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August 11, 2014

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

Re: 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.
PUCO Case Nos. 10-2330-GA-AIS; 12-1792-GA-AIS

Dear Ms. McCauley:

On March 30, 2011 the Public Utilities Commission of Ohio entered its Finding and Order in Case No. 10-2330-GA-AIS approving the Joint Application to issue a Senior Secured Note as joint and several obligors to Sun Life Assurance Company for a term loan of up to \$15,334,000. Findings 16 and 17 therein required Brainard Gas Corporation, Northeast Ohio Natural Gas Corporation, and Orwell Natural Gas Company to file copies of quarterly and annual financial statements and quarterly reports demonstrating that their coverage ratio and total indebtedness as a percent of their capitalization complies with the coverage ratio requirements of their Note Purchase Agreement and all Subsequent Amendments with Sun Life Assurance Company.

Please find enclosed for filing the required financial reports and certification of compliance with the coverage ratio covenants for the month ended June 30, 2014.

Very truly yours,


Mark S. Yurick

MSY/kjk

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

ENTER DATE OF CERTIFICATE **6/30/14**

1. Financial Tests: The Company hereby certifies and warrants that the following is a true and correct computation of the following ratios and/or financial restrictions, and that no other event of default exists pursuant to the Note Purchase Agreement, dated May 3, 2011, together with its subsequent amendments, other than those noted herein.

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

a.	Consolidated EBITDA Available for Interest Charges	\$	18,720,847
b.	Consolidated Annual Interest Charges	\$	3,188,566
Ratio	=	a ÷ b	5.87x
		Minimum Required	2.0x
a.	Obligors EBITDA Available for Interest Charges	\$	6,571,095
b.	Obligors Annual Interest Charges	\$	1,234,241
Ratio	=	a ÷ b	5.32x
		Minimum Required	2.0x

B. Section 10.4 Debt to Capitalization Ratio

a.	Consolidated Funded Debt	\$	62,515,971
b.	Consolidated Capitalization	\$	107,609,911
Ratio	=	a ÷ b	58%
		Maximum Allowable	60%
a.	Obligors Funded Debt	\$	18,383,552
b.	Obligors Capitalization	\$	63,477,492
Ratio	=	a ÷ b	29%
		Maximum Allowable	60%

C. Section 10.5 Restrictions on Dividends and Distributions

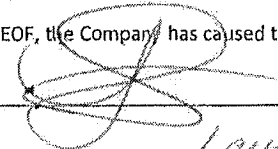
a.	Obligors Dividends/Distributions		
b.	Obligors Net Income	\$	1,947,372
Ratio	=	a ÷ b	0.0%
		Maximum Allowable	70.0%

D. Section 9.1 Debt Service Reserve Fund

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

Debt Service Reserve Fund Balances at 6/30/14	\$	948,625
Estimated Interest payable for next 12 months	\$	947,976
Covenant met		Yes

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

By: 
 Name: Laurie Stevens
 Title: DIVISION CONTROLLER

Gas Natural Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	June 30, 2014 (unaudited)	December 31, 2013
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,200,502	\$ 13,147,381
Marketable securities	411,984	406,134
Accounts receivable		
Trade, less allowance for doubtful accounts of \$295,990 and \$1,986,531, respectively	7,954,377	13,440,565
Related parties	209,564	146,225
Unbilled gas	1,853,287	7,729,560
Note receivable – related parties, current portion	1,938	1,938
Inventory		
Natural gas	3,645,729	5,464,744
Materials and supplies	2,683,862	2,413,745
Prepaid income taxes	681,628	727,427
Prepayments and other	1,003,116	1,064,845
Recoverable cost of gas purchases	3,736,553	1,298,299
Deferred tax asset	1,230,674	1,225,032
Assets held for sale	35,115	-
Discontinued operations	5,184	34,151
Total current assets	26,653,513	47,100,046
PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	196,584,806	185,816,790
Less accumulated depreciation, depletion and amortization	(55,392,666)	(52,296,504)
PROPERTY, PLANT AND EQUIPMENT, NET	141,192,140	133,520,286
OTHER ASSETS		
Notes receivable – related parties, less current portion	91,475	93,727
Regulatory assets		
Deferred costs	2,450,000	-
Property taxes	12,500	25,000
Income taxes	452,645	452,645
Rate case costs	108,566	130,228
Debt issuance costs, net of amortization	1,184,105	1,388,124
Goodwill	16,267,377	16,267,377
Customer relationships	3,078,917	3,230,333
Investment in unconsolidated affiliate	350,748	351,724
Restricted cash	1,955,712	1,137,442
Other assets	38,334	46,683
Total other assets	25,990,379	23,123,283
TOTAL ASSETS	\$ 193,836,032	\$ 203,743,615

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

Gas Natural Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	June 30, 2014 (unaudited)	December 31, 2013
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES		
Checks in excess of amounts on deposit	\$ 1,061,972	\$ 843,634
Line of credit	19,960,799	24,529,799
Accounts payable		
Trade	6,399,179	12,418,701
Related parties	171,880	559,933
Notes payable, current portion	542,112	3,502,190
Contingent consideration, current portion	671,638	671,638
Accrued liabilities		
Taxes other than income	1,748,613	3,173,640
Vacation	370,302	95,806
Employee benefit plans	308,635	178,789
Interest	203,963	169,581
Deferred payments received from levelized billing	1,141,152	2,469,665
Customer deposits	794,391	761,022
Related parties	21,158	-
Capital lease obligation, current portion	177,570	177,570
Over-recovered gas purchases	821,499	793,184
Build-to-suit liability	2,378,714	-
Other current liabilities	1,043,883	1,482,375
Discontinued operations	7,970	45,855
Total current liabilities	37,825,430	51,873,382
LONG-TERM LIABILITIES		
Deferred investment tax credits	123,724	134,255
Deferred tax liability	11,244,112	9,055,166
Asset retirement obligation	2,120,757	2,026,353
Customer advances for construction	1,021,464	1,016,671
Regulatory liability for income taxes	83,161	83,161
Customer deposits	949,540	-
Capital lease obligation, less current portion	1,862,938	1,862,938
Contingent consideration, less current portion	13,362	13,362
Total long-term liabilities	17,419,058	14,191,906
NOTES PAYABLE, less current portion	39,991,983	40,198,552
COMMITMENTS AND CONTINGENCIES (see Note 13)		
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, 10,487,511 and 10,451,678 shares issued and outstanding, respectively	1,573,127	1,567,752
Capital in excess of par value	63,817,686	63,468,969
Accumulated other comprehensive income	109,136	104,909
Retained earnings	33,099,612	32,338,145
Total stockholders' equity	98,599,561	97,479,775
TOTAL CAPITALIZATION	138,591,544	137,678,327
TOTAL LIABILITIES AND CAPITALIZATION	\$ 193,836,032	\$ 203,743,615

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

Gas Natural Inc. and Subsidiaries
Condensed Consolidated Statement of Comprehensive Income
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
REVENUES				
Natural gas operations	\$ 20,777,468	\$ 17,746,297	\$ 81,031,278	\$ 57,690,959
Marketing and production	1,522,914	2,645,682	6,212,270	6,217,461
Pipeline operations	97,862	105,032	196,876	203,319
Total revenues	22,398,244	20,497,011	87,440,424	64,111,739
COST OF SALES				
Natural gas purchased	11,718,997	10,049,089	53,674,432	34,165,510
Marketing and production	1,436,158	2,232,922	5,677,123	5,092,957
Total cost of sales	13,155,155	12,282,011	59,351,555	39,258,467
GROSS MARGIN	9,243,089	8,215,000	28,088,869	24,853,272
OPERATING EXPENSES				
Distribution, general, and administrative	6,693,672	5,423,390	13,531,475	10,737,314
Maintenance	366,558	306,325	712,961	635,738
Depreciation and amortization	1,822,902	1,482,643	3,644,080	2,904,213
Accretion	47,826	43,512	94,404	86,119
Provision for doubtful accounts	813,313	14,781	822,188	23,557
Taxes other than income	1,135,039	906,982	2,131,771	1,817,889
Total operating expenses	10,879,310	8,177,633	20,936,879	16,204,830
OPERATING INCOME (LOSS)	(1,636,221)	37,367	7,151,990	8,648,442
Loss from unconsolidated affiliate	(4)	(2,947)	(977)	(4,027)
Other income, net	169,480	377,661	275,588	413,064
Acquisition expense	(1,869)	19,345	(7,197)	(156,534)
Interest expense	(761,940)	(767,128)	(1,571,321)	(1,569,145)
Income (loss) before income taxes	(2,230,554)	(335,702)	5,848,083	7,331,800
Income tax benefit (expense)	808,755	41,023	(2,235,830)	(2,856,869)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(1,421,799)	(294,679)	3,612,253	4,474,931
Discontinued operations, net of tax	(6,819)	(32,237)	(22,380)	(14,124)
NET INCOME (LOSS)	<u>\$ (1,428,618)</u>	<u>\$ (326,916)</u>	<u>\$ 3,589,873</u>	<u>\$ 4,460,807</u>
Basic weighted shares outstanding	10,468,961	8,465,983	10,468,961	8,425,647
Dilutive effect of stock options	-	-	429	847
Diluted weighted shares outstanding	<u>10,468,961</u>	<u>8,465,983</u>	<u>10,469,390</u>	<u>8,426,494</u>
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE:				
Continuing operations	\$ (0.14)	\$ (0.03)	\$ 0.35	\$ 0.53
Discontinued operations	-	(0.01)	(0.01)	-
Net income (loss) per share	<u>\$ (0.14)</u>	<u>\$ (0.04)</u>	<u>\$ 0.34</u>	<u>\$ 0.53</u>
Weighted average dividends declared per common share	<u>\$ 0.135</u>	<u>\$ 0.135</u>	<u>\$ 0.270</u>	<u>\$ 0.270</u>
COMPREHENSIVE INCOME:				
Net income (loss)	\$ (1,428,618)	\$ (326,916)	\$ 3,589,873	\$ 4,460,807
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized gain on available for sale securities, net of tax of \$2,950, \$2,209, \$1,623 and \$4,103, respectively	5,150	3,642	4,227	6,207
COMPREHENSIVE INCOME (LOSS)	<u>\$ (1,423,468)</u>	<u>\$ (323,274)</u>	<u>\$ 3,594,100</u>	<u>\$ 4,467,014</u>

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

Gas Natural Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,589,873	\$ 4,460,807
Loss from discontinued operations	(22,380)	(14,124)
Income from continuing operations	3,612,253	4,474,931
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	3,644,080	2,904,213
Accretion	94,404	86,119
Amortization of debt issuance costs	204,019	212,569
Provision for doubtful accounts	822,188	23,557
Stock based compensation	308,330	1,615
Gain on sale of assets	(5,008)	(126,596)
Loss from unconsolidated affiliate	977	4,027
Investment tax credit	(10,531)	(10,531)
Deferred income taxes	2,181,681	2,835,862
Changes in assets and liabilities		
Accounts receivable, including related parties	4,600,661	5,098,484
Unbilled gas	5,876,273	2,975,256
Natural gas inventory	1,819,015	1,464,733
Accounts payable, including related parties	(5,308,532)	(760,700)
Recoverable/refundable cost of gas purchases	(2,409,939)	(781,112)
Prepayments and other	60,489	1,693,770
Other assets	(2,449,265)	(904,671)
Other liabilities	(2,676,669)	(1,931,178)
Net cash provided by operating activities of continuing operations	10,364,426	17,260,348
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(10,877,252)	(9,873,759)
Proceeds from sale of fixed assets	42,534	1,018,163
Proceeds from related party notes receivable	2,252	5,217
Investment in unconsolidated affiliate	-	(35,000)
Restricted cash – capital expenditures fund	(106)	1,060,190
Customer advances for construction	4,793	26,155
Contributions in aid of construction	988,723	273,510
Net cash used in investing activities of continuing operations	(9,839,056)	(7,525,524)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from lines of credit	10,350,000	8,050,000
Repayments of lines of credit	(14,919,000)	(15,909,755)
Proceeds from notes payable	102,000	-
Repayments of notes payable	(3,294,190)	(379,166)
Debt issuance costs	-	(7,492)
Exercise of stock options	45,762	159,500
Restricted cash – debt service fund	131,376	1,651
Dividends paid	(2,826,793)	(2,275,896)
Net cash used in financing activities of continuing operations	(10,410,845)	(10,361,158)
DISCONTINUED OPERATIONS		
Operating cash flows	(51,735)	181,727
Investing cash flows	-	(6,169)
Financing cash flows	(9,669)	(201,000)
Net cash used in discontinued operations	(61,404)	(25,442)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,946,879)	(651,776)
Cash and cash equivalents, beginning of period	13,147,381	3,435,117
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 3,200,502</u>	<u>\$ 2,783,341</u>

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

Gas Natural Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30,	
	2014	2013
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 1,336,203	\$ 1,382,445
Cash refunded for income taxes, net	6,025	(14,310)
NONCASH INVESTING AND FINANCING ACTIVITIES		
Assets acquired under build-to-suit agreement	\$ 2,378,714	\$ -
Restricted cash received from customer as security deposit	949,540	-
Capital expenditures included in accounts payable	917,310	881,054
Accrued dividends	471,938	389,101
Assets acquired through trade-in	85,068	-
Assets acquired through debt	25,543	-
Capitalized interest	9,420	3,796
Customer relationships acquired from JDOG Marketing purchase	-	2,800,000
Shares issued to purchase JDOG Marketing	-	2,641,199
Contingent consideration issued to purchase JDOG Marketing	-	2,250,000
Goodwill acquired from JDOG Marketing purchase	-	2,101,744
Note receivable effectively settled in JDOG Marketing acquisition	-	32,145
Plant, property and equipment acquired from JDOG Marketing purchase	-	21,600
Customer advances for construction moved to contribution in aid of construction	-	15,755

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

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

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

Summary: Text Quarterly Financial Reports and Certification of Compliance for the quarter ended June 30, 2014 electronically filed by Mark Yurick on behalf of Brainard Gas Corporation and Northeast Ohio Natural Gas Corporation and Orwell Natural Gas Company