

FILE



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March 14, 2013

Barcy F. McNeal, 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. 12-1792-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 McNeal:

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 and all Subsequent Amendments 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 December 31, 2012.

Very truly yours,

A handwritten signature in cursive script that reads 'Larry L. Brainard'.

Larry L. Brainard
Controller For
Brainard Gas Corporation
Northeast Ohio Natural Gas Corporation
Orwell Natural Gas Company

Enclosures

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Gas Natural's Ohio Companies
Consolidated Balance Sheet
As of December 31, 2012

Unaudited

ASSETS

PROPERTY, PLANT & EQUIP :

Land and Land Rights	\$1,588,327
Mains, Meters, and Stations	48,319,337
Gas & Oil Wells	682,173
Construction Equipment & Tools	1,494,485
Vehicles	1,741,116
Buildings & Structures	1,838,915
Furniture & Fixtures	472,947
Accumulated Depreciation	(17,328,022)
Net Plant & Equipment	\$38,809,278

Construction Work in Process	4,225,268
Total Property, Plant & Equip.	\$43,034,546

CURRENT ASSETS:

Cash	\$1,281,846
Restricted Cash	2,399,909
Trade Accounts Receivable	3,885,339
Other Accounts Receivable	57,302
Related Party Receivables	2,630,819
Inventory, Materials & Supplies	641,439
Inventory, Gas Storage	273,406
Prepayments	193,292
Unrecovered Gas Cost	838,618
Total Current Assets	\$12,201,970

OTHER ASSETS:

Goodwill	\$13,551,180
Deferred Tax Asset	1,977,446
Other Assets	286,397
Intangibles - Debt Issuance	615,128
Intangibles - Other	26,957
Intangibles - Cust. Relationships	616,500
Total Other Assets	\$17,073,608

TOTAL ASSETS	\$72,310,124
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LIABILITIES & EQUITY:

SHAREHOLDER'S EQUITY:

Common Stock	\$2,250
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Gas Natural's Ohio Companies
Consolidated Balance Sheet
As of December 31, 2012

	Unaudited
Paid-In-Capital	34,574,778
Dividends Paid	(2,688,557)
Prior Year Retained Earnings	1,384,261
Retained Earnings (Loss) Current	<u>61,490</u>
Total Shareholder's Equity	\$33,334,222
CURRENT LIABILITIES:	
Trade Accounts Payable	\$847,845
Gas Accounts Payable	1,775,510
Budget Bal Owed to Customers	710,270
Customer Deposits	128,629
Related Party Payables	2,639,323
Accrued Taxes Payable	818,455
Accrued Gross Receipts Tax	1,107,971
Deferred Tax Liability	8,278,438
Accrued Liabilities	<u>417,739</u>
Total Current Liabilities	\$16,724,180
LONG TERM DEBT:	
Long Term Debt	\$21,325,742
Asset Retirement Obligation	<u>925,980</u>
Total Long Term Debt	\$22,251,722
TOTAL LIABILITIES	\$38,975,902
TOTAL LIABILITIES & EQUITY	<u>\$72,310,124</u>

Gas Natural's Ohio Companies
Consolidated Income Statement
For the 12 Months Ended Dec. 31, 2012

Unaudited

UTILITY REVENUE:

Gas Sales Residential	\$12,146,083
Gas Sales Commercial	5,873,646
Gas Sales Industrial	460,839
Transmission of Gas	1,270,621
Other Miscellaneous Sales	104,004
Service Fees	2,437,552
Total Utility Revenue	\$22,292,745

COST OF GAS SOLD:

Purchased Gas Cost	\$12,133,037
Deferred Gas Cost	(236,027)
Purchased Gas Expenses	138,869
Encroachment Gas/Other Cost	241,785
Total Gas Cost	\$12,277,664

GROSS MARGIN	\$10,015,081
GROSS MARGIN PERCENTAGE	44.93%

OPERATING EXPENSES:

Direct Labor	\$3,769,233
Capitalized Labor	(1,211,909)
Operations Expense	2,182,499
Corporate Overheads	1,260,672
Maintenance Expense	365,705
Depreciation Expense	1,930,376
Amortization Expense	34,004
Gross Receipts Tax	(10,512)
Personal Property Tax	661,941
General Taxes	87,177
Store Revenue	(159,935)
Store Expenses	176,011
Total Operating Expenses	\$9,085,262

INCOME (LOSS) FROM OPERATIONS	\$929,819
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OTHER INCOME & EXPENSES:

Material Sales Revenue	\$38,192
Other Income - Anchor Hocking	64,646
Gain/Loss on Disposal of Property	6,922
Inventory Variance Expense	(4,772)
Interest Income	6,152
Non-Operating Income	377,142
Non-Operating Expense	5,196
Total Other Income (Expenses)	\$493,478

INTEREST EXPENSE:

Interest Expense - ST Debt	\$754,373
Interest Expense - LT Debt	247,007
Amortization of Debt Issuance	108,877
Penalties	5,498
Total Interest Expense	\$1,115,755

Income (Loss) Before Tax Expense	\$307,542
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Income Tax Expense	\$246,052
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Net Income (Loss)	\$61,490
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Gas Natural Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2012 and December 31, 2011

	December 31, 2012	December 31, 2011
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,435,117	\$ 10,504,845
Marketable securities	344,346	367,875
Accounts receivable		
Trade, less allowance for doubtful accounts of \$1,604,798 and \$630,632, respectively	11,848,269	9,381,625
Related parties	549,268	519,084
Unbilled gas	4,612,258	4,232,854
Note receivable - related parties, current portion	10,998	10,256
Inventory		
Natural gas and propane	5,092,240	6,967,739
Materials and supplies	1,835,816	1,958,858
Prepaid income taxes	494,919	1,584,869
Prepayments and other	2,224,267	741,101
Recoverable cost of gas purchases	2,329,524	2,627,416
Deferred tax asset	909,913	1,061,314
Total current assets	33,686,935	39,957,836
PROPERTY, PLANT AND EQUIPMENT		
Gas transmission and distribution facilities	125,067,279	100,492,234
Land	3,530,639	2,600,023
Buildings and leasehold improvements	9,029,773	4,966,511
Transportation equipment	3,311,769	2,968,405
Computer equipment	3,589,035	3,501,492
Other equipment	8,751,626	8,302,395
Construction work-in-progress	8,470,638	12,003,916
Producing natural gas properties	3,911,404	3,911,404
Property, plant and equipment	165,662,163	138,746,380
Less accumulated depreciation, depletion and amortization	(47,034,673)	(41,134,123)
PROPERTY, PLANT AND EQUIPMENT, net	118,627,490	97,612,257
OTHER ASSETS		
Notes receivable - related parties, less current portion	24,411	35,408
Regulatory assets		
Property taxes	307,732	590,464
Income taxes	452,645	452,645
Rate case costs	176,250	205,714
Debt issuance costs, net	1,798,720	869,593
Goodwill	14,891,377	14,607,952
Customer relationships	616,500	639,333
Investment in unconsolidated affiliate	321,731	330,351
Restricted cash	3,150,847	949,907
Other assets	328,549	159,954
Total other assets	22,068,762	18,841,321
TOTAL ASSETS	\$ 174,383,187	\$ 156,411,414

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

Gas Natural Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2012 and December 31, 2011

	December 31, 2012	December 31, 2011
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES		
Checks in excess of amounts on deposit	\$ 720,340	\$ 1,027,376
Lines of credit	24,260,755	23,160,000
Accounts payable		
Trade	9,697,945	8,755,623
Related parties	70,033	191,763
Notes payable, current portion	508,498	7,885
Accrued liabilities		
Taxes other than income	2,548,717	3,018,964
Vacation	115,956	115,940
Employee benefit plans	145,959	140,149
Interest	191,263	30,688
Deferred payments received from levelized billing	2,822,926	2,948,188
Customer deposits	744,974	707,062
Property tax settlement, current portion	-	242,128
Related parties	70,750	635,192
Obligation under capital lease - current	167,518	-
Other current liabilities	729,552	1,280,670
Overrecovered gas purchases	1,185,034	2,237,827
Total current liabilities	43,980,220	44,499,455
LONG-TERM LIABILITIES		
Deferred investment tax credits	155,317	176,379
Deferred tax liability	5,440,313	2,908,167
Asset retirement obligation	1,850,379	1,689,081
Customer advances for construction	1,009,232	880,851
Regulatory liability for income taxes	83,161	83,161
Regulatory liability for gas costs	20,745	57,570
Long-term obligation under capital lease, less current portion	2,040,508	-
Total long-term liabilities	10,599,655	5,795,209
NOTES PAYABLE, less current portion	43,825,742	31,344,723
COMMITMENTS AND CONTINGENCIES (see Note 12)		
STOCKHOLDERS' EQUITY		
Preferred stock; \$0.15 par value, 1,500,000 shares authorized, no shares issued or outstanding	-	-
Common stock; \$0.15 par value, 15,000,000 shares authorized, 8,368,627 and 8,154,301 shares issued and outstanding, respectively	1,255,463	1,223,145
Capital in excess of par value	44,256,493	41,978,799
Accumulated other comprehensive income	65,789	80,405
Retained earnings	30,399,825	31,489,678
Total stockholders' equity	75,977,570	74,772,027
TOTAL CAPITALIZATION	119,803,312	106,116,750
TOTAL LIABILITIES AND CAPITALIZATION	\$ 174,383,187	\$ 156,411,414

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

Gas Natural Inc. and Subsidiaries
Consolidated Statements of Income and Comprehensive Income
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
REVENUES		
Natural gas operations	\$ 81,305,951	\$ 89,994,616
Marketing and production	7,493,361	5,789,938
Pipeline operations	401,933	417,768
Propane operations	4,614,915	3,014,971
Total revenues	<u>93,816,160</u>	<u>99,217,293</u>
COST OF SALES		
Natural gas purchased	42,418,812	53,017,926
Marketing and production	5,953,156	4,470,504
Propane purchased	3,346,591	2,695,187
Total cost of sales	<u>51,718,559</u>	<u>60,183,617</u>
GROSS MARGIN	42,097,601	39,033,676
OPERATING EXPENSES		
Distribution, general, and administrative	22,345,730	19,610,054
Maintenance	1,258,631	1,122,448
Depreciation and amortization	5,326,732	4,464,881
Accretion	161,298	142,214
Taxes other than income	3,551,872	3,451,860
Total operating expenses	<u>32,644,263</u>	<u>28,791,457</u>
OPERATING INCOME	9,453,338	10,242,219
LOSS FROM UNCONSOLIDATED AFFILIATE	(8,620)	(877,465)
OTHER INCOME (EXPENSE), net	440,493	419,983
GAIN ON BARGAIN PURCHASE	-	955,423
ACQUISITION EXPENSE	(959,267)	(88,450)
STOCK SALE EXPENSE	(274,213)	(106,595)
INTEREST EXPENSE	<u>(2,723,335)</u>	<u>(2,033,603)</u>
INCOME BEFORE INCOME TAXES	5,928,396	8,511,512
INCOME TAX EXPENSE	<u>(2,575,633)</u>	<u>(3,141,995)</u>
NET INCOME	3,352,763	5,369,517
OTHER COMPREHENSIVE INCOME		
Unrealized gain (loss) on available for sale securities, net of tax	<u>(14,616)</u>	<u>33,815</u>
COMPREHENSIVE INCOME	<u>\$ 3,338,147</u>	<u>\$ 5,403,332</u>
EARNINGS PER SHARE - BASIC AND DILUTED	\$ 0.41	\$ 0.66
WEIGHTED AVERAGE DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.54	\$ 0.54
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	8,163,814	8,151,935
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	8,169,679	8,159,827

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

Gas Natural Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the Twelve Months Ended December 31, 2012 and 2011

	Common Shares	Common Stock	Capital In Excess Of Par Value	Accumulated Other Comprehensive Income	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2010	8,149,801	\$ 1,222,470	\$ 41,910,067	\$ 46,590	\$ 30,522,375	\$ 73,701,502
Net income	-	-	-	-	5,369,517	5,369,517
Net unrealized gain on available for sale securities	-	-	-	33,815	-	33,815
Stock issued for services	4,500	675	49,545	-	-	50,220
Stock option expense	-	-	19,187	-	-	19,187
Dividends declared	-	-	-	-	(4,402,214)	(4,402,214)
BALANCE AT DECEMBER 31, 2011	8,154,301	\$ 1,223,145	\$ 41,978,799	\$ 80,405	\$ 31,489,678	\$ 74,772,027
BALANCE AT DECEMBER 31, 2011	8,154,301	\$ 1,223,145	\$ 41,978,799	\$ 80,405	\$ 31,489,678	\$ 74,772,027
Net income	-	-	-	-	3,352,763	3,352,763
Net unrealized loss on available for sale securities, net of tax of	-	-	-	(14,616)	-	(14,616)
Stock issued for services	4,500	675	49,928	-	-	50,603
Stock option expense	-	-	9,406	-	-	9,406
Purchase of Loring Pipeline	210,951	31,643	2,218,361	-	-	2,250,004
Dividends declared	-	-	-	-	(4,442,616)	(4,442,616)
BALANCE AT DECEMBER 31, 2012	8,369,752	\$ 1,255,463	\$ 44,256,493	\$ 65,789	\$ 30,399,825	\$ 75,977,570

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

Gas Natural Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Twelve Months Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	3,352,763	\$ 5,369,517
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	5,326,731	4,464,881
Accretion	161,298	142,214
Amortization of debt issuance costs	275,858	144,739
Stock based compensation	60,009	69,407
Loss on sale of assets	56,026	150,338
Loss from unconsolidated affiliate	8,620	877,465
Gain on bargain purchase	-	(955,423)
Investment tax credit	(21,062)	(21,062)
Deferred income taxes	2,498,057	3,745,373
Changes in assets and liabilities		
Accounts receivable, including related parties	(2,427,696)	448,310
Unbilled gas	(379,404)	1,491,492
Natural gas and propane inventory	1,875,499	(964,417)
Accounts payable, including related parties	767,266	(1,259,006)
Recoverable/refundable cost of gas purchases	(834,814)	1,036,044
Prepayments and other	(1,484,495)	171,858
Other assets	998,848	(644,075)
Other liabilities	(1,616,504)	628,649
Net cash provided by operating activities	<u>8,617,000</u>	<u>14,896,304</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(18,455,954)	(23,205,518)
Proceeds from sale of fixed assets	53,949	43,058
Purchase of marketable securities	-	(39,004)
Proceeds from related party note receivable	10,255	9,566
Purchase of Loring Pipeline	(2,250,000)	-
Purchase of Independence Oil	-	(1,400,656)
Purchase of Public Gas	(1,551,477)	-
Cash acquired in acquisition	502	-
Investment in unconsolidated affiliate	-	(567,600)
Restricted cash - capital expenditures fund	(1,322,065)	-
Customer advances for construction	128,381	(68,583)
Contributions in aid of construction	134,076	217,277
Net cash used in investing activities	<u>(23,252,333)</u>	<u>(25,011,460)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from lines of credit	51,791,754	30,960,000
Repayment on lines of credit	(50,690,999)	(25,949,999)
Proceeds from notes payable	12,989,552	18,355,215
Repayments of notes payable	(7,920)	(9,872,140)
Proceeds from long-term debt	-	-
Repayments of long-term debt	-	-
Repayment of related-party notes payable	-	(49,361)
Debt issuance costs	(1,204,987)	(498,381)
Restricted cash - debt service fund	(878,875)	(949,907)
Dividends paid	(4,432,920)	(4,402,011)
Net cash provided by financing activities	<u>7,565,605</u>	<u>7,593,416</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(7,069,728)</u>	<u>(2,521,740)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>10,504,845</u>	<u>13,026,585</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 3,435,117</u>	<u>\$ 10,504,845</u>

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

Gas Natural Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Twelve Months Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 2,286,902	\$ 1,942,448
Cash refunded for income taxes	(989,503)	(519,298)
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Shares issued to purchase Loring Pipeline	\$ 2,250,004	\$ -
Capital expenditures included in accounts payable	745,402	1,217,464
Capitalized interest	21,147	12,778
Accrued dividends	376,639	366,944

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