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**PUCO**

November 14, 2012

Barcy F. McNeal, Secretary  
Public Utilities Commission of Ohio  
11<sup>th</sup> Floor  
180 East Broad Street  
Columbus, Ohio 43215

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 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, 2012.

~~Very truly yours,~~

Thomas J. Smith  
Chief Financial Officer 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.

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

ENTER DATE OF CERTIFICATE

Sept. 30, 2012

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 Consolidated Coverage Ratio (Net Income to Interest Expense)

a. Consolidated Net Income Available for Interest Charges	\$ 11,897,490
b. Consolidated Annual Interest Charges	\$ 2,502,641

Ratio =  $a \div b$

4.75x

Minimum Required

2.0x

a. Obligors Net Income Available for Interest Charges	\$ 3,065,638
b. Obligors Annual Interest Charges	\$ 1,062,374

Ratio =  $a \div b$

2.89x

Minimum Required

2.0x

## B. Section 10.4 Debt to Capitalization Ratio

a. Consolidated Funded Debt	\$ 59,759,131
b. Consolidated Capitalization	\$ 135,384,800

Ratio =  $a \div b$

44.1%

Maximum Allowable

60.0%

a. Obligors Funded Debt	\$ 18,739,376
b. Obligors Capitalization	\$ 53,126,066

Ratio =  $a \div b$

35.3%

Maximum Allowable

60.0%

## C. Section 10.5 Restrictions on Dividends and Distributions

a. Obligors Dividends/Distributions	\$ 543,569
b. Obligors Net Income	\$ (681,444)

Ratio =  $a \div b$

(79.8%)

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 9/30/12 \$ 959,333

Estimated Interest payable for next 12 months \$ 949,764

Covenant met Yes

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

By: Thomas J. Smith 11/8/12

Name: Thomas J. Smith

Title: Chief Financial Officer

**Gas Natural Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**September 30, 2012**

	<u>September 30, 2012</u>
<u>ASSETS</u>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 1,492,279
Marketable securities	351,000
Accounts receivable	
Trade, less allowance for doubtful accounts of \$787,933 and \$630,632, respectively	5,718,241
Related parties	565,608
Unbilled gas	1,388,951
Note receivable - related parties, current portion	10,807
Inventory	
Natural gas and propane	6,035,830
Materials and supplies	2,497,148
Prepaid income taxes	1,064,448
Prepayments and other	2,302,544
Recoverable cost of gas purchases	2,915,817
Deferred tax asset	1,046,874
Total current assets	<u>25,389,547</u>
 PROPERTY, PLANT AND EQUIPMENT, net	 107,871,413
 <b>OTHER ASSETS</b>	
Notes receivable - related parties, less current portion	27,233
Regulatory assets	
Property taxes	378,415
Income taxes	452,645
Rate case costs	211,871
Debt issuance costs, net	1,766,671
Goodwill	14,750,924
Customer relationships	622,208
Investment in unconsolidated affiliate	321,883
Restricted cash	1,710,155
Other assets	4,615,845
Total other assets	<u>24,857,850</u>
 TOTAL ASSETS	 <u><u>\$ 158,118,810</u></u>

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

**Gas Natural Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**September 30, 2012**

	September 30, 2012
<u>LIABILITIES AND CAPITALIZATION</u>	
<b>CURRENT LIABILITIES</b>	
Checks in excess of amounts on deposit	\$ 862,191
Lines of credit	18,420,755
Accounts payable	
Trade	5,039,778
Related parties	179,441
Notes payable, current portion	508,387
Accrued liabilities	
Taxes other than income	2,313,134
Vacation	106,092
Employee benefit plans	85,884
Interest	363,980
Deferred payments received from levelized billing	2,936,980
Customer deposits	731,472
Property tax settlement, current portion	242,128
Related parties	279,063
Other current liabilities	829,427
Overrecovered gas purchases	1,733,735
Total current liabilities	<u>34,632,447</u>
<b>LONG-TERM LIABILITIES</b>	
Deferred investment tax credits	160,583
Deferred tax liability	3,901,483
Asset retirement obligation	1,808,068
Customer advances for construction	1,033,680
Regulatory liability for income taxes	83,161
Regulatory liability for gas costs	35,343
Total long-term liabilities	<u>7,022,318</u>
NOTES PAYABLE, less current portion	40,838,375
<b>COMMITMENTS AND CONTINGENCIES (see Note 11)</b>	
<b>STOCKHOLDERS' EQUITY</b>	
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	1,255,238
Capital in excess of par value	44,236,216
Accumulated other comprehensive income	69,853
Retained earnings	30,064,363
Total stockholders' equity	<u>75,625,670</u>
<b>TOTAL CAPITALIZATION</b>	<u>116,464,045</u>
<b>TOTAL LIABILITIES AND CAPITALIZATION</b>	<u>\$ 158,118,810</u>

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

**Gas Natural Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Income and Comprehensive Income**  
**for the Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)**

	Three Months Ended September 30,	
	2012	2011
<b>REVENUES</b>		
Natural gas operations	\$ 10,458,202	\$ 10,348,819
Marketing and production	1,809,832	855,715
Pipeline operations	95,162	106,351
Propane operations	605,262	1,009,844
Total revenues	<u>12,968,458</u>	<u>12,320,729</u>
<b>COST OF SALES</b>		
Natural gas purchased	4,164,358	4,548,224
Marketing and production	1,560,762	585,810
Propane purchased	448,672	875,305
Total cost of sales	<u>6,173,792</u>	<u>6,009,339</u>
<b>GROSS MARGIN</b>	6,794,666	6,311,390
<b>OPERATING EXPENSES</b>		
Distribution, general, and administrative	4,899,620	4,635,388
Maintenance	316,491	235,635
Depreciation and amortization	1,327,095	1,153,430
Accretion	41,354	35,849
Taxes other than income	923,594	842,786
Total operating expenses	<u>7,508,154</u>	<u>6,903,088</u>
<b>OPERATING INCOME (LOSS)</b>	(713,488)	(591,698)
<b>LOSS FROM UNCONSOLIDATED AFFILIATE</b>	(3,693)	(2,024)
<b>OTHER INCOME (EXPENSE), net</b>	151,884	(229,805)
<b>GAIN ON BARGAIN PURCHASE</b>	-	1,054,861
<b>ACQUISITION EXPENSE</b>	(209,491)	(31,820)
<b>STOCK SALE EXPENSE</b>	(19,114)	-
<b>INTEREST EXPENSE</b>	<u>(637,366)</u>	<u>(552,341)</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	(1,431,268)	(352,827)
<b>INCOME TAX BENEFIT (EXPENSE)</b>	<u>760,047</u>	<u>482,353</u>
<b>NET INCOME (LOSS)</b>	(671,221)	129,526
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
Unrealized gain (loss) on available for sale securities, net of tax	<u>(4,221)</u>	<u>30,076</u>
<b>COMPREHENSIVE INCOME (LOSS)</b>	<u>\$ (675,442)</u>	<u>\$ 159,602</u>
<b>EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED</b>	\$ (0.08)	\$ (0.02)
<b>WEIGHTED AVERAGE DIVIDENDS DECLARED PER COMMON SHARE</b>	\$ 0.182	\$ 0.135
<b>WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC</b>	8,186,791	8,152,487
<b>WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED</b>	8,186,791	8,160,048

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

**Gas Natural's Ohio Companies**  
**Consolidated Balance Sheet By Entity**  
**As of September 30, 2012**

**ASSETS**

**PROPERTY, PLANT & EQUIP :**

Land and Land Rights	\$1,195,697
Mains, Meters, and Stations	48,106,653
Gas & Oil Wells	143,894
Construction Equipment & Tools	1,404,286
Vehicles	1,732,475
Buildings & Structures	1,838,915
Furniture & Fixtures	470,511
Accumulated Depreciation	(16,927,390)
<b>Net Plant &amp; Equipment</b>	<b>\$37,965,041</b>

Construction Work in Process	3,924,080
<b>Total Property, Plant &amp; Equip.</b>	<b>\$41,889,121</b>

**CURRENT ASSETS:**

Cash	\$86,906
Restricted Cash	959,802
Trade Accounts Receivable	1,291,148
Other Accounts Receivable	36,860
<b>Related Party Receivables</b>	<b>935,578</b>
Inventory, Materials & Supplies	804,456
Inventory, Gas Storage	497,100
Prepayments	275,233
Investment in Subsidiaries	0
Unrecovered Gas Cost	1,421,256
<b>Total Current Assets</b>	<b>\$6,308,339</b>

**OTHER ASSETS:**

Goodwill	\$13,551,181
Deferred Tax Asset	1,454,634
Other Assets	42,666
Intangibles - Debt Issuance	532,982
Intangibles - Other	27,650
Intangibles - Cust. Relationships	622,208
<b>Total Other Assets</b>	<b>\$16,231,321</b>

<b>TOTAL ASSETS</b>	<b>\$64,428,781</b>
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**LIABILITIES & EQUITY:**

**SHAREHOLDER'S EQUITY:**

Common Stock	\$2,250
Paid-In-Capital	34,574,778
Dividends Paid	(2,688,557)

**Gas Natural's Ohio Companies**  
**Consolidated Balance Sheet By Entity**  
**As of September 30, 2012**

Prior Year Retained Earnings	1,384,259
Retained Earnings (Loss) Current	<u>(768,199)</u>
<b>Total Shareholder's Equity</b>	<b>\$32,504,531</b>
<b>CURRENT LIABILITIES:</b>	
Trade Accounts Payable	\$1,100,965
Gas Accounts Payable	436,398
Budget Bal Owed to Customers	904,142
Customer Deposits	124,659
<b>Related Party Payables</b>	<b>2,047,978</b>
Accrued Taxes Payable	547,136
Accrued Gross Receipts Tax	789,482
Deferred Tax Liability	6,403,845
Accrued Liabilities	<u>335,227</u>
<b>Total Current Liabilities</b>	<b>\$12,689,832</b>
<b>LONG TERM DEBT:</b>	
Long Term Debt	\$18,338,376
Asset Retirement Obligation	<u>896,042</u>
<b>Total Long Term Debt</b>	<b>\$19,234,418</b>
<b>TOTAL LIABILITIES</b>	<b>\$31,924,250</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b><u>\$64,428,781</u></b>

**Gas Natural's Ohio Companies**  
**Consolidated Income Statement By Company**  
**For the 3rd Quarter of 2012**

3rd Qtr 2012

**UTILITY REVENUE:**

Gas Sales Residential	\$1,136,907
Gas Sales Commercial	596,505
Gas Sales Industrial	95,807
Transmission of Gas	219,958
Other Miscellaneous Sales	9,087
Service Fees	606,112
<b>Total Utility Revenue</b>	<b>\$2,664,376</b>

**COST OF GAS SOLD:**

Purchased Gas Cost	\$1,163,255
Deferred Gas Cost	171,172
Purchased Gas Expenses	39,011
Encroachment Gas/Other Cost	24,686
<b>Total Gas Cost</b>	<b>\$1,398,124</b>

**GROSS MARGIN** **\$1,266,252**

**GROSS MARGIN PERCENTAGE** **47.53%**

**OPERATING EXPENSES:**

Direct Labor	\$985,423
Capitalized Labor	(362,668)
Operations Expense	555,984
Corporate Overheads	293,280
Maintenance Expense	95,244
<b>Depreciation Expense</b>	<b>488,087</b>
<b>Amortization Expense</b>	<b>10,134</b>
Gross Receipts Tax	4,856
Personal Property Tax	144,425
General Taxes	13,203
Store Revenue	(39,752)
Store Expenses	40,041
<b>Total Operating Expenses</b>	<b>\$2,228,258</b>

**INCOME (LOSS) FROM OPERATIONS** **(\$962,005)**

**OTHER INCOME & EXPENSES:**

Material Sales Revenue	4,552
Other Income - Anchor Hocking	14,861
Inventory Variance Expense	555
Interest Income	1,177
Non-Operating Income	79,178
Non-Operating Expense	1,874
<b>Total Other Income (Expenses)</b>	<b>\$102,197</b>

**INTEREST EXPENSE:**

Interest Expense - ST Debt	184,254
Interest Expense - LT Debt	59,412
Amortization of Debt Issuance	24,286
Penalties	(1,601)
<b>Total Interest Expense</b>	<b>\$266,351</b>

**Income (Loss) Before Tax Expense** **(\$1,126,159)**

Income Tax Expense 186,746

**Net Income (Loss)** **(\$1,312,905)**