

NATURAL ENERGY UTILITY CORPORATION

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

DECEMBER 31, 2024 AND 2023

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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, 2024 and 2023, 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, 2024 and 2023, 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.



Ashland, Kentucky
February 14, 2025

NATURAL ENERGY UTILITY CORPORATION
BALANCE SHEETS
DECEMBER 31, 2024 AND 2023

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash in bank	\$ 124,409	\$ 342,833
Accounts receivable, net of allowance for credit losses of \$1,705 and \$1,600 respectively	282,347	274,031
Prepaid expenses	40,240	54,648
Supplies inventory	5,000	5,000
TOTAL CURRENT ASSETS	451,996	676,512
PROPERTY AND EQUIPMENT, NET	231,027	182,078
OTHER ASSETS		
Advances to shareholders	336,135	16,872
Loans to shareholders	1,351,946	1,714,913
TOTAL OTHER ASSETS	1,688,081	1,731,785
TOTAL ASSETS	\$ 2,371,104	\$ 2,590,375
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 241,596	\$ 395,025
Accrued liabilities	90,019	139,054
Customer deposits	112,535	98,330
Current portion of long-term debt	239,665	220,266
Gas imbalance payable	21,052	800
Payroll taxes payable	45,754	103,576
Line of credit	75,000	-
TOTAL CURRENT LIABILITIES	825,621	957,051
LONG-TERM LIABILITIES		
Long-term debt, net of current portion	1,161,122	1,312,324
TOTAL LIABILITIES	1,986,743	2,269,375
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	63,361	-
TOTAL STOCKHOLDERS' EQUITY	384,361	321,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,371,104	\$ 2,590,375

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, 2024 AND 2023

	2024	2023
REVENUES		
Gas sales and transportation income	\$ 2,808,031	\$ 3,157,396
Other income	45,783	154,044
TOTAL REVENUES	2,853,814	3,311,440
COST OF SALES		
Gas purchases	454,015	434,973
Transportation costs	71,337	79,444
TOTAL COST OF SALES	525,352	514,417
GROSS PROFIT	2,328,462	2,797,023
OPERATING EXPENSES		
Salaries and wages	1,497,812	2,118,718
Employee retirement plan contributions	27,652	29,082
Depreciation	44,330	47,317
Operations expense	104,477	145,144
Professional fees	34,494	59,587
Taxes and licenses	60,182	43,663
Employee insurance	81,811	72,271
Travel expenses	40,453	39,335
Payroll tax expense	69,407	76,286
Other insurance	92,312	76,171
Rent and lease expense	1,875	1,875
Telephone and communications	26,950	22,179
Repairs and maintenance	47,202	20,493
Credit loss expense	309	363
Office supplies and expense	8,024	8,054
Postage and shipping	11,738	10,675
Miscellaneous expenses	10,550	9,762
Utilities	7,347	8,297
Advertising	10,844	5,950
TOTAL OPERATING EXPENSES	2,177,769	2,795,222
NET OPERATING INCOME	150,693	1,801
OTHER INCOME (EXPENSE)		
Interest expense, net of interest income of \$20,392 and \$26,492 respectively	(80,005)	(36,567)
Employee Retention Credit Income	-	156,341
Gain on sale of fixed assets	6,000	-
TOTAL OTHER INCOME (EXPENSE)	(74,005)	119,774
NET INCOME	\$ 76,688	\$ 121,575

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NATURAL ENERGY UTILITY CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL</u>
BALANCE, JANUARY 1, 2023	\$ 1,000	\$ 320,000	\$ 284,794	\$ 605,794
Net income	-	-	121,575	121,575
Distributions to stockholders	-	-	(406,369)	(406,369)
BALANCE, DECEMBER 31, 2023	1,000	320,000	-	321,000
Net income	-	-	76,688	76,688
Distributions to stockholders	-	-	(13,327)	(13,327)
BALANCE, DECEMBER 31, 2024	<u>\$ 1,000</u>	<u>\$ 320,000</u>	<u>\$ 63,361</u>	<u>\$ 384,361</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, 2024 AND 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 76,688	\$ 121,575
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	44,330	47,317
Gain on sale of assets	(6,000)	-
Provision for credit losses	309	363
Net changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(8,625)	224,764
Inventory	-	-
Prepaid expenses	14,408	1,650
(Decrease) increase in:		
Accounts payable	(153,429)	(180,576)
Accrued liabilities	(49,035)	(3,958)
Payroll taxes payable	(57,822)	3,424
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(139,176)	214,559
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in advances to shareholders	(319,263)	211,521
Purchases of property and equipment	-	-
Decrease in loans to shareholders	362,967	185,056
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	43,704	396,577
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(225,082)	(459,294)
Proceeds from long-term debt	-	-
Distributions to shareholders	(13,327)	(406,369)
Change in gas imbalance	20,252	(43,069)
Increase in customer deposits	14,205	8,365
Proceeds from sale of equipment	6,000	-
Change in line of credit	75,000	-
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(122,952)	(900,367)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(218,424)	(289,231)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	342,833	632,064
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 124,409	\$ 342,833
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	\$ 103,789	\$ 62,728

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, 2024 AND 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2024, 2023 and 2022, the Corporation had contract assets of \$284,052, \$275,631 and \$500,908. Contract liabilities primarily represent advance billings to clients in accordance with the terms of the contract ("customer deposits"). As of December 31, 2024, 2023 and 2022, the Company had customer deposits of \$112,535, \$98,330 and \$89,965, 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 2021 are no longer subject to examination by the Internal Revenue Service.

Accounts Receivable – Trade and Related Allowance for Credit Losses

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.

Reclassification

Certain reclassifications have been made to the 2024 financial statements to confirm with the 2024 presentation.

New Accounting Pronouncements

In March 2024, the FASB issued ASU No. 2024-02, *Codification Improvements – Amendments to Remove References to the Concept Statements*. The ASU removes references to the various FASB Concepts Statements. In most cases, the references were extraneous and not required to understand or apply the guidance. In other instances, the references were used in previous Statements to provide guidance in certain topical areas. The ASU is effective for fiscal years beginning after December 15,

2025. The adoption of this standard is not expected to have a material effect on the financial statements.

Date of Management Review

Subsequent events have been evaluated through February 14, 2025, which is the date the financial statements were available to be issued.

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, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Sales categories:		
Commercial sales	\$ 1,083,412	\$ 1,272,621
Consumer sales	742,053	912,378
Transportation	958,801	922,299
Installation	29,644	141,406
Service fees	39,904	62,736
	<u>\$ 2,853,814</u>	<u>\$ 3,311,440</u>

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2024 and 2023, by major classifications are as follows:

	<u>2024</u>	<u>2023</u>
Land	\$ 5,000	\$ 5,000
Buildings & Improvements	74,553	74,553
Furniture, Fixtures & Equip.	368,875	368,875
Autos and Trucks	579,536	548,791
Pipelines and Projects	<u>2,885,209</u>	<u>2,885,209</u>
	3,913,173	3,882,428
Accumulated depreciation	<u>(3,682,146)</u>	<u>(3,700,350)</u>
	<u>\$ 231,027</u>	<u>\$ 182,078</u>

Depreciation expense charged to operations for the years ended December 31, 2024, and 2023 totaled \$44,330 and \$47,317, respectively.

NOTE 4: LINE OF CREDIT

The Corporation has a \$800,000 line of credit that expires August 3, 2025. 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. As of December 31, 2024 and 2023, the outstanding balance on the line of credit totaled \$75,000 and \$0 respectively.

NOTE 5: LONG-TERM DEBT

	<u>2024</u>	<u>2023</u>
*Note payable (7.75%) due in monthly installments of \$21,587.96, to February 2026, secured by all corporate assets and the personal guarantee of its principal shareholder	\$ 1,260,423	\$ 1,426,853

Ford Credit (1.90%) due in monthly installments of \$2,395.58, to December 2025, secured by a

vehicle and the personal guarantee of its principal shareholder	26,120	54,082
Ford Credit (1.90%) due in monthly installments of \$1,325.15, to June 2027, secured by a vehicle and the personal guarantee of its principal shareholder	38,759	-
Ford Credit (1.90%) due in monthly installments of \$1,344.59, to June 2027, secured by a vehicle and the personal guarantee of its principal shareholder	39,327	-
Caterpillar Payable (0%) due in monthly installments of \$1,291.87, to May 2026, secured by equipment and the personal guarantee of its principal shareholder	<u>36,158</u>	<u>51,655</u>
Total long-term debt	1,400,787	1,532,590
Less current portion	<u>(239,665)</u>	<u>(220,266)</u>
Long-term debt, net of current portion	<u>\$ 1,161,122</u>	<u>\$ 1,312,324</u>

*This note payable is included in the refinancing of short-term obligations described below. 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 470-45-14, *Intent and Ability to Refinance on a Long-Term Basis*, and reclassified the amount of original note payment originally due in 2024 to non-current liabilities.

Short-Term Note Refinanced

Effective February 9, 2024, the Corporation entered into a loan agreement to refinance the term note outstanding as described above. Under the provisions of this agreement, the Corporation borrowed \$1,391,388 at 7.75%, maturing on February 5, 2026. The agreement requires monthly principal payments of \$21,588 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 for the years ended December 31:

2025	\$ 239,665
2026	1,140,103
2027	<u>21,021</u>
Thereafter	<u>\$ 1,400,787</u>

NOTE 6: CONCENTRATIONS

Major Customers

Five major customers accounted for 70.82% of total sales for 2024. Accounts receivable from these five customers comprised 70.20% of total accounts receivable at December 31, 2024. Five major customers accounted for 65.79% of total revenues for 2023. Accounts receivable from these five customers comprised 73.94% of total accounts receivable at December 31, 2023.

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 \$27,652 and \$29,082 for the years ended December 31, 2024 and 2023, 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 2024 and 2023, the Corporation accrued \$12,033 and \$14,944, respectively in interest income related to these loans which is included in the loan balance on the balance sheets. The balance of these loans totaled \$1,351,946 and \$1,714,913 for the years ended December 31, 2024 and 2023, respectively.

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, 2024, the Company's uninsured cash balances totaled \$0.

NOTE 10: EMPLOYEE RETENTION CREDIT INCOME

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020 and the subsequent extension of the CARES Act, the Corporation determined it was eligible to receive a refundable Employee Retention Credit for eligible quarters.

In December 2021, the AICPA issued Center for Plain English Accounting ("CPEA") report, Employee Retention Credit (ERC) Financial Reporting & Disclosure Examples. The CPEA report addresses accounting for ERC credits for entities. The CPEA report states For-Profit entities can apply the IAS 20 model or the FASB ASC 450-30 model. The IAS 20 model is not part of FASB ASC, but FASB ASC 105 *Generally Accepted Accounting Principles*, does permit considering a nonauthoritative source when the accounting for the transaction is not specified in FASB ASC.

IAS 20 provides a model for the accounting of different forms of government assistance, which includes governmental assistance such as the ERC. IAS 20 presentation indicates flexibility regarding amount recognized on the income statement. The model states the transaction can be presented as "Other Income" or deducted from the related expense.

The Corporation was informed during the year that the application for the Employee Retention Credit had been approved and received a total of \$156,341. The Corporation concluded that the ERC represents, in substance, funds provided under a government grant. As such, in accordance with IAS 20, the Corporation has recognized the \$156,341 in proceeds as Other Income in the accompanying financial statements.

NOTE 11: CONTINGENCIES

The Corporation is subject to various claims, legal proceedings and investigations covering a wide range of matters that arose in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or accruals. If not so covered, the matters are considered without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Corporation, if disposed of unfavorably.