a straight-line basis unless another systematic and rational basis is more representative of the software's use.
- If, after the development of internal-use software is completed, an entity decides to market the software, proceeds received from the license of the computer software, net of direct incremental costs of marketing, should be applied against the carrying amount of that software.

The SOP identifies the characteristics of internal-use software and provides examples to assist in determining when computer software is for internal use.

The SOP applies to all nongovernmental entities and is effective for financial statements for fiscal years beginning after December 15, 1998. The provisions of this SOP should be applied to internal-use software costs incurred in those fiscal years for all projects, including those projects in progress upon initial application of the SOP. Earlier application is encouraged in fiscal years for which annual financial statements have not been issued. Costs incurred prior to initial application of this SOP, whether capitalized or not, should not be adjusted to the amounts that would have been capitalized had this SOP been in effect when those costs were incurred.

## Foreword

The accounting guidance contained in this document has been cleared by the Financial Accounting Standards Board (FASB). The procedure for clearing accounting guidance in documents issued by the Accounting Standards Executive Committee (AcSEC) involves the FASB reviewing and discussing in public board meetings (1) a prospectus for a project to develop a document, (2) a proposed exposure draft that has been approved by at least ten of AcSEC's fifteen members, and (3) a proposed final document that has been approved by at least ten of AcSEC's fifteen members. The document is cleared if at least five of the seven FASB members do not object to AcSEC undertaking the project, issuing the proposed exposure draft, or after considering the input received by AcSEC as a result of the issuance of the exposure draft, issuing the final document.

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\* FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, supersedes FASB Statement No. 121. [Footnote added, October 2002, to reflect conforming changes necessary due to the issuance of FASB Statement No. 144.]

The criteria applied by the FASB in their review of proposed projects and proposed documents include the following:

1. The proposal does not conflict with current or proposed accounting requirements, unless it is a limited circumstance, usually in specialized industry accounting, and the proposal adequately justifies the departure.
2. The proposal will result in an improvement in practice.
3. The AICPA demonstrates the need for the proposal.
4. The benefits of the proposal are expected to exceed the costs of applying it.

In many situations, prior to clearance, the FASB will propose suggestions, many of which are included in the documents.

## Introduction and Background

.01 The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*, in 1985. At that time, the FASB considered expanding the scope of that project to include costs incurred for the development of computer software for internal use. The FASB concluded, however, that accounting for the costs of software used internally was not a significant problem and, therefore, decided not to expand the scope of the project. The FASB stated that it recognized that at that time the majority of entities expensed all costs of developing software for internal use, and it was not convinced that the predominant practice was improper.

.02 Because of the absence of authoritative literature that specifically addresses accounting for the costs of computer software developed or obtained for internal use and the growing magnitude of those costs, practice became diverse. Some entities capitalize costs of internal-use computer software, whereas some entities expense costs as incurred. Still other entities capitalize costs of purchased internal-use computer software and expense costs of internally developed internal-use computer software as incurred.

.03 The staff of the Securities and Exchange Commission (SEC) and other interested parties have requested that standard setters develop authoritative guidance to eliminate the inconsistencies in practice. In a November 1994 letter, the Chief Accountant of the SEC suggested that the Emerging Issues Task Force (EITF) develop that guidance. However, the EITF and the Accounting Standards Executive Committee (AcSEC) agreed that AcSEC should develop the guidance.

.04 AcSEC issued an exposure draft of a proposed Statement of Position (SOP), *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, on December 17, 1996. AcSEC received about 130 comment letters in response to the exposure draft.

## Scope

.05 This SOP provides guidance on accounting by all nongovernmental entities, including not-for-profit organizations, for the costs of computer software developed or obtained for internal use and provides guidance for determining whether computer software is for internal use.

.06 This SOP clarifies that the costs of computer software developed or obtained are costs of either (a) software to be sold, leased, or otherwise mar-

keted as a separate product or as part of a product or process, subject to FASB Statement No. 86; (b) software to be used in research and development, subject to FASB Statement No. 2, *Accounting for Research and Development Costs*, and FASB Interpretation No. 6, *Applicability of FASB Statement No. 2 to Computer Software*; (c) software developed for others under a contractual arrangement, subject to contract accounting standards; or (d) internal-use software, subject to this SOP. This SOP does not change any of the provisions in FASB Statement Nos. 86, 2, or FASB Interpretation No. 6.

.07 Costs of computer software that is “sold, leased, or otherwise marketed as a separate product or as part of a product or process” are within the scope of FASB Statement No. 86. The Appendix of this SOP includes examples of computer software considered to be for internal use and thus not “part of a product or process.”

.08 This SOP provides guidance on when costs incurred for internal-use computer software are and are not capitalized.

.09 This SOP provides guidance on accounting for the proceeds of computer software developed or obtained for internal use that is marketed.

.10 This SOP provides guidance on accounting for computer software that consists of more than one component or module. For example, an entity may develop an accounting software system containing three elements: a general ledger, an accounts payable subledger, and an accounts receivable subledger. In this example, each element might be viewed as a component or module of the entire accounting software system. The guidance in this SOP should be applied to individual components or modules.

.11 Accounting for costs of reengineering activities, which often are associated with new or upgraded software applications, is not included within the scope of this SOP.<sup>1</sup>

## Conclusions

### Characteristics of Internal-Use Computer Software

.12 For purposes of this SOP, internal-use software is software having the following characteristics:

- a. The software is acquired, internally developed, or modified solely to meet the entity’s internal needs.
- b. During the software’s development or modification, no substantive plan exists or is being developed to market the software externally.

A substantive plan to market software externally could include the selection of a marketing channel or channels with identified promotional, delivery, billing, and support activities. To be considered a substantive plan under this SOP, implementation of the plan should be reasonably possible. Arrangements providing for the joint development of software for mutual internal use (for example, cost-sharing arrangements) are not substantive plans to market software for purposes of this SOP. Similarly, routine market feasibility studies are not substantive plans to market software for purposes of this SOP.

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<sup>1</sup> This SOP does not change the conclusions reached in Emerging Issues Task Force Issue No. 97-13, *Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation*, which requires that the costs of reengineering activities be expensed as incurred.



**.13** An entity must meet both characteristics in paragraph .12 for software to be considered for internal use.

**.14** An entity's past practices related to selling software may help determine whether the software is for internal use or is subject to a plan to be marketed externally. For example, an entity in the business of selling computer software often both uses and sells its own software products. Such a past practice of both using and selling computer software creates a rebuttable presumption that any software developed by that entity is intended for sale, lease, or other marketing, and thus is subject to the guidance in FASB Statement No. 86.

**.15** Computer software to be sold, leased, or otherwise marketed includes software that is part of a product or process to be sold to a customer and should be accounted for under FASB Statement No. 86. For example, software designed for and embedded in a semiconductor chip is included in the scope of FASB Statement No. 86 because it is an integral part of the product. By contrast, software for internal use, though it may be used in developing a product, is not part of or included in the actual product or service sold. If software is used by the vendor in the production of the product or providing the service but the customer does not acquire the software or the future right to use it, the software is covered by this SOP. For example, for a communications company selling telephone services, software included in a telephone switch is part of the internal equipment used to deliver a service but is not part of the product or service actually being acquired or received by the customer.

**.16** The Appendix [paragraph .93] provides examples of when computer software is and is not for internal use.

### Stages of Computer Software Development

**.17** The following table illustrates the various stages and related processes of computer software development.

<i>Preliminary Project Stage</i>	<i>Application Development Stage</i>	<i>Post-Implementation/ Operation Stage</i>
Conceptual formulation of alternatives	Design of chosen path, including software configuration and software interfaces	Training
Evaluation of alternatives	Coding	Application maintenance
Determination of existence of needed technology	Installation to hardware	
Final selection of alternatives	Testing, including parallel processing phase	

The SOP recognizes that the development of internal-use computer software may not follow the order shown above. For example, coding and testing are often performed simultaneously. Regardless, for costs incurred subsequent to completion of the preliminary project stage, the SOP should be applied based on the nature of the costs incurred, not the timing of their incurrence. For example, while some training may occur in the application development stage, it should be expensed as incurred as required in paragraphs .21 and .23.



## Research and Development

**.18** The following costs of internal-use computer software are included in research and development and should be accounted for in accordance with the provisions of FASB Statement No. 2:

- a. Purchased or leased computer software used in research and development activities where the software does not have alternative future uses.
- b. All internally developed internal-use computer software<sup>2</sup> (including software developed by third parties, for example, programmer consultants) if (1) the software is a pilot project (that is, software of a nature similar to a pilot plant as noted in paragraph 9(h) of FASB Statement No. 2) or (2) the software is used in a particular research and development project, regardless of whether the software has alternative future uses.

## Capitalize or Expense

**.19** *Preliminary Project Stage.* When a computer software project is in the preliminary project stage, entities will likely—

- a. Make strategic decisions to allocate resources between alternative projects at a given point in time. For example, should programmers develop a new payroll system or direct their efforts toward correcting existing problems in an operating payroll system?
- b. Determine the performance requirements (that is, what it is that they need the software to do) and systems requirements for the computer software project it has proposed to undertake.
- c. Invite vendors to perform demonstrations of how their software will fulfill an entity's needs.
- d. Explore alternative means of achieving specified performance requirements. For example, should an entity make or buy the software? Should the software run on a mainframe or a client server system?
- e. Determine that the technology needed to achieve performance requirements exists.
- f. Select a vendor if an entity chooses to obtain software.
- g. Select a consultant to assist in the development or installation of the software.

**.20** Internal and external costs incurred during the preliminary project stage should be expensed as they are incurred.

**.21** *Application Development Stage.* Internal and external costs incurred to develop internal-use computer software during the application development stage should be capitalized. Costs to develop or obtain software that allows for access or conversion of old data by new systems should also be capitalized. Training costs are not internal-use software development costs and, if incurred during this stage, should be expensed as incurred.

**.22** The process of data conversion from old to new systems may include purging or cleansing of existing data, reconciliation or balancing of the old data

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<sup>2</sup> FASB Interpretation No. 6 excludes from research and development costs computer software related to an entity's selling and administrative activities.

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and the data in the new system, creation of new/additional data, and conversion of old data to the new system. Data conversion often occurs during the application development stage. Data conversion costs, except as noted in paragraph .21, should be expensed as incurred.

**.23 Post-Implementation/Operation Stage.** Internal and external training costs and maintenance costs should be expensed as incurred.

**.24 Upgrades and Enhancements.** For purposes of this SOP, upgrades and enhancements are defined as modifications to existing internal-use software that result in additional functionality—that is, modifications to enable the software to perform tasks that it was previously incapable of performing. Upgrades and enhancements normally require new software specifications and may also require a change to all or part of the existing software specifications. In order for costs of specified upgrades and enhancements to internal-use computer software to be capitalized in accordance with paragraphs .25 and .26, it must be probable<sup>3</sup> that those expenditures will result in additional functionality.<sup>4</sup>

**.25** Internal costs incurred for upgrades and enhancements should be expensed or capitalized in accordance with paragraphs .20–.23.<sup>5</sup> Internal costs incurred for maintenance should be expensed as incurred. Entities that cannot separate internal costs on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements should expense such costs as incurred.

**.26** External costs incurred under agreements related to specified upgrades and enhancements should be expensed or capitalized in accordance with paragraphs .20–.23. (If maintenance is combined with specified upgrades and enhancements in a single contract, the cost should be allocated between the elements as discussed in paragraph .33 and the maintenance costs should be expensed over the contract period.) However, external costs related to maintenance, unspecified upgrades and enhancements, and costs under agreements that combine the costs of maintenance and unspecified upgrades and enhancements should be recognized in expense over the contract period on a straight-line basis unless another systematic and rational basis is more representative of the services received.

**.27** Capitalization of costs should begin when both of the following occur.

- a. Preliminary project stage is completed.
- b. Management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable<sup>6</sup> that the project will be completed and the software will be used to perform the function intended. Examples of authorization include the execution of a contract with a third party to develop the software, approval of expenditures related to internal development, or a commitment to obtain the software from a third party.

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<sup>3</sup> See paragraph .62 of this SOP for meaning of “probable.”

<sup>4</sup> This SOP does not change the conclusions reached in Emerging Issues Task Force Issue No. 96-14, *Accounting for the Costs Associated with Modifying Computer Software for the Year 2000*, which requires that external and internal costs associated with modifying internal-use software currently in use for the Year 2000 be charged to expense as incurred. New internal-use software developed or obtained that replaces previously existing internal-use software should be accounted for in accordance with this SOP.

<sup>5</sup> See footnote 4.

<sup>6</sup> See paragraph .62 of this SOP for meaning of “probable.”

**.28** When it is no longer probable<sup>7</sup> that the computer software project will be completed and placed in service, no further costs should be capitalized, and guidance in paragraphs .34 and .35 on impairment should be applied to existing balances.

**.29** Capitalization should cease no later than the point at which a computer software project is substantially complete and ready for its intended use. For purposes of this SOP, computer software is ready for its intended use after all substantial testing is completed.

**.30** New software development activities should trigger consideration of remaining useful lives of software that is to be replaced. When an entity replaces existing software with new software, unamortized costs of the old software should be expensed when the new software is ready for its intended use.

## Capitalizable Costs

**.31** Costs of computer software developed or obtained for internal use that should be capitalized include only the following:

- a. External direct costs of materials and services consumed in developing or obtaining internal-use computer software. Examples of those costs include but are not limited to fees paid to third parties for services provided to develop the software during the application development stage, costs incurred to obtain computer software from third parties, and travel expenses incurred by employees in their duties directly associated with developing software.
- b. Payroll and payroll-related costs (for example, costs of employee benefits) for employees who are directly associated with and who devote time to the internal-use computer software project, to the extent of the time spent directly on the project. Examples of employee activities include but are not limited to coding and testing during the application development stage.
- c. Interest costs incurred while developing internal-use computer software. Interest should be capitalized in accordance with the provisions of FASB Statement No. 34, *Capitalization of Interest Cost*.<sup>8</sup>

General and administrative costs and overhead costs should not be capitalized as costs of internal-use software.

**.32** Entities often license internal-use software from third parties. Though FASB Statement No. 13, *Accounting for Leases*, excludes licensing agreements from its scope, entities should analogize to that Statement when determining the asset acquired in a software licensing arrangement.

## Multiple-Element Software Arrangements Included in Purchase Price

**.33** Entities may purchase internal-use computer software from a third party. In some cases, the purchase price includes multiple elements, such as training for the software, maintenance fees for routine maintenance work to be

<sup>7</sup> See paragraph .62 of this SOP for meaning of “probable.”

<sup>8</sup> Paragraph 17 of FASB Statement No. 34, *Capitalization of Interest Cost*, states, “If the enterprise suspends substantially all activities related to acquisition of the asset, interest capitalization shall cease until activities are resumed.”

performed by the third party, data conversion costs, reengineering costs, and rights to future upgrades and enhancements. Entities should allocate the cost among all individual elements. The allocation should be based on objective evidence of fair value of the elements in the contract, not necessarily separate prices stated within the contract for each element. Those elements included in the scope of this SOP should be accounted for in accordance with the provisions of this SOP.

## Impairment

**.34** Impairment should be recognized and measured in accordance with the provisions of FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*.<sup>\*</sup> Paragraph 8 of FASB Statement No. 121<sup>\*</sup> requires that assets should be grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. FASB Statement No. 121<sup>\*</sup> guidance is applicable, for example, when one of the following occurs related to computer software being developed or currently in use:

- a. Internal-use computer software is not expected to provide substantive service potential,
- b. A significant change occurs in the extent or manner in which the software is used or is expected to be used,
- c. A significant change is made or will be made to the software program,
- d. Costs of developing or modifying internal-use computer software significantly exceed the amount originally expected to develop or modify the software.

**.35** Paragraph 10 of FASB Statement No. 121<sup>\*</sup> requires that “if the asset is not expected to provide any service potential to the entity, the asset shall be accounted for as if abandoned or held for disposal in accordance with the provisions of paragraph 15 of [FASB Statement No. 121<sup>\*</sup>].” When it is no longer probable<sup>9</sup> that computer software being developed will be completed and placed in service, the asset should be reported at the lower of the carrying amount or fair value, if any, less costs to sell. The rebuttable presumption is that such uncompleted software has a fair value of zero. Indications that the software may no longer be expected to be completed and placed in service include the following:

- a. A lack of expenditures budgeted or incurred for the project
- b. Programming difficulties that cannot be resolved on a timely basis
- c. Significant cost overruns
- d. Information has been obtained indicating that the costs of internally developed software will significantly exceed the cost of comparable third-party software or software products, so that management intends to obtain the third-party software or software products instead of completing the internally developed software
- e. Technologies are introduced in the marketplace, so that management intends to obtain the third-party software or software products instead of completing the internally developed software

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<sup>\*</sup> FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, supersedes FASB Statement No. 121. [Footnote added, October 2002, to reflect conforming changes necessary due to the issuance of FASB Statement No. 144.]

<sup>9</sup> See paragraph .62 of this SOP for meaning of “probable.”

- f. Business segment or unit to which the software relates is unprofitable or has been or will be discontinued.

## Amortization

.36 The costs of computer software developed or obtained for internal use should be amortized on a straight-line basis unless another systematic and rational basis is more representative of the software's use.

.37 In determining and periodically reassessing the estimated useful life over which the costs incurred for internal-use computer software will be amortized, entities should consider the effects of obsolescence, technology, competition, and other economic factors. Entities should consider rapid changes that may be occurring in the development of software products, software operating systems, or computer hardware and whether management intends to replace any technologically inferior software or hardware. Given the history of rapid changes in technology, software often has had a relatively short useful life.

.38 For each module or component of a software project, amortization should begin when the computer software is ready for its intended use, regardless of whether the software will be placed in service in planned stages that may extend beyond a reporting period. For purposes of this SOP, computer software is ready for its intended use after all substantial testing is completed. If the functionality of a module is entirely dependent on the completion of other modules, amortization of that module should begin when both that module and the other modules upon which it is functionally dependent are ready for their intended use.

## Internal-Use Computer Software Marketed

.39 If, after the development of internal-use software is completed, an entity decides to market the software, proceeds received from the license of the computer software, net of direct incremental costs of marketing, such as commissions, software reproduction costs, warranty and service obligations, and installation costs, should be applied against the carrying amount of that software. No profit should be recognized until aggregate net proceeds from licenses and amortization have reduced the carrying amount of the software to zero. Subsequent proceeds should be recognized in revenue as earned.

.40 If, during the development of internal-use software, an entity decides to market the software to others, the entity should follow FASB Statement No. 86. Amounts previously capitalized under this SOP should be evaluated at each balance sheet date in accordance with paragraph 10 of FASB Statement No. 86. Capitalized software costs should be amortized in accordance with paragraph 8 of FASB Statement No. 86. A pattern of deciding to market internal-use software during its development creates a rebuttable presumption that any software developed by that entity is intended for sale, lease, or other marketing, and thus is subject to the guidance in FASB Statement No. 86.

## Disclosures

.41 This SOP does not require any new disclosures; disclosure should be made in accordance with existing authoritative literature, including Accounting Principles Board (APB) Opinion No. 12, *Disclosure of Depreciable Assets and*

*Depreciation*; APB Opinion No. 22, *Disclosure of Accounting Policies* (for example, amortization methods); FASB Statement Nos. 2 and 121<sup>\*</sup>; and SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties*.

## Effective Date and Transition

.42 This SOP is effective for financial statements for fiscal years beginning after December 15, 1998, and should be applied to internal-use computer software costs incurred in those fiscal years for all projects, including those projects in progress upon initial application of this SOP. Earlier application is encouraged in fiscal years for which annual financial statements have not been issued.

.43 Costs incurred prior to initial application of this SOP, whether capitalized or not, should not be adjusted to the amounts that would have been capitalized had this SOP been in effect when those costs were incurred. However, the provisions of this SOP concerning amortization and impairment should be applied to any unamortized costs capitalized prior to initial application of this SOP that continue to be reported as assets after the effective date. In accordance with paragraph 33 of APB Opinion No. 20, *Accounting Changes*, the effect on income before extraordinary items, net income, and related per share amounts of the current period should be disclosed for the change in accounting.

.44 Initial application of this SOP should be as of the beginning of the fiscal year in which the SOP is first adopted (that is, if the SOP is adopted prior to the effective date and during an interim period other than the first interim period, all prior interim periods of that fiscal year should be restated).

**The provisions of this Statement need  
not be applied to immaterial items.**

## Basis for Conclusions

### Characteristics of Internal-Use Computer Software

.45 AcSEC recognizes that entities may develop computer software for internal use and also plan to sell, lease, or otherwise market the software to recover some costs. AcSEC believes that the presence of a substantive plan to market software externally before or during software development indicates an intent to sell, lease, or otherwise market software, which requires accounting prescribed by FASB Statement No. 86. AcSEC believes that it is impractical to allocate costs between internal-use software and software to be marketed.

.46 AcSEC considered whether one of the characteristics of internal-use computer software should be that during the software's development, no substantive plan *or intent* to market the software externally exists. AcSEC decided that it could not provide operational guidance to help entities define intent. For example, many entities will consider opportunities to recover some of the software development costs through subsequent sales of the product. AcSEC believes that it cannot provide guidance to distinguish between a true intent to market software and routine inquiries and studies about the possibility of recovering some costs.

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<sup>\*</sup> FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, supersedes FASB Statement No. 121. [Footnote added, October 2002, to reflect conforming changes necessary due to the issuance of FASB Statement No. 144.]



.47 Because FASB Statement No. 86 does not define “part of a product or process,” many entities have difficulty determining whether computer software is for internal use and subject to the SOP or “part of a product or process” and subject to the accounting prescribed by FASB Statement No. 86. A FASB staff article (which Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Accordance With Generally Accepted Accounting Principles*, subordinates to an SOP) *Computer Software: Guidance on Applying Statement No. 86* that appeared in a 1986 FASB Status Report attempted to clarify that term as follows: “Indications that the software in question falls under the Statement’s scope include the dependence of the company on the software to provide the service. In other words, could the company earn revenue from providing the service without the software? Would the service be as timely or accurate without the software? If the answer to any of these questions is no, that may indicate that the software is part of a product or process and is included in the scope of Statement No. 86.”

.48 In this SOP, AcSEC provides what it believes to be operational guidance that will help entities determine if computer software is for internal use. AcSEC believes that the distinction can be based on what the customer is buying. If the customer is acquiring the software or the future right to use it, the costs of that software are accounted for in accordance with the provisions of FASB Statement No. 86. However, if the software is used by the vendor in production of the product or in providing the service but the customer does not acquire the software or the future right to use it, the software is for internal use. The Appendix [paragraph .93] provides examples of when computer software is and is not for internal use.

.49 AcSEC believes that the guidance in this SOP should be applied at the component or module level. One computer software project may result in several different working modules, which with appropriate software interfaces can be used independently of other modules. AcSEC analogized to an entity that constructs a building complex. Though several buildings are ultimately constructed, each building is an asset and may function without the others.

## Research and Development

.50 Some respondents to the exposure draft believe that the costs of computer software developed or obtained for internal use should be charged to expense when incurred as research and development until technological feasibility has been established for the software. They believe that, like the costs of computer software to be sold, leased, or otherwise marketed, the costs of internal-use computer software are within the scope of paragraph 9(i) of FASB Statement No. 2, which states that “engineering activity required to advance the design of a product to the point that it meets specific functional and economic requirements and is ready for manufacture,” and therefore those costs should be included within research and development.

.51 AcSEC considered whether this SOP should require entities to meet some technological feasibility threshold before they could capitalize costs of internal-use computer software. AcSEC decided and most respondents to the exposure draft agreed that technological feasibility should not apply to this SOP. AcSEC reasoned that the technological feasibility criteria applied in FASB Statement No. 86 to software that is sold, leased, or otherwise marketed were appropriate to an inventory model. That inventory model includes an implicit marketability test, a notion that is not applicable to this SOP.

.52 FASB Interpretation No. 6 states that the costs of computer software that is developed or obtained for use in an entity’s selling and administrative

activities are not research and development costs. In addition, it states that, “costs incurred to purchase or lease computer software developed by others are not research and development costs under FASB Statement No. 2 unless the software is for use in research and development activities.” Further, FASB Interpretation No. 6 states, “costs incurred by an enterprise in developing computer software internally for use in its research and development activities are research and development costs . . . ,” regardless of whether the software has alternative future uses.

.53 AcSEC also considered the guidance of paragraphs 9(h) and 10(h) of FASB Statement No. 2 to determine whether other costs of internal-use software are excluded from research and development. Paragraph 10(h) of FASB Statement No. 2 states that “activity, including design and construction engineering, related to the construction, relocation, rearrangement, or start-up of facilities or equipment other than (1) pilot plants and (2) facilities or equipment whose sole use is for a particular research and development project” are excluded from research and development.

.54 Because of the guidance in FASB Statement No. 2 and FASB Interpretation No. 6, AcSEC concluded that not all internal-use software costs are research and development costs (see paragraph 52). However, AcSEC evaluated the process of developing internal-use software within the context of FASB Statement No. 2 because that statement is either directly relevant or is a reasonable basis for determining which costs of internal-use software development activities should be expensed. Consistent with FASB Statement No. 2, AcSEC did not specify the income statement classifications of expensed internal-use software development costs.

.55 Paragraphs 9(c) and 9(d), respectively, of FASB Statement No. 2 include “conceptual formulation and design of possible product or process alternatives” and “testing in search for or evaluation of product or process alternatives” as examples of activities that are research and development and therefore are expensed as incurred. AcSEC believes paragraphs 9(c) and 9(d) are relevant to the process of developing internal-use computer software. AcSEC believes that as part of these activities an entity will determine whether the needed technology exists. If the technology does not exist, then research and development-type activities have not yet been completed, and therefore those costs should be expensed as incurred.

.56 AcSEC also believes that development risks associated with creating internal-use computer software are conceptually no different from development risks associated with creating other assets such as high-tech automated plants. Entities, at the start of both kinds of projects, often expect that existing technology will allow the entity to complete projects that will provide future benefits.

## **Capitalize or Expense**

.57 About two-thirds of the respondents to the exposure draft believe that the internal and external costs of computer software developed or obtained for internal use should be reported as assets. However, certain representatives of the financial statement user community oppose capitalization of internal costs incurred to develop or obtain internal-use software.

.58 Those users and some others oppose the exposure draft’s provisions for capitalization because they believe that the benefits of capitalizing internal



costs are limited. They believe that capitalized internal costs related to developing or obtaining internal-use software are often unrelated to the software's actual value and that such capitalized costs are often irrelevant in the investment and credit evaluation process. In addition, some who oppose the exposure draft believe that external costs of developing or obtaining internal-use software are a more reliable measure of the software asset than internal costs.

**.59** Some respondents to the exposure draft believe that costs of computer software developed or obtained for internal use should be expensed as incurred. They believe that such costs should not be capitalized because they do not result in demonstrable probable future economic benefits. They believe that capitalization would result in assets that have arbitrary amortization periods. They cite paragraph 148 of FASB Concepts Statement No. 6, *Elements of Financial Statements*, which states that some "costs are also recognized as expenses in the period in which they are incurred because the period to which they otherwise relate is indeterminable or not worth the effort to determine."

**.60** Some respondents to the exposure draft believe that capitalizing the costs of computer software developed or obtained for internal use frequently results in a subsequent writeoff of those costs when they are eventually determined to not be recoverable. Thus, they believe that readers of financial statements can be misled by the initial capitalization and subsequent writeoff of those costs.

**.61** AcSEC considered all of these views. AcSEC believes that entities develop or obtain internal-use computer software often for the same end-purposes that they develop or obtain other assets. Examples are to reduce costs, operate more efficiently, improve internal controls, service customers better, and gain competitive advantages.

**.62** Paragraph 25 in FASB Concepts Statement No. 6 defines assets as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." Footnote 18 to FASB Concepts Statement No. 6 states that "probable is used with its general meaning, rather than in a specific accounting or technical sense, . . . and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved . . ." Paragraph 26 states: "An asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others' access to it, and (c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred."

**.63** Paragraph 63 in FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, sets forth the following criteria that should be met to recognize an item in the financial statements:

- *Definitions*—The item meets the definition of an element of financial statements.
- *Measurability*—It has a relevant attribute measurable with sufficient reliability.
- *Relevance*—The information about it is capable of making a difference in user decisions.
- *Reliability*—The information is representationally faithful, verifiable, and neutral.

**.64** Some proponents of capitalization of internal-use software observe that paragraph 24 of APB Opinion 17, *Intangible Assets*, requires that entities capitalize acquired intangible assets. Paragraph 24 also states that “costs of developing, maintaining, or restoring intangible assets which are not specifically identifiable, have indeterminate lives, or are inherent in a continuing business and related to an enterprise as a whole—such as goodwill—should be deducted from income when incurred.” AcSEC believes that the costs of computer software developed or obtained for internal use are specifically identifiable, have determinate lives, relate to probable future economic benefits (FASB Concepts Statement No. 6), and meet the recognition criteria of definitions, measurability, relevance, and reliability (FASB Concepts Statement No. 5).

**.65** AcSEC decided that it was not necessary to characterize computer software as either intangible assets or tangible assets when similar characterizations have not been made for most other assets.<sup>†</sup>

**.66** One of the characteristics of an asset in FASB Concepts Statement No. 6 is that it must contribute directly or indirectly to future net cash inflows, thus providing probable future economic benefits. AcSEC recognizes that the specific future economic benefits related to the costs of computer software will sometimes be difficult to identify. However, AcSEC believes that this is also true for some other assets. For example, computer hardware or furniture used in back-office operations are indirectly related to future benefits. Likewise, corporate office facilities do not result in identifiable future benefits, but the facilities do support the operations of the company.

**.67** AcSEC also recognizes that costs of computer software developed or obtained for internal use reported as assets may be subsequently written-off due to lack of adequate funding or lack of management’s continued commitment to a project. However, AcSEC believes similar changes in direction also occur for long-lived-asset projects. Regardless, AcSEC has established guidance to determine when capitalization should cease and when impairment should be recognized and measured.

**.68** *Preliminary Project Stage.* AcSEC believes that activities performed during the preliminary project stage of development for internal-use software are analogous to research and development activities, and costs incurred during this stage should be expensed as they are incurred.

**.69** *Application Development Stage.* AcSEC believes that software development activities performed during the application development stage create probable future economic benefits. Therefore, software development costs incurred during this stage should be capitalized.

**.70** AcSEC believes that paragraph 24 of APB Opinion No. 17 applies to the costs of data conversion. Therefore, AcSEC believes that data conversion costs, as discussed in paragraph .22, should be expensed as they are incurred. However, AcSEC also believes that computer software developed or obtained for old and new systems interface is internal-use software that is subject to the guidance in this SOP.

**.71** *Post-Implementation/Operation Stage.* AcSEC believes that training costs are not software development costs and should be expensed as they

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<sup>†</sup> Paragraph A14 section e(2) of FASB Statement No. 141, *Business Combinations*, identifies computer software as an intangible asset that meets the criteria for recognition apart from goodwill. [Footnote added, May 2005, to reflect conforming changes necessary due to the issuance of FASB Statement No. 141.]

are incurred because entities do not control the continued employment of the trained employees, are not able to identify the specific future period benefitted, and amortization periods would be arbitrary.

.72 A number of respondents to the exposure draft said that they could not distinguish between internal costs of maintenance and upgrades/enhancements; many of those respondents requested further guidance from AcSEC. AcSEC decided that it could not provide examples that would adequately distinguish between all possible activities related to maintenance and upgrades/enhancements. As a result, AcSEC concluded that entities that cannot separate internal costs on a reasonably cost-effective basis between maintenance and relatively minor upgrades and enhancements should expense such costs as incurred.

.73 AcSEC acknowledges that SOP 97-2, *Software Revenue Recognition*, defines an upgrade and enhancement, in part, as an extension of useful life. AcSEC concluded that, from the perspective of the user of the software, solely extending the software's useful life without adding additional functionality is a maintenance activity rather than an activity for which the costs should be capitalized. Accordingly, AcSEC's criteria for determining capitalizable upgrades and enhancements focus on providing additional functionality.

.74 AcSEC believes and most respondents to the exposure draft agree that entities should not have the option to expense or capitalize costs of computer software developed or obtained for internal use as those costs are incurred. FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, states: "Comparability between enterprises and consistency in the application of methods over time increases the informational value of comparisons of relative economic opportunities or performance. The significance of information, especially quantitative information, depends to a great extent on the user's ability to relate it to some benchmark."

.75 Capitalization should begin when (a) the preliminary project stage is completed and (b) management, with the relevant authority, implicitly or explicitly authorizes and commits to funding a computer software project and it is probable that the project will be completed and the software will be used to perform the function intended. Capitalization should cease when it is no longer probable that the computer software project will be completed and placed in service. Capitalization should cease no later than the point at which a computer software project is substantially complete and ready for its intended use. *Probable* does not require absolute certainty. *Probable* is used in the same context as it is in FASB Concepts Statement No. 6, which states that "probable is used with its general meaning, rather than in a specific accounting or technical sense, . . . and refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved . . . ."

.76 AcSEC used paragraph 18 of FASB Statement No. 34 as a basis for concluding that capitalization should cease no later than the point at which a computer software project is substantially complete and ready for its intended use.

.77 AcSEC considered whether it should provide guidance to limit the amount of costs that could be capitalized to the amount an entity would spend to purchase a viable alternative software product from a third party. AcSEC concluded that it could not provide practicable guidance other than the ability to recover the capitalized costs as discussed in FASB Statement No. 121. AcSEC believes that many entities will not be able to identify a third-party

software product that is comparable to the entity's internal-use software. In addition, AcSEC believes that many entities would incur undue costs in trying to determine what is a viable alternative software product.

.78 AcSEC believes that it would be desirable for the costs of internally developed computer software (whether developed by employees or per diem independent contractors) that are capitalized to be accounted for no differently than the capitalized costs of purchased software (whether the software is obtained retail or developed by outside consultants for a flat fee or price). AcSEC acknowledges, however, that certain costs of internally developed software will be expensed as research and development whereas a portion of the research and development costs incurred by a third party will be capitalized by the purchasing entity because the third party's research and development costs are implicitly part of the acquisition price of the software. AcSEC noted that similar differences exist elsewhere; for example, the costs of acquiring a patent are usually capitalized and the costs of developing a patent are usually expensed as incurred.

.79 AcSEC believes that users of financial information will find the results of this SOP useful. AcSEC believes that the marketplace inherently considers the technological capabilities, including software, of many entities when it establishes market values. This SOP provides a reasonable methodology to record the costs of internal-use software. In addition, AcSEC believes that the disclosures required by existing authoritative literature are sufficient to help users make informed decisions.

### **Capitalizable Costs**

.80 AcSEC used SOP 93-7, *Reporting on Advertising Costs*, and FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, as a basis for determining the kinds of costs of computer software developed or obtained for internal use that should be included in amounts reported as assets. AcSEC recognizes that the costs of some activities, such as allocated overhead, may be part of the overall cost of assets, but it excluded such costs because it believes that, as a practical matter, costs of accumulating and assigning overhead to software projects would generally exceed the benefits that would be derived from a "full costing" accounting approach. AcSEC considered that costing systems for inventory and plant construction activities, while sometimes complex, were necessary costs given the routine activities that such systems support. Overhead costs associated with a particular internal-use software development project could be even more complex to measure than production overhead and, as they most often represent an allocation among capitalizable and expensed functions, may not be sufficiently reliable. Moreover, certain users commented that they believe that overhead costs had little relationship to the value of software. In light of such apparently high costs, modest benefits, and the view of some users that such costs should be expensed, AcSEC chose to analogize to advertising costs and FASB Statement No. 91 and to require such costs to be expensed as incurred.

### **Multiple-Element Software Arrangements Included in Purchase Price**

.81 This SOP requires that, when a software arrangement includes multiple elements, entities should estimate the fair value of those multiple elements and exclude the fair value of the appropriate elements from the capitalized cost of the software. This approach is consistent with the treatment of executory costs that are included in a lease payment to a lessor, but which

are not specified in the lease agreement. Paragraph 10 of FASB Statement No. 13, *Accounting for Leases*, requires the lessee to make an estimate of the executory costs and exclude that amount from the minimum lease payments. The treatment of the costs of the multiple elements specified here is consistent with those provisions.

.82 In addition, AcSEC believes that the guidance related to recognizing combined maintenance and unspecified upgrade/enhancement fees over the contract period is consistent with paragraph 3 in FASB Technical Bulletin No. 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*.

.83 The SOP requires that entities allocate costs based on relative fair values. AcSEC decided that the SOP should be consistent with SOP 97-2, *Software Revenue Recognition*, though vendor-specific information is not as relevant to this SOP.

## Impairment

.84 AcSEC considered whether there were any alternatives to following FASB Statement No. 121 for impairment of internal-use computer software. AcSEC concluded that internal-use computer software is a long-lived asset covered by FASB Statement No. 121.

.85 Paragraphs 7, 8, 10, and 15 of FASB Statement No. 121 are the basis for the guidance in this SOP on accounting for internal-use computer software that is not expected to provide substantive future service potential to an entity.

.86 AcSEC concluded that when it is no longer probable that computer software being developed will be completed and placed in service, the asset should be reported at the lower of carrying amount or fair value, if any, less costs to sell, in accordance with FASB Statement No. 121. AcSEC believes that uncompleted internal-use computer software is not likely to have any fair value (measured in accordance with paragraph 7 of FASB Statement No. 121).

.87 A number of respondents to the exposure draft requested that AcSEC provide more guidance and/or examples of how to recognize and measure impairment of internal-use computer software. AcSEC concluded that there are broader implications to this request and that if further guidance on impairment is to be provided, it should be provided by the FASB.

## Amortization

.88 AcSEC used Accounting Research Bulletin No. 43, *Restatement and Revision of Accounting Research Bulletins*, chapter 9, section C, and APB Opinion 17 as a basis for its conclusions on amortization. AcSEC decided not to specify a maximum amortization period because each entity is better able to determine an appropriate useful life.

## Internal-Use Computer Software Marketed

.89 The SOP requires that entities use the cost recovery method of accounting for internal-use computer software subsequently marketed. AcSEC believes that this method will provide a reasonable reporting outcome for instances in which enterprises find that internally developed software can meet a market demand.

## Disclosures

.90 In the spirit of minimizing less relevant disclosures, AcSEC decided not to include any new disclosures in the exposure draft (though entities are

required to follow disclosure requirements set forth in existing authoritative literature). AcSEC continues to believe that existing authoritative literature requires adequate disclosures to help meet financial statement user needs.

## **Effective Date and Transition**

**.91** AcSEC believes that the transition guidance in the SOP should be comparable to that contained in FASB Statement No. 86. Some enterprises that develop or purchase software for internal use currently expense those costs as incurred. AcSEC believes that the costs of developing the information that would be necessary to determine the amounts that would be capitalized if this SOP were to be applied retroactively would exceed the benefits retroactive application might offer and that such a retroactive determination should not be made. However, AcSEC decided to permit but not require application in financial statements for a fiscal year for which annual financial statements have not been issued. AcSEC further concluded that costs capitalized before the application of this SOP should be subject to the impairment and amortization provisions in this SOP, but should not otherwise be adjusted to an amount that would have been capitalized had this SOP been applied. Amortization and impairment of previously capitalized costs in accordance with the provisions of this SOP should result in an acceptable level of comparability and understandability.

**.92** AcSEC considered whether it should provide materiality thresholds to determine when an entity should follow the guidance in this SOP. AcSEC decided not to do so because it believes an entity can best determine the materiality of internal-use computer software costs in its individual circumstances.

## Appendix

### Examples Illustrating When Computer Software Is for Internal Use

1. A manufacturing entity purchases robots and customizes the software that the robots use to function. The robots are used in a manufacturing process that results in finished goods.
2. An entity develops software that helps it improve its cash management, which may allow the entity to earn more revenue.
3. An entity purchases or develops software to process payroll, accounts payable, and accounts receivable.
4. An entity purchases software related to the installation of an online system used to keep membership data.
5. A travel agency purchases a software system to price vacation packages and obtain airfares.
6. A bank develops software that allows a customer to withdraw cash, inquire about balances, make loan payments, and execute wire transfers.
7. A mortgage loan servicing entity develops or purchases computer software to enhance the speed of services provided to customers.
8. A telecommunications company develops software to run its switches that are necessary for various telephone services such as voice mail and call forwarding.
9. An entity is in the process of developing an accounts receivable system. The software specifications meet the company's internal needs and the company did not have a marketing plan before or during the development of the software. In addition, the company has not sold any of its internal-use software in the past. Two years after completion of the project, the company decided to market the product to recoup some or all of its costs.
10. A broker-dealer entity develops a software database and charges for financial information distributed through the database.
11. An entity develops software to be used to create components of music videos (for example, the software used to blend and change the faces of models in music videos). The entity then sells the final music videos, which do not contain the software, to another entity.
12. An entity purchases software to computerize a manual catalog and then sells the manual catalog to the public.
13. A law firm develops an intranet research tool that allows firm members to locate and search the firm's databases for information relevant to their cases. The system provides users with the ability to print cases, search for related topics, and annotate their personal copies of the database.

### Examples Illustrating When Computer Software Is Not Internal Use

14. An entity sells software required to operate its products, such as robots, electronic game systems, video cassette recorders, automobiles, voice-mail systems, satellites, and cash registers.



**Accounting for Costs of Computer Software for Internal Use 20,431**

15. A pharmaceutical company buys machines and writes all of the software that allows the machines to function. The pharmaceutical company then sells the machines, which help control the dispensation of medication to patients and help control inventory, to hospitals.
16. A semiconductor entity develops software embedded in a microcomputer chip used in automobile electronic systems.
17. An entity purchases software to computerize a manual catalog and then sells the computer version and the related software to the public.
18. A software company develops an operating system for sale and for internal use. Though the specifications of the software meet the company's internal needs, the company had a marketing plan before the project was complete. In addition, the company has a history of selling software that it also uses internally and the plan has a reasonable possibility of being implemented.
19. An entity is developing software for a point-of-sale system. The system is for internal use; however, a marketing plan is being developed concurrently with the software development. The plan has a reasonable possibility of being implemented.
20. A telecommunications entity purchases computer software to be used in research and development activities.
21. An entity incurs costs to develop computer software for another entity under a contract with that other entity.



20,432

## Statements of Position

**Accounting Standards Executive Committee  
(1997–1998)**

DAVID B. KAPLAN, *Chair*  
MARK M. BIELSTEIN  
JAMES L. BROWN  
JOSEPH H. CAPPALONGA  
ROBERT O. DALE  
JOSEPH F. GRAZIANO  
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BENJAMIN S. NEUHAUSEN  
MARK V. SEVER

**Internal-Use Software Costs Task Force**

PHILIP D. AMEEN, *Chair*  
JOHN H. BLACK  
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WILLIAM R. HAHN

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PAUL MUNTER  
LYNN E. TURNER

**AICPA Staff**

ELIZABETH A. FENDER  
*Director*  
*Accounting Standards*

DANIEL J. NOLL  
*Technical Manager*  
*Accounting Standards*

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[The next page is 20,441.]

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

IN THE MATTER OF THE PETITION OF LMH )  
UTILITIES, INC. FOR A NEW SCHEDULE OF ) CAUSE NO. 45307-U  
RATES AND CHARGES )

**PETITION OF LMH UTILITIES CORPORATION RESPONSES TO THE INDIANA  
OFFICE OF UTILITY CONSUMER COUNSELOR'S  
SIXTH SET OF DATA REQUESTS**

Comes now LMH Utilities Corporation, by counsel, and submits to the Indiana Office of the Utility Consumer Counselor ("OUCC") its responses to the OUCC's Sixth Set of Data Requests dated January 29, 2020, as follows:

**II. Data Request.**

**Q-6-1:** Please confirm that the "Miscellaneous Deferred Debits" reflected in Applicant's balanced sheet (\$36,934) represents the deferred costs related to Cause No. 45032 – IURC Tax Investigation. These deferred debits are also identified as "Deferred Rate Case Expense on Applicant's 2018 annual report.

A. Yes, this amount represents the deferred costs related to Cause No. 45032. The Miscellaneous Deferred Debits on the application are the same as the Deferred Rate Case Expense on the 2018 annual report.

**Q-6-2:** Please explain how Applicant implemented the Commission's directive (Order in Cause No. 45032-S17) to return \$10,272 of revenues over-collected during the period January 1, 2018 through June 30, 2018. Please include a copy of a sample bill showing the credit and the calculation of the credit owed to each customer.

A. The return on the over-collected revenues was implemented through a one-time bill credit. See attachments Q-6-2.

**Q-6-3:** Please explain why Applicant did not include deferred income taxes in its capital structure and its calculation of weighted average cost of capital.

A. Since the deferred tax accounts offset each other, the IURC application had nothing to import into the protected cell.

- A.
- a. No. This is a combination of the deferred charges from Cause No. 45032-S17 of \$36,934 and current charges for legal and accounting services for Cause No. 45307-U of \$30,000.
  - b. See response above.
  - c. Accounting - \$15,000. See Q-5-6b for rates.  
Legal - \$15,000
  - d. See response to Q-5-6.
  - e. Accounting – Cause 45032: \$9,510 Cause 45307-U: \$14,730  
Legal – Cause 45032: \$27,424 Cause 45307-U: \$11,622
  - f. Applicant believes a three-year period is reasonable.
  - g. See response to Q-5-9a and attachments Q-5-9g.

**Q-5-10:** Please provide the journal entry Applicant will book to record Expense Adjustment No. 14.

- A. There is no entry to be made. This represents the reduction in the annual revenue requirement for the return of the excess ADIT. However, the amount in the application is incorrect as it was obtained from a superseded document from Cause No. 45032-S17. The reduction in the revenue requirement should be \$10,203. See attachment Q-5-10 from compliance filing for that cause.

**Q-5-11:** Please explain why Applicant has added “depreciation of CIAC” (\$111,269) to its taxable income as reflected on Schedule 6(j).

- A. On the Applicant’s 2018 Form 1040, Schedule M-1, the amortization of CIAC has not been added to taxable income; it is a reduction to taxable income and is a component of the book to tax depreciation adjustment.

**Q-5-12:** Please explain why Applicant did not reduce its rate base by the amount of Advances for Construction as reflected on its balance sheet at 12/31/2018.

- A. This is an error in the workbook. The rate base is calculated on schedule 7 of the IURC application workbook. The cell for Advances for Construction is a protected cell and not open for input. The Advances for Construction amount should have pulled into the workbook directly from the Applicant’s 2018 IURC annual report.

**Q-5-13:** Please identify the \$42,602 of “other metered revenues” reflected in Applicant’s income statement.

- A. This is revenue from multi-family housing and was reported on the schedule of Wastewater Operating Revenue in the Applicant’s 2018 IURC Annual Report.

**STATE OF INDIANA**

**INDIANA UTILITY REGULATORY COMMISSION**

**IN THE MATTER OF THE INDIANA UTILITY )  
REGULATORY COMMISSION'S INVESTIGATION )  
INTO THE IMPACTS OF THE TAX CUTS AND JOBS ) CAUSE NO. 45032 S17  
ACT OF 2017 AND POSSIBLE RATE IMPLICATIONS )  
UNDER PHASE 2 FOR L.M.H. UTILITIES )  
CORPORATION )**

**RESPONDENT'S SUBMISSION OF COMPLIANCE FILING**

Comes now L.M.H. Utilities Corporation ("Respondent"), by counsel, and submits the attached compliance per the December 27, 2018 Order in this Cause.

Respectfully submitted,



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Jeffrey M. Peabody, Attorney No. 28000-53  
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COUNSEL FOR RESPONDENT,  
L.M.H. UTILITIES CORPORATION

**CERTIFICATE OF SERVICE**

The undersigned certifies that a copy of the foregoing was served upon the following via electronic email, hand delivery or First Class, United States Mail, postage prepaid this 1st day of February, 2019 to:

Tiffany Murray  
Office of Utility Consumer Counselor  
PNC Center  
115 W. Washington St., Suite 1500 South  
Indianapolis, Indiana 46204  
[infomgt@oucc.in.gov](mailto:infomgt@oucc.in.gov)  
[timurray@oucc.in.gov](mailto:timurray@oucc.in.gov)



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COUNSEL FOR RESPONDENT, L.M.H. UTILITIES CORPORATION

LMH Utilites, Inc.  
Cause No. 45032 S-17  
Calculation of Excess Federal ADIT Amortization - RSG Method

UPIS - Orignal Cost		\$ 8,177,945
Less Land		<u>(61,000)</u>
Depreciable UPIS		8,116,945
Less Accum Depreciation - Federal Tax Basis		<u>(5,184,002)</u>
Net UPIS - Federal Tax Basis		2,932,943
Annual Regulatory Depreciation	8,116,945	
	<u>2.50%</u>	<u>202,924</u>
Amortization Period		<u>14.45</u>
Excess Federal ADIT		104,800
Divided by Amortization Period		<u>14.45</u>
		7,253
Times Gross Revenue Conversion Factor		<u>140.6788</u>
Reduction to Revenue Requirement		<u>\$ 10,203</u>
Percent Reduction to Customer Rates	10,203	
Revenue Requirement per Revised 30-day Filing	<u>741,276</u>	<u>1.38%</u>

LMH UTILITIES, INC.  
IURC CAUSE NO. 45032

Conversion Factor

Gross Revenue Requirement IURC Cause No. 43431	100.0000000%	\$ 370,423
IURC Fee (2007-2008 Fiscal Year)	<u>0.1315587%</u>	487
Subtotal	99.8684413%	
State Utility Receipts Tax Applied to Gross Revenues	<u>1.4000%</u>	5,186
Subtotal	98.4684%	
State Adjusted Gross Receipts Tax at 8.5%	<u>8.4888175%</u>	31,445
(Gross Revenue less IURC)	89.979602732%	
Federal Income Tax	<u>18.8957166%</u>	<u>69,994</u>
(GR-IURC-URT-SIT)*21%		
Change in Operating Income	<u>71.083886159%</u>	<u>\$ 263,311</u>
Conversion Factor	<u>1.4067886</u>	

**UTILITY CONSTRUCTION CORPORATION, INC.**

2005 JAMISON DRIVE SUITE 106  
LAWRENCEBURG, IN 47025

**INVOICE**

Invoice Number: 6720  
Invoice Date: Jan 22, 2010  
Page: 1

Voice: 812-637-1288  
Fax: 812-637-1399

**Bill To:**  
LMH UTILITIES, INC.  
2005 JAMISON DRIVE SUITE 105  
LAWRENCEBURG, IN 47025

**Ship to:**  
LMH UTILITIES, INC.  
2005 JAMISON DRIVE SUITE 105  
LAWRENCEBURG, IN 47025

Customer ID	Customer PO	Payment Terms	
LMH		Net 15 Days	
Job ID	Shipping Method	Ship Date	Due Date
	Airborne		2/6/10

Description	Amount
PURCHASE OF ASHBROOK-BELLMER WINKLEPRESS .5 METER BELT FILTER PRESS <i>393.7</i>	67,375.00
BUILDING STORAGE FOR PRESS <i>354.1</i>	12,125.00
<i>390</i>	
<i>PQ 40,000 1/22/10</i>	
<i>PQ 17413.75 1/25/10</i>	
<i>PQ 12086.25 1/27/10</i>	
<i>1 Sixty!</i>	

Subtotal	79,500.00
Sales Tax	
Total Invoice Amount	79,500.00
Payment/Credit Applied	
<b>TOTAL</b>	<b>79,500.00</b>

Check/Credit Memo No:

Overdue invoices are subject to late charges of 1.5% per month or 18% annual.



LMH Utilities Corporation

1872

final

4/2/18

7,500.00

7,500.00

4/11/18

1872

PRODUCT DLM145

USE WITH 91564 ENVELOPE

AMPSTUN CORPORATION

Deluxe Corporation 1-800-328-0304 or www.deluxe.com/shop

PRINTED IN U.S.A.

\$7,500.00

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LMH Utilities Corporation

1815

012418

1/24/18

2,500.00

2,500.00

1/24/18

1815

PRODUCT DLM145

USE WITH 91564 ENVELOPE

AMPSTUN CORPORATION

\$2,500.00

Ampstun Corporation  
PO Box 784  
Richmond, KY 40476-0784  
1-888-252-4784



**Ampstun Utility Data Management Software Proposal  
Prepared for LMH Utilities – with Basic Data Conversion**

July 10, 2017

**MasterLinx Enterprise Management Software** 4,125.00  
Web Based Billing Module  
-Online Payment Center for credit card payments.  
-eBilling Option for electronic billing

**Utility Billing Basic Data Conversion based on 1200 accounts**  
Utility Billing basic data conversion programming included.  
Includes accounts, locations, meters, and beginning balance per account by service,  
with no transaction history.  
See proposal notes for further details and additional data options.

**On-Site Support Services** See proposal notes for additional details

Trip#1 – **MasterLinx Enterprise Management Software Training (3 days)**  
Balancing, data refinement, training 5,875.00  
Includes travel time and living expenses on site.  
Travel expense for air fare and or rental car

Trip#2- **MasterLinx Enterprise Management Software Follow Up (2 days)**  
Training  
Balancing, data refinement, training  
Includes travel time and living expenses on site.  
Travel expense for air fare and or rental car

**Proposal Total: \$ 10,000.00**

**25% Down Payment \$ 2,500.00**

Sign: [Signature] Sec Treas  
Date: 7/25/18 PO#: \_\_\_\_\_

*Proposal valid until 6/30/2018.*

Ampstun Corporation  
PO Box 784  
Richmond, KY 40476-0784  
1-888-252-4784



### **Proposal Notes**

#### **Payment Terms**

Unless other payment terms are arranged, final payment for the proposal is due at the beginning of the training visit. Ampstun Corporation also requires a twenty-five percent down payment and one of the following with the acceptance of this proposal - a valid purchase order, or a letter of intent stating the proposal has been accepted and payment will be made in full when the system is installed.

#### **Proposal Acceptance**

The Ampstun Corporation proposal total cost is based on the understanding that the entire proposal and all components are accepted as presented. Both parties agree that this written proposal constitutes the complete and exclusive statement of the agreement between them which supersedes all proposals, oral or written, and all other communication between them relating to the proposal scope and content. Both parties agree that all Ampstun Corporation software is provided subject to the standard Ampstun Corporation Software License Agreement shown below.

Ampstun Corporation, Inc. grants to you a non-exclusive, non-transferable license to use the software programs and related documentation in this package (collectively referred to as the "Software"). Any attempted sublicense, assignment, rental, sale or other transfer of the Software or the rights or obligations of this Software License Agreement, without the prior written consent of Ampstun Corporation, Inc., shall be void. This agreement will be governed by the laws of the Commonwealth of Kentucky.

This Software and documentation are copyrighted. Unauthorized copying, reverse engineering, decompiling, disassembling, and creating derivative works based on the Software are prohibited. Title to the Software is not transferred to you by this license. Ownership and title to the Software and to the actual contents of this package, including the copy of the Software and the media on which it is stored and the associated documentation, are retained by Ampstun Corporation, Inc. This agreement sets forth the entire agreement between parties. The terms herein may not be changed or modified except by an instrument in writing duly signed on behalf of both parties.

Ampstun Corporation, Inc. does not warrant that the Software will be free from error or will meet your specific requirements. You assume complete responsibility for decisions made or actions taken regarding selection of the Software to achieve your intended results. Ampstun Corporation, Inc. shall not be responsible for incidental, special, or consequential damages resulting from the use of this Software.

#### **Ampstun Corporation Annual Support Fees**

Software updates, unlimited toll free phone support, and remote modem support are provided to users who remain on support with Ampstun Corporation. This fee is due on the installation anniversary each year. Current pricing for LMH annual support fees:

Utility Billing Software      \$1,875.00 per year

Office Location: 921 Beasley Street Suite 140 Lexington Kentucky 40509  
Phone: 888-252-4784    Web Site: [www.ampstun.com](http://www.ampstun.com)

Ampstun Corporation  
PO Box 784  
Richmond, KY 40476-0784  
1-888-252-4784



### **On-Site Support Services**

When the proposal includes Ampstun Corporation software without the sale of personal computers, the customer is responsible for installing all software prior to the on-site training visit. Ampstun Corporation phone technical support is available to assist a local vendor with the installation. By accepting this proposal you agree to have your computer-networking expert(s) on site for a minimum of the first two hours (or longer if problems warrant) of the Ampstun Corporation Representative's on site "going live" visit. Any issues related to computers, networking, modem, or printing problems can be resolved quickly and efficiently. Failure on your part to meet this requirement could have a negative impact on the amount of training time that is actually available to your staff during the time allotted for the on site visit.

When the proposal includes Ampstun Corporation software and personal computers Ampstun Corporation will deliver the computers with the software installed. These procedures help to protect the on-site time for training-conversion purposes. If they are not observed then there will be a negative impact on training time.

The on-site training-conversion visit is designed to address three equally important tasks, 1) training, 2) data refinement and, 3) account balancing. In most cases these functions are carried out simultaneously throughout the on-site visit. There will always be the need for both data refinement and account balancing activities during the on-site visit.

A preliminary, tentative, planning only date for the on-site visit will be established at the time that the proposal is prepared. When there is data conversion included in the proposal the final confirmed date for the on-site visit will not be established until after the customer has signed for the acceptance of the first data conversion.

The total number of on-site days for this service is indicated in the On-Site Support Services pricing section of this proposal. If additional days of conversion support and training might be desirable, these additional days can be added to the proposal before acceptance. Additional support days can also be requested during the software conversion visit. These days are charged at a rate of \$875.00 per day plus travel time and travel expenses. Lodging, meals and transportation costs for installation and training services are included in the proposal. If hand held meter reading computers are included in this proposal the amount of training for these items is included with their pricing. The on-site time quoted in this proposal is our best estimate of what will be required and should not be considered a guarantee.

In some cases the travel expense dollars included in the proposal includes an amount for airplane tickets. To get a lower fare, and to save you money, we usually purchase the ticket well in advance of the planned trip. If it becomes necessary to change the dates of travel you agree to pay the additional charges associated with the change of tickets and plans.

AMPSTUN CORPORATION  
PO BOX 784  
RICHMOND KY 40476-0784



**Invoice Date**  
Apr 6 2018

**INVOICE**

LMH UTILITIES CORPORATION  
2005 JAMISON DR., STE. 105  
LAWRENCEBURG, IN 47025

**Account Number**  
03-100920

**Invoice Number**  
INV-1885

**Reference**  
New System

Description	Amount USD
Ampstun Web Based Billing Software Module	4,125.00
Utility Billing Basic Data Conversion	0.00
<b>On Site Software Training and Travel Expense</b>	<b>5,875.00</b>
<b>2 Training Trips for 5 Days of On-Site Training</b>	
Less Down Down Payment Received Jan 29 2018	(2,500.00)
Subtotal	7,500.00
Total Sales Tax 0%	0.00
Invoice Total	7,500.00
Total Net Payments	0.00
<b>Amount Due</b>	<b>7,500.00</b>

**Due By: May 3 2018 - Prompt payments are appreciated.**

Please mail payment to:  
AMPSTUN CORPORATION  
PO BOX 784  
RICHMOND KY 40476-0784

For any questions regarding this invoice contact us at 888.252.4784