

STEPHEN C. BARSOITI
DANIEL J. BENNETT
MARY F. BRENNING
KRISTY N. BRITTSCH
JOHN P. BRODY
ERIN C. CLEARY
ROBERT G. COHEN
KENNETH R. COOKSON
KACIE N. DAVIS
ERIC D. DUFFEE
CATHRYN R. ENSIGN**
BRETTAN F. FEHELEY
LAWRENCE F. FEHELEY
KATHERINE C. FERGUSON
LORIAN E. FUHRER
DONALD W. GREGORY
ALLEN L. HANDLAN
PAUL R. HESS
THOMAS W. HILL

TIMOTHY C. JOCHIM
CHARLES J. KEGLER
TODD M. KEGLER
RASHEEDA Z. KHAN
MARGEAUX KIMBROUGH
MICHAEL J. MADIGAN
DAVID M. MCCARTY
LARRY J. MCCLATCHY
TRACI A. MCGUIRE
VINITA B. MEHRA
JAMES J. PINGOR**
BRIAN C. POLIS**
JEFFREY D. PORTER
REBECCA R. PRICE
CHRISTY A. PRINCE
MARK R. REITZ
PAUL D. RITTER, JR.
JEFFREY D. ROBERTS
RICHARD W. SCHUERMANN, JR.

KEGLER BROWN
HILL & RITTER
A LEGAL PROFESSIONAL ASSOCIATION

ROBERT G. SCHULER
THOMAS J. SIGMUND
S. MARTIN STEGER
GEOFFREY STERN
JEFFREY W. STILLNER
ROGER P. SUGARMAN
KEVIN L. SYKES
JEREMIAH E. THOMAS
ERIC B. TRAVERS
STEVE TUGEND
TIMOTHY T. TULLIS
STEPHANIE F. UNION
CHRISTOPHER J. WEBER
MELVIN D. WEINSTEIN
NICHOLAS E. WILKES
MICHELLE H. WONG HALABI
MICHAEL E. ZATEZALO

14
OF COUNSEL
LUIS M. ALCALDE
RALPH E. BREITFELLER
ROBERT D. MAROTTA
TED M. MCKINNISS*
RANDALL W. MIKES
S. MICHAEL MILLER
ANEZAL H. MOHAMED***
ANDREW J. SONDERMAN
*Resident in Marion Office
**Resident in Cleveland Office
***Admitted in Michigan, but
not Ohio

October 17, 2011

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

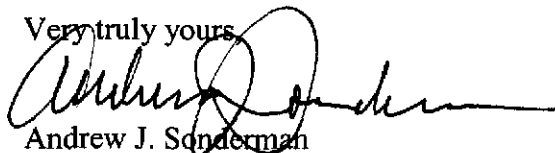
Re: Case No. 10-2330-GA-AIS *In the Matter of the Joint Application of
Brainard Gas Corporation, Northeast Ohio Natural Gas Corporation, and
Orwell Natural Gas Company for Approval of Long-Term Financing
Arrangements*

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 June 30, 2011.

Very truly yours,



Andrew J. Sonderman
Counsel for
Brainard Gas Corporation
Northeast Ohio Natural Gas Corporation
Orwell Natural Gas Company

Enclosures

This is to certify that the images appearing are an
accurate and complete reproduction of a case file
document delivered in the regular course of business
technician ADJ Date Processed OCT 17 2011

RECEIVED-DOCKETING DIV
2011 OCT 17 PM 4:45

PUCO

FILE

To: 2011 Orwell Gas, Northeast Ohio Gas, & Brainard Gas \$15.334M Senior Secured Guaranteed Notes

ENTER DATE OF CERTIFICATE

6/30/2011

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	\$3,211,700
b.	Consolidated Annual Interest Charges	\$1,024,474
Ratio	= a ÷ b	3.13x
	Minimum Required	2.0x
a.	Ohio Companies Net Income Available for Interest Charges	\$3,028,030
b.	Ohio Companies Annual Interest Charges	\$1,024,474
Ratio	= a ÷ b	2.96x
	Minimum Required	2.0x

B. Section 10.4 Debt to Capitalization Ratio

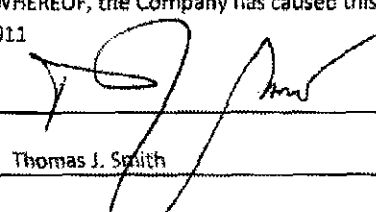
a.	Consolidated Funded Debt	\$18,334,000
b.	Consolidated Capitalization	\$38,101,850
Ratio	= a ÷ b	48.1%
	Maximum Allowable	60.0%
a.	Ohio Companies - Funded Debt	\$18,334,000
b.	Ohio Companies - Capitalization	\$32,571,384
Ratio	= a ÷ b	56.3%
	Maximum Allowable	60.0%

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 6/30/11	\$825,236
Interest payable for next 12 months	\$824,989
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 August 18, 2011

By: 
 Name: Thomas J. Smith
 Title: Chief Financial Officer

Ohio Group and Subsidiaries

Table of Contents

	Page No.
Consolidated Balance Sheets	
June 30, 2011 and December 31, 2010	2
Consolidated Statements of Income	
Six Months Ended June 30, 2011 and 2010	4
Consolidated Statements of Changes in Stockholders' Equity	
Six Months Ended June 30, 2011 and 2010	5
Consolidated Statements of Cash Flows	
Six Months Ended June 30, 2011 and 2010	6

Ohio Group and Subsidiaries
Consolidated Balance Sheets
June 30, 2011 and December 31, 2010 (Unaudited)

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,110,928	\$ 630,588
Accounts receivable		
Trade, less allowance for doubtful accounts of \$282,350 and \$354,719, respectively	1,144,011	2,050,114
Related parties, including other Gas Natural entities	331,796	2,123,073
Unbilled gas	385,447	3,058,108
Note receivable - related parties, current portion	9,905	9,565
Inventory		
Natural gas and propane	31,942	205,030
Materials and supplies	839,410	476,794
Prepaid income taxes	142,645	153,602
Prepayments and other	114,564	409,870
Recoverable cost of gas purchases	1,436,302	1,786,120
Deferred tax asset	39,210	39,210
Total current assets	<u>5,586,160</u>	<u>10,942,074</u>
 PROPERTY, PLANT AND EQUIPMENT, net	 36,286,267	 31,866,322
 OTHER ASSETS		
Notes receivable - related parties, less current portion	40,626	45,665
Deferred tax assets, less current portion	-	136,875
Debt issuance costs	619,998	177,323
Goodwill	13,551,181	13,551,181
Customer relationships	650,750	662,167
Restricted cash	4,351,914	-
Other assets	5,642	8,130
Total other assets	<u>19,220,111</u>	<u>14,581,341</u>
 TOTAL ASSETS	 <u><u>\$ 61,092,538</u></u>	 <u><u>\$ 57,389,737</u></u>

Ohio Group and Subsidiaries
Consolidated Balance Sheets
June 30, 2011 and December 31, 2010 (Unaudited)

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES		
Accounts payable		
Trade	\$ 1,280,165	\$ 3,278,285
Related parties, including other Gas Natural entities	471,303	3,834,017
Notes payable, current portion	-	909,652
Notes payable - related parties including other Gas Natural entities, current portion	-	10,872,773
Accrued liabilities		
Taxes other than income	1,626,737	2,295,340
Vacation	27,027	21,462
Employee benefit plans	275	-
Interest	68,747	3,217
Deferred payments received from levelized billing	290,682	926,023
Customer deposits	172,144	174,978
Related parties	13,894	413,399
Other current liabilities	56,012	113,777
Overrecovered gas purchases	1,160,515	902,107
Total current liabilities	<u>5,167,501</u>	<u>23,745,030</u>
LONG-TERM LIABILITIES		
Deferred tax liability	4,256,132	3,933,201
Asset retirement obligation	763,521	716,338
Total long-term liabilities	<u>5,019,653</u>	<u>4,649,539</u>
NOTES PAYABLE, less current portion	18,334,000	8,956,879
COMMITMENTS AND CONTINGENCIES (see Note 11)		
STOCKHOLDERS' EQUITY		
Common stock	2,250	2,250
Capital in excess of par value	32,550,817	20,114,434
Retained earnings	18,317	(78,395)
Total stockholders' equity	<u>32,571,384</u>	<u>20,038,289</u>
TOTAL CAPITALIZATION	<u>50,905,384</u>	<u>28,995,168</u>
TOTAL LIABILITIES AND CAPITALIZATION	<u>\$ 61,092,538</u>	<u>\$ 57,389,737</u>

Ohio Group and Subsidiaries
Consolidated Statements of Income
Six Months Ended June 30, 2011 and 2010 (Unaudited)

	Six Months Ended June 30,	
	2011	2010
REVENUES		
Natural gas operations	\$ 17,941,098	\$ 14,320,206
Total revenues	17,941,098	14,320,206
COST OF SALES		
Gas purchased	11,409,801	8,595,748
Total cost of sales	11,409,801	8,595,748
GROSS MARGIN	6,531,297	5,724,458
OPERATING EXPENSES		
Distribution, general, and administrative	3,363,625	2,637,891
Maintenance	142,191	148,061
Depreciation and amortization	819,587	744,637
Accretion	47,183	37,779
Taxes other than income	477,126	549,609
Total operating expenses	4,849,712	4,117,977
OPERATING INCOME	1,681,585	1,606,481
OTHER INCOME, net	234,277	349,279
INTEREST EXPENSE	(533,033)	(536,388)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	1,382,829	1,419,372
INCOME TAX EXPENSE	(470,765)	(482,634)
NET INCOME	\$ 912,064	\$ 936,738

Ohio Group and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Six Months Ended June 30, 2011 and 2010 (Unaudited)

	Common Stock	Capital In Excess Of Par Value	Retained Earnings	Total
BALANCE AT JANUARY 5, 2010	\$ 2,250	\$ 17,070,834	\$ -	\$ 17,073,084
Net income	-	-	936,738	936,738
Capital infusion from parent	-	409,600	-	409,600
Dividends declared	-	-	(460,980)	(460,980)
BALANCE AT JUNE 30, 2010	<u>\$ 2,250</u>	<u>\$ 17,480,434</u>	<u>\$ 475,758</u>	<u>\$ 17,958,442</u>
BALANCE AT DECEMBER 31, 2010	\$ 2,250	\$ 20,114,434	\$ (78,395)	\$ 20,038,289
Net income	-	-	912,064	912,064
Capital infusion from parent	-	12,436,383	-	12,436,383
Dividends declared	-	-	(815,352)	(815,352)
BALANCE AT JUNE 30, 2011	<u>\$ 2,250</u>	<u>\$ 32,550,817</u>	<u>\$ 18,317</u>	<u>\$ 32,571,384</u>

Ohio Group and Subsidiaries
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2011 and 2010 (Unaudited)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 912,064	\$ 936,738
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	819,587	744,637
Accretion	47,183	37,779
Amortization of debt issuance costs	46,575	42,068
Loss on sale of assets	39,685	-
Deferred income taxes	459,806	739,532
Changes in assets and liabilities		
Accounts receivable, including related parties	2,697,380	(791,658)
Unbilled gas	2,672,661	2,561,508
Natural gas and propane inventory	173,088	576,207
Accounts payable, including related parties	(5,414,635)	1,098,097
Recoverable/refundable cost of gas purchases	608,226	(1,671,609)
Prepayments and other	295,306	140,655
Other assets	(349,171)	(354,168)
Other current liabilities	(1,692,678)	(2,018,465)
Net cash provided by operating activities	<u>1,315,077</u>	<u>2,041,321</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(5,233,899)	(992,241)
Proceeds from sale of fixed assets	19,900	-
Proceeds from related party note receivable	4,699	4,382
Restricted cash	(3,403,078)	-
Net cash (used in) provided by investing activities	<u>(8,612,378)</u>	<u>(987,859)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	18,334,000	-
Repayments of notes payable	(8,956,879)	(565,612)
Repayments of related party notes payable	(2,732,212)	(381,822)
Debt issuance costs	(489,250)	-
Restricted cash	(948,836)	-
Capital infusion from parent	3,386,170	409,600
Dividends paid	(815,352)	(460,980)
Net cash used in financing activities	<u>7,777,641</u>	<u>(998,814)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>480,340</u>	<u>54,648</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>630,588</u>	<u>2,752,168</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$ 1,110,928</u></u>	<u><u>\$ 2,806,816</u></u>

Gas Natural Inc and Restricted Subsidiaries
Table of Contents

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

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

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,076,742	\$ 7,404,372
Marketable securities	306,238	274,950
Accounts receivable		
Trade, less allowance for doubtful accounts of \$207,083 and \$102,859, respectively	1,144,011	2,050,114
Related parties, including other Gas Natural entities	278,946	1,943,338
Unbilled gas	385,447	3,058,108
Note receivable - related parties, current portion	9,905	9,565
Inventory		
Natural gas and propane	31,942	205,030
Materials and supplies	839,410	476,794
Prepaid income taxes	142,645	153,602
Prepayments and other	118,138	409,870
Recoverable cost of gas purchases	1,436,302	1,786,120
Deferred tax asset	39,210	39,210
Total current assets	<u>12,808,936</u>	<u>17,811,073</u>
 PROPERTY, PLANT AND EQUIPMENT, net	 36,286,267	 31,866,322
 OTHER ASSETS *		
Notes receivable - related parties, less current portion	40,626	45,665
Deferred tax assets, less current portion	-	136,875
Debt issuance costs	619,998	183,085
Goodwill	13,551,181	13,551,181
Customer relationships	650,750	662,167
Investment in subsidiaries	(1,197,221)	1,352,778
Restricted cash	4,351,914	-
Other assets	39,952	8,130
Total other assets	<u>18,057,200</u>	<u>15,939,881</u>
 TOTAL ASSETS	 <u>\$ 67,152,403</u>	 <u>\$ 65,617,276</u>

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

	<u>June 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES		
Accounts payable		
Trade	\$ 1,689,302	\$ 3,650,788
Related parties, including other Gas Natural entities	497,822	3,257,103
Notes payable, current portion	-	909,652
Notes payable - related parties including other Gas Natural entities, current portion	-	49,361
Accrued liabilities		
Taxes other than income	1,626,737	2,295,340
Vacation	27,027	21,462
Employee benefit plans	275	-
Interest	68,747	3,217
Deferred payments received from levelized billing	290,682	926,023
Customer deposits	172,144	174,978
Deferred tax liability	40,246	28,579
Related parties	13,894	413,399
Other current liabilities	57,047	127,571
Overrecovered gas purchases	1,160,515	902,107
Total current liabilities	<u>5,644,438</u>	<u>12,759,580</u>
LONG-TERM LIABILITIES		
Deferred tax liability	4,308,594	3,933,201
Asset retirement obligation	763,521	716,338
Total long-term liabilities	<u>5,072,115</u>	<u>4,649,539</u>
NOTES PAYABLE, less current portion	18,334,000	8,956,879
COMMITMENTS AND CONTINGENCIES (see Note 11)		
STOCKHOLDERS' EQUITY		
Common stock	1,222,808	1,222,470
Capital in excess of par value	41,944,672	41,910,067
Accumulated other comprehensive income	66,211	46,590
Retained earnings	(5,131,841)	(3,927,849)
Total stockholders' equity	<u>38,101,850</u>	<u>39,251,278</u>
TOTAL CAPITALIZATION	<u>56,435,850</u>	<u>48,208,157</u>
TOTAL LIABILITIES AND CAPITALIZATION	<u><u>\$ 67,152,403</u></u>	<u><u>\$ 65,617,276</u></u>

Gas Natural Inc and Restricted Subsidiaries
Consolidated Statements of Income
Six Months Ended June 30, 2011 and 2010 (Unaudited)

	Six Months Ended June 30,	
	2011	2010
REVENUES		
Natural gas operations	\$ 17,941,098	\$ 14,320,206
Total revenues	<u>17,941,098</u>	<u>14,320,206</u>
COST OF SALES		
Gas purchased	11,409,801	8,595,748
Total cost of sales	<u>11,409,801</u>	<u>8,595,748</u>
GROSS MARGIN	6,531,297	5,724,458
OPERATING EXPENSES		
Distribution, general, and administrative	3,410,119	2,649,256
Maintenance	142,191	148,061
Depreciation and amortization	819,587	744,637
Accretion	47,183	37,779
Taxes other than income	477,126	549,609
Total operating expenses	<u>4,896,206</u>	<u>4,129,342</u>
OPERATING INCOME	1,635,091	1,595,116
OTHER INCOME, net	239,333	353,003
INTEREST EXPENSE	<u>(353,351)</u>	<u>(536,388)</u>
INCOME FROM OPERATIONS BEFORE		
INCOME TAXES	1,521,073	1,411,731
INCOME TAX EXPENSE	<u>(524,262)</u>	<u>(480,143)</u>
NET INCOME	<u>\$ 996,811</u>	<u>\$ 931,588</u>

Gas Natural Inc and Restricted Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Six Months Ended June 30, 2011 and 2010 (Unaudited)

	Common Stock	Common Stock	Capital in Excess Of Par Value	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2009	4,361,869	\$ 654,280	\$ 6,514,851	\$ 20,174	\$ (1,250,380)	\$ 5,938,925
Net income	-	-	-	-	931,588	931,588
Net unrealized loss on available for sale securities	-	-	-	18,871	-	18,871
Stock issued for services	3,374	507	35,749	-	-	36,256
Stock option expense	-	-	9,406	-	-	9,406
Acquisition of Ohio Companies	1,707,308	256,096	16,816,988	-	-	17,073,084
Dividends declared	-	-	-	-	(1,639,219)	(1,639,219)
BALANCE AT JUNE 30, 2010	6,072,551	\$ 910,883	\$ 23,376,994	\$ 39,045	\$ (1,958,011)	\$ 22,368,911
BALANCE AT DECEMBER 31, 2010	8,149,801	\$ 1,222,470	\$ 41,910,067	\$ 46,590	\$ (3,927,849)	\$ 39,251,278
Net income	-	-	-	-	996,811	996,811
Net unrealized loss on available for sale securities	-	-	-	19,621	-	19,621
Stock issued for services	2,250	338	25,012	-	-	25,350
Stock option expense	-	-	9,593	-	-	9,593
Dividends declared	-	-	-	-	(2,200,803)	(2,200,803)
BALANCE AT JUNE 30, 2011	8,152,051	\$ 1,222,808	\$ 41,944,672	\$ 66,211	\$ (5,131,841)	\$ 38,101,850

Gas Natural Inc and Restricted Subsidiaries
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2011 and 2010 (Unaudited)

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 996,811	\$ 931,588
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	819,587	744,637
Accretion	47,183	37,779
Amortization of debt issuance costs	46,575	36,307
Stock based compensation	34,943	45,662
Loss on sale of assets	39,685	-
Deferred income taxes	512,268	699,703
Changes in assets and liabilities		
Accounts receivable, including related parties	2,570,495	5,951,767
Unbilled gas	2,672,661	(308,318)
Natural gas and propane inventory	173,088	529,748
Accounts payable, including related parties	(4,774,568)	(2,830,735)
Recoverable/refundable cost of gas purchases	608,226	(1,671,609)
Prepayments and other	291,732	130,655
Other assets	(383,481)	(160,560)
Other current liabilities	(1,705,437)	(2,231,956)
Net cash provided by operating activities	<u>1,949,768</u>	<u>1,904,668</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(5,233,899)	(777,728)
Proceeds from sale of fixed assets	19,900	-
Proceeds from related party note receivable	4,699	-
Purchase of Kidron investment	-	(105,078)
Cash acquired in acquisition	-	144,203
Restricted cash	(3,403,078)	-
Investment in subsidiaries	<u>2,549,999</u>	<u>1,390,091</u>
Net cash (used in) provided by investing activities	<u>(6,062,379)</u>	<u>651,488</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	18,334,000	-
Repayments of notes payable	(9,915,892)	(436,886)
Debt issuance costs	(483,488)	-
Restricted cash	(948,836)	-
Dividends paid	<u>(2,200,803)</u>	<u>(1,639,066)</u>
Net cash used in financing activities	<u>4,784,981</u>	<u>(2,075,952)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>672,370</u>	<u>480,204</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>7,404,372</u>	<u>395,782</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$ 8,076,742</u></u>	<u><u>\$ 875,986</u></u>