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NATURAL ENERGY UTILITY CORPORATION

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 22, 2019

NATURAL ENERGY UTILITY CORPORATION
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash in bank	$ 78,792	$ 98,486
Accounts receivable, net of allowance for doubtful accounts of $1,500 and $1,587, respectively	313,308	306,006
Prepaid expenses	26,374	36,447
Supplies inventory	5,000	5,000
Gas imbalance receivable	6,753	-
TOTAL CURRENT ASSETS	430,227	445,939
PROPERTY AND EQUIPMENT, NET	280,575	329,459
OTHER ASSETS		
Advances to shareholders	39,304	22,744
Loans to shareholders	2,240,580	2,329,540
TOTAL OTHER ASSETS	2,279,884	2,352,284
TOTAL ASSETS	$ 2,990,686	$ 3,127,682
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 282,600	$ 186,105
Accrued liabilities	105,194	70,812
Customer deposits	37,968	25,953
Current portion of long-term debt	268,091	288,112
Gas imbalance payable	-	21,949
Unearned revenue	85,273	86,241
Line of credit	195,000	-
TOTAL CURRENT LIABILITIES	974,126	679,172
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	1,544,069	1,874,326
TOTAL LIABILITIES	2,518,195	2,553,498
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	151,491	253,184
TOTAL STOCKHOLDERS' EQUITY	472,491	574,184
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,990,686	$ 3,127,682

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, 2018 AND 2017

	2018	2017
REVENUES		
Gas sales and transportation income	$ 3,022,683	$ 3,440,355
Other income	63,797	28,047
TOTAL REVENUES	3,086,480	3,468,402
COST OF SALES		
Gas purchases	575,703	462,915
Transportation costs	24,442	39,716
TOTAL COST OF SALES	600,145	502,631
GROSS PROFIT	2,486,335	2,965,771
OPERATING EXPENSES		
Salaries and wages	1,420,110	1,612,089
Employee retirement plan contributions	27,718	30,218
Depreciation	114,374	126,941
Operations expense	153,392	425,326
Professional fees	75,969	113,358
Taxes and licenses	79,072	55,895
Employee insurance	119,351	131,091
Travel expenses	34,485	31,534
Payroll tax expense	62,255	65,367
Other insurance	97,968	95,431
Rent and lease expense	1,875	13,670
Telephone and communications	26,612	28,025
Repairs and maintenance	20,583	14,199
Bad debt provision	1,016	-
Office supplies and expense	6,416	6,711
Postage and shipping	8,557	9,282
Miscellaneous expenses	12,789	10,573
Utilities	6,449	6,168
Advertising	23,695	11,908
TOTAL OPERATING EXPENSES	2,292,686	2,787,786
NET OPERATING INCOME	193,649	177,985
OTHER INCOME (EXPENSE)		
Gain on sale of assets	-	901
Interest expense, net of interest income of $11,345 and $12,432 respectively	(80,698)	(72,870)
TOTAL OTHER INCOME (EXPENSE)	(80,698)	(71,969)
NET INCOME	$ 112,951	$ 106,016

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, 2018 AND 2017

	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	TOTAL
BALANCE, JANUARY 1, 2017	$ 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
Net income	-	-	112,951	112,951
Distributions to stockholders	-	-	(214,644)	(214,644)
BALANCE, DECEMBER 31, 2018	$ 1,000	$ 320,000	$ 151,491	$ 472,491

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, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 112,951	$ 106,016
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	114,374	126,941
Provision for bad debts	1,016	-
Gain on sale of assets	-	(901)
Net changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(8,317)	(7,610)
Prepaid expenses	10,073	28,559
(Decrease) increase in:		
Accounts payable	96,495	(4,042)
Accrued liabilities	34,382	(26,095)
Unearned revenue	(968)	86,241
NET CASH PROVIDED BY OPERATING ACTIVITIES	360,006	309,109
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in loans to shareholders	88,960	188,000
Purchases of property and equipment	(65,491)	(87,294)
(Increase) decrease in advances to shareholders	(16,560)	(19,997)
Proceeds from sale of property and equipment	-	5,250
NET CASH PROVIDED BY INVESTING ACTIVITIES	6,909	85,959
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(350,278)	(367,824)
Proceeds from line of credit	195,000	-
Distributions to shareholders	(214,644)	(106,014)
Gas imbalance repayments	(28,702)	8,953
Increase in customer deposits	12,015	4,970
NET CASH USED FOR FINANCING ACTIVITIES	(386,609)	(459,915)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(19,694)	(64,847)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	98,486	163,333
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 78,792	$ 98,486

SUPPLEMENTAL INFORMATION:

	2018	2017
Cash paid during the year for interest	$ 91,016	$ 85,518

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 22, 2019, 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 2015 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, 2019, and interim periods within annual periods beginning after December 15, 2019. 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 2017, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, and in July 2018, issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases,* and ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements.* 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.

Lessees will no longer be provided with a source of off-balance sheet financing. The amendments 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, 2018 and 2017, by major classifications are as follows:

	2018	2017
Land	$ 5,000	$ 5,000
Buildings and improvements	74,553	74,553
Furniture, fixtures & equipment	217,458	217,458
Autos and trucks	591,613	526,123
Pipelines and projects	2,914,160	2,914,160
	3,802,784	3,737,294
Accumulated depreciation	(3,522,209)	(3,407,835)
	$ 280,575	$ 329,459

Depreciation expense charged to operations for the years ended December 31, 2018 and 2017 totaled $114,374 and $126,941, respectively.

NOTE C: LINE OF CREDIT

The Corporation has available a $800,000 line of credit expiring August 5, 2019, 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. At December 31, 2018, the Corporation had an outstanding balance of $195,000. There was no balance outstanding on this line of credit as of December 31, 2017.

NOTE D: LONG-TERM DEBT

	2018	2017
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	$ 1,812,160	$ 2,078,642

Note payable (0.00%) due in monthly installments Of $469, to June 2019, secured by equipment	-	8,438
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
Total long-term debt	1,812,160	2,162,438
Less current portion	(268,091)	(288,112)
Long-term debt, net of current portion	$ 1,544,069	$ 1,874,326

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

Years ending December 31,	
2019	$ 268,091
2020	1,544,069
	$ 1,812,160

NOTE E: CONCENTRATIONS

Major Customers

Three major customers accounted for 61.94% of total sales for 2018. Accounts receivable from these three customers comprised 72.15% of total accounts receivable at December 31, 2018. The same three major customers accounted for 65.30% of total revenues for 2017. Accounts receivable from these three customers comprised 74.81% of total accounts receivable at December 31, 2017.

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 $27,718 and $30,218 for the years ended December 31, 2018 and 2017, 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 2018 and 2017, the Corporation accrued $11,040 and $12,000, respectively in interest income related to these loans which is included in the loan balance on the balance sheets.