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November 18, 2011

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

PUCO

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RECEIVED-DOCKETING DIV

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

Dear Secretary McCauley:

On March 30, 2011 the Public Utilities Commission of Ohio entered its Finding and Order approving the Joint Application of Brainard Gas Corporation ("Brainard"), Northeast Ohio Natural Gas Corporation ("NEONG") and Orwell Natural Gas Company ("ONG") to issue a Senior Secured Note as joint and several obligors to Sun Life Assurance Company for a term loan of up to \$15,334,000. Findings 16 and 17 therein required Brainard, NEONG and ONG to file copies of quarterly and annual financial statements and quarterly reports demonstrating that their coverage ratio and total indebtedness as a percent of their capitalization complies with the coverage ratio requirements of their Note Purchase Agreement with Sun Life Assurance Company.

Enclosed herewith please find the required quarterly financial reports and certification of compliance with the coverage ratio covenants for the quarter ended September 30, 2011.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Tom Smith', is written over the typed name.

Tom Smith
Chief Financial Officer For
Brainard Gas Corporation
Northeast Ohio Natural Gas Corporation
Orwell Natural Gas Company

Enclosures

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To: 2011 Orwell Gas, Northeast Ohio Gas, & Brainard Gas \$15.334M Senior Secured Guaranteed Notes**ENTER DATE OF CERTIFICATE****9/30/2011**

1. Financial Tests: The Company hereby certifies and warrants that the following is a true and correct computation as of the Computation Date of the following ratios and/or financial restrictions contained in the Note Purchase Agreement, date May 3, 2011

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

a.	Consolidated Net Income Available for Interest Charges	\$ 5,974,664
b.	Consolidated Annual Interest Charges	\$919,147
Ratio	= a ÷ b	6.50x
	Minimum Required	2.0x
a.	Ohio Companies Net Income Available for Interest Charges	\$ 3,001,773
b.	Ohio Companies Annual Interest Charges	\$1,139,415
Ratio	= a ÷ b	2.63x
	Minimum Required	2.0x

B. Section 10.4 Debt to Capitalization Ratio

a.	Consolidated Funded Debt	\$18,354,509
b.	Consolidated Capitalization	\$55,447,296
Ratio	= a ÷ b	33.1%
	Maximum Allowable	60.0%
a.	Ohio Companies - Funded Debt	\$ 18,354,509
b.	Ohio Companies - Capitalization	\$ 50,460,093
Ratio	= a ÷ b	36.4%
	Maximum Allowable	60.0%

C. Section 9.1 Debt Service Reserve Fund

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

Debt Service Reserve Fund Balance at 9/30/11	\$825,710
Interest payable for next 12 months	\$824,969
Covenant met - yes or no	Yes

IN WITNESS WHEREOF, the Company has caused this Certificate to be executed and delivered by its duly authorized officer on November 18, 2011

By: _____

11/18/2011

Name: Thomas J. Smith

Title: Chief Financial Officer

Gas Natural Inc. and Restricted Subsidiaries
Table of Contents

	<u>Page No.</u>
Consolidated Balance Sheets September 30, 2011 and December 31, 2010 (Unaudited)	2
Consolidated Statements of Income Nine Months Ended September 30, 2011 and 2010 (Unaudited)	4
Consolidated Statements of Changes in Stockholders' Equity Nine Months Ended September 30, 2011 (Unaudited)	5
Consolidated Statements of Cash Flows Nine Months Ended September 30, 2011 (Unaudited)	6

Gas Natural Inc. and Restricted Subsidiaries
Consolidated Balance Sheets
September 30, 2011 and December 31, 2010 (Unaudited)

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,378,456	\$ 7,404,372
Marketable securities	367,500	274,950
Accounts receivable		
Trade, less allowance for doubtful accounts of \$196,626 and \$102,859, respectively	1,141,525	2,050,114
Related parties	2,159,313	1,943,338
Unbilled gas	473,770	3,058,108
Note receivable - related parties, current portion	10,079	9,565
Inventory		
Natural gas and propane	219,622	205,030
Materials and supplies	879,319	476,794
Prepaid income taxes	-	153,602
Prepayments and other	448,153	409,870
Recoverable cost of gas purchases	1,722,944	1,786,120
Deferred tax asset	-	39,210
Total current assets	<u>12,800,681</u>	<u>17,811,073</u>
 PROPERTY, PLANT AND EQUIPMENT, net	 39,609,009	 31,866,322
 OTHER ASSETS		
Notes receivable - related parties, less current portion	38,040	45,665
Deferred tax assets, less current portion	-	136,875
Debt issuance costs, net	572,418	183,085
Goodwill	13,551,181	13,551,181
Customer relationships	645,042	662,167
Investment in subsidiary	(2,472,222)	1,352,778
Restricted cash	2,756,857	-
Other assets	105,264	8,130
Total other assets	<u>15,196,580</u>	<u>15,939,881</u>
 TOTAL ASSETS	 <u>\$ 67,606,270</u>	 <u>\$ 65,617,276</u>

Gas Natural Inc. and Restricted Subsidiaries
Consolidated Balance Sheets
September 30, 2011 and December 31, 2010 (Unaudited)

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES		
Checks in excess of amounts on deposit	\$ -	\$ -
Accounts payable		
Trade	1,590,329	3,650,788
Related parties	984,978	3,257,103
Notes payable, current portion	7,750	909,652
Notes payable - related parties, current portion	-	49,361
Accrued liabilities		
Taxes other than income	1,773,842	2,295,340
Vacation	31,512	21,462
Employee benefit plans	20,362	-
Interest	-	3,217
Deferred payments received from levelized billing	840,527	926,023
Customer deposits	178,349	174,978
Property tax settlement, current portion	-	28,579
Related parties	23,091	413,399
Other current liabilities	334,855	127,571
Deferred tax liability, current portion	11,038	-
Overrecovered gas purchases	1,003,068	902,107
Total current liabilities	<u>6,799,701</u>	<u>12,759,580</u>
LONG-TERM LIABILITIES		
Deferred tax liability, less current portion	4,580,329	3,933,201
Asset retirement obligation	787,646	716,338
Customer advances for construction	(950)	-
Total long-term liabilities	<u>5,367,025</u>	<u>4,649,539</u>
NOTES PAYABLE, less current portion	18,346,758	8,956,879
COMMITMENTS AND CONTINGENCIES (see Note 11)		
STOCKHOLDERS' EQUITY		
Preferred stock; \$0.15 par value, 1,500,000 shares authorized, no shares outstanding	-	-
Common stock; \$0.15 par value, 15,000,000 shares authorized, 8,153,176 and 8,149,801 shares outstanding, respectively	1,222,976	1,222,470
Capital in excess of par value	41,961,754	41,910,067
Accumulated other comprehensive income	96,287	46,590
Retained earnings	(6,188,231)	(3,927,849)
Total stockholders' equity	<u>37,092,786</u>	<u>39,251,278</u>
TOTAL CAPITALIZATION	<u>55,439,544</u>	<u>48,208,157</u>
TOTAL LIABILITIES AND CAPITALIZATION	<u>\$ 67,606,270</u>	<u>\$ 65,617,276</u>

Gas Natural Inc. and Restricted Subsidiaries
Consolidated Statements of Income
Nine Months Ended September 30, 2011 and 2010 (Unaudited)

	Nine Months Ended September 30,	
	2011	2010
REVENUES		
Natural gas operations	\$ 22,592,517	\$ 16,908,781
Marketing and production	-	-
Pipeline operations	-	-
Propane operations	1,009,844	-
Total revenues	<u>23,602,361</u>	<u>16,908,781</u>
COST OF SALES		
Natural gas purchased	14,535,307	10,016,112
Marketing and production	-	-
Propane purchased	875,305	-
Total cost of sales	<u>15,410,612</u>	<u>10,016,112</u>
GROSS MARGIN	8,191,749	6,892,669
OPERATING EXPENSES		
Distribution, general, and administrative	5,257,920	4,069,740
Maintenance	205,111	225,326
Depreciation and amortization	1,294,233	1,207,832
Accretion	71,308	-
Taxes other than income	710,783	752,171
Total operating expenses	<u>7,539,355</u>	<u>6,255,069</u>
OPERATING INCOME (LOSS)	652,394	637,600
LOSS FROM UNCONSOLIDATED AFFILIATE	-	-
OTHER INCOME (EXPENSE), net	434,002	482,579
INTEREST EXPENSE	(816,826)	(751,117)
GAIN ON BARGAIN PURCHASE	<u>1,054,861</u>	<u>-</u>
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	1,324,431	369,062
INCOME TAX BENEFIT (EXPENSE)	<u>(283,380)</u>	<u>(125,677)</u>
NET INCOME (LOSS)	<u>\$ 1,041,051</u>	<u>\$ 243,385</u>

Gas Natural Inc. and Restricted Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Nine Months Ended September 30, 2011 (Unaudited)

	Common Shares	Common Stock	Capital In Excess Of Par Value	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2010	8,149,801	\$ 1,222,470	\$ 41,910,067	\$ 46,590	\$ -	\$ (3,927,849)	\$ 39,251,278
Net income	-	-	-	-	-	1,041,051	1,041,051
Net unrealized gain on available for sale securities	-	-	-	49,697	-	-	49,697
Stock issued for services	3,375	506	37,298	-	-	-	37,804
Stock option expense	-	-	14,389	-	-	-	14,389
Dividends declared	-	-	-	-	-	(3,301,433)	(3,301,433)
BALANCE AT SEPTEMBER 30, 2011	8,153,176	\$ 1,222,976	\$ 41,961,754	\$ 96,287	\$ -	\$ (6,188,231)	\$ 37,092,786

Gas Natural Inc. and Restricted Subsidiaries
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2011 (Unaudited)

	2011
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	\$ 1,041,051
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization	1,294,233
Accretion	71,308
Amortization of debt issuance costs	106,748
Stock based compensation	52,193
Loss on sale of assets	30,916
Gain on bargain purchase	(1,054,861)
Deferred income taxes	776,123
Changes in assets and liabilities	
Accounts receivable, including related parties	692,614
Unbilled gas	2,584,338
Natural gas and propane inventory	(14,592)
Accounts payable, including related parties	(4,332,584)
Recoverable/refundable cost of gas purchases	164,137
Prepayments and other	(38,283)
Other assets	(151,067)
Other current liabilities	(446,249)
Net cash provided by operating activities	776,025
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(7,269,061)
Proceeds from sale of fixed assets	43,522
Purchase of marketable securities	(13,304)
Proceeds from related party note receivable	7,111
Purchase of Independence Oil & LP Gas, Inc.	(1,275,656)
Restricted cash	(1,807,424)
Customer advances for construction	(950)
Net cash provided by (used in) investing activities	(10,315,762)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from notes payable	18,355,215
Repayments of notes payable	(9,869,533)
Repayments of related party notes payable	(50,068)
Debt issuance costs	(496,081)
Restricted cash	(949,432)
Dividends paid	523,720
Net cash provided by (used) in financing activities	7,513,821
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,025,916)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,404,372
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 5,378,456

Ohio Companies Consolidation Table of Contents

	<u>Page No.</u>
Consolidated Balance Sheets September 30, 2011 and December 31, 2010 (Unaudited)	2
Consolidated Statements of Income Nine Months Ended September 30, 2011 (Unaudited)	4
Consolidated Statements of Changes in Stockholders' Equity Nine Months Ended September 30, 2011 (Unaudited)	5

Ohio Companies Consolidation
Consolidated Balance Sheets
September 30, 2011 and December 31, 2010 (Unaudited)

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 353,673	\$ 630,588
Marketable securities	-	-
Accounts receivable		
Trade, less allowance for doubtful accounts of \$13,328		
and \$____ respectively	887,651	2,050,113
Related parties, including other Gas Natural entities	898,524	2,123,073
Unbilled gas	473,770	3,058,108
Note receivable - related parties, current portion	10,079	9,565
Inventory		
Natural gas and propane	211,162	205,030
Materials and supplies	583,631	476,793
Prepaid income taxes	-	-
Prepayments and other	382,149	409,870
Recoverable cost of gas purchases	1,722,944	1,786,120
Deferred tax asset	47,088	39,210
Total current assets	<u>5,570,671</u>	<u>10,788,470</u>
 PROPERTY, PLANT AND EQUIPMENT, net	 37,608,921	 31,866,322
 OTHER ASSETS		
Notes receivable - related parties, less current portion	38,040	45,665
Deferred tax assets, less current portion	-	136,875
Regulatory assets		
Property taxes	-	-
Income taxes	-	-
Rate case costs	-	-
Debt issuance costs	572,418	177,323
Goodwill	13,551,181	13,551,181
Customer relationships	645,042	662,167
Investment in unconsolidated affiliate	-	-
Restricted cash	2,756,857	-
Other assets	4,895	8,130
Total other assets	<u>17,568,433</u>	<u>14,581,341</u>
 TOTAL ASSETS	 <u>\$ 60,748,025</u>	 <u>\$ 57,236,133</u>

Ohio Companies Consolidation
Consolidated Balance Sheets
September 30, 2011 and December 31, 2010 (Unaudited)

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES		
Checks in excess of amounts on deposit	\$ -	\$ -
Line of credit	-	-
Accounts payable		
Trade	858,182	3,278,285
Related parties, including other Gas Natural entities	456,286	3,834,017
Notes payable, current portion	7,750	909,652
Notes payable - related parties including other Gas Natural entities, current portion	-	10,872,773
Accrued liabilities		
Income taxes	-	(153,602)
Taxes other than income	1,748,601	2,295,340
Vacation	31,512	21,462
Employee benefit plans	18,990	-
Interest	-	3,217
Deferred payments received from levelized billing	840,527	926,023
Customer deposits	178,349	174,978
Property tax settlement, current portion	-	-
Related parties	23,091	413,399
Other current liabilities	119,172	113,775
Overrecovered gas purchases	1,003,068	902,107
Deferred tax liability	-	-
Total current liabilities	<u>5,285,528</u>	<u>23,591,426</u>
LONG-TERM LIABILITIES		
Deferred investment tax credits	-	-
Deferred tax liability, less current portion	4,223,459	3,933,201
Asset retirement obligation	787,646	716,338
Customer advances for construction	(950)	-
Regulatory liability for income taxes	-	-
Regulatory liability for gas costs	-	-
Property tax settlement, less current portion	-	-
Total long-term liabilities	<u>5,010,155</u>	<u>4,649,539</u>
NOTES PAYABLE, less current portion	18,346,758	8,956,879
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock	2,250	2,250
Capital in excess of par value	32,950,817	20,114,434
Accumulated other comprehensive income	-	-
Retained earnings	(847,483)	(78,395)
Total stockholders' equity	<u>32,105,584</u>	<u>20,038,289</u>
TOTAL CAPITALIZATION	<u>50,452,342</u>	<u>28,995,168</u>
TOTAL LIABILITIES AND CAPITALIZATION	<u>\$ 60,748,025</u>	<u>\$ 57,236,133</u>

Ohio Companies Consolidation
Consolidated Statements of Income
Nine Months Ended September 30, 2011 and 2010 (Unaudited)

	Nine Months Ended September 30,	
	<u>2011</u>	<u>2010</u>
REVENUES		
Natural gas operations	\$ 20,485,234	\$ 16,684,907
Marketing and production	-	-
Pipeline operations	-	-
Total revenues	<u>20,485,234</u>	<u>16,684,907</u>
COST OF SALES		
Gas purchased	12,428,023	10,068,025
Marketing and production	-	-
Total cost of sales	<u>12,428,023</u>	<u>10,068,025</u>
GROSS MARGIN	8,057,211	6,616,882
OPERATING EXPENSES		
Distribution, general, and administrative	4,894,506	4,140,240
Maintenance	192,626	220,500
Depreciation and amortization	1,245,939	1,136,949
Accretion	71,308	55,324
Taxes other than income	690,962	496,686
Total operating expenses	<u>7,095,341</u>	<u>6,049,699</u>
OPERATING INCOME	961,870	567,183
LOSS FROM UNCONSOLIDATED AFFILIATE	-	-
OTHER INCOME, net	234,453	496,686
INTEREST EXPENSE	<u>(816,128)</u>	<u>(682,491)</u>
INCOME FROM OPERATIONS BEFORE INCOME TAXES	380,195	381,378
INCOME TAX BENEFIT (EXPENSE)	<u>73,746</u>	<u>(129,588)</u>
NET INCOME	<u>\$ 453,941</u>	<u>\$ 251,790</u>

Ohio Companies Consolidation
Consolidated Statements of Changes in Stockholders' Equity
Nine Months Ended September 30, 2011 and 2010 (Unaudited)

	Common Stock	Capital In Excess Of Par Value	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2009	\$ -	\$ -	\$ -	\$ -
Net income	-	-	-	-
Capital infusion from parent	-	-	-	-
Dividends declared	-	-	-	-
BALANCE AT SEPTEMBER 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
BALANCE AT DECEMBER 31, 2010	\$ 2,250	\$ 20,114,434	\$ (78,395)	\$ 20,038,289
Net income	-	-	453,941	453,941
Capital infusion from parent	-	800,000	-	800,000
Equitize debt from parent	-	12,036,383	-	12,036,383
Dividends declared	-	-	(1,223,029)	(1,223,029)
BALANCE AT SEPTEMBER 30, 2011	<u>\$ 2,250</u>	<u>\$ 32,950,817</u>	<u>\$ (847,483)</u>	<u>\$ 32,105,584</u>