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ZACHARY D. KRAVITZ
Direct: 614.334.6117
zkravitz@taftlaw.com


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PUCO

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**

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.

Very truly yours,


Zachary D. Kravitz

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FILE

Sun Life Assurance Company - Senior Secured Guaranteed Notes: Debt Covenant CalculationsENTER DATE OF CERTIFICATE **12/31/13**

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 **\$ 19,478,322**b. Consolidated Annual Interest Charges **\$ 3,201,424**Ratio = $a \div b$ **6.08x**Minimum Required **2.0x**a. Obligor's EBITDA Available for Interest Charges **\$ 4,976,649**b. Obligor's Annual Interest Charges **\$ 1,310,826**Ratio = $a \div b$ **3.80x**Minimum Required **2.0x****B. Section 10.4 Debt to Capitalization Ratio**a. Consolidated Funded Debt **\$ 68,230,540**b. Consolidated Capitalization **\$ 165,710,315**Ratio = $a \div b$ **41%**Maximum Allowable **60%**a. Obligor's Funded Debt **\$ 21,325,742**b. Obligor's Capitalization **\$ 64,486,709**Ratio = $a \div b$ **33%**Maximum Allowable **60%****C. Section 10.5 Restrictions on Dividends and Distributions**a. Obligor's Dividends/Distributions **\$ -**b. Obligor's Net Income **\$ 929,666**Ratio = $a \div b$ **0.0%**

Note: Sun Life has granted a waiver through 12/31/12 for this covenant

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 12/31/13 **\$ 1,080,001**Estimated Interest payable for next 12 months **\$ 1,070,676**Covenant met **Yes**

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

By:

Name:

Title:


Laurie Stevens
Division Controller

Gas Natural Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31,	
	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,147,381	\$ 3,435,117
Marketable securities	406,134	344,346
Accounts receivable		
Trade, less allowance for doubtful accounts of \$1,986,531 and \$1,350,338, respectively	13,440,565	11,406,807
Related parties	146,225	522,557
Unbilled gas	7,729,560	4,612,258
Note receivable – related parties, current portion	1,938	10,998
Inventory		
Natural gas	5,464,744	4,938,078
Materials and supplies	2,413,745	1,779,944
Prepaid income taxes	727,427	501,763
Prepayments and other	1,064,845	2,153,922
Recoverable cost of gas purchases	1,298,299	2,329,524
Deferred tax asset	1,225,032	813,846
Discontinued operations	34,151	3,117,349
Total current assets	47,100,046	35,966,509
PROPERTY, PLANT, & EQUIPMENT, NET	133,520,286	116,429,042
OTHER ASSETS		
Notes receivable – related parties, less current portion	93,727	24,411
Regulatory assets		
Property taxes	25,000	307,732
Income taxes	452,645	452,645
Rate case costs	130,228	176,250
Debt issuance costs, net of amortization	1,388,124	1,798,720
Goodwill	16,267,377	14,891,377
Customer relationships, net of amortization	3,230,333	616,500
Investment in unconsolidated affiliate	351,724	321,731
Restricted cash	1,137,442	3,150,847
Other assets	46,683	327,695
Total other assets	23,123,283	22,067,908
TOTAL ASSETS	\$203,743,615	\$174,463,459

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

Gas Natural Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31,	
	2013	2012
<u>LIABILITIES AND CAPITALIZATION</u>		
CURRENT LIABILITIES		
Checks in excess of amounts on deposit	\$ 843,634	\$ 720,340
Line of credit	24,529,799	23,859,755
Accounts payable		
Trade	12,418,701	8,982,051
Related parties	559,933	47,929
Notes payable, current portion	3,502,190	633,498
Contingent consideration, current portion	671,638	-
Accrued liabilities		
Taxes other than income	3,173,640	2,528,940
Vacation	95,806	115,956
Employee benefit plans	178,789	145,496
Interest	169,581	191,263
Deferred payments received from levelized billing	2,469,665	2,633,220
Customer deposits	761,022	744,974
Related parties	-	595,240
Obligation under capital lease, current portion	177,570	167,518
Over-recovered gas purchases	793,184	1,185,034
Other current liabilities	1,482,375	690,511
Discontinued operations	45,855	1,420,897
Total current liabilities	<u>51,873,382</u>	<u>44,662,622</u>
LONG-TERM LIABILITIES		
Deferred investment tax credits	134,255	155,317
Deferred tax liability	9,055,166	4,596,629
Asset retirement obligation	2,026,353	1,850,379
Customer advances for construction	1,016,671	1,009,232
Regulatory liability for income taxes	83,161	83,161
Regulatory liability for gas costs	-	20,745
Obligation under capital lease, less current portion	1,862,938	2,040,508
Contingent consideration, less current portion	13,362	-
Total long-term liabilities	<u>14,191,906</u>	<u>9,755,971</u>
NOTES PAYABLE, less current portion	40,198,552	43,700,742
COMMITMENTS AND CONTINGENCIES (see Note 17)		
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, 10,451,678 and 8,369,752 shares issued and outstanding, respectively	1,567,752	1,255,463
Capital in excess of par value	63,468,969	44,256,493
Accumulated other comprehensive income	104,909	65,789
Retained earnings	32,338,145	30,766,379
Total stockholders' equity	<u>97,479,775</u>	<u>76,344,124</u>
TOTAL CAPITALIZATION	<u>137,678,327</u>	<u>120,044,866</u>
TOTAL LIABILITIES AND CAPITALIZATION	<u>\$ 203,743,615</u>	<u>\$ 174,463,459</u>

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

Gas Natural Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income

	Year Ended December 31,	
	2013	2012
REVENUES		
Natural gas operations	\$106,264,609	\$81,305,951
Marketing and production	12,167,241	7,493,361
Pipeline operations	402,914	401,933
Total revenues	<u>118,834,764</u>	<u>89,201,245</u>
COST OF SALES		
Natural gas purchased	61,236,772	42,485,803
Marketing and production	10,052,865	5,953,156
Total cost of sales	<u>71,289,637</u>	<u>48,438,959</u>
GROSS MARGIN	47,545,127	40,762,286
OPERATING EXPENSES		
Distribution, general, and administrative	23,477,984	20,815,855
Maintenance	1,317,792	1,191,038
Depreciation and amortization	6,135,160	5,026,142
Accretion	175,974	161,298
Contingent consideration gain	(1,565,000)	-
Goodwill impairment	725,744	-
Taxes other than income	4,003,468	3,478,897
Total operating expenses	<u>34,271,122</u>	<u>30,673,230</u>
OPERATING INCOME	13,274,005	10,089,056
Loss from unconsolidated affiliate	(5,007)	(8,620)
Other income, net	924,586	424,221
Acquisition expense	(272,094)	(959,267)
Stock sale expense	(309,432)	(274,213)
Interest expense	<u>(3,178,606)</u>	<u>(2,700,193)</u>
Income before income taxes	10,433,452	6,570,984
Income tax expense	<u>(3,391,898)</u>	<u>(2,650,569)</u>
INCOME FROM CONTINUING OPERATIONS	7,041,554	3,920,415
Discontinued operations, net of income taxes (See Note 4)	<u>(370,275)</u>	<u>(201,098)</u>
NET INCOME	<u>\$ 6,671,279</u>	<u>\$ 3,719,317</u>
BASIC & DILUTED EARNINGS (LOSS) PER SHARE:		
Continuing operations	\$ 0.75	\$ 0.48
Discontinued operations	(0.04)	(0.02)
Net income per share	<u>\$ 0.71</u>	<u>\$ 0.46</u>
Weighted average dividends declared per common share	<u>\$ 0.55</u>	<u>\$ 0.54</u>
COMPREHENSIVE INCOME:		
Net income	\$ 6,671,279	\$ 3,719,317
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Unrealized gain (loss) on available for sale securities, net of tax of \$22,951 and \$8,913, respectively	<u>39,120</u>	<u>(14,616)</u>
COMPREHENSIVE INCOME	<u>\$ 6,710,399</u>	<u>\$ 3,704,701</u>

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

Gas Natural Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity

	Common Shares	Common Stock	Capital In Excess Of Par Value	Accumulated Other Comprehensive Income	Retained Earnings	Total
BALANCE AT DECEMBER 31, 2011	8,154,301	\$1,223,145	\$41,978,799	\$ 80,405	\$31,489,678	\$74,772,027
Net income	-	-	-	-	3,719,317	3,719,317
Other comprehensive loss, net	-	-	-	(14,616)	-	(14,616)
Stock issued for services	4,500	675	49,927	-	-	50,602
Stock-based compensation	-	-	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	30,766,379	76,344,124
Net income	-	-	-	-	6,671,279	6,671,279
Other comprehensive income, net	-	-	-	39,120	-	39,120
Exercise of stock options	20,000	3,000	156,500	-	-	159,500
Stock-based compensation	-	-	2,962	-	-	2,962
Purchase of JDOG Marketing	256,926	38,539	2,602,660	-	-	2,641,199
Common stock issued	1,805,000	270,750	16,450,354	-	-	16,721,104
Dividends declared	-	-	-	-	(5,099,513)	(5,099,513)
BALANCE AT DECEMBER 31, 2013	<u>10,451,678</u>	<u>\$1,567,752</u>	<u>\$63,468,969</u>	<u>\$ 104,909</u>	<u>\$32,338,145</u>	<u>\$97,479,775</u>

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

Gas Natural Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 6,671,279	\$ 3,719,317
Less: loss from discontinued operations	(370,275)	(201,098)
Income from continuing operations	7,041,554	3,920,415
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	6,135,160	5,026,142
Accretion	175,974	161,298
Amortization of debt issuance costs	418,204	275,858
Stock based compensation	2,962	60,009
(Gain) loss on sale of assets	(158,321)	54,154
Loss from unconsolidated affiliate	5,007	8,620
Unrealized holding loss on contingent consideration	(1,565,000)	—
Goodwill impairment	725,744	—
Investment tax credit	(21,062)	(21,062)
Deferred income taxes	4,024,683	2,261,345
Changes in assets and liabilities		
Accounts receivable, including related parties	(1,757,282)	(2,555,988)
Unbilled gas	(3,117,302)	(379,404)
Natural gas inventory	(526,666)	1,810,861
Accounts payable, including related parties	3,101,920	896,823
Recoverable/refundable cost of gas purchases	639,375	(834,814)
Prepayments and other	1,086,478	(1,432,597)
Other assets	(431,153)	1,051,267
Other liabilities	876,068	(1,163,368)
Net cash provided by operating activities of continuing operations	16,656,343	9,139,559
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(24,103,789)	(20,654,184)
Proceeds from sale of fixed assets	968,772	48,485
Proceeds from related party notes receivable	8,681	10,255
Purchase of Public Gas Company, Inc.	—	(1,551,477)
Cash acquired in acquisition	—	502
Investment in unconsolidated affiliate	(35,000)	—
Restricted cash – capital expenditures fund	1,264,624	(1,322,065)
Customer advances for construction	23,802	128,381
Contributions in aid of construction	1,105,973	134,076
Net cash used in investing activities of continuing operations	(20,766,937)	(23,206,027)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from lines of credit	22,519,000	51,390,754
Repayments of lines of credit	(21,848,956)	(50,690,999)
Proceeds from notes payable	—	12,989,552
Repayments of notes payable	(633,498)	(7,920)
Payments of capital lease obligations	(167,518)	—
Debt issuance costs	(7,607)	(1,204,987)
Proceeds from issuance of common shares	16,721,104	—
Exercise of stock options	159,500	—
Restricted cash – debt service fund	748,781	(878,875)
Dividends paid	(5,005,827)	(4,432,920)
Net cash provided by financing activities of continuing operations	12,484,979	7,164,605
DISCONTINUED OPERATIONS		
Operating cash flows	(394,427)	(522,559)
Investing cash flows	2,345,993	(46,306)
Financing cash flows	(613,687)	401,000
Net cash provided by (used in) discontinued operations	1,337,879	(167,865)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,712,264	(7,069,728)
Cash and cash equivalents, beginning of period	3,435,117	10,504,845
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 13,147,381	\$ 3,435,117

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

Gas Natural Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2013	2012
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$2,806,051	\$2,286,902
Cash refunded for income taxes, net	(4,050)	(989,503)
NONCASH INVESTING AND FINANCING ACTIVITIES		
Shares issued to purchase JDOG Marketing	\$2,641,199	\$ -
Contingent consideration issued to purchase JDOG Marketing	2,250,000	-
Plant, property and equipment acquired from JDOG Marketing purchase	21,600	-
Customer relationships acquired from JDOG Marketing purchase	2,800,000	-
Goodwill acquired from JDOG Marketing purchase	2,101,744	-
Note receivable effectively settled in JDOG Marketing acquisition	32,145	-
Capital expenditures included in accounts payable	1,798,014	745,402
Shares issued to purchase Loring Pipeline	-	2,250,004
Capital assets exchanged to settle payables	82,584	-
Capital assets acquired through trade-in	23,500	-
Accrued dividends	470,326	376,639
Capitalized interest	15,226	21,147
Customer advances for construction moved to contribution in aid of construction	16,364	-

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