Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

Schedules other than those listed above are omitted because they are not required, are not applicable or the required information is shown in the financial statements or notes thereto.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are our controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 ("Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2016 and based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in providing reasonable assurance of compliance.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal year ended June 30, 2016 and found no change that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles.

Management's Annual Report on Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of June 30, 2016 based on the framework in *Internal Control - Integrated Framework* issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting was effective as of June 30, 2016.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Deloitte & Touche LLP, our independent registered public accounting firm, has issued an attestation report on our internal control over financial reporting. That report immediately follows:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Delta Natural Gas Company, Inc.
Winchester, Kentucky:

We have audited the internal control over financial reporting of Delta Natural Gas Company, Inc. and subsidiaries (the "Company") as of June 30, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule of the Company as of and for the year ended June 30, 2016 and our report dated August 26, 2016 expressed an unqualified opinion on those financial statements and the financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia
August 26, 2016

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We have a Business Code of Conduct and Ethics that applies to all directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. Our Business Code of Conduct and Ethics, which includes our Insider Trading Policy, can be found on our website by going to the following address: http://www.deltagas.com/governance. We will post any amendments to the Business Code of Conduct and Ethics, as well as any waivers that are required to be disclosed by the rules of either the Securities and Exchange Commission or the NASDAQ OMX Group, on our website.

Our Board of Directors has adopted charters for the Audit, Corporate Governance and Compensation and Executive Committees of the Board of Directors as well as Corporate Governance Guidelines. These documents can be found on our website by going to the following address: http://www.deltagas.com/governance.

A printed copy of any of the materials referred to above can be obtained by contacting us at the following address:

Delta Natural Gas Company, Inc.
Attn: John B. Brown
3617 Lexington Road
Winchester, KY 40391
(859) 744-6171

The Audit Committee of our Board of Directors is an “audit committee” for purposes of Section 3(a)(58) of the Securities Exchange Act of 1934.

The other information required by this Item is contained under the captions “Election of Directors”, “Board Leadership, Committees and Meetings”, “Executive Officers”, “Certain Relationships and Related Transactions” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement for the 2016 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission no later than 120 days after June 30, 2016. We incorporate that information in this document by reference.

Item 11. Executive Compensation

Information in response to this item is contained under the captions “Director Compensation”, “Corporate Governance and Compensation Committee Interlocks and Insider Participation”, “Compensation Discussion and Analysis”, “Compensation Risks”, “Corporate Governance and Compensation Committee Report”, “Summary Compensation Table”, “Grants of Plan Based Awards”, “Outstanding Equity Awards at Fiscal Year-End”, “Retirement Benefits”, “Potential Payments Upon Termination Or Change in Control” and “Termination Table” in our definitive Proxy Statement for the 2016 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission no later than 120 days after June 30, 2016. We incorporate that information in this document by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plans

Pursuant to our shareholder approved incentive compensation plan, we have the ability to grant stock, performance shares and restricted stock to employees, officers and directors. The plan does not provide for the awarding of options, warrants or rights. We do not have any equity compensation plans which have not been approved by our shareholders.

The following table sets forth certain information with respect to our equity compensation plan at June 30, 2016:

Column A	Column B	Column C
Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column A)
—	—	747,275

The other information required by this Item is contained under the captions "Security Ownership of Certain Beneficial Owners" and "Security Ownership of Management" in our definitive Proxy Statement for the 2016 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission no later than 120 days after June 30, 2016. We incorporate that information in this document by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is contained under the captions "Election of Directors", "Board Leadership, Committees and Meetings" and "Certain Relationships and Related Transactions" in our definitive Proxy Statement for the 2016 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission no later than 120 days after June 30, 2016. We incorporate that information in this document by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item is contained under the caption "Audit Committee Report" in our definitive Proxy Statement for the 2016 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission no later than 120 days after June 30, 2016. We incorporate that information in this document by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedule

(a) Financial Statements, Schedule and Exhibits

(1) Financial Statements
See Index at Item 8

(2) Financial Statement Schedule
See Index at Item 8

(3) Exhibits

Exhibit No.	
3.1	Registrant's Amended and Restated Articles of Incorporation (dated November 16, 2006) are incorporated herein by reference to Exhibit 3(i) to Registrant's Form 10-K/A (File No. 000-08788) for the period ended June 30, 2007.
3.2	Registrant's Amended and Restated By-Laws (dated August 14, 2015) are incorporated herein by reference to Exhibit 3.1 to Registrant's Form 8-K (File No. 000-8788) dated August 17, 2015.
4	Note Purchase and Private Shelf Agreement dated December 8, 2011 in respect of 4.26% Senior Notes, Series A, due December 20, 2031 is incorporated herein by reference to Exhibit 10.01 to Registrant's Form 8-K (File No. 000-08788) dated December 13, 2011.
10.01	Natural Gas Sales Agreement, dated May 1, 2000 by and between Atmos Energy Marketing, LLC and Registrant is incorporated herein by reference to Exhibit 10(c) to Registrant's Form S-2/A (Reg. No. 333-100852) dated December 13, 2002.
10.02	Base Contract for Short-Term Sale and Purchase of Natural Gas, dated January 1, 2002, by and between M & B Gas Services, Inc. and Registrant is incorporated herein by reference to Exhibit 10(n) to Registrant's Form S-2 (Reg. No. 333-104301) dated April 4, 2003.
10.03	Natural Gas Sales Agreement, dated May 1, 2003, by and between Atmos Energy Marketing, LLC and Registrant is incorporated herein by reference to Exhibit 10(d) to Registrant's Form 10-K (File No. 000-08788) for the period ended June 30, 2003.
10.04	Base contract for the Sale and Purchase of Natural Gas, dated May 1, 2005 and Exhibit A, dated May 1, 2010 by and between Atmos Energy Marketing, LLC and Registrant are incorporated herein by reference to Exhibit 10.04 to Registrant's Form 10-K (File No. 000-08788) for the period ended June 30, 2012.
10.05	Base contracts for the Sale and Purchase of Natural Gas, dated May 1, 2013, by and between Midwest Energy L.L.C. and Registrant are incorporated herein by reference to Registrant's Form 10-K (File No. 000-08788) for the period ended June 30, 2013.
10.06	Natural Gas Transportation Agreement (Service Package 9069), dated December 19, 1994, by and between Tennessee Gas Pipeline Company and Registrant is incorporated herein by reference to Exhibit 10(e) to Registrant's Form S-2/A (Reg. No. 333-100852) dated December 13, 2002.
10.07	Agreement to transport natural gas between Nami Resources Company L.L.C. and Registrant, dated March 10, 2005 is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 8-K (File No. 000-08788) dated March 23, 2005.
10.08	Amendment, dated July 22, 2010, of agreement to transport natural gas between Nami Resources Company, L.L.C. and Registrant is incorporated herein by reference to Exhibit 10(f) to Registrant's Form 10-K (File No. 000-08788) for the period ended June 30, 2010.
10.09	GTS Service Agreements, dated October 29, 2015 (Service Agreement Nos. 37,813, 37,814 and 37,815) and Appendix A to respective Service Agreements, effective November 1, 2015, by and between Columbia Gulf Transmission, LLC and Registrant are incorporated herein by reference to Exhibit 10.01 to Registrant's Form 10-Q (File No. 000-08788) for the period ended September 30, 2015.
10.10	FTS-1 Service Agreements, dated October 29, 2015, (Service Agreement Nos. 43,827, 43,828 and 43,829) and Appendix A to respective Service Agreements, effective November, 2010, by and between Columbia Gulf Transmission, LLC and Registrant are incorporated herein by reference to Exhibit 10.02 to Registrant's Form 10-Q (File No. 000-08788) for the period ended September 30, 2015.
10.11	Underground Natural Gas Storage Lease and Agreement, dated March 9, 1994, by and between Equitable Resources Exploration, a division of Equitable Resources Energy Company, and Lonnie D. Ferrin and Amendment No. 1 and Novation to Underground Natural Gas Storage Lease and Agreement, dated March 22, 1995, by and between Equitable Resources Exploration, Lonnie D. Ferrin and Registrant is incorporated herein by reference to Exhibit 10(m) to Registrant's Form S-2 (Reg. No. 333-104301) dated April 4, 2003.

10.12 Oil and Natural Gas Lease, dated July 19, 1995, by and between Meredith J. Evans and Helen Evans and Paddock Oil and Gas, Inc.; Assignment, dated June 15, 1995, by Paddock Oil and Gas, Inc., as assignor, to Lonnie D. Ferrin, as assignee; Assignment, dated August 31, 1995, by Paddock Oil and Gas, Inc., as assignor, to Lonnie D. Ferrin, as assignee; and Assignment and Assumption Agreement, dated November 10, 1995, by and between Lonnie D. Ferrin and Registrant is incorporated herein by reference to Exhibit 10(o) to Registrant's Form S-2 (Reg. No. 333-104301) dated April 4, 2003.

10.13 Natural Gas Storage Lease, dated October 4, 1995, by and between Judy L. Fuson, Guardian of Jamie Nicole Fuson, a minor, and Lonnie D. Ferrin and Assignment and Assumption Agreement, dated November 10, 1995, by and between Lonnie D. Ferrin and Registrant is incorporated herein by reference to Exhibit 10(j) to Registrant's Form S-2 (Reg. No. 333-104301) dated April 4, 2003.

10.14 Natural Gas Storage Lease, dated November 6, 1995, by and between Thomas J. Carnes, individually and as Attorney-in-fact and Trustee for the individuals named therein, and Registrant is incorporated herein by reference to Exhibit 10(k) to Registrant's Form S-2 (Reg. No. 333-104301) dated April 4, 2003.

10.15 Deed and Perpetual Natural Gas Storage Easement, dated December 21, 1995, by and between Katherine M. Cornelius, William Cornelius, Frances Carolyn Fitzpatrick, Isabelle Fitzpatrick Smith and Kenneth W. Smith and Registrant is incorporated herein by reference to Exhibit 10(l) to Registrant's Form S-2 (Reg. No. 333-104301) dated April 4, 2003.

10.16 Loan Agreement, dated October 31, 2002, by and between Branch Banking and Trust Company and Registrant is incorporated herein by reference to Exhibit 10(i) to Registrant's Form S-2/A (Reg. No. 333-100852) dated December 13, 2002.

10.17 Promissory Note, in the original principal amount of $40,000,000, made by Registrant to the order of Branch Banking and Trust Company is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 10-Q (File No. 000-08788) for the period ended September 30, 2002.

10.18 Modification Agreement extending to October 31, 2004 the Promissory Note and Loan Agreement dated October 31, 2002 between Branch Banking and Trust Company and Registrant is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 10-Q (File No. 000-08788) for the period ended September 30, 2003.

10.19 Modification Agreement extending to October 31, 2005 the Promissory Note and Loan Agreement dated October 31, 2002 between Branch Banking and Trust Company and Registrant is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 10-Q (File No. 000-08788) for the period ended September 30, 2004.

10.20 Modification Agreement extending to October 31, 2007 the Promissory Note and Loan Agreement dated October 31, 2002 between Branch Banking and Trust Company and Registrant is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 8-K (File No. 000-08788) dated August 19, 2005.

10.21 Modification Agreement extending to October 31, 2009 the Promissory Note and Loan Agreement dated October 31, 2002 between Branch Banking and Trust Company and Registrant is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 10-Q (File No. 000-08788) for the period ended September 30, 2007.

10.22 Modification Agreement extending to June 30, 2011 the Promissory Note and Loan Agreement dated October 31, 2002 between Branch Banking and Trust Company and Registrant is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 8-K (File No. 000-08788) dated June 30, 2009.

10.23 Modification Agreement extending to June 30, 2013 the Promissory Note and Loan Agreement dated October 31, 2002 between Branch Banking and Trust Company and Registrant is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 8-K (File No. 000-08788) dated June 30, 2011.

10.24 Modification Agreement extending to June 30, 2015 the Promissory Note and Loan Agreement dated October 31, 2002 between Branch Banking and Trust Company and Registrant is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 8-K (File No. 000-08788) dated June 30, 2013.

10.25 Modification Agreement extending to June 30, 2017 the Promissory Note and Loan Agreement dated October 31, 2002 between Branch Banking and Trust Company and Registrant is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 8-K (File No. 000-08788) dated June 30, 2015.

10.26 Employment agreement dated March 1, 2000, between Glenn R. Jennings, Registrant's Chairman of the Board, President and Chief Executive Officer, and Registrant is incorporated herein by reference to Exhibit (k) to Registrant's Form 10-Q (File No. 000-08788) dated March 31, 2000.

10.27 Officer agreements dated March 1, 2000, between two officers, those being John B. Brown and Johnny L. Caudill, and Registrant are incorporated herein by reference to Exhibit 10(k) to Registrant's Form 10-Q (File No. 000-08788) for the period ended March 31, 2000.

10.28 Officer agreement dated November 20, 2008, between Brian S. Ramsey and Registrant is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 8-K (File No. 000-08788) dated November 21, 2008.

10.29	Officer agreement dated November 19, 2010, between Matthew D. Wesolosky and Registrant is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 8-K (File No. 000-08788) dated November 24, 2010.
10.30	Supplemental retirement benefit agreement and trust agreement between Glenn R. Jennings and Registrant is incorporated herein by reference to Exhibit 10(a) to Registrant's Form 8-K (File No. 000-08788) dated February 25, 2005.
10.31	Registrant's Amended and Restated Dividend Reinvestment and Stock Purchase Plan, dated November 17, 2005 is incorporated herein by reference to Exhibit 99(b) to Registrant's S-3D (Reg. No. 333-130301) dated December 14, 2005 and Post-Effective Amendment No. 1 to Registrant's S-3 (Reg. No. 333-130301) dated August 29, 2012.
10.32	Registrant's Incentive Compensation Plan, dated January 1, 2008 is incorporated herein by reference to Exhibit 4.1 to Registrant's S-8 (Reg. No. 333-165210) dated March 4, 2010.
10.33	Notices of Performance Shares Award between five officers, those being John B. Brown, Johnny L. Caudill, Glenn R. Jennings, Brian S. Ramsey and Matthew D. Wesolosky, and Registrant are incorporated herein by reference to Exhibit 10.1, 10.2, 10.3, 10.4 and 10.5, respectively, of Registrant's Form 8-K (File No. 000-08788) dated August 21, 2013.
10.34	Form of Notice of Performance Shares Award is incorporated herein by reference to Exhibit 10.03 to Registrant's Form 10-Q (File No. 000-08788) for the period ended September 30, 2015.
12	Computation of the Consolidated Ratio of Earnings to Fixed Charges.
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Attached as Exhibit 101 to this Annual Report are the following documents formatted in extensible business reporting language (XBRL):

(i) Document and Entity Information;

(ii) Consolidated Statements of Income for the years ended June 30, 2016, 2015 and 2014;

(iii) Consolidated Statements of Cash Flows for the years ended June 30, 2016, 2015 and 2014;

(iv) Consolidated Balance Sheets as of June 30, 2016 and 2015;

(v) Consolidated Statements of Changes in Shareholders' Equity for the years ended June 30, 2016, 2015 and 2014;

(vi) Notes to Consolidated Financial Statements;

(vii) Schedule II – Valuation and Qualifying Accounts for the years ended June 30, 2016, 2015 and 2014.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 26th day of August, 2016.

DELTA NATURAL GAS COMPANY, INC.

By: /s/Glenn R. Jennings
Glenn R. Jennings
Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

(i) Principal Executive Officer:

/s/Glenn R. Jennings (Glenn R. Jennings)	Chairman of the Board, President and Chief Executive Officer	August 26, 2016

(ii) Principal Financial Officer:

/s/John B. Brown (John B. Brown)	Chief Operating Officer, Treasurer and Secretary	August 26, 2016

(iii) Principal Accounting Officer:

/s/Matthew D. Wesolosky (Matthew D. Wesolosky)	Vice President - Controller	August 26, 2016

(iv) A Majority of the Board of Directors:

/s/Glenn R. Jennings (Glenn R. Jennings)	Chairman of the Board, President and Chief Executive Officer	August 26, 2016
/s/Linda K. Breathitt (Linda K. Breathitt)	Director	August 26, 2016
/s/Jacob P. Cline, III (Jacob P. Cline, III)	Director	August 26, 2016
/s/Sandra C. Gray (Sandra C. Gray)	Director	August 26, 2016
/s/Edward J. Holmes (Edward J. Holmes)	Director	August 26, 2016
/s/Michael J. Kistner (Michael J. Kistner)	Director	August 26, 2016
/s/Fred N. Parker (Fred N. Parker)	Director	August 26, 2016
/s/Rodney L. Short (Rodney L. Short)	Director	August 26, 2016
/s/Arthur E. Walker, Jr. (Arthur E. Walker, Jr.)	Director	August 26, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Delta Natural Gas Company, Inc.
Winchester, Kentucky:

We have audited the accompanying consolidated balance sheets of Delta Natural Gas Company, Inc. and subsidiaries (the "Company") as of June 30, 2016 and 2015, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended June 30, 2016. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Delta Natural Gas Company, Inc. and subsidiaries as of June 30, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2016, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 26, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Atlanta, Georgia
August 26, 2016

Delta Natural Gas Company, Inc.

Consolidated Statements of Income

For the Year Ended June 30,	2016	2015	2014
Operating Revenues			
Regulated revenues	$ 41,242,094	$ 52,681,120	$ 57,054,180
Non-regulated revenues	22,888,126	33,507,118	38,791,691
Total operating revenues	$ 64,130,220	$ 86,188,238	$ 95,845,871
Operating Expenses			
Regulated purchased natural gas	$ 11,704,178	$ 22,728,766	$ 27,215,425
Non-regulated purchased natural gas	17,621,069	26,713,424	29,059,426
Operation and maintenance	13,989,510	14,608,835	15,495,537
Depreciation and amortization	6,416,221	6,377,743	6,147,618
Taxes other than income taxes	2,965,250	2,795,609	2,324,426
Total operating expenses	$ 52,696,228	$ 73,224,377	$ 80,242,432
Operating Income	$ 11,433,992	$ 12,963,861	$ 15,603,439
Other Income	$ 4,124	$ 25,097	$ 201,462
Interest Charges			
Interest on long-term debt	$ 2,245,224	$ 2,309,124	$ 2,373,024
Other interest expense	52,533	51,538	51,563
Amortization of debt expense	233,500	240,000	246,600
Total interest charges	$ 2,531,257	$ 2,600,662	$ 2,671,187
Net Income Before Income Taxes	$ 8,906,859	$ 10,388,296	$ 13,133,714
Income Tax Expense	3,377,481	3,892,215	4,858,586
Net Income	$ 5,529,378	$ 6,496,081	$ 8,275,128
Earnings Per Common Share (Note 11)			
Basic and Diluted	$ .78	$ .92	$ 1.19
Dividends Declared Per Common Share	$ .82	$ .80	$ .76

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Delta Natural Gas Company, Inc.

Consolidated Statements of Cash Flows

For the Year Ended June 30,	2016	2015	2014
Cash Flows From Operating Activities			
Net income	$ 5,529,378	$ 6,496,081	$ 8,275,128
Adjustments to reconcile net income to net cash from operating activities			
Depreciation and amortization	6,649,721	6,617,743	6,420,525
Deferred income taxes and investment tax credits	1,193,793	1,449,471	(515,492)
Change in cash surrender value of officer's life insurance	6,198	(19,036)	(67,722)
Share-based compensation	452,230	1,095,051	1,111,966
Excess tax deficiency from share-based compensation	(7,581)	(9,574)	(8,967)
(Increase) decrease in assets			
Accounts receivable	1,091,517	871,270	2,216,925
Natural gas in storage	1,344,242	2,491,337	(1,644,186)
Deferred natural gas cost	(674,077)	724,923	3,197,921
Materials and supplies	(4,549)	(12,578)	(288,597)
Prepayments	(1,226,279)	(363,263)	(1,253,798)
Other assets	(288,867)	225,771	11,556
Increase (decrease) in liabilities			
Accounts payable	(1,181,356)	(1,135,821)	169,226
Accrued taxes	106,856	(80,925)	83,528
Asset retirement obligations	(85,068)	375,073	(553,612)
Other liabilities	1,832,112	20,658	185,805
Net cash provided by operating activities	$ 14,738,270	$ 18,746,181	$ 17,340,206
Cash Flows From Investing Activities			
Capital expenditures	$ (6,302,666)	$ (9,010,876)	$ (8,077,642)
Proceeds from sale of property, plant and equipment	275,397	161,311	268,082
Other	(60,000)	(60,000)	(60,000)
Net cash used in investing activities	$ (6,087,269)	$ (8,909,565)	$ (7,869,560)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Delta Natural Gas Company, Inc.

Consolidated Statements of Cash Flows (continued)

For the Year Ended June 30,	2016	2015	2014
Cash Flows From Financing Activities			
Dividends on common shares	$ (5,822,259)	$ (5,639,791)	$ (5,289,911)
Issuance of common shares	614,518	532,712	595,249
Excess tax benefit from share-based compensation	2,073	18,823	39,472
Payment of minimum tax withholdings on share-based compensation	(263,044)	—	—
Repayment of long-term debt	(1,500,000)	(1,500,000)	(1,500,000)
Borrowings on bank line of credit	—	126,430	691,157
Repayment of bank line of credit	—	(126,430)	(691,157)
Net cash used in financing activities	$ (6,968,712)	$ (6,588,256)	$ (6,155,190)
Net Increase in Cash and Cash Equivalents	$ 1,682,289	$ 3,248,360	$ 3,315,456
Cash and Cash Equivalents, Beginning of Year	16,924,278	13,675,918	10,360,462
Cash and Cash Equivalents, End of Year	$ 18,606,567	$ 16,924,278	$ 13,675,918
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for			
Interest	$ 2,298,228	$ 2,369,078	$ 2,436,435
Income taxes (net of refunds)	$ 2,064,005	$ 3,312,944	$ 5,819,956
Significant non-cash transactions			
Accrued capital expenditures	$ 157,808	$ 207,169	$ 328,638

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Delta Natural Gas Company, Inc.

Consolidated Balance Sheets

As of June 30,	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 18,606,567	$ 16,924,278
Accounts receivable, less accumulated allowances for doubtful accounts of $301,000 and $258,000 in 2016 and 2015, respectively	4,741,595	5,760,550
Natural gas in storage, at average cost (Note 1)	3,289,920	4,634,162
Deferred natural gas costs (Notes 1 and 14)	674,077	—
Materials and supplies, at average cost	544,342	543,563
Prepayments	3,051,665	3,347,187
Total current assets	$ 30,908,166	$ 31,209,740
Property, Plant and Equipment	$ 241,833,771	$ 236,780,490
Less - Accumulated provision for depreciation	(104,192,898)	(98,741,351)
Net property, plant and equipment	$ 137,640,873	$ 138,039,139
Other Assets		
Cash surrender value of life insurance (face amount of $954,000 and $951,000 in 2016 and 2015, respectively)	$ 414,985	$ 421,183
Prepaid pension (Note 6)	—	2,145,969
Regulatory assets (Note 1)	18,881,126	14,917,823
Other non-current assets	1,033,979	977,312
Total other assets	$ 20,330,090	$ 18,462,287
Total assets	$ 188,879,129	$ 187,711,166

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Delta Natural Gas Company, Inc.

Consolidated Balance Sheets (continued)

As of June 30,	2016	2015
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 4,200,298	$ 5,426,395
Current portion of long-term debt (Note 10)	1,500,000	1,500,000
Accrued taxes	1,584,675	1,472,401
Customers' deposits	618,137	600,788
Accrued interest on debt	111,825	112,296
Accrued vacation	756,138	749,031
Regulatory liability - refundable natural gas costs (Note 1)	—	756
Other liabilities	585,342	610,238
Total current liabilities	$ 9,356,415	$ 10,471,905
Long-Term Debt (Notes 1 and 10)	$ 50,422,796	$ 51,916,296
Long-Term Liabilities		
Deferred income taxes	$ 43,405,098	$ 42,130,067
Investment tax credits	—	10,800
Regulatory liabilities (Note 1)	1,138,141	1,137,758
Accrued Pension	1,833,780	—
Asset retirement obligations (Note 4)	3,917,585	3,795,590
Other long-term liabilities	1,078,345	1,027,096
Total long-term liabilities	$ 51,372,949	$ 48,101,311
Commitments and Contingencies (Note 13)		
Total liabilities	$ 111,152,160	$ 110,489,512
Shareholders' Equity		
Common shares ($1.00 par value), 20,000,000 shares authorized; 7,087,762 and 7,026,500 shares outstanding at June 30, 2016 and June 30, 2015, respectively	$ 7,087,762	$ 7,026,500
Premium on common shares	49,472,542	48,735,608
Retained earnings	21,166,665	21,459,546
Total shareholders' equity	$ 77,726,969	$ 77,221,654
Total liabilities and shareholders' equity	$ 188,879,129	$ 187,711,166

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Delta Natural Gas Company, Inc.

Consolidated Statements of Changes in Shareholders' Equity

	Year Ended June 30, 2016			
	Common Shares	Premium on Common Shares	Retained Earnings	Shareholders' Equity
Balance, beginning of year	$ 7,026,500	$ 48,735,608	$ 21,459,546	$ 77,221,654
Net income	—	—	5,529,378	5,529,378
Issuance of common shares	28,437	586,081	—	614,518
Issuance of common shares under the incentive compensation plan, net of cancellations	32,825	(295,869)	—	(263,044)
Share-based compensation expense	—	452,230	—	452,230
Tax deficiency from share-based compensation	—	(5,508)	—	(5,508)
Dividends on common shares	—	—	(5,822,259)	(5,822,259)
Balance, end of year	$ 7,087,762	$ 49,472,542	$ 21,166,665	$ 77,726,969

	Year Ended June 30, 2015			
	Common Shares	Premium on Common Shares	Retained Earnings	Shareholders' Equity
Balance, beginning of year	$ 6,942,758	$ 47,182,338	$ 20,603,256	$ 74,728,352
Net income	—	—	6,496,081	6,496,081
Issuance of common shares	26,412	506,300	—	532,712
Issuance of common shares under the incentive compensation plan	57,330	385,251	—	442,581
Share-based compensation expense	—	652,470	—	652,470
Tax benefit from share-based compensation	—	9,249	—	9,249
Dividends on common shares	—	—	(5,639,791)	(5,639,791)
Balance, end of year	$ 7,026,500	$ 48,735,608	$ 21,459,546	$ 77,221,654

	Year Ended June 30, 2014			
	Common Shares	Premium on Common Shares	Retained Earnings	Shareholders' Equity
Balance, beginning of year	$ 6,864,253	$ 45,523,123	$ 17,618,039	$ 70,005,415
Net income	—	—	8,275,128	8,275,128
Issuance of common shares	28,809	566,440	—	595,249
Issuance of common shares under the incentive compensation plan	49,696	299,930	—	349,626
Share-based compensation expense	—	762,340	—	762,340
Tax benefit from share-based compensation	—	30,505	—	30,505
Dividends on common shares	—	—	(5,289,911)	(5,289,911)
Balance, end of year	$ 6,942,758	$ 47,182,338	$ 20,603,256	$ 74,728,352

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

DELTA NATURAL GAS COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of Significant Accounting Policies

Principles of Consolidation

Delta Natural Gas Company, Inc. ("Delta" or "the Company") distributes or transports natural gas to approximately 36,000 customers. Our distribution and transportation systems are located in central and southeastern Kentucky and we own and operate an underground storage field in southeastern Kentucky. We transport natural gas to our industrial customers who purchase their natural gas in the open market. We also transport natural gas on behalf of local producers and customers not on our distribution system and extract liquids from natural gas in our storage field and our pipeline systems that are sold at market prices. We have three wholly-owned subsidiaries. Delta Resources, Inc. buys natural gas and resells it to industrial or other large use customers on Delta's system. Delgasco, Inc. buys natural gas and resells it to Delta Resources, Inc. and to customers not on Delta's system. Enpro, Inc. owns and operates natural gas production properties and undeveloped acreage. All subsidiaries of Delta are included in the consolidated financial statements. Intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For the purposes of the Consolidated Statements of Cash Flows, all temporary cash investments with a maturity of three months or less at the date of purchase are considered cash equivalents.

Property, Plant and Equipment and Depreciation

Property, plant and equipment is stated at original cost, which includes materials, labor, labor related costs and an allocation of general and administrative costs. A betterment or replacement of a unit of property is accounted for as an addition of utility plant. Construction work in progress has been included in the rate base for determining customer rates, and therefore an allowance for funds used during construction has not been recorded. The cost of regulated plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost, less salvage value, is charged to the accumulated provision for depreciation.

Property, plant and equipment is comprised of the following major classes of assets:

($000)	2016	2015
Regulated segment		
Distribution, transmission and storage	214,660	210,659
General, miscellaneous and intangibles	23,145	22,785
Construction work in progress	1,422	739
Total regulated segment	239,227	234,183
Non-regulated segment	2,607	2,597
Total property, plant and equipment	241,834	236,780

All expenditures for maintenance and repairs of units of property are charged to the appropriate maintenance expense accounts in the month incurred.

We determine the provision for depreciation using the straight-line method and by the application of rates to various classes of utility plant. The rates are based upon the estimated service lives of the properties and were equivalent to composite rates of 2.8% of average depreciable plant for 2016, 2015 and 2014.

As approved by the Kentucky Public Service Commission, we accrue asset removal costs for certain types of property through depreciation expense with a corresponding increase to regulatory liabilities on the Consolidated Balance Sheets. When this depreciable utility plant and equipment is retired any related removal costs incurred are charged against the regulatory liability.

Our pipe replacement program tariff allows us to adjust our regulated rates annually to earn a return on capital incurred subsequent to our last rate case which are associated with the replacement of pipe and related facilities. The pipe replacement program is designed to additionally recover the costs associated with the mandatory retirement or relocation of facilities.

Impairment of Long-Lived Assets

We evaluate long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for an impairment loss if the carrying value is greater than the fair value. In the opinion of management, our long-lived assets are appropriately valued in the accompanying consolidated financial statements. There were no impairments of long-lived assets during 2016, 2015 or 2014.

Natural Gas In Storage

We operate a natural gas underground storage field that we utilize to inject and store natural gas during the non-heating season, and we then withdraw natural gas during the heating season to meet our customers' needs. The potential exists for differences between actual volumes stored versus our perpetual records primarily due to differences in measurement of injections and withdrawals or the risks of natural gas escaping from the field. We periodically analyze the volumes, pressure and other data relating to the storage field in order to substantiate the natural gas inventory carried in our perpetual inventory records. The periodic analysis of the storage field data utilizes trends in the underlying data and can require multiple periods of observation to determine if differences exist. The analysis can result in adjustments to our perpetual inventory records. The natural gas in storage inventory is recorded at average cost.

Regulated Revenues

We bill our regulated sales of natural gas at tariff rates approved by the Kentucky Public Service Commission. Our customers are billed on a monthly basis; however, the billing cycle for certain classes of customers do not necessarily coincide with the calendar month-end. For these customers, we apply the unbilled method of accounting, where we estimate and accrue revenues applicable to customers, but not yet billed. The related natural gas costs are charged to expense. At the end of each month, natural gas service which has been rendered from the date the customer's meter was last read to the month-end is unbilled. Unbilled revenues are included in accounts receivable on the Consolidated Balance Sheets. As of June 30, 2016, unbilled natural gas costs are included in deferred natural gas costs and as of June 30, 2015, unbilled natural gas costs are included in regulatory liability - refundable natural gas costs on the accompanying Consolidated Balance Sheets. Unbilled amounts include the following:

(000)	2016	2015
Unbilled revenues ($)	1,452	1,674
Unbilled natural gas costs ($)	319	462
Unbilled volumes (Mcf)	63	69

We record on-system transportation services in the period in which we transport natural gas to the end-use customer within our system. On-system transportation customers receive their natural gas supply from third party-shippers delivering natural gas into Delta's system. We bill on-system transportation services at tariff rates, as approved by the Kentucky Public Service Commission, which include both fixed monthly charges and volumetric rates. Delta Resources utilizes Delta's on-system transportation service and Delta recognizes revenue from Delta Resources at tariff rates, which eliminates upon consolidation.

We record off-system transportation services in the period in which we transport natural gas to an interstate pipeline on behalf of third-party shippers delivering natural gas into Delta's system. We bill off-system transportation services at tariff rates, as approved by the Kentucky Public Service Commission, which are volumetric rates. Delgasco utilizes Delta's off-system transportation service and Delta recognizes revenue from Delgasco at tariff rates, which eliminates upon consolidation.

The daily volumes of natural gas delivered from third-party shippers supplying our transportation customers rarely equal the daily volumes billed to our customers, resulting in periodic transportation imbalances. These imbalances are short-term in duration, and Delta monitors the activity and regularly notifies the shippers when they have an imbalance. Transportation imbalances in turn create imbalances of the natural gas supply on Delta's system, thus requiring Delta to purchase either more or less volumes of natural gas to meet our customers' natural gas requirements and are included on the Consolidated Balance Sheets in either accounts payable or prepayments, respectively. Consistent with the regulatory treatment for our natural gas cost recovery tariff (as further discussed in Note 14 of the Notes to Consolidated Financial Statements), imbalances do not impact our results of operations, as the net impact of the imbalances offset against the regulatory asset/liability related to our natural gas cost recovery tariff.

Non-Regulated Revenues

Delta Resources enters into contracts whereby it is obligated to supply one-hundred percent of its customers' natural gas requirements at either fixed or index-based rates. Delta Resources recognizes revenue in the period in which actual metered volumes are delivered to the customer. Delta Resources utilizes Delta's on-system transportation service and records such transportation expenses at tariff rates that eliminate upon consolidation.

Delgasco enters into contracts to deliver fixed quantities of natural gas to its customers at either fixed or index-based rates. Delgasco recognizes revenue based upon the period in which the customer takes possession of the natural gas. Delgasco utilizes Delta's off-system transportation service and records such transportation expenses at tariff rates that eliminate upon consolidation.

Enpro produces natural gas which supplies a portion of Delgasco's natural gas requirements and recognizes the sale of natural gas in the period in which Delgasco takes possession of the natural gas. Revenues and related natural gas costs between Enpro and Delgasco are both within the non-regulated segment and eliminate upon consolidation.

We recognize revenue from natural gas liquids in the period in which the customer takes possession of the natural gas liquids. Factors that affect revenue from the sale of natural gas liquids include the hydrocarbon content of the liquids, the market price for natural gas liquids and the volumes of natural gas liquids sold.

Regulated Purchased Natural Gas Expense

Our regulated natural gas rates include a natural gas cost recovery tariff approved by the Kentucky Public Service Commission which provides for a dollar-tracker that matches revenues and natural gas costs and provides eventual dollar-for-dollar recovery of all natural gas costs incurred by the regulated segment and recovery of the uncollectible natural gas cost portion of bad debt expense. We expense natural gas costs based on the amount of natural gas costs recovered through revenue. Any differences between actual natural gas costs and those natural gas costs billed are deferred and reflected in the computation of future billings to customers using the natural gas cost recovery mechanism.

Excise Taxes

Delta collects certain excise taxes levied by state or local governments from our customers. These taxes are accounted for on a net basis and therefore are not included as revenues in the accompanying Consolidated Statements of Income.

Accounts Receivable / Allowance for Doubtful Accounts

We record an allowance for doubtful accounts to reflect the expected net realizable value of accounts receivable. Accounts receivable are charged off when deemed to be uncollectible or when turned over to a collection agency to pursue.

Rate Regulated Basis of Accounting

We account for our regulated segment in accordance with applicable regulatory guidance. The economic effects of regulation can result in a regulated company recovering costs from customers in a period different from the period in which the costs would be charged to expense by an non-regulated enterprise. When this results, costs are deferred as assets on the Consolidated Balance Sheets ("regulatory assets") and recorded as expenses when such amounts are reflected in rates. Additionally, regulators can impose liabilities upon a regulated company for amounts previously collected from customers and for current collection in rates of costs that are expected to be incurred in the future ("regulatory liabilities"). The amounts recorded as regulatory assets and regulatory liabilities are as follows:

($000)	2016	2015
Regulatory assets		
Current assets		
Deferred natural gas costs	674	—
Other assets		
Conservation/efficiency program expenses	243	173
Loss on extinguishment of debt	2,689	2,916
Asset retirement obligations	5,121	4,668
Accrued pension	10,828	7,161
Total other assets	18,881	14,918
Total regulatory assets	19,555	14,918
Regulatory liabilities		
Current liabilities		
Refundable natural gas costs	—	1
Long-term liabilities		
Accrued cost of removal on long-lived assets	487	417
Regulatory liability for deferred income taxes	651	721
Total long-term liabilities	1,138	1,138
Total regulatory liabilities	1,138	1,139

All of our regulatory assets and liabilities have been approved for recovery by the Kentucky Public Service Commission and are currently being recovered or refunded through our regulated natural gas rates. In addition, the unrecovered balance of the loss on extinguishment of debt is included in rate base and, therefore, earns a return. The weighted average recovery period of the other regulatory assets which are not earning a return is 26 years.

Derivatives

Certain of our natural gas purchase and sale contracts qualify as derivatives. All such contracts have been designated as normal purchases and sales and as such are accounted for under the accrual basis and are not recorded at fair value in the accompanying consolidated financial statements.

Marketable Securities

We have a supplemental retirement benefit agreement with Glenn R. Jennings, our Chairman of the Board, President and Chief Executive Officer, that is a non-qualified deferred compensation plan. The agreement establishes an irrevocable rabbi trust, in which the assets of the trust are earmarked to pay benefits under the agreement. We have recognized a liability related to the obligation to pay these benefits to Mr. Jennings. We make discretionary contributions to the trust in order to fully fund the related deferred compensation liability.

The assets of the trust consist of exchange traded securities and exchange traded mutual funds and are classified as trading securities. The assets are recorded at fair value on the Consolidated Balance Sheets based on observable market prices from active markets. Net realized and unrealized gains and losses are included in earnings each period to effectively offset the corresponding earnings impact associated with the change in the fair value of the deferred compensation liability to which the assets relate.

Fair Value

Fair value is defined as the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. Fair value focuses on an exit price, which is the price that would be received by us to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability.

We determine fair value based on the following fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

- Level 1 - Observable inputs consisting of quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs which require the reporting entity to develop its own assumptions.

Although accounting standards permit entities to elect to measure many financial instruments and certain other items at fair value, we do not currently have any financial assets or financial liabilities for which this provision has been elected. However, in the future, we may elect to measure certain financial instruments at fair value in accordance with these standards.

(2) Accounting Pronouncements

Recently Issued Pronouncements

In May, 2014, the Financial Accounting Standards Board issued guidance revising the principles and standards for revenue recognition. The guidance creates a framework for recognizing revenue to improve comparability of revenue recognition practices across entities and industries focusing on when a customer obtains control of goods or services, rather than the current risks and rewards model of recognition. The core principle of the new standard is that an entity recognizes revenue when it transfers goods or services to its customers in an amount that reflects the consideration an entity expects to be entitled to for those goods or services. The new disclosure requirements include information intended to communicate the nature, amount, timing and any uncertainty of revenue and cash flows from applicable contracts, including any significant judgments. Entities will generally be required to make more estimates and use more judgment under the new standard. The guidance is effective for our quarterly report ending September 30, 2018 and we are evaluating the methods of adoption allowed by the new standard and the effect the standard is expected to have on our results of operations, financial position and cash flows.

In July, 2015, the Financial Accounting Standards Board issued guidance simplifying the measurement of inventory. The guidance requires inventory to be measured at the lower of cost and net realizable value. The guideline, effective for our quarter ending September 30, 2017, is not expected to have a material impact on our results of operations, financial position and cash flows.

In January, 2016, the Financial Accounting Standards Board issued guidance to improve the recognition, measurement, presentation and disclosure of financial instruments. The improvements include guidance on estimating fair value for financial instruments measured at amortized cost on the balance sheet, the classification of financial assets and liabilities on the balance sheet and reduced disclosure for the fair value of financial instruments recognized on the balance sheet at amortized cost. The guidance, effective for our quarter ending September 30, 2018, is not expected to have a material impact on our results of operations, financial position, cash flows and disclosures.

In February, 2016, the Financial Accounting Standards Board issued guidance revising the principles and standards for recognizing leases. The guidance requires lessees to recognize on the statement of financial position a liability for the lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. The recognition and measurement of lease expenses have not significantly changed from previous guidance. The guidance is effective for our quarter ending September 30, 2018 and we are evaluating the impact the guidance is expected to have on our results of operations, financial position and cash flows.

In March, 2016, the Financial Accounting Standards Board issued guidance simplifying the accounting and disclosure requirements for share-based compensation, including the income tax consequences, classification of the awards as equity or liability and classification on the statement of cash flows. The guidance, effective for our quarter ending September 30, 2017, is not expected to have a material impact on our results of operations, financial position and cash flows.

Recently Adopted Pronouncements

In June, 2014, the Financial Accounting Standards Board issued guidance on share-based payments where performance targets can be achieved subsequent to the requisite service period. In such instances, the guidance requires the performance target to be excluded from the determination of the grant date fair value and, when it is probable the performance target will be met, recognition of compensation cost attributable to the periods which the requisite service has already been rendered. The guidance did not impact any share-based payment awards outstanding, thus the guidance is adopted prospectively for all share-based payment awards granted after June 30, 2016 and did not impact our results of operations, financial position and cash flows.

In April, 2015, the Financial Accounting Standards Board issued guidance on the presentation of debt issuance costs which requires the debt issuance costs to be recognized as a direct deduction from the carrying amount of the debt liability as debt issuance costs do not represent assets, but rather adjustments to the carrying cost of debt. We adopted the guidance retrospectively to June 30, 2015. The implementation of this guidance resulted in a $77,000 and $84,000 reduction to long-term debt on the accompanying Consolidated Balance Sheets as of June 30, 2016 and 2015, respectively, representing amounts previously reported as unamortized debt expense. The adoption of the guidance did not have a material effect on our results of operations, financial position and cash flows.

In May, 2015, the Financial Accounting Standards Board issued guidance simplifying the disclosure of certain investments measured using the net asset value per share of the investment. The guidance provides for a practical expedient where investments measured at net asset value per share should not be categorized within the fair value hierarchy (i.e., as Level 1, 2 or 3). Adoption of the guidance did not impact our results of operations, financial position and cash flows.

In November, 2015, the Financial Accounting Standards Board issued guidance to simplify the presentation of deferred income taxes on the balance sheet by classifying all deferred tax assets and liabilities as non-current. As a result of the standard, we have presented all deferred tax liabilities and assets, net, as non-current in deferred income taxes on the accompanying Consolidated Balance Sheets, retrospectively for all periods presented. The adoption of this standard resulted in a $442,000 and $141,000 reclassification of current deferred income tax liability to long-term deferred income tax liability for 2016 and 2015, respectively. Note 5 of the Notes to Consolidated Financial Statements further discusses our income taxes.

(3) Fair Value Measurements

Our financial assets and liabilities measured at fair value on a recurring basis consist of the assets of our supplemental retirement benefit trust, which are included in other non-current assets on the Consolidated Balance Sheets. Contributions to the trust are presented in other investing activities on the Consolidated Statements of Cash Flows. The assets of the trust consist of exchange traded securities and exchange traded mutual funds. The securities and mutual funds are recorded at fair value using observable market prices from active markets, which are categorized as Level 1 in the fair value hierarchy. The trust assets are as follows:

($000)	2016	2015
Money market	44	27
U.S. equity securities	435	395
Foreign equity funds	168	185
U.S. fixed income funds	223	177
Foreign fixed income funds	19	57
Absolute return strategy mutual funds	145	136
Total trust assets	1,034	977

The carrying amounts of our other financial instruments including cash equivalents, accounts receivable, notes receivable and accounts payable approximate their fair value. The fair value of the assets in our defined benefit retirement plan are disclosed in Note 6 of the Notes to Consolidated Financial Statements.

Our Series A Notes, presented as current portion of long-term debt and long-term debt on the Consolidated Balance Sheets, are stated at historical cost, net of unamortized debt issuance costs. The fair value of our long-term debt is based on the expected future cash flows of the debt discounted using a credit adjusted risk-free rate. The credit adjusted risk-free rate for our 4.26% Series A Notes is the estimated cost to borrow a debt instrument with the same terms from a private lender at the measurement date. The fair value of our long-term debt is categorized as Level 3 in the fair value hierarchy.

	2016		2015	
($000)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
4.26% Series A Notes	51,923	55,324	53,416	52,935

(4) Asset Retirement Obligations

Legal obligations

As of June 30, 2016 and 2015, we have accrued liabilities and related assets, net of accumulated depreciation, relative to the legal obligation to retire certain natural gas wells, storage tanks, mains and services. For asset retirement obligations related to regulated assets, accretion of the liability and depreciation of the asset retirement costs are recorded as regulatory assets, pursuant to regulatory accounting standards, as we recover the cost of removing our regulated assets through our depreciation rates.

The following is a summary of our asset retirement obligations as shown on the accompanying Consolidated Balance Sheets:

($000)	2016	2015
Balance, beginning of year	3,796	3,261
Liabilities incurred	28	21
Liabilities settled	(266)	(232)
Accretion	271	246
Revisions in estimated cash flows	89	500
Balance, end of year	3,918	3,796

We have an additional asset retirement obligation related to the retirement of wells located at our underground natural gas storage facility. Since we expect to utilize the storage facility as long as we provide natural gas to our customers, we have determined the underlying asset has an indeterminate life. Therefore, we have not recorded a liability associated with the cost to retire the wells.

Non-legal obligations

In accordance with established regulatory practices, we accrue costs of removal on long-lived assets through depreciation expense to the extent recovery of such costs is granted by the Kentucky Public Service Commission even though such costs do not represent legal obligations. In accordance with regulatory accounting standards, $487,000 and $417,000 of such accrued cost of removal was recorded as a regulatory liability on the accompanying Consolidated Balance Sheets as of June 30, 2016 and 2015, respectively.

(5) Income Taxes

We provide for income taxes on temporary differences resulting from the use of alternative methods of income and expense recognition for financial and tax reporting purposes. The differences result primarily from the use of accelerated tax depreciation methods for certain properties versus the straight-line depreciation method for financial reporting purposes, differences in capitalization thresholds for tax reporting purposes versus financial reporting purposes, differences in recognition of purchased natural gas costs and certain accruals which are not currently deductible for income tax purposes. We utilize the asset and liability method for accounting for income taxes, which requires that deferred income tax assets and liabilities be computed using tax rates that will be in effect when the book and tax temporary differences reverse. Changes in tax rates applied to accumulated deferred income taxes are not immediately recognized in operating results because of ratemaking treatment. A regulatory liability has been established to recognize the regulatory obligation to refund these excess deferred taxes through customer rates. The net deferred income tax liability is presented as non-current in deferred income taxes on the accompanying Consolidated Balance Sheets. The temporary differences which gave rise to the net accumulated deferred income tax liability for the periods are as follows:

($000)	2016	2015
Deferred Tax Liabilities		
Deferred natural gas cost	(256)	—
Prepaid expenses	(392)	(452)
Accelerated depreciation	(38,862)	(38,108)
Prepaid pension	—	(805)
Regulatory assets - asset retirement obligations	(981)	(876)
Regulatory assets - loss on extinguishment of debt	(1,021)	(1,107)
Regulatory assets - unrecognized accrued pension	(4,110)	(2,718)
Regulatory liabilities	(837)	(1,268)
Other	(1,084)	(1,119)
Total deferred tax liabilities	(47,543)	(46,453)
Deferred Tax Assets		
Bad debt reserve	114	98
Accrued pension	516	—
Accrued employee benefits	875	1,131
Asset retirement obligations	1,425	1,378
Investment tax credits	—	7
Regulatory liabilities	1,084	1,540
Section 263(a) capitalized costs	32	64
Other	92	105
Total deferred tax assets	4,138	4,323
Net accumulated deferred income tax liability	(43,405)	(42,130)

The components of the income tax provision are comprised of the following for the years ended June 30:

($000)	2016	2015	2014
Current			
Federal	1,817	1,950	4,532
State	366	493	842
Total	2,183	2,443	5,374
Deferred	1,194	1,449	(515)
Income tax expense	3,377	3,892	4,859

Reconciliation of the statutory federal income tax rate to the effective income tax rate is shown in the table below:

(%)	2016	2015	2014
Statutory federal income tax rate	34.0	34.0	34.0
State income taxes, net of federal benefit	4.0	4.0	4.0
Amortization of investment tax credits	(0.1)	(0.1)	(0.1)
Other differences, net	—	(0.4)	(0.9)
Effective income tax rate	37.9	37.5	37.0

We recognize the income tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The liability for unrecognized tax benefits expected to be recognized within the next twelve months has partially offset our prepaid income taxes and been presented in prepayments on the Consolidated Balance Sheets. The liability for unrecognized tax benefits not expected to be recognized within the next twelve months has been presented in other long-term liabilities on the Consolidated Balance Sheets. Interest and penalties on tax uncertainties are classified in income tax expense in the Consolidated Statements of Income.

As of June 30, 2016 and 2015, we did not have any unrecognized tax positions, which, if recognized, would impact the effective tax rate.

The following is a reconciliation of our unrecognized tax benefits:

($000)	2016	2015
Balance, beginning of year	5	64
Gross decreases - tax positions in prior period	(5)	(59)
Balance, end of year	—	5

We file income tax returns in federal and Kentucky jurisdictions. Tax years previous to June 30, 2013 and June 30, 2012 are no longer subject to examination for federal and Kentucky income taxes, respectively.

(6) Employee Benefit Plans

Defined Benefit Retirement Plan

We have a trusteed, noncontributory, defined benefit retirement plan covering all eligible employees hired prior to May 9, 2008. Retirement income is based on the number of years of service and annual rates of compensation. The Company has historically made annual contributions to fund the plan adequately.

Generally accepted accounting principles (“GAAP”) require employers who sponsor defined benefit retirement plans to recognize the funded status of a defined benefit retirement plan on the balance sheet and to recognize through comprehensive income the changes in the funded status in the year in which the changes occur. However, regulatory accounting standards provide that regulated entities can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current cost-of-service ratemaking in Kentucky allows recovery of net periodic benefit cost as determined under GAAP. The Kentucky Public Service Commission has been clear and consistent with its historical treatment of such rate recovery; therefore, we have recorded a regulatory asset representing the probable recovery of the portion of the change in funded status of the defined benefit retirement plan that is expected to be recognized in future net periodic benefit cost. The regulatory asset is adjusted annually as prior service cost and actuarial losses are recognized in net periodic benefit cost.

Our obligations and the funded status of our plan, measured at June 30, 2016 and June 30, 2015, respectively, are as follows:

($000)	2016	2015
Change in Benefit Obligation		
Benefit obligation at beginning of year	28,838	26,383
Service cost	1,004	990
Interest cost	1,157	1,056
Actuarial loss	1,517	1,219
Benefits paid	(944)	(810)
Benefit obligation at end of year	31,572	28,838
Change in Plan Assets		
Fair value of plan assets at beginning of year	30,984	29,675
Actual return on plan assets	(802)	1,119
Employer contributions	500	1,000
Benefits paid	(944)	(810)
Fair value of plan assets at end of year	29,738	30,984
Recognized Amounts		
Projected benefit obligation	(31,572)	(28,838)
Plan assets at fair value	29,738	30,984
Funded status	(1,834)	2,146
Net amount recognized as (accrued) prepaid pension on the Consolidated Balance Sheets	(1,834)	2,146
Items Not Yet Recognized as a Component of Net Periodic Benefit Cost		
Prior service cost	(144)	(230)
Accumulated net losses	10,972	7,391
Amounts recognized as regulatory assets	10,828	7,161

The accumulated benefit obligation was $28,124,000 and $25,012,000 for 2016 and 2015, respectively.

($000)	2016	2015	2014
Components of Net Periodic Benefit Cost			
Service cost	1,004	990	1,023
Interest cost	1,157	1,056	1,038
Expected return on plan assets	(1,636)	(1,711)	(1,567)
Amortization of unrecognized net loss	373	244	342
Amortization of prior service cost	(86)	(86)	(86)
Net periodic benefit cost	812	493	750

(%)	2016	2015	2014
Weighted-Average Assumptions Used to Determine Benefit Obligations			
Discount rate	3.5	4.25	4.25
Rate of compensation increase	4.0	4.0	4.0
Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost			
Discount rate	4.25	4.25	4.5
Expected long-term return on plan assets	5.5	6.0	6.0
Rate of compensation increase	4.0	4.0	4.0

Plan Assets

Our target investment allocations have been developed using an asset allocation model which weighs risk versus return of various investment indices to create a target asset allocation to maximize return subject to a moderate amount of portfolio risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolios contain a diversified blend of equity and fixed income investments. Our target investment allocations are approximately 70% equity investments and 30% fixed income investments. Our equity investment target allocations are heavily weighted toward domestic equity securities, with allocations to domestic real estate securities and foreign equity securities for the purposes of diversification. Fixed income securities primarily include U.S. government obligations and corporate debt securities. For additional diversification, we invest in absolute return strategy mutual funds, which include both equity and fixed income securities, with the objective of providing a return greater than inflation. The plan has amended its investment policy to allow for liability driven investments which, over time, will match a portion of the plan's liability with the underlying assets. We regularly review our asset allocation and periodically rebalance our investments to our targeted allocations as appropriate.

The assets of the plan are comprised of investments in individual securities and mutual funds.

	Target	Actual Allocations	
(%)	Allocations	2016	2015
Asset Class			
Cash and cash equivalents	3	3	3
Equity Securities			
U.S. equity securities	54	48	47
Foreign equity securities	21	10	12
	75	58	59
Fixed Income Securities			
U. S. fixed income security	13	22	18
Foreign fixed income security	2	3	6
	15	25	24
Other Securities			
Absolute return strategy mutual funds	7	14	14
	100	100	100

Individual exchange traded equity securities, exchange traded mutual funds and treasury securities are categorized as Level 1 in the fair value hierarchy as the fair value of the investments is determined based on the quoted market price of each investment. Mutual funds are categorized based on their primary investment strategy. The respective level within the fair value hierarchy is determined as described in Note 1 of the Notes to Consolidated Financial Statements. Corporate bonds, municipal bonds and U.S. agency securities are valued based on a calculation using interest rate curves and credit spreads applied to the terms of the debt (maturity and coupon rate) supported by observable transactions and are categorized as Level 2 in the fair value hierarchy. The following represents the fair value of the plan assets:

($000)	2016	Level 1	Level 2	Level 3
Asset Class				
Cash	807	807	—	—
Equity Securities				
U.S. equity securities	14,398	14,398	—	—
Foreign equity securities	2,993	2,993	—	—
	17,391	17,391	—	—
Fixed Income Securities				
U.S. treasury securities	387	387	—	—
U.S. corporate bonds	990	—	990	—
High yield funds	4,397	4,397	—	—
Foreign bond funds	624	624	—	—
Other	842	—	842	—
	7,240	5,408	1,832	—
Other				
Absolute return strategy mutual funds	4,300	4,300	—	—
Total investments at fair value	29,738	27,906	1,832	—

($000)	2015	Level 1	Level 2	Level 3
Asset Class				
Cash	1,072	1,072	—	—
Equity Securities				
U.S. equity securities	14,602	14,602	—	—
Foreign equity securities	3,690	3,690	—	—
	18,292	18,292	—	—
Fixed Income Securities				
U.S. treasury securities	524	524	—	—
U.S. corporate bonds	902	—	902	—
High yield funds	3,284	3,284	—	—
Foreign bond funds	1,857	1,857	—	—
Other	734	—	734	—
	7,301	5,665	1,636	—
Other				
Absolute return strategy mutual funds	4,319	4,319	—	—
Total investments at fair value	30,984	29,348	1,636	—

We determined the expected long-term rate of return for plan assets with input from plan actuaries and investment consultants based upon many factors including asset allocations, historical asset returns and expected future market conditions. The discount rates used by the Company for valuing pension liabilities are based on a review of high-quality corporate bond yields with maturities approximating the remaining life of the projected benefit obligations.

We made a $500,000 discretionary contribution to the defined benefit retirement plan in fiscal 2016. In August, 2016, we made a $1,000,000 discretionary contribution to the defined benefit retirement plan and expect to make an additional $500,000 discretionary contribution to the defined benefit retirement plan in fiscal 2017.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

($000)	
2017	3,020
2018	1,556
2019	1,639
2020	1,244
2021	1,155
2022 - 2026	8,365

Effective May 9, 2008, any employees hired on and after that date were not eligible to participate in our defined benefit retirement plan. Freezing the defined benefit retirement plan for new entrants did not impact the level of benefits for existing participants.

We do not provide postretirement or postemployment benefits other than the defined benefit retirement plan for retired employees and the supplemental retirement agreement described below.

Employee Savings Plan

We have an employee savings plan under which eligible employees may elect to contribute a portion of their annual compensation up to the maximum amount permitted by law. The Company matches 100% of the employee's contribution up to a maximum company contribution of 4% of the employee's annual compensation. Employees hired after May 9, 2008, who are not eligible to participate in the defined benefit retirement plan, annually receive an additional 4% non-elective contribution into their employee savings plan account. Company contributions are discretionary and subject to change with approval from our Board of Directors. For 2016, 2015 and 2014, our employee savings plan expense was $379,000, $359,000 and $350,000, respectively.

Supplemental Retirement Agreement

We sponsor a nonqualified defined contribution supplemental retirement agreement for Glenn R. Jennings, Delta's Chairman of the Board, President and Chief Executive Officer. Delta makes discretionary contributions into an irrevocable trust until Mr. Jennings' retirement. At retirement, the trustee will make annual payments of $100,000 to Mr. Jennings until the trust is depleted. For 2016, 2015 and 2014, Delta contributed $60,000 each year to the trust. As of June 30, 2016 and 2015, the irrevocable trust assets are $1,034,000 and $977,000, respectively. These amounts are included in other non-current assets on the accompanying Consolidated Balance Sheets. Liabilities, in corresponding amounts, are included in other long-term liabilities on the accompanying Consolidated Balance Sheets.

(7) Dividend Reinvestment and Stock Purchase Plan

Our Dividend Reinvestment and Stock Purchase Plan ("Reinvestment Plan") provides that shareholders of record can reinvest dividends and also make limited additional investments of up to $50,000 per year in shares of common stock of the Company. Under the Reinvestment Plan we issued 28,437, 26,412 and 28,809 shares in 2016, 2015 and 2014, respectively. We registered 400,000 shares for issuance under the Reinvestment Plan in 2006, and as of June 30, 2016 there were approximately 38,000 shares available for issuance.

(8) Risk Management and Derivative Instruments

To varying degrees, our regulated and non-regulated segments are exposed to commodity price risk. We purchase our natural gas supply through a combination of requirements contracts with no minimum purchase obligations, monthly spot purchase contracts and forward purchase contracts. We mitigate price risk related to the sale of natural gas by efforts to balance supply and demand. For our regulated segment, we utilize requirements contracts, spot purchase contracts and our underground storage to meet our regulated customers' natural gas requirements, all of which have minimal price risk because we are permitted to pass these natural gas costs on to our regulated customers through our natural gas cost recovery tariff. None of our natural gas contracts are accounted for using the fair value method of accounting. While some of our natural gas purchase contracts and natural gas sales contracts meet the definition of a derivative, we have designated these contracts as normal purchases and normal sales.

(9) Notes Payable

The current bank line of credit with Branch Banking and Trust Company permits borrowings up to $40,000,000, all of which was available as of June 30, 2016 and June 30, 2015. During 2016, we did not have any borrowing on our bank line of credit. The maximum amount borrowed during 2015 was $126,000. The bank line of credit extends through June 30, 2017. The interest rate on the used line of credit is the London Interbank Offered Rate plus 1.075%. The annual cost of the unused bank line of credit is 0.125%. Our most restrictive covenants are discussed in Note 10 of the Notes to Consolidated Financial Statements.

(10) Long-Term Debt

Our Series A Notes are unsecured, bear interest at a rate of 4.26% per annum, which is payable quarterly, and mature on December 20, 2031. We are required to make an annual $1,500,000 principal payment on the Series A Notes each December. The following table summarizes the contractual maturities of our Series A Notes by fiscal year:

($000)	
2017	1,500
2018	1,500
2019	1,500
2020	1,500
Thereafter	46,000
Total maturing debt	52,000

Any additional prepayment of principal by the Company may be subject to a prepayment premium which varies depending on the yields of United States Treasury securities with a maturity equal to the remaining average life of the Series A Notes.

We amortize debt issuance expenses over the life of the related debt using the effective interest method. As of June 30, 2016 and 2015, $77,000 and $84,000 of debt issuance costs, respectively, were reflected as an adjustment to the carrying amount of our long-term debt on the accompanying Consolidated Balance Sheets. As of June 30, 2016 and 2015, we had loss on extinguishment of debt of $2,689,000 and $2,916,000, respectively, which has been deferred as a regulatory asset and is being amortized over the term of the debt, as further discussed in Note 1 of the Notes to Consolidated Financial Statements.

With our bank line of credit and Series A Notes, we have agreed to certain financial and other covenants. Noncompliance with these covenants can make the obligations immediately due and payable. Our financial covenants include covenants related to our tangible net worth, total debt to capitalization ratio and fixed charge ratio. Additionally, the Company may not pay aggregate dividends on its capital stock (plus amounts paid in redemption of its capital stock) in excess of the sum of $15,000,000 plus the Company's cumulative earnings after September 30, 2011 adjusted for certain unusual or non-recurring items. We believe we were in compliance with the financial covenants under our bank line of credit and 4.26% Series A Notes for all periods presented in the Consolidated Financial Statements.

Furthermore, the agreement governing our 4.26% Series A Notes contains a cross-default provision which provides that we will be in default under the 4.26% Series A Notes if we are in default on any other outstanding indebtedness that exceeds $2,500,000. Similarly, the loan agreement governing the bank line of credit contains a cross-default provision which provides that we will be in default under the bank line of credit if we are in default under our 4.26% Series A Notes and fail to cure the default within ten days of notice from the bank.

(11) Earnings per Share

The following table sets forth the computation of basic and diluted earnings per common share:

	2016	2015	2014
Numerator - Basic and Diluted ($000)			
Net income	5,529	6,496	8,275
Dividends paid	(5,822)	(5,640)	(5,290)
Undistributed earnings (loss)(a)	(293)	856	2,985
Allocated to common shares:			
Undistributed earnings (loss) (a)	(293)	851	2,966
Dividends paid (b)	5,798	5,609	5,263
Earnings allocated to common shares	5,505	6,460	8,229
Denominator - Basic and Diluted			
Weighted average common shares (c)	7,066,925	7,002,694	6,918,725
Earnings per Common Share - Basic and Diluted ($)	0.78	0.92	1.19

(a) Percentage allocated to common shares:

	2016	2015	2014
Weighted average:			
Common shares outstanding	7,066,925	7,002,694	6,918,725
Unvested participating shares outstanding (d)	—	45,500	44,750
Total	7,066,925	7,048,194	6,963,475
Percentage allocated to common shares	100.0%	99.4%	99.4%
Undistributed earnings (loss) ($000)	(293)	856	2,985
Allocated to common shares	(293)	851	2,966

(b) Represents dividends paid on common shares, exclusive of unvested participating shares.

(c) Under our Incentive Compensation Plan, recipients of performance share awards receive unvested non-participating shares, as further discussed in Note 16 of the Notes to Consolidated Financial Statements. Unvested non-participating shares become dilutive in the interim quarter-end in which the performance objective is met. If the performance objective continues to be met through the end of the performance period, these shares become unvested participating shares as of the fiscal year-end, as further discussed below in Note (c). The weighted average number of unvested non-participating shares outstanding during a period is included in the diluted earnings per common share calculation using the treasury stock method, unless the effect of including such shares would be antidilutive. There were no unvested non-participating shares outstanding as of June 30, 2016, 2015 and 2014.

(d) Certain awards under our shareholder approved incentive compensation plan, as further discussed in Note 16 of the Notes to Consolidated Financial Statements, provide the recipients of the awards all the rights of a shareholder of Delta including the right to dividends declared on common shares. Any unvested shares which are participating in dividends are considered participating securities and are included in our computation of basic and diluted earnings per share using the two-class method unless the effect of including such shares would be antidilutive. As of June 30, 2016, there were 28,000 participating shares outstanding which were excluded from the computation of earnings allocated to common shares for 2016, as the holders of the unvested participating shares do not have a contractual obligation to share in losses. There were no antidilutive shares in 2015 and 2014. There were 28,000, 65,000 and 74,000 unvested participating shares outstanding as of June 30, 2016, 2015 and 2014, respectively.

(12) Operating Leases

We have no non-cancellable operating leases. Our operating leases relate primarily to well and compressor station site leases and are cancellable at our option. Rental expense under operating leases was $78,000, $69,000 and $68,000 for the years ended June 30, 2016, 2015 and 2014, respectively.

(13) Commitments and Contingencies

We have entered into an employment agreement with our Chairman of the Board, President and Chief Executive Officer and change in control agreements with our other four officers. The agreements expire or may be terminated at various times. The agreements provide for continuing monthly payments or lump sum payments and the continuation of specified benefits over varying periods in certain cases following defined changes in ownership of the Company. In the event all of these agreements were exercised in the form of lump sum payments, approximately $4.4 million would be paid in addition to continuation of specified benefits for up to five years. Additionally, upon a change in control, all unvested shares awarded under our Incentive Compensation Plan, as further discussed in Note 16 of the Notes to Consolidated Financial Statements, would immediately vest.

We are not a party to any material pending legal proceedings.

We have entered into forward purchase agreements for a portion of our non-regulated segment's natural gas purchases through May, 2017. The agreements require us to purchase minimum amounts of natural gas throughout the term of the agreements. The agreements are established in the normal course of business to ensure adequate natural gas supply to meet our non-regulatled customers' natural gas requirements. The agreements have aggregate minimum purchase obligations of $612,000 for our fiscal year ending June 30, 2017.

(14) Regulatory Matters

The Kentucky Public Service Commission exercises regulatory authority over our retail natural gas distribution and transportation services, which includes approval of our rates and tariffs. We monitor our need to file requests with them for a general rate increase for our natural gas distribution and transportation services. The Kentucky Public Service Commission has historically utilized cost-of-service ratemaking where our base rates are established to recover normal operating expenses, exclusive of natural gas costs, and a reasonable rate of return on our rate base. Rate base consists primarily of our regulated segment's property, plant and equipment, natural gas in storage and unamortized debt expense offset by accumulated depreciation and certain deferred income taxes. Our regulated rates were most recently adjusted in our 2010 rate case and became effective in October, 2010. We do not have any matters before the Kentucky Public Service Commission which would have a material impact on our results of operations, financial position or cash flows.

Our pipe replacement program tariff allows us to adjust rates annually to earn a return on capital expenditures incurred subsequent to our last rate case which are associated with the replacement of pipe and related facilities. The pipe replacement program is designed to additionally recover the costs associated with the mandatory retirement or relocation of facilities.

Our natural gas cost recovery tariff permits us to adjust the rates charged to our customers to reflect changes in our natural gas supply costs and any bad debt expense related to natural gas cost. Although we are not required to file a general rate case to adjust rates pursuant to the natural gas cost recovery tariff, we are required to make quarterly filings with the Kentucky Public Service Commission. Under and over-recovered natural gas costs are collected or refunded through adjustments to customer bills beginning three months after the end of the quarter in which the actual natural gas costs were incurred.

Our weather normalization tariff provides for the adjustment of our rates to residential and small non-residential customers to reflect variations from thirty- year average weather for our December through April billing cycles. These adjustments to customer bills are made on a real time basis such that there is no lag in collecting from or refunding to customers the related dollar amounts.

Additionally, we have a conservation and efficiency program tariff for our residential customers, which allows us to adjust our rates for activities performed through the program. Through this program, we perform energy audits, promote conservation awareness and provide rebates on the purchase of certain high-efficiency appliances. The program helps to align our interests with our residential customers' interests by reimbursing us for the gross margins on lost sales due to operating the program and providing incentives for us to promote customer conservation. Our rates are adjusted annually to recover the costs incurred under these programs, the reimbursement of margins on lost sales and the incentives provided to us.

In addition to regulation by the Kentucky Public Service Commission, we may obtain non-exclusive franchises from the cities in which we operate authorizing us to place our facilities in the streets and public grounds. No utility may obtain a franchise until it has obtained approval from the Kentucky Public Service Commission to bid on such franchise. We hold franchises in seven of the cities we serve, and we continue to operate under the conditions of expired franchises in fifteen other cities we serve. In the other cities and areas we serve, the areas served do not have governmental organizations authorized to grant franchises or the city governments do not require a franchise. We attempt to acquire or reacquire franchises whenever feasible. Without a franchise, a city could require us to cease our occupation of the streets and public grounds or prohibit us from extending our facilities into any new area of that city. To date, the absence of a franchise has not adversely affected our operations.

(15) Segment Information

Our Company has two reportable segments: a regulated segment and a non-regulated segment. Our regulated segment includes our natural gas distribution and transportation services, which are regulated by the Kentucky Public Service Commission. Our non-regulated segment includes our natural gas marking activities and the sales of natural gas liquids. The non-regulated segment produces a portion of the natural gas it markets to its customers. The division of these segments into separate revenue generating components is based upon regulation, products and services. Both segments operate in the single geographic area of central and southeastern Kentucky. Our chief operating decision maker is our Chief Executive Officer. We evaluate performance based on net income of the respective segment.

In our non-regulated segment, two customers each provided more than 5% of our operating revenues for 2016. Our largest customer provided approximately $11,555,000, $17,852,000 and $12,569,000 of non-regulated revenues during 2016, 2015 and 2014, respectively. Our second largest customer provided approximately $5,656,000, $7,127,000 and $9,494,000 of non-regulated revenues during 2016, 2015 and 2014, respectively. There is no assurance that revenues from these customers will continue at these levels.

Our regulated segment purchased approximately 99% of its natural gas from Atmos Energy Marketing and Midwest Energy Services in 2016 and 2015. In 2014, we purchased approximately 98% of our natural gas from Atmos Energy Marketing, M & B Gas Services and Midwest Energy Services.

Our non-regulated segment purchased approximately 99% of its natural gas from Atmos Energy Marketing and Midwest Energy Services in 2016. In 2015, we purchased approximately 99% of our natural gas from Atmos Energy Marketing, M & B Gas Services and Midwest Energy Services. In 2014, we purchased approximately 96% of our natural gas from Atmos Energy Marketing and M&B Services.

The reportable segments follow the accounting policies as described in the Summary of Significant Accounting Policies in Note 1 of the Notes to Consolidated Financial Statements. Intersegment revenues and expenses represent the natural gas transportation costs from the regulated segment to the non-regulated segment at our tariff rates. Operating expenses, taxes and interest are allocated to the non-regulated segment.

Segment information is shown in the following table:

($000)	2016	2015	2014
Operating Revenues			
Regulated			
External customers	41,242	52,681	57,054
Intersegment	3,591	3,869	4,041
Total Regulated	44,833	56,550	61,095
Non-regulated			
External customers	22,888	33,507	38,792
Eliminations for intersegment	(3,591)	(3,869)	(4,041)
Total operating revenues	64,130	86,188	95,846
Operating Expenses			
Regulated			
Purchased natural gas	11,704	22,729	27,215
Depreciation and amortization	6,328	6,293	6,068
Other	16,033	15,819	15,285
Total regulated	34,065	44,841	48,568
Non-regulated			
Purchased natural gas	17,621	26,713	29,059
Depreciation and amortization	88	84	80
Other	4,513	5,455	6,576
Total non-regulated	22,222	32,252	35,715
Eliminations for intersegment	(3,591)	(3,869)	(4,041)
Total operating expenses	52,696	73,224	80,242
Other Income			
Regulated	4	25	183
Non-regulated	—	—	18
Total other income	4	25	201
Interest Charges			
Regulated	2,486	2,551	2,633
Non-regulated	45	50	38
Total interest charges	2,531	2,601	2,671
Income Tax Expense			
Regulated	3,238	3,553	3,907
Non-regulated	139	339	952
Total income tax expense	3,377	3,892	4,859
Net Income			
Regulated	4,982	5,748	6,407
Non-regulated	547	748	1,868
Total net income	5,529	6,496	8,275
Assets			
Regulated	185,634	183,482	181,440
Non-regulated	3,245	4,229	4,495
Total assets	188,879	187,711	185,935
Capital Expenditures			
Regulated	6,293	8,991	8,078
Non-regulated	10	20	—
Total capital expenditures	6,303	9,011	8,078

(16) Share-Based Compensation

We have a shareholder approved incentive compensation plan (the "Plan") that provides for compensation payable in shares of our common stock. The Plan is administered by our Corporate Governance and Compensation Committee of our Board of Directors, which has complete discretion in determining our employees, officers and outside directors who shall be eligible to participate in the Plan, as well as the type, amount, terms and conditions of each award, subject to the limitations of the Plan.

The number of shares of our common stock that may be issued pursuant to the Plan may not exceed in the aggregate 1,000,000 shares. As of June 30, 2016, approximately 747,000 shares of common stock were available for issuance under the Plan, subject to the limitations imposed by our Corporate Governance Guidelines. Shares of common stock may be available from authorized but unissued shares, shares reacquired by us or shares that we purchase in the open market.

Compensation expense for share-based compensation is recorded in the non-regulated segment in operation and maintenance expense in the Consolidated Statements of Income based on the fair value of the awards at the grant date and is amortized over the requisite service period. Fair value is the closing price of our common shares at the grant date. The grant date is the date at which our commitment to issue the share-based awards arises, which is generally when the award is approved and the terms of the awards are communicated to the employee or director. We initially recognize expense for our performance shares when it is probable that any stipulated performance criteria will be met. Our share-based compensation expense was $452,000, $1,095,000 and $1,112,000 for 2016, 2015 and 2014, respectively.

To the extent the cumulative deduction for income tax purposes exceeds the cumulative compensation expense recognized for financial reporting purposes, the excess tax benefits can be utilized to offset tax deficiencies related to share-based compensation in subsequent periods. In 2016 and 2015, immaterial differences between compensation expense for financial reporting purposes and income tax purposes were recognized.

Stock Awards

In 2016, common stock was awarded to Delta's directors having grant date fair value of $169,000 (8,400 shares). In 2015 and 2014, common stock was awarded to virtually all Delta employees and directors having grant date fair values of $443,000 (22,000 shares) and $350,000 (17,000 shares), respectively. The recipients vested in the awards shortly after the awards were granted, but during the time between the grant dates and the vesting dates the shares awarded were not transferable by the holders. Once the shares were vested, the shares received under the stock awards were immediately transferable.

Performance Shares

In 2016, 2015 and 2014, performance shares were awarded to the Company's executive officers having grant date fair values of $787,000 (39,000 shares), $773,000 (39,000 shares) and $801,000 (39,000 shares), respectively. The performance shares vest only if the performance objectives of the awards are met, which are based on the Company's earnings per common share for the fiscal year in which the performance shares are awarded, before any cash bonuses or share-based compensation. Upon satisfaction of the performance objectives, unvested shares are issued to the recipients and vest in one-third increments each August 31 subsequent to achieving the performance objectives as long as the recipients are employees throughout each such service period. Unvested shares of executive officers, while still employed by the Company, will fully vest upon them attaining the age of sixty-seven. The recipients of the awards also become vested as a result of certain events such as death or disability of the holders. The unvested shares have both dividend participation rights and voting rights during the remaining terms of the awards. Holders of performance shares may not sell, transfer or pledge their shares until the shares vest. For 2016, 2015 and 2014, compensation expense related to the performance shares was $283,000, $652,000 and $762,000, respectively.

The performance objectives for the performance shares awarded in 2016 were not satisfied and the awards were forfeited. Performance objectives for the performance shares awarded in 2014 and 2015 were met and 28,000 of these shares remain unvested as of June 30, 2016. The Company will recognize the remaining $49,000 of expense associated with these shares between 2017 and 2019.

Our performance shares have graded vesting schedules, and each separate annual vesting tranche is treated as a separate award for expense recognition. Compensation expense is amortized over the vesting period of the individual awards based on the probable outcome of meeting the performance objectives.

Since the performance condition has been satisfied for the shares granted in 2014 and 2015, the holder of performance shares will have both dividend participation rights and voting rights during the remaining term of the awards. The holder becomes vested as a result of certain events such as death or disability of the holder. Subject to the satisfaction of the performance condition, the weighted average expected remaining vesting period at June 30, 2016 is 0.7 years.

The following summarizes the activity for performance shares:

	Performance shares	
	Number of shares	**Weighted-average grant date fair value ($ per share)**
Unvested shares at June 30, 2015	65,000	20.47
Granted (a)	39,000	20.17
Vested	(37,000)	20.70
Forfeited	(39,000)	20.17
Unvested shares at June 30, 2016	28,000	20.15

(a) Represents the maximum number of shares which could be issued based on achieving the performance criteria.

(17) Quarterly Financial Data (Unaudited)

The quarterly data reflects, in the opinion of management, all normal recurring adjustments necessary to present fairly the results for the interim periods.

Quarter Ended	Operating Revenues	Operating Income (Loss)	Net Income (Loss)	Basic and Diluted Earnings (Loss) per Common Share
Fiscal 2016				
September 30	$ 10,393,423	$ (132,549)	$ (524,457)	$ (0.08)
December 31	16,673,347	3,478,479	1,803,351	0.25
March 31	26,202,462	7,084,268	3,983,441	0.56
June 30	10,860,988	1,003,794	267,043	0.05
Fiscal 2015				
September 30	$ 13,321,305	$ 160,061	$ (311,125)	$ (0.05)
December 31	25,875,266	4,899,101	2,656,534	0.38
March 31	35,085,307	7,286,400	4,155,136	0.59
June 30	11,906,360	618,299	(4,464)	—

(18) Subsequent Events

In August, 2016, 9,600 shares of common stock were awarded to outside directors having a grant date fair value of $247,000. In August, 2016, performance shares were awarded to the Company's executive officers. The performance share awards vest only if the performance objective of the awards is met, which is based on the Company's fiscal 2017 audited earnings per share, before any cash bonuses or share-based compensation. Subject to further limitations described in the Plan, all performance shares paid shall be in the form of unvested shares, which contain a service condition whereby recipients of the awards shall vest in one-third increments each year beginning on August 31, 2017, and annually each August 31 thereafter until fully vested as long as the recipient is an employee throughout each such service period. Unvested shares of executive officers while still employed by the Company will fully vest upon them attaining the age of sixty-seven. The maximum number of shares which could be issued under the performance awards is 41,000, having a grant date fair value of $1,056,000.

SCHEDULE II

DELTA NATURAL GAS COMPANY, INC.
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED JUNE 30, 2016, 2015 and 2014

Column A	Column B	Column C Additions		Column D Deductions	Column E
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts - Recoveries	Amounts Charged Off Or Paid	Balance at End of Period
Deducted From the Asset to Which it Applies - Allowance for doubtful accounts for the years ended:					
June 30, 2016	$ 258,400	$ 247,724	$ 122,364	$ 327,792	$ 300,696
June 30, 2015	360,000	170,631	237,267	509,498	258,400
June 30, 2014	536,255	107,131	225,502	508,888	360,000