NATURAL ENERGY UTILITY CORPORATION

INDEPENDENT AUDITOR'S REPORT
AND
FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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 28, 2020

NATURAL ENERGY UTILITY CORPORATION
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash in bank	$ 43,106	$ 78,792
Accounts receivable, net of allowance for doubtful accounts of $1,500 and $1,500, respectively	344,832	313,308
Prepaid expenses	36,004	26,374
Supplies inventory	5,000	5,000
Gas imbalance receivable	-	6,753
TOTAL CURRENT ASSETS	428,942	430,227
PROPERTY AND EQUIPMENT, NET	184,739	280,575
OTHER ASSETS		
Advances to shareholders	200,050	39,304
Loans to shareholders	2,051,140	2,240,580
TOTAL OTHER ASSETS	2,251,190	2,279,884
TOTAL ASSETS	$ 2,864,871	$ 2,990,686
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 252,886	$ 282,600
Accrued liabilities	134,277	105,194
Customer deposits	44,295	37,968
Current portion of long-term debt	393,976	268,091
Gas imbalance payable	15,110	-
Unearned revenue	-	85,273
Line of credit	-	195,000
TOTAL CURRENT LIABILITIES	840,544	974,126
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	1,503,470	1,544,069
TOTAL LIABILITIES	2,344,014	2,518,195
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	199,857	151,491
TOTAL STOCKHOLDERS' EQUITY	520,857	472,491
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,864,871	$ 2,990,686

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, 2019 AND 2018

	2019	2018
REVENUES		
Gas sales and transportation income	$ 2,396,918	$ 3,022,683
Other income	27,868	63,797
TOTAL REVENUES	3,324,786	3,086,480
COST OF SALES		
Gas purchases	797,919	575,703
Transportation costs	19,427	24,442
TOTAL COST OF SALES	817,346	600,145
GROSS PROFIT	2,507,440	2,486,335
OPERATING EXPENSES		
Salaries and wages	1,401,335	1,420,110
Employee retirement plan contributions	26,786	27,718
Depreciation	95,836	114,374
Operations expense	213,049	153,392
Professional fees	90,657	75,969
Taxes and licenses	79,915	79,072
Employee insurance	120,008	119,351
Travel expenses	31,670	34,485
Payroll tax expense	64,153	62,255
Other insurance	84,771	97,968
Rent and lease expense	1,875	1,875
Telephone and communications	25,905	26,612
Repairs and maintenance	32,269	20,583
Bad debt provision	982	1,016
Office supplies and expense	8,252	6,416
Postage and shipping	8,630	8,557
Miscellaneous expenses	13,268	12,789
Utilities	6,251	6,449
Advertising	10,165	23,695
TOTAL OPERATING EXPENSES	2,315,777	2,292,686
NET OPERATING INCOME	191,663	193,649
OTHER INCOME (EXPENSE)		
Interest expense, net of interest income of $11,345 and $12,432 respectively	(77,556)	(80,698)
TOTAL OTHER INCOME (EXPENSE)	(77,556)	(80,698)
NET INCOME	$ 114,107	$ 112,951

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, 2019 AND 2018

	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS	TOTAL
BALANCE, JANUARY 1, 2018	$ 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
Net income	-	-	114,107	114,107
Distributions to stockholders	-	-	(65,741)	(65,741)
BALANCE, DECEMBER 31, 2019	$ 1,000	$ 320,000	$ 199,857	$ 520,857

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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 114,107	$ 112,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	95,836	114,374
Provision for bad debts	982	1,016
Net changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(32,506)	(8,317)
Prepaid expenses	(9,630)	10,073
(Decrease) increase in:		
Accounts payable	(29,714)	96,495
Accrued liabilities	29,084	34,382
Unearned revenue	(85,273)	(968)
NET CASH PROVIDED BY OPERATING ACTIVITIES	82,886	360,006
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in loans to shareholders	189,440	88,960
Purchases of property and equipment	-	(65,491)
(Increase) decrease in advances to shareholders	(160,746)	(16,560)
NET CASH PROVIDED BY INVESTING ACTIVITIES	28,694	6,909
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(264,714)	(350,278)
Proceeds from line of credit	155,000	195,000
Distributions to shareholders	(65,742)	(214,644)
Gas imbalance repayments	21,863	(28,702)
Increase in customer deposits	6,327	12,015
NET CASH USED FOR FINANCING ACTIVITIES	(147,266)	(386,609)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(35,686)	(19,694)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	78,792	98,486
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 43,106	$ 78,792

SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	$ 89,892	$ 91,016

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of Management Review

Subsequent events have been evaluated through February 28, 2020, 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.

Revenue Recognition

On January 1, 2019, the Corporation adopted ASC Topic 606 with no significant impact to its financial position or results of operations, using the modified retrospective approach. The Corporation had one installation contract which was not completed as of January 1, 2019 and was recorded as unearned revenue at December 31, 2018 and earned in 2019. The Corporation had no adjustment to opening retained earnings as of January 1, 2019 as a result of adopting ASC Topic 606. There was no material impact on revenues for fiscal 2019 as a result of applying ASC Topic 606. The accounting policies and other disclosures below, as well as the disclosure of disaggregated revenues in Note 2, "Revenue."

The Corporation recognizes revenues when the performance obligation is satisfied, which is the point at which control of the promised goods or services are transferred to its customers, in an amount that reflects the consideration the Corporation expects to be entitled to receive in exchange for those goods or services. The Corporation's arrangements with commercial and consumer customers transfers control to the customer upon consumption of natural gas. The timing of the performance obligation is not subject to significant judgment. While certain additional services may be identified within the customer arrangements, they are immaterial in the context of the overall contract with the customer, and therefore, not assessed as performance obligations.

Sales Revenue: The Corporation generates revenue primarily from the distribution and sale of natural gas. Substantially all revenue is recognized at the point in time which the consumption of natural gas is billed to the customer. This occurs on a monthly basis and is measured through meters, requiring minimal judgment. The consumer customer's billings are based solely on current tariff rates approved by a regulatory agency. The revenue for natural gas sales to commercial customers are also based on tariff rates and step pricing by volume. The Corporation also has transportation revenue which is based on the amount of natural gas consumed by one commercial customer and is based on step-pricing by volume. Commercial consumption is also measured using regulated meters and requires minimal judgment.

Installation Revenue: The Corporation generates revenue through the installation of gas lines and meters. The revenues generated from these installation services are recognized when a project is complete, and customers are able to begin receiving natural gas.

NOTE 2: REVENUE

The following table presents our sales disaggregated by sales mix for the Corporation's principal sales categories for the years ended December 31, 2019 and 2018:

	2019	2018
Sales categories:		
Commercial sales	$ 1,329,840	$ 996,523
Consumer sales	783,161	779,108
Transportation	905,027	1,073,826
Installation	267,527	222,071
Service fees	39,231	14,952
	$ 3,324,786	$ 3,086,480

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 2016 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

In May 2014, the FASB issued ASU 2014-09 related to the recognition of revenue from contracts with customers. The new revenue pronouncement creates a single source of revenue guidance for all corporations in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a corporation to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are, (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. In March 2016, the FASB issued ASU 2016-08, which amends the principle versus agent guidance in the revenue standard. In April 2016, the FASB issued ASU 2016-10, which clarifies when promised goods or services are separately identifiable in the revenue standard. In May 2016, FASB issued ASU 2016-12, which provides narrow-scope improvements and practical expedients to the revenue standard. The Corporation adopted these pronouncements as of January 1, 2019, using the modified retrospective approach. There was no material change to the timing of revenue recognition and there was no material impact on the financial statements.

In February 2018, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, and in July 2019, issued ASU No. 2019-10, *Codification Improvements to Topic 842, Leases,* and ASU No. 2019-11, *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, 2020. Early application is permitted. The Corporation is currently evaluating the impact of this new accounting standard on the financial statements.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2019 and 2018, by major classifications are as follows:

	2019	2018
Land	$ 5,000	$ 5,000
Buildings and improvements	74,553	74,553
Furniture, fixtures & equipment	217,458	217,458
Autos and trucks	591,613	591,613
Pipelines and projects	2,914,160	2,914,160
	3,802,784	3,802,784
Accumulated depreciation	(3,618,045)	(3,522,209)
	$ 184,739	$ 280,575

Depreciation expense charged to operations for the years ended December 31, 2019 and 2018 totaled $95,836 and $114,374, respectively.

NOTE 4: LINE OF CREDIT

The Corporation has available a $800,000 line of credit expiring August 5, 2020, 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, 2019, the Corporation had an outstanding balance of $350,000. At December 31, 2018, the Corporation had an outstanding balance of $155,000. This line of credit is included in the refinancing of short-term obligations described in Note 9 and has been reclassified as long-term.

NOTE 5: LONG-TERM DEBT

	2019	2018
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	$ 1,547,446	$ 1,812,160
Line of credit (Note 4) refinanced as long-term	350,000	-
Total long-term debt	1,897,446	1,812,160
Less current portion	(393,976)	(268,091)
Long-term debt, net of current portion	$ 1,503,470	$ 1,544,069

This note payable is included in the refinancing of short-term obligations described in Note 9. The Corporation has applied the provisions of FASB ASC 470-10-45-13, *Classification of Short-Term Obligations Expected to be Refinanced* and FASB ASC 470-10-45-14, *Intent and Ability to Refinance on a Long-Term Basis*, and reclassified the amount of original note payment originally due in 2020 to non-current liabilities.

NOTE 6: CONCENTRATIONS

Major Customers

Five major customers accounted for 66.32% of total sales for 2019. Accounts receivable from these five customers comprised 66.43% of total accounts receivable at December 31, 2019. Three major customers accounted for 61.94% of total revenues for 2018. Accounts receivable from these three customers comprised 72.15% of total accounts receivable at December 31, 2018.

NOTE 7: 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 $26,786 and $27,718 for the years ended December 31, 2019 and 2018, respectively.

NOTE 8: 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 2019 and 2018, the Corporation accrued $10,560 and $11,040, respectively in interest income related to these loans which is included in the loan balance on the balance sheets.

NOTE 9: SHORT-TERM OBLIGATIONS REFINANCED

Effective February 6, 2020, the Corporation entered into a loan agreement to refinance the term note outstanding as described in Note 5 and the outstanding balance of the line of credit. Under the provisions of this agreement, the Corporation borrowed $3,000,000 at 4.75%, maturing on February 5, 2022. The agreement requires monthly principal payments of $35,714 and calculated monthly interest payments, with a final payment of principal and outstanding interest due at maturity.

The future debt requirements based on the new loan agreement are as follows:

Years ending December 31,		
2020	$	348,532
2021		435,649
2022		2,215,819
	$	3,000,000