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**NATURAL ENERGY UTILITY CORPORATION**

**INDEPENDENT AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

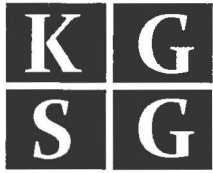
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Natural Energy Utility Corporation  
Ashland, Kentucky

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Natural Energy Utility Corporation which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

### *Managements Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Natural Energy Utility Corporation as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Kelley Galloway Smith Goolsby, PSC*

Ashland, Kentucky  
February 23, 2016

**NATURAL ENERGY UTILITY CORPORATION**  
**BALANCE SHEETS**  
**DECEMBER 31, 2015 AND 2014**

<b>ASSETS</b>	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash in bank	\$ 191,093	\$ 80,607
Accounts receivable, net of allowance for doubtful accounts of \$1,500	256,002	396,572
Prepaid expenses	36,003	37,844
Gas imbalance receivable	14,923	14,441
Supplies inventory	5,000	5,000
<b>TOTAL CURRENT ASSETS</b>	<u>503,021</u>	<u>534,464</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	394,438	444,350
<b>OTHER ASSETS</b>		
Advances to shareholders	2,883	17,601
Loans to shareholders	2,704,545	-
<b>TOTAL OTHER ASSETS</b>	<u>2,707,428</u>	<u>17,601</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,604,887</u></u>	<u><u>\$ 996,415</u></u>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Line of credit	\$ -	\$ 225,000
Accounts payable	149,408	217,869
Accrued liabilities	88,109	42,860
Customer deposits	20,541	19,333
Current portion of long-term debt	398,972	5,625
<b>TOTAL CURRENT LIABILITIES</b>	<u>657,030</u>	<u>510,687</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, net of current portion	2,495,099	19,688
<b>TOTAL LIABILITIES</b>	<u>3,152,129</u>	<u>530,375</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$1 par; 1,000 shares authorized, issued and outstanding	1,000	1,000
Additional paid-in capital	320,000	320,000
Retained earnings	131,758	145,040
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>452,758</u>	<u>466,040</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 3,604,887</u></u>	<u><u>\$ 996,415</u></u>

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

**NATURAL ENERGY UTILITY CORPORATION**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

<b>REVENUES</b>	<b>2015</b>	<b>2014</b>
Gas sales and transportation income	\$ 3,160,582	\$ 3,538,909
Other income	30,210	21,153
<b>TOTAL REVENUES</b>	<u>3,190,792</u>	<u>3,560,062</u>
 <b>COST OF SALES</b>		
Gas purchases	453,965	589,616
Transportation costs	20,967	28,129
<b>TOTAL COST OF SALES</b>	<u>474,932</u>	<u>617,745</u>
<b>GROSS PROFIT</b>	<u>2,715,860</u>	<u>2,942,317</u>
 <b>OPERATING EXPENSES</b>		
Salaries and wages	1,503,029	1,865,686
Employee retirement plan contributions	23,797	23,574
Depreciation	142,598	200,272
Operations expense	281,448	236,326
Professional fees	155,184	44,940
Taxes and licenses	72,808	65,812
Employee insurance	95,632	81,362
Travel expenses	23,056	25,041
Payroll tax expense	60,241	61,177
Other insurance	80,170	72,474
Rent and lease expense	16,352	11,355
Telephone and communications	24,690	24,793
Repairs and maintenance	18,157	13,398
Bad debt provision	1,090	3,888
Office supplies and expense	5,519	4,985
Postage and shipping	9,055	8,890
Miscellaneous expenses	18,036	7,901
Utilities	6,757	6,927
Advertising	4,391	3,420
<b>TOTAL OPERATING EXPENSES</b>	<u>2,542,010</u>	<u>2,762,221</u>
<b>NET OPERATING INCOME</b>	<u>173,850</u>	<u>180,096</u>
 <b>OTHER INCOME (EXPENSE)</b>		
Interest expense, net of interest income of \$4,545 and \$334 respectively	(30,981)	(3,962)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>(30,981)</u>	<u>(3,962)</u>
<b>NET INCOME</b>	<u>\$ 142,869</u>	<u>\$ 176,134</u>

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

**NATURAL ENERGY UTILITY CORPORATION**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL</u>
<b>BALANCE, JANUARY 1, 2014</b>	\$ 1,000	\$ 320,000	\$ 163,502	\$ 484,502
Net income	-	-	176,134	176,134
Distributions to stockholders	-	-	(194,596)	(194,596)
<b>BALANCE, DECEMBER 31, 2014</b>	1,000	320,000	145,040	466,040
Net income	-	-	142,869	142,869
Distributions to stockholders	-	-	(156,151)	(156,151)
<b>BALANCE, DECEMBER 31, 2015</b>	<u>\$ 1,000</u>	<u>\$ 320,000</u>	<u>\$ 131,758</u>	<u>\$ 452,758</u>

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

**NATURAL ENERGY UTILITY CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>2015</u>	<u>2014</u>
Net income	\$ 142,869	\$ 176,134
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	142,598	200,272
Provision for bad debts	1,090	3,888
Net changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	139,480	(25,342)
Prepaid expenses	1,841	(477)
(Decrease) increase in:		
Accounts payable	(68,461)	134,611
Accrued liabilities	45,249	(50,306)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>404,666</u>	<u>438,780</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in loans to shareholders	(2,704,545)	-
Purchases of property and equipment	(92,686)	(236,269)
(Increase) decrease in advances to shareholders	14,718	(10,406)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(2,782,513)</u>	<u>(246,675)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change line of credit	(225,000)	(6,000)
Proceeds from long-term debt	3,000,000	86,471
Payments on long-term debt	(131,242)	(61,158)
Distributions to shareholders	(156,151)	(194,596)
Gas imbalance repayments	(482)	(26,886)
Increase in customer deposits	1,208	3,460
<b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>	<u>2,488,333</u>	<u>(198,709)</u>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	110,486	(6,604)
 <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>80,607</u>	<u>87,211</u>
 <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 191,093</u>	<u>\$ 80,607</u>
 <b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the year for interest	\$ 35,851	\$ 4,314

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

**NATURAL ENERGY UTILITY CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Date of Management Review

Subsequent events have been evaluated through February 23, 2016, which is the date the financial statements were available to be issued.

Nature of Operations

Natural Energy Utility Corporation (the Corporation) owns and operates a natural gas pipeline in Boyd, Carter and Greenup County, Kentucky. The Corporation provides transportation services and sells natural gas to governmental, industrial and residential customers in its market area consisting primarily of Boyd, Carter and Greenup County, Kentucky. The Corporation is subject to regulation by the Kentucky Public Service Commission.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and Cash Equivalents

For the purposes of the statements of cash flows, the Corporation considers cash on deposit with banks and all highly liquid debt instruments, purchased with an original maturity of three months or less to be cash equivalents.

Income Taxes

The Corporation, with the consent of its shareholders, has elected under the Internal Revenue Code to be an S-Corporation. In lieu of corporation income taxes, the shareholders of an S Corporation are taxed on their proportionate share of the Corporation's taxable income. Therefore, no provision or liability for federal or state income taxes has been included in the financial statements.

Management believes its tax returns prior to 2012 are no longer subject to examination by the Internal Revenue Service.

Accounts Receivable

Accounts receivable are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date.

Trade accounts receivable are stated at the contractual amount billed to the customer. Customer account balances with invoices dated over 30 days old are considered past due. The Company allocates customer



payments of accounts receivable to the specific invoices identified on the customer's remittance advice or, if unspecified, the Company applies the payment to the oldest unpaid invoices.

The Company reduces the carrying amount of trade accounts receivable by an allowance for credit losses that reflects its best estimate of the amounts that will not be collected. The Company reviews each customer balance where all or a portion of the balance exceeds 30 days from the invoice date. Based on the Company's assessment of the customer's current creditworthiness, management estimates the portion, if any, of the balance that will not be collected. The Company writes off receivables as a charge to the allowance for credit losses when, in the Company's estimation, it is probable that the receivable is worthless.

### Property and Equipment

Land is carried at cost. Property, furniture and equipment are carried at cost less accumulated depreciation computed principally by the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and improvements which do not materially extend the useful lives of the assets are charged to operations in the periods incurred.

### Advertising

Advertising costs are expensed when incurred.

### **NOTE B: PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2015 and 2014, by major classifications are as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 5,000	\$ 5,000
Buildings and improvements	74,553	74,553
Furniture, fixtures & equipment	217,458	194,272
Autos and trucks	524,987	455,487
Pipelines and projects	2,885,209	2,885,209
	<u>3,707,207</u>	<u>3,614,521</u>
Accumulated depreciation	(3,312,769)	(3,170,171)
	<u>\$ 394,438</u>	<u>\$ 444,350</u>

Depreciation expense charged to operations for the years ended December 31, 2015 and 2014 totaled \$142,598 and \$200,272, respectively.

### **NOTE C: LINE OF CREDIT**

The Corporation has available a \$500,000 line of credit expiring August 5, 2016, interest to be paid monthly at the Wall Street prime interest rate, secured by all the Corporation's assets and personal guarantee of the principal shareholder. There was \$225,000 outstanding on this line of credit as of December 31, 2014.

**NOTE D: LONG-TERM DEBT**

	2015	2014
Note Payable (3.25%) due in monthly installments of \$40,049, to August 2017 secured by all corporate assets and the personal guarantee of its principal shareholder	\$ 2,874,383	\$ -
Note Payable (0.00%) due in monthly installments of \$469, to June 2019, secured by equipment	19,688	25,313
Total Long-Term Debt	2,894,071	25,313
Less Current Portion	(398,972)	(5,625)
Long-Term Debt, Net of Current Portion	\$ 2,495,099	\$ 19,688

Years ending December 31,	
2016	\$ 398,972
2017	2,486,661
2018	5,625
2019	2,813
	\$ 2,894,071

**NOTE E: OPERATING LEASES**

The Company's operating lease obligation includes a company vehicle. Future minimum lease payments under the operating lease described above are as follows:

Years ending December 31,	
2016	\$ 8,124
2017	4,062

**NOTE F: CONCENTRATIONS**Major Customers

Three major customers accounted for 72.84% of total sales for 2015. Accounts receivable from these three customers comprised 87.92% of total accounts receivable at December 31, 2015. The same three major customers accounted for 71.56% of total revenues for 2014. Accounts receivable from these three customers comprised 65.87% of total accounts receivable at December 31, 2014.

**NOTE G: RETIREMENT PLAN**

Effective October 1, 2007, the Corporation adopted a 401-K retirement plan covering all eligible employees. The Corporation has elected to make safe harbor contributions of 3.0% of all qualifying employee compensation. Contributions to the plan totaled \$23,797 and \$23,574 for the years ended December 31, 2015 and 2014, respectively.

**NOTE H: RELATED PARTY TRANSACTIONS**

On August 25, 2015, the Corporation made loans to its shareholders totaling \$2,700,000 at 0.48% interest, maturing August 25, 2017. During 2015, the Corporation accrued \$4,545 in interest income related to these loans which is included in the balance sheet.