

NATURAL ENERGY UTILITY CORPORATION

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

DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Natural Energy Utility Corporation
Ashland, Kentucky

Opinion

We have audited the accompanying financial statements of Natural Energy Utility Corporation. (a Kentucky corporation), which comprise the balance sheet as of December 31, 2022 and 2021, 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.

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, 2022 and 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Natural Energy Utility Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Natural Energy Utility Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that,

individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Natural Energy Utility Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Natural Energy Utility Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Kelly Holloway Smith Tooley, PSC
Ashland, Kentucky
February 23, 2023

NATURAL ENERGY UTILITY CORPORATION
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash in bank	\$ 632,064	\$ 335,530
Accounts receivable, net of allowance for doubtful accounts of \$1,750 and \$1,500, respectively	499,158	537,994
Prepaid expenses	56,298	51,850
Supplies inventory	5,000	5,000
TOTAL CURRENT ASSETS	<u>1,192,520</u>	<u>930,374</u>
PROPERTY AND EQUIPMENT, NET	229,395	109,509
OTHER ASSETS		
Advances to shareholders	228,393	314,145
Loans to shareholders	1,899,969	2,253,265
TOTAL OTHER ASSETS	<u>2,128,362</u>	<u>2,567,410</u>
TOTAL ASSETS	<u><u>\$ 3,550,277</u></u>	<u><u>\$ 3,607,293</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 575,601	\$ 355,770
Accrued liabilities	143,012	210,897
Customer deposits	89,965	76,875
Current portion of long-term debt	460,540	371,571
Gas imbalance payable	43,869	6,705
Payroll taxes payable	100,152	81,181
TOTAL CURRENT LIABILITIES	<u>1,413,139</u>	<u>1,102,999</u>
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	1,531,344	1,842,715
TOTAL LIABILITIES	<u>2,944,483</u>	<u>2,945,714</u>
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	284,794	340,579
TOTAL STOCKHOLDERS' EQUITY	<u>605,794</u>	<u>661,579</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 3,550,277</u></u>	<u><u>\$ 3,607,293</u></u>

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

NATURAL ENERGY UTILITY CORPORATION
STATEMENT OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
REVENUES		
Gas sales and transportation income	\$ 4,638,746	\$ 3,336,653
Other income	80,402	77,007
TOTAL REVENUES	4,719,148	3,413,660
COST OF SALES		
Gas purchases	1,502,263	729,617
Transportation costs	56,684	69,381
TOTAL COST OF SALES	1,558,947	798,998
GROSS PROFIT	3,160,201	2,614,662
OPERATING EXPENSES		
Salaries and wages	2,176,962	1,728,098
Employee retirement plan contributions	27,967	28,202
Depreciation	41,360	52,796
Operations expense	282,227	191,019
Professional fees	39,656	48,490
Taxes and licenses	30,552	104,400
Employee insurance	55,959	64,881
Travel expenses	43,494	36,065
Payroll tax expense	75,875	69,186
Other insurance	75,632	72,046
Rent and lease expense	1,875	1,875
Telephone and communications	20,336	22,908
Repairs and maintenance	74,134	39,137
Bad debt provision	580	953
Office supplies and expense	8,414	6,649
Postage and shipping	8,768	8,247
Miscellaneous expenses	13,567	5,383
Utilities	9,214	5,818
Advertising	12,032	10,273
TOTAL OPERATING EXPENSES	2,998,604	2,496,426
NET OPERATING INCOME	161,597	118,236
OTHER INCOME (EXPENSE)		
Interest expense, net of interest income of \$22,467 and \$29,166 respectively	(53,431)	(50,321)
Gain on sale of assets	-	7,359
PPP loan forgiveness income	-	133,860
TOTAL OTHER INCOME (EXPENSE)	(53,431)	90,898
NET INCOME	\$ 108,166	\$ 209,134

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

NATURAL ENERGY UTILITY CORPORATION
STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL</u>
BALANCE, JANUARY 1, 2021	\$ 1,000	\$ 320,000	\$ 163,763	\$ 484,763
Net income	-	-	209,134	209,134
Distributions to stockholders	-	-	(32,318)	(32,318)
BALANCE, DECEMBER 31, 2021	1,000	320,000	340,579	661,579
Net income	-	-	108,166	108,166
Distributions to stockholders	-	-	(163,951)	(163,951)
BALANCE, DECEMBER 31, 2022	<u>\$ 1,000</u>	<u>\$ 320,000</u>	<u>\$ 284,794</u>	<u>\$ 605,794</u>

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

NATURAL ENERGY UTILITY CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 108,166	\$ 209,134
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	41,360	52,796
Provision for bad debts	580	953
Gain on sale of assets	-	(7,359)
Forgiveness of SBA PPP loan	-	(133,860)
Net changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	38,256	(260,277)
Inventory	-	15,858
Prepaid expenses	(4,448)	(8,128)
(Decrease) increase in:		
Accounts payable	219,831	176,268
Accrued liabilities	(67,885)	74,293
Payroll taxes payable	18,971	38,778
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>354,831</u>	<u>158,456</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase (decrease) in loans to shareholders	(876,133)	(499,198)
Purchases of property and equipment	(161,246)	(6,422)
Proceeds from sales of assets	-	10,000
(Increase) decrease in advances to shareholders	1,315,182	615,690
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>277,803</u>	<u>120,070</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from SBA PPP loan	-	133,860
Payments on long-term debt	(460,540)	(428,571)
Proceeds from long-term debt	238,138	-
Distributions to shareholders	(163,951)	(32,318)
Change in gas imbalance	37,164	(14,271)
Increase in customer deposits	13,090	22,355
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>(336,099)</u>	<u>(318,945)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	296,534	(40,419)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>335,530</u>	<u>375,949</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 632,064</u>	<u>\$ 335,530</u>
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	\$ 76,172	\$ 80,531

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, 2022 AND 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of Management Review

Subsequent events have been evaluated through February 23, 2023, 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 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 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.

Contract Balances: Contract assets typically consist of fees for services performed. As of December 31, 2022, 2021 and 2020, the Corporation had contract assets of \$500,908, \$539,494 and 280,170. Contract liabilities primarily represent advance billings to clients in accordance with the terms of the contract ("customer deposits"). As of December 31, 2022, 2021 and 2020, the Company had customer deposits of \$89,964, \$76,875 and \$54,520, respectively.

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 2019 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

Leases - 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, 2021. Early application is permitted. The Company has adopted the new standard and it did not have a material effect on the financial statements.

NOTE 2: REVENUE

All of the Corporation's revenue from contracts with customers are within the scope of ASC 606. The following table presents our sales disaggregated by sales mix for the Corporation's principal sales categories for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Sales categories:		
Commercial sales	\$ 2,294,069	\$ 1,462,103
Consumer sales	1,406,718	945,965
Transportation	865,528	860,275
Installation	53,004	55,662
Service fees	99,830	89,655
	<u>\$ 4,719,149</u>	<u>\$ 3,413,660</u>

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2022 and 2021, by major classifications are as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 5,000	\$ 5,000
Buildings and improvements	74,553	74,553
Furniture, fixtures & equipment	368,875	262,442
Autos and trucks	548,791	523,305
Pipelines and projects	2,885,209	2,914,160
	3,882,428	3,779,460
Accumulated depreciation	(3,653,033)	(3,669,951)
	<u>\$ 229,395</u>	<u>\$ 109,509</u>

Depreciation expense charged to operations for the years ended December 31, 2022, and 2021 totaled \$41,360 and \$52,796, respectively.

NOTE 4: LINE OF CREDIT

The Corporation has a \$800,000 line of credit that expires August 3, 2023. Interest is 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. For the years ended December 31, 2022 and 2021, the Corporation had an outstanding balance of \$-0-.

NOTE 5: LONG-TERM DEBT

	<u>2022</u>	<u>2021</u>
Note payable (3.75%) due in monthly installments of \$39,924, to February 2024, secured by all corporate assets and the personal guarantee of its principal shareholder	\$ 1,843,215	\$ 2,214,286

Ford Credit (1.90%) due in monthly installments of \$2,395.58, to December 2025, secured by all corporate assets and the personal guarantee of its principal shareholder

81,518

-

Caterpillar Payable (0%) due in monthly installments of \$1,291.87, to May 2026, secured by all corporate assets and the personal guarantee of its principal shareholder

	67,151	-
Total long-term debt	1,991,884	2,214,286
Less current portion	(460,540)	(371,571)
Long-term debt, net of current portion	<u>\$ 1,531,344</u>	<u>\$ 1,842,715</u>

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

Year Ended December 31,	
2023	460,040
2024	1,469,566
2025	41,617
2026	15,496
2027	5,165
Thereafter	-
	<u>\$1,991,884</u>

NOTE 6: CONCENTRATIONS

Major Customers

Five major customers accounted for 67.20% of total sales for 2022. Accounts receivable from these five customers comprised 61.67% of total accounts receivable at December 31, 2022. Five major customers accounted for 68.14% of total revenues for 2021. Accounts receivable from these five customers comprised 66.78% of total accounts receivable at December 31, 2021.

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 \$27,967 and \$28,202 for the years ended December 31, 2022 and 2021, 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 August 5, 2028. 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, 2024. During 2022 and 2021, the Corporation accrued \$21,704 and \$28,464, respectively in interest income related to these loans which is included in the loan balance on the balance sheets.

NOTE 9: CONCENTRATIONS OF CREDIT RISK

The Corporation 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, 2022, the Company's uninsured cash balances totaled \$381,339.