

**NATURAL ENERGY UTILITY CORPORATION**

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

**DECEMBER 31, 2020 AND 2019**

TABLE OF CONTENTS

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|   | <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 .....                 | 7-11        |

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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, 2020 and 2019, and the related statements of income, changes in 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 from 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, 2020 and 2019, 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 11, 2021

**NATURAL ENERGY UTILITY CORPORATION**  
**BALANCE SHEETS**  
**DECEMBER 31, 2020 AND 2019**

|   | 2020         | 2019         |
|---|--------------|--------------|
| <b>ASSETS</b>   |              |              |
| <b>CURRENT ASSETS</b>   |              |              |
| Cash in bank  | \$ 375,949   | \$ 43,106    |
| Accounts receivable, net of allowance for doubtful<br>accounts of \$1,500 and \$1,500, respectively | 278,670      | 344,832      |
| Prepaid expenses  | 43,722       | 36,004       |
| Supplies inventory  | 20,858       | 5,000        |
| <b>TOTAL CURRENT ASSETS</b>   | 719,199      | 428,942      |
| <b>PROPERTY AND EQUIPMENT, NET</b>  | 158,524      | 184,739      |
| <b>OTHER ASSETS</b>   |              |              |
| Advances to shareholders  | 84,102       | 200,050      |
| Loans to shareholders   | 2,599,801    | 2,051,140    |
| <b>TOTAL OTHER ASSETS</b>   | 2,683,903    | 2,251,190    |
| <b>TOTAL ASSETS</b>   | \$ 3,561,626 | \$ 2,864,871 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |              |              |
| <b>CURRENT LIABILITIES</b>  |              |              |
| Accounts payable  | \$ 179,502   | \$ 252,886   |
| Accrued liabilities   | 136,604      | 134,277      |
| Customer deposits   | 54,520       | 44,295       |
| Current portion of long-term debt   | 428,572      | 393,976      |
| Gas imbalance payable   | 20,976       | 15,110       |
| Payroll taxes payable   | 42,403       | -            |
| <b>TOTAL CURRENT LIABILITIES</b>  | 862,577      | 840,544      |
| <b>LONG-TERM LIABILITIES</b>  |              |              |
| Long-term debt, net of current portion  | 2,214,286    | 1,503,470    |
| <b>TOTAL LIABILITIES</b>  | 3,076,863    | 2,344,014    |
| <b>STOCKHOLDERS' EQUITY</b>   |              |              |
| Common stock, \$1 par; 1,000 shares authorized,<br>issued and outstanding                           | 1,000        | 1,000        |
| Additional paid-in capital  | 320,000      | 320,000      |
| Retained earnings   | 163,763      | 199,857      |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>   | 484,763      | 520,857      |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | \$ 3,561,626 | \$ 2,864,871 |

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, 2020 AND 2019**

|   | <b>2020</b>       | <b>2019</b>       |
|---|-------------------|-------------------|
| <b>REVENUES</b>   |                   |                   |
| Gas sales and transportation income   | \$ 2,615,145      | \$ 3,296,918      |
| Other income  | 20,180            | 27,868            |
| <b>TOTAL REVENUES</b>   | <b>2,635,325</b>  | <b>3,324,786</b>  |
| <b>COST OF SALES</b>  |                   |                   |
| Gas purchases   | 392,840           | 797,919           |
| Transportation costs  | 27,458            | 19,427            |
| <b>TOTAL COST OF SALES</b>  | <b>420,298</b>    | <b>817,346</b>    |
| <b>GROSS PROFIT</b>   | <b>2,215,027</b>  | <b>2,507,440</b>  |
| <b>OPERATING EXPENSES</b>   |                   |                   |
| Salaries and wages  | 1,596,529         | 1,401,335         |
| Employee retirement plan contributions  | 26,884            | 26,786            |
| Depreciation  | 64,777            | 95,836            |
| Operations expense  | 98,705            | 213,049           |
| Professional fees   | 25,365            | 90,657            |
| Taxes and licenses  | 76,744            | 79,915            |
| Employee insurance  | 56,191            | 120,008           |
| Travel expenses   | 20,085            | 31,670            |
| Payroll tax expense   | 64,787            | 64,153            |
| Other insurance   | 68,758            | 84,771            |
| Rent and lease expense  | 1,875             | 1,875             |
| Telephone and communications  | 24,838            | 25,905            |
| Repairs and maintenance   | 18,618            | 32,269            |
| Bad debt provision  | 687               | 982               |
| Office supplies and expense   | 7,967             | 8,252             |
| Postage and shipping  | 9,812             | 8,630             |
| Miscellaneous expenses  | 5,619             | 13,268            |
| Utilities   | 6,027             | 6,251             |
| Advertising   | 8,245             | 10,165            |
| <b>TOTAL OPERATING EXPENSES</b>   | <b>2,182,513</b>  | <b>2,315,777</b>  |
| <b>NET OPERATING INCOME</b>   | <b>32,514</b>     | <b>191,663</b>    |
| <b>OTHER INCOME (EXPENSE)</b>   |                   |                   |
| Interest expense, net of interest income of<br>\$33,062 and \$11,345 respectively | (63,997)          | (77,556)          |
| PPP loan forgiveness income   | 132,200           | -                 |
| <b>TOTAL OTHER INCOME (EXPENSE)</b>   | <b>68,203</b>     | <b>(77,556)</b>   |
| <b>NET INCOME</b>   | <b>\$ 100,717</b> | <b>\$ 114,107</b> |

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, 2020 AND 2019**

|                                   | <u>COMMON<br/>STOCK</u> | <u>ADDITIONAL<br/>PAID IN<br/>CAPITAL</u> | <u>RETAINED<br/>EARNINGS</u> | <u>TOTAL</u>      |
|-----------------------------------|-------------------------|---|------------------------------|-------------------|
| <b>BALANCE, JANUARY 1, 2019</b>   | \$ 1,000                | \$ 320,000                                | \$ 151,491                   | \$ 472,491        |
| Net income                        | -                       | -   | 114,107                      | 114,107           |
| Distributions to stockholders     | -                       | -   | (65,741)                     | (65,741)          |
| <b>BALANCE, DECEMBER 31, 2019</b> | 1,000                   | 320,000                                   | 199,857                      | 520,857           |
| Net income                        | -                       | -   | 100,717                      | 100,717           |
| Distributions to stockholders     | -                       | -   | (136,811)                    | (136,811)         |
| <b>BALANCE, DECEMBER 31, 2020</b> | <u>\$ 1,000</u>         | <u>\$ 320,000</u>                         | <u>\$ 163,763</u>            | <u>\$ 484,763</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, 2020 AND 2019**

|   | 2020              | 2019             |
|---|-------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                   |                  |
| Net income  | \$ 100,717        | \$ 114,107       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                  |
| Depreciation  | 64,777            | 95,836           |
| Provision for bad debts   | 687               | 982              |
| Forgiveness of SBA PPP loan   | (132,200)         | -                |
| Net changes in operating assets and liabilities:                                  |                   |                  |
| (Increase) decrease in:   |                   |                  |
| Accounts receivable   | 65,475            | (32,506)         |
| Inventory   | (15,858)          | -                |
| Prepaid expenses  | (7,718)           | (9,630)          |
| (Decrease) increase in:   |                   |                  |
| Accounts payable  | (73,384)          | (29,714)         |
| Accrued liabilities   | 2,326             | 29,084           |
| Unearned revenue  | -                 | (85,273)         |
| Payroll taxes payable   | 42,403            | -                |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>47,225</b>     | <b>82,886</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                   |                  |
| Increase (decrease) in loans to shareholders                                      | (548,661)         | 189,440          |
| Purchases of property and equipment   | (38,562)          | -                |
| (Increase) decrease in advances to shareholders                                   | 115,948           | (160,746)        |
| <b>NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>                       | <b>(471,275)</b>  | <b>28,694</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                   |                  |
| Proceeds from SBA PPP loan  | 132,200           | -                |
| Payments on long-term debt  | (357,142)         | (264,714)        |
| Proceeds from long-term debt  | 1,452,555         | -                |
| Proceeds from line of credit, net change in line                                  | (350,000)         | 155,000          |
| Distributions to shareholders   | (136,811)         | (65,741)         |
| Change in gas imbalance   | 5,866             | 21,862           |
| Increase in customer deposits   | 10,225            | 6,327            |
| <b>NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES</b>                       | <b>756,893</b>    | <b>(147,266)</b> |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                       | <b>756,893</b>    | <b>(35,686)</b>  |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                             | <b>43,106</b>     | <b>78,792</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                   | <b>\$ 375,949</b> | <b>\$ 43,106</b> |

**SUPPLEMENTAL INFORMATION:**

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, 2020 AND 2019

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Date of Management Review

Subsequent events have been evaluated through February 11, 2021, 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

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.

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 2017 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 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, 2021. Early application is permitted. The Corporation is currently evaluating the impact of this new accounting standard on the financial statements.

**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, 2020 and 2019:

|                   | <u>2020</u>         | <u>2019</u>         |
|-------------------|---------------------|---------------------|
| Sales categories: |                     |                     |
| Commercial sales  | \$ 913,503          | \$ 1,329,840        |
| Consumer sales    | 721,745             | 783,161             |
| Transportation    | 875,125             | 905,027             |
| Installation      | 71,356              | 267,527             |
| Service fees      | 53,596              | 39,231              |
|                   | <u>\$ 2,635,325</u> | <u>\$ 3,324,786</u> |

**NOTE 3: PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2020 and 2019, by major classifications are as follows:

|                                 | <u>2020</u>       | <u>2019</u>       |
|---------------------------------|-------------------|-------------------|
| Land                            | \$ 5,000          | \$ 5,000          |
| Buildings and improvements      | 74,553            | 74,553            |
| Furniture, fixtures & equipment | 256,020           | 217,458           |
| Autos and trucks                | 591,613           | 591,613           |
| Pipelines and projects          | 2,914,160         | 2,914,160         |
|                                 | <u>3,841,346</u>  | <u>3,802,784</u>  |
| Accumulated depreciation        | (3,682,822)       | (3,618,045)       |
|                                 | <u>\$ 158,524</u> | <u>\$ 184,739</u> |

Depreciation expense charged to operations for the years ended December 31, 2020 and 2019 totaled \$64,777 and \$95,836, respectively.

**NOTE 4: LINE OF CREDIT**

The Corporation has available a \$800,000 line of credit expiring August 5, 2021, 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, 2020, the Corporation had an outstanding balance of \$-0-. At December 31, 2019, the Corporation had an outstanding balance of \$350,000.

**NOTE 5: LONG-TERM DEBT**

|   | <u>2020</u>         | <u>2019</u>         |
|---|---------------------|---------------------|
| Note payable (3.25%) due in monthly installments of \$35,714, to February 2022, secured by all corporate assets and the personal guarantee of its principal shareholder | \$ 2,642,858        | \$ 1,547,446        |
| Line of credit (Note 4)   | <u>-</u>            | <u>350,000</u>      |
| Total long-term debt  | 2,642,858           | 1,897,446           |
| Less current portion  | <u>(428,572)</u>    | <u>(393,976)</u>    |
| Long-term debt, net of current portion  | <u>\$ 2,214,286</u> | <u>\$ 1,503,470</u> |

## **NOTE 6: CONCENTRATIONS**

### Major Customers

Five major customers accounted for 66.78% of total sales for 2020. Accounts receivable from these five customers comprised 60.53% of total accounts receivable at December 31, 2020. Three major customers accounted for 66.32% of total revenues for 2019. Accounts receivable from these three customers comprised 66.43% of total accounts receivable at December 31, 2019.

## **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 \$26,884 and \$26,786 for the years ended December 31, 2020 and 2019, 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 February 5, 2022. On February 10, 2020, the Corporation made a loan to a shareholder in the amount of \$720,000 at 2.96% interest maturing February 5, 2022. During 2020 and 2019, the Corporation accrued \$28,661 and \$10,560, respectively in interest income related to these loans which is included in the loan balance on the balance sheets.

## **NOTE 9: COMMITMENTS AND CONTINGENCIES**

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Corporation’s financial condition. Management is actively monitoring the global situation on its financial condition. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Corporation is not able to estimate the effects of the COVID-19 outbreak on its future financial condition.

## **NOTE 10: CONCENTRATIONS OF CREDIT RISK**

The Company maintains its cash balances in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2010, the Company uninsured cash balances totaled \$125,103.