PUBLIC SERVICE COMMISSION
ANNUAL REPORTS

MAR 23 2018

RECEIVED

NATURAL ENERGY UTILITY CORPORATION

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

TABLE OF CONTENTS

****

****

Kelley Galloway Smith Goolsby, 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.kgsgcpa.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, 2017 and 2016, and the related statements of income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's 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 the 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, 2017 and 2016, 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 19, 2018

NATURAL ENERGY UTILITY CORPORATION
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash in bank	$ 98,486	$ 163,333
Accounts receivable, net of allowance for doubtful accounts of $1,587 and $1,500, respectively	306,006	298,396
Prepaid expenses	36,447	65,006
Supplies inventory	5,000	5,000
TOTAL CURRENT ASSETS	445,939	531,735
PROPERTY AND EQUIPMENT, NET	329,459	373,455
OTHER ASSETS		
Advances to shareholders	22,744	2,747
Loans to shareholders	2,329,540	2,517,540
TOTAL OTHER ASSETS	2,352,284	2,520,287
TOTAL ASSETS	$ 3,127,682	$ 3,425,477
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 186,105	$ 190,147
Accrued liabilities	70,812	96,907
Customer deposits	25,953	20,983
Current portion of long-term debt	288,112	419,058
Gas imbalance payable	21,949	-
Unearned revenue	86,241	12,996
TOTAL CURRENT LIABILITIES	679,172	740,091
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	1,874,326	2,111,204
TOTAL LIABILITIES	2,553,498	2,851,295
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	253,184	253,182
TOTAL STOCKHOLDERS' EQUITY	574,184	574,182
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 3,127,682	$ 3,425,477

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, 2017 AND 2016

	2017	2016
REVENUES		
Gas sales and transportation income	$ 3,440,355	$ 3,049,999
Other income	28,047	19,543
TOTAL REVENUES	3,468,402	3,069,542
COST OF SALES		
Gas purchases	462,915	398,088
Transportation costs	39,716	31,355
TOTAL COST OF SALES	502,631	429,443
GROSS PROFIT	2,965,771	2,640,099
OPERATING EXPENSES		
Salaries and wages	1,612,089	1,686,082
Employee retirement plan contributions	30,218	24,330
Depreciation	126,941	114,668
Operations expense	425,326	94,386
Professional fees	113,358	44,552
Taxes and licenses	55,895	72,013
Employee insurance	131,091	107,367
Travel expenses	31,534	28,711
Payroll tax expense	65,367	63,880
Other insurance	95,431	83,401
Rent and lease expense	13,670	10,545
Telephone and communications	28,025	27,770
Repairs and maintenance	14,199	12,068
Bad debt provision	-	305
Office supplies and expense	6,711	5,180
Postage and shipping	9,282	7,426
Miscellaneous expenses	10,573	11,881
Utilities	6,168	7,066
Advertising	11,908	11,130
TOTAL OPERATING EXPENSES	2,787,786	2,412,761
NET OPERATING INCOME	177,985	227,338
OTHER INCOME (EXPENSE)		
Gain on sale of assets	901	-
Interest expense, net of interest income of $12,432 and $13,473 respectively	(72,870)	(76,247)
TOTAL OTHER INCOME (EXPENSE)	(71,969)	(76,247)
NET INCOME	$ 106,016	$ 151,091

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, 2017 AND 2016

	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	TOTAL
BALANCE, JANUARY 1, 2016	$ 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	1,000	320,000	253,182	574,182
Net income	-	-	106,016	106,016
Distributions to stockholders	-	-	(106,014)	(106,014)
BALANCE, DECEMBER 31, 2017	$ 1,000	$ 320,000	$ 253,184	$ 574,184

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, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 106,016	$ 151,091
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	126,941	114,668
Provision for bad debts	-	305
Gain on sale of assets	(901)	-
Net changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(7,610)	(42,699)
Prepaid expenses	28,559	(29,003)
(Decrease) increase in:		
Accounts payable	(4,042)	40,739
Accrued liabilities	(26,095)	8,798
Unearned revenue	86,241	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	309,109	243,899
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in loans to shareholders	188,000	187,005
Purchases of property and equipment	(87,294)	(93,685)
(Increase) decrease in advances to shareholders	(19,997)	136
Proceeds from sale of property and equipment	5,250	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	85,959	93,456
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(367,824)	(363,809)
Distributions to shareholders	(106,014)	(29,667)
Gas imbalance repayments	8,953	27,919
Increase in customer deposits	4,970	442
NET CASH USED FOR FINANCING ACTIVITIES	(459,915)	(365,115)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(64,847)	(27,760)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	163,333	191,093
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 98,486	$ 163,333

SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	$ 85,518	$ 88,032

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

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of Management Review

Subsequent events have been evaluated through February 19, 2018, 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 2014 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 Corporation allocates customer payments of accounts receivable to the specific invoices identified on the customer's remittance advice or, if unspecified, the Corporation applies the payment to the oldest unpaid invoices.

The Corporation 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 Corporation reviews each customer balance where all or a portion of the balance exceeds 30 days from the invoice date. Based on the Corporation's assessment of the customer's current creditworthiness, management estimates the portion, if any, of the balance that will not be collected. The Corporation writes off receivables as a charge to the allowance for credit losses when, in the Corporation'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.

New Accounting Pronouncements

Revenue from Contracts with Customers - In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2015-14 *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* was issued in August 2015, which amended existing guidance related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance of ASU 2014-09. The amendments should be applied retrospectively to all periods presented or retrospectively with the cumulative effect recognized at the date of initial application. The Corporation is evaluating the impact of ASU 2014-09 on its financial statements.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.* The amendments clarify the following two aspects of Topic 606: *(a)* identifying performance obligations; and *(b)* the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. The amendments are effective for annual reporting periods beginning after December 15, 2018. The Corporation is currently evaluating the impact of this new accounting standard on the financial statements.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.* The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain narrow areas and add some practical expedients. These amendments are effective at the same date that Topic 606 is effective. Topic 606 is effective for annual reporting periods beginning after December 15, 2018. The Corporation is currently evaluating the impact of this new accounting standard on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, *Revenue from Contracts with Customers*. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019. Early application is permitted. The Corporation is currently evaluating the impact of this new accounting standard on the financial statements.

NOTE B: PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016, by major classifications are as follows:

	2017	2016
Land	$ 5,000	$ 5,000
Buildings and improvements	74,553	74,553
Furniture, fixtures & equipment	217,458	217,458
Autos and trucks	526,123	575,993
Pipelines and projects	2,914,160	2,885,209
	3,737,294	3,758,213
Accumulated depreciation	(3,407,835)	(3,384,758)
	$ 329,459	$ 373,455

Depreciation expense charged to operations for the years ended December 31, 2017 and 2016 totaled $126,941 and $114,668, respectively.

NOTE C: LINE OF CREDIT

The Corporation has available a $500,000 line of credit expiring August 5, 2018, 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, 2017 or 2016.

NOTE D: LONG-TERM DEBT

	2017	2016
Note payable (4.50%) due in monthly installments of $28,479, to January 2020, secured by all corporate assets and the personal guarantee of its principal shareholder, January 2018 change in terms agreement described in Note H	$ 2,078,642	$ 2,479,671
Note payable (0.00%) due in monthly installments of $469, to June 2019, secured by equipment	8,438	14,063
Note payable (3.24%) due in monthly installments of $717, to July 2023 secured by vehicle	43,277	-
Note payable (6.39%) due in monthly installments of $1,140, to November 2019 secured by vehicle	32,081	36,528
Total long-term debt	2,162,438	2,530,262
Less current portion	(288,112)	(419,058)
Long-term debt, net of current portion	$ 1,874,326	$ 2,111,204

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

Years ending December 31,	
2018	$ 288,112
2019	284,241
2020	1,562,406
2021	15,096
2022	8,316
After 2022	4,267
	$ 2,162,438

NOTE E: CONCENTRATIONS

Major Customers

Three major customers accounted for 65.30% of total sales for 2017. Accounts receivable from these three customers comprised 74.81% of total accounts receivable at December 31, 2017. The same three major customers accounted for 77.79% of total revenues for 2016. Accounts receivable from these three customers comprised 89.16% of total accounts receivable at December 31, 2016.

NOTE F: 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 $30,218 and $24,330 for the years ended December 31, 2017 and 2016, respectively.

NOTE G: RELATED PARTY TRANSACTIONS

On August 25, 2015, the Corporation made loans to its shareholders totaling $2,700,000 at 0.48% interest, maturing January 25, 2020. During 2017 and 2016, the Corporation accrued $12,000 and $12,995, respectively in interest income related to these loans which is included in the loan balance on the balance sheets.

NOTE H: SHORT-TERM OBLIGATIONS REFINANCED

In January 2018, the Corporation entered into a Change in Terms Agreement with Poca Valley Bank for a note payable discussed in Note D. Under the terms of this amendment the maturity period was extended from November 25, 2018 to January 25, 2020.

The interest rate on the note payable to Poca Valley Bank with a principal balance of $2,078,642 at December 31, 2017 was increased to 4.5% from 3.5%.

In considering the impact of the above-described amendments on its financial statements, the Corporation has applied the provisions of FASB ASC 470-10-05-5, Classification of Short-Term Obligations Expected to Be Refinanced and reclassified $1,811,279 of the above referenced note payable from current liabilities to noncurrent liabilities at December 31, 2017.