

**PUBLIC SERVICE COMMISSION
ANNUAL REPORTS**

MAR 27 2017

RECEIVED

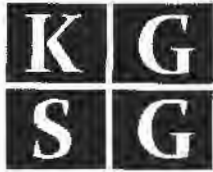
NATURAL ENERGY UTILITY CORPORATION

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

DECEMBER 31, 2016 AND 2015

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	2
BALANCE SHEETS.....	3
STATEMENTS OF INCOME.....	4
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY	5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS.....	7-10



Kelley **G**alloway
Smith **G**oolsby, PSC

Certified Public Accountants and Advisors

1200 Corporate Court • P.O. Box 990 • Ashland, Kentucky 41105
• Phone (606) 329-1811 (606) 329-1171 • Fax (606) 329-8756 (606) 325-0590
• Web www.ksgcpa.com Member of **Allinial** GLOBAL

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, 2016 and 2015, 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, 2016 and 2015, 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 17, 2017

NATURAL ENERGY UTILITY CORPORATION
BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash in bank	\$ 163,333	\$ 191,093
Accounts receivable, net of allowance for doubtful accounts of \$1,500	298,396	256,002
Prepaid expenses	65,006	36,003
Gas imbalance receivable	-	14,923
Supplies inventory	5,000	5,000
TOTAL CURRENT ASSETS	531,735	503,021
PROPERTY AND EQUIPMENT, NET	373,455	394,438
OTHER ASSETS		
Advances to shareholders	2,747	2,883
Loans to shareholders	2,517,540	2,704,545
TOTAL OTHER ASSETS	2,520,287	2,707,428
TOTAL ASSETS	\$ 3,425,477	\$ 3,604,887
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 190,147	\$ 149,408
Accrued liabilities	96,907	88,109
Customer deposits	20,983	20,541
Current portion of long-term debt	419,058	398,972
Gas imbalance payable	12,996	-
TOTAL CURRENT LIABILITIES	740,091	657,030
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	2,111,204	2,495,099
TOTAL LIABILITIES	2,851,295	3,152,129
STOCKHOLDERS' EQUITY		
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	253,182	131,758
TOTAL STOCKHOLDERS' EQUITY	574,182	452,758
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,425,477	\$ 3,604,887

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, 2016 AND 2015

	2016	2015
REVENUES		
Gas sales and transportation income	\$ 3,049,999	\$ 3,160,582
Other income	19,543	30,210
TOTAL REVENUES	3,069,542	3,190,792
COST OF SALES		
Gas purchases	398,088	453,965
Transportation costs	31,355	20,967
TOTAL COST OF SALES	429,443	474,932
GROSS PROFIT	2,640,099	2,715,860
OPERATING EXPENSES		
Salaries and wages	1,686,082	1,503,029
Employee retirement plan contributions	24,330	23,797
Depreciation	114,668	142,598
Operations expense	94,386	281,448
Professional fees	44,552	155,184
Taxes and licenses	72,013	72,808
Employee insurance	107,367	95,632
Travel expenses	28,711	23,056
Payroll tax expense	63,880	60,241
Other insurance	83,401	80,170
Rent and lease expense	10,545	16,352
Telephone and communications	27,770	24,690
Repairs and maintenance	12,068	18,157
Bad debt provision	305	1,090
Office supplies and expense	5,180	5,519
Postage and shipping	7,426	9,055
Miscellaneous expenses	11,881	18,036
Utilities	7,066	6,757
Advertising	11,130	4,391
TOTAL OPERATING EXPENSES	2,412,761	2,542,010
NET OPERATING INCOME	227,338	173,850
OTHER INCOME (EXPENSE)		
Interest expense, net of interest income of \$13,473 and \$4,870 respectively	(76,247)	(30,981)
TOTAL OTHER INCOME (EXPENSE)	(76,247)	(30,981)
NET INCOME	\$ 151,091	\$ 142,869

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, 2016 AND 2015

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL</u>
BALANCE, JANUARY 1, 2015	\$ 1,000	\$ 320,000	\$ 145,040	\$ 466,040
Net income	-	-	142,869	142,869
Distributions to stockholders	-	-	(156,151)	(156,151)
BALANCE, DECEMBER 31, 2015	1,000	320,000	131,758	452,758
Net income	-	-	151,091	151,091
Distributions to stockholders	-	-	(29,667)	(29,667)
BALANCE, DECEMBER 31, 2016	<u>\$ 1,000</u>	<u>\$ 320,000</u>	<u>\$ 253,182</u>	<u>\$ 574,182</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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 151,091	\$ 142,869
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	114,668	142,598
Provision for bad debts	305	1,090
Net changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(42,699)	139,480
Prepaid expenses	(29,003)	1,841
(Decrease) increase in:		
Accounts payable	40,739	(68,461)
Accrued liabilities	8,798	45,249
NET CASH PROVIDED BY OPERATING ACTIVITIES	243,899	404,666
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in loans to shareholders	187,005	(2,704,545)
Purchases of property and equipment	(93,685)	(92,686)
(Increase) decrease in advances to shareholders	136	14,718
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	93,456	(2,782,513)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change line of credit	-	(225,000)
Proceeds from long-term debt	-	3,000,000
Payments on long-term debt	(363,809)	(131,242)
Distributions to shareholders	(29,667)	(156,151)
Gas imbalance repayments	27,919	(482)
Increase in customer deposits	442	1,208
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(365,115)	2,488,333
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(27,760)	110,486
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	191,093	80,607
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 163,333	\$ 191,093
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	\$ 88,032	\$ 36,000

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, 2016 AND 2015

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of Management Review

Subsequent events have been evaluated through February 17, 2017, 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 2013 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, 2016 and 2015, by major classifications are as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 5,000	\$ 5,000
Buildings and improvements	74,553	74,553
Furniture, fixtures & equipment	217,458	217,458
Autos and trucks	575,993	524,987
Pipelines and projects	2,885,209	2,885,209
	<u>3,758,213</u>	<u>3,707,207</u>
Accumulated depreciation	(3,384,758)	(3,312,769)
	<u>\$ 373,455</u>	<u>\$ 394,438</u>

Depreciation expense charged to operations for the years ended December 31, 2016 and 2015 totaled \$114,668 and \$142,598, respectively.

NOTE C: LINE OF CREDIT

The Corporation has available a \$500,000 line of credit expiring August 5, 2017, 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 no balance outstanding on this line of credit as of December 31, 2016 or 2015.

NOTE D: LONG-TERM DEBT

	<u>2016</u>	<u>2015</u>
Note Payable (3.50%) due in monthly installments of \$40,322, to November 2018 secured by all corporate assets and the personal guarantee of its principal shareholder	\$ 2,488,671	\$ 2,874,383
Note Payable (0.00%) due in monthly installments of \$469, to June 2019, secured by equipment	14,063	19,688
Note Payable (6.39%) due in monthly installments of \$1,140, to November 2019 secured by vehicle	<u>36,528</u>	<u>-</u>
Total Long-Term Debt	2,530,262	2,894,071
Less Current Portion	<u>(419,058)</u>	<u>(398,972)</u>
Long-Term Debt, Net of Current Portion	<u>\$ 2,111,204</u>	<u>\$ 2,495,099</u>

Long-term debt requirements in subsequent years are as follows:

<u>Years ending December 31,</u>	
2017	\$ 419,058
2018	2,096,160
2019	<u>15,044</u>
	<u>\$ 2,530,262</u>

NOTE E: OPERATING LEASES

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

<u>Years ending December 31,</u>	
2017	\$ 4,062

NOTE F: CONCENTRATIONSMajor Customers

Three major customers accounted for 77.79% of total sales for 2016. Accounts receivable from these three customers comprised 89.16% of total accounts receivable at December 31, 2016. The same three major customers accounted for 72.84% of total revenues for 2015. Accounts receivable from these three customers comprised 87.92% of total accounts receivable at December 31, 2015.

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 \$24,330 and \$23,797 for the years ended December 31, 2016 and 2015, 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 2016 and 2015, the Corporation accrued \$12,995 and \$4,545, respectively in interest income related to these loans which is included in the loan balance in the balance sheet.