

**NAVITAS UTILITY CORPORATION
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2021**

Includes Independent Auditor's Report Issued By



**NAVITAS UTILITY CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2021**

<u>Index</u>	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements	
Balance Sheet	3
Statement of Income and Retained Earnings	4
Statement of Cash Flows	5
Notes	6-9
Additional Information – Schedule of operating expenses	11



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Navitas Utility Corporation

Opinion

We have audited the accompanying consolidated financial statements of Navitas Utility Corporation which comprise the balance sheet as of December 31, 2021, and the related statements of income, retained earnings, and cash flows for the year 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 Navitas Utility Corporation as of December 31, 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 audit 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 Statement section of our report. We are required to be independent of Navitas Utility Corporation and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we 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 Navitas Utility Corporation's ability to continue as a going concern within one year after the date of 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 Navitas 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 Navitas 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule-detail of operating expenses is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Oklahoma City, Oklahoma
March 22, 2023

NAVITAS UTILITY CORPORATION
BALANCE SHEET
DECEMBER 31, 2021

ASSETS

Current assets:	
Cash	\$ 1,773,344
Receivable from affiliated entity	3,463,548
Inventory	189,631
Prepays and other assets	92,778
CIEB	203,884
Total current assets	<u>5,723,185</u>
Property and equipment:	
Autos and pickups	1,213,545
Trucks	254,629
Heavy equipment	629,433
Tools and other small equipment	232,380
Office equipment	204,262
Leasehold improvements	2,486
Meters and regulators	1,015,422
Accumulated depreciation	<u>(2,066,098)</u>
Property and equipment, net	1,486,058
Other non-current assets:	
Investment in affiliated entity	<u>179,251</u>
Total assets	<u><u>\$ 7,388,494</u></u>

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable and other accrued expenses	\$ 2,493,021
Lines of credit	156,272
Current portion of long-term debt	4,294
Total current liabilities	<u>2,653,587</u>
Long-term debt, less current portion	2,089,425
Other accruals	150,740
Stockholders' equity:	
Common stock, \$100 par value, 1,500 share authorized, 660 issued and outstanding	66,000
Additional paid-in capital	115,694
Retained earnings	2,313,048
Total stockholders' equity	<u>2,494,742</u>
Total liabilities and stockholders' equity	<u><u>\$ 7,388,494</u></u>

NAVITAS UTILITY CORPORATION
STATEMENT OF INCOME AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 2021

Revenue:	
Service crews	\$ 4,621,201
Commodity sales	4,325,718
Construction crews	94,054
Total revenue	<u>9,040,973</u>
Cost of goods sold:	
Commodity marketing and transport	<u>4,152,659</u>
Gross profit	4,888,314
Operating expenses:	
Direct costs	1,387,991
Indirect costs	2,827,826
Depreciation	356,793
Total operating expenses	<u>4,572,610</u>
Operating income (loss)	315,704
Other income (expense):	
Forgiveable loan from the U.S. Government	-
Interest (expense)	(39,531)
Other non-operating income (expense)	126,538
Total other income (expense)	<u>87,007</u>
Net income (loss)	402,711
Retained earnings, beginning	1,934,337
Dividend distributions	<u>(24,000)</u>
Retained earnings, ending	<u><u>\$ 2,313,048</u></u>

NAVITAS UTILITY CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2021

OPERATING ACTIVITIES

Net Income (loss)	\$ 402,711
Adjustments to reconcile net income to net cash provided by operations:	
Depreciation and amortization	356,793
Earnings from affiliated company	61,303
(Increases) decreases in:	
Receivable from affiliated entity	(1,377,341)
Inventory	(66,774)
Prepays and other assets	(32,182)
CEIB	21,454
Increases (decreases) in:	
Accounts payable and accrued expenses	1,458,865
Net cash provided by operating activities	<u>824,829</u>

INVESTING ACTIVITIES

Purchase of property and equipment	(724,203)
Distributions to members	(22,031)
Net cash (used) by investing activities	<u>(746,234)</u>

FINANCING ACTIVITIES

Proceeds from long-term debt	1,803,882
Repayment of long-term debt	(115,000)
Net cash provided by financing activities	<u>1,688,882</u>

Net cash (decrease) for year	1,767,477
------------------------------	-----------

Cash (overdraft), beginning of year	<u>5,867</u>
-------------------------------------	--------------

Cash (overdraft), end of year	<u><u>\$ 1,773,344</u></u>
-------------------------------	----------------------------

NAVITAS UTILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

(1) Summary of Significant Accounting Policies

Organization and structure - We were formed on May 17, 2006. We are an operator of suburban and rural local distribution companies (LDCs). We are the managing member of Navitas Assets, LLC, our primary client, for whom we locate, develop, and operate mid and downstream pipeline systems and other energy assets. We provide gas acquisition and utility management to systems serving numerous counties in Oklahoma, Texas, Tennessee, and Kentucky. We have Oklahoma offices in Eakly, Velma, Hollis, Kinta, and Ochelata, Tennessee office in Jellico, Kentucky office in Betsy Layne, as well as a corporate office Costa Mesa, California. We are a certified minority owned business with the California PUD.

We own 100% membership interest in Navitas Communications, LLC which provides communication services to Navitas companies.

Use of estimates - Accrual accounting is used to prepare these financial statements. Financial statement preparation requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses and the disclosure of contingencies as of the date of these financial statements and for the period of these financial statements. Items that may be estimated include, but are not limited to, the economic useful life of assets, the fair value of some assets and liabilities, bad debt expense, billed revenues to affiliated entities, gas purchases for which gas has been delivered but no invoice has been received and various other recorded or disclosed amounts.

We evaluate estimates on an ongoing basis using historical experience, consultation with experts and other methods we consider reasonable given the circumstances. Nevertheless, actual results could differ significantly from the estimates. Any effects on our financial position or results of operations from revisions of these estimates are recorded when the facts that gave rise to the revision become known.

Cash and cash equivalents - Cash and cash equivalents consist of highly liquid investments, which are readily convertible in to cash, and have original maturity dates of three months or less.

Costs in excess of bills (CIEB) - Navitas includes \$203,884 of Costs In Excess of Bills on its books to offset a payable to a pipeline company for a matter underlying Kentucky Public Service Commission Order 2019-00430. This order directs Navitas KYNG, LLC to place a surcharge of \$0.024 per CCF of gas sold in Kentucky on its billings to customers for the next eight years or until the amount of \$203,884 is collected.

Property, plant and equipment – Our properties are generally stated at cost. Maintenance and repairs are charged to expense. Depreciation of these properties is charged to operations using the straight-line method. We assign lives to our properties based on our estimates of their useful economic lives. Estimated useful lives of our properties are as follows:

Trucks	7
Heavy equipment	7
Tooling	4
Computers	4
Meters	10

Accounts receivable – Receivables are evaluated for potential write-offs at six-month intervals and we use the direct write-off method for recording bad debts in our financial statements.

Inventories – Inventories are valued at the lower of cost or market, using the first-in, first-out method.

NAVITAS UTILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

(1) Summary of Significant Accounting Policies (continued)

Investments – Investments are reported under the cost method and are increased by the Company's share of profits and decreased by related distributions

Income taxes – The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal or state corporation income taxes on its taxable income. Instead, the stockholders of the Company are liable for individual federal and state income taxes on their respective shares.

(2) Investment in Limited Liability Company

We are the managing member and a fifteen percent interest holder in Navitas Assets, LLC (NALLC), a limited liability company. NALLC primarily operates to acquire relatively small, operating, rural assets and secondarily pursues the development of energy projects. NALLC currently owns over 1,000 miles of regulated distribution pipeline as well as certain unregulated transmission assets. We provide service assistance and perform construction for NALLC. Summarized financial information for NALLC is as follows:

Current assets	\$	3,481,371
Property & equipment		11,180,836
Other assets		179,083
	\$	<u>14,841,290</u>
Current liabilities	\$	5,954,107
Long-term liabilities		7,867,761
Members' equity		1,019,422
	\$	<u>14,841,290</u>
Net income (loss)	\$	<u>(501,270)</u>

(3) Long-term debt

We have four loans at a bank with outstanding balances totaling \$1,494 at December 31, 2021. Payments on these loans are due monthly and have interest rates ranging from 3.55% to 6.84%. These notes mature from 2021-2024 and are secured by vehicles.

We have three loans at a bank with outstanding balances totaling \$86,057 at December 31, 2021. Payments on these loans are due monthly and have interest rates ranging from 3.99% to 4.49%. These notes mature in 2024 and 2026 and are secured by vehicles.

We have four loans and a line of credit at a bank with outstanding balances totaling \$134,035 at December 31, 2021. Payments on these loans are due monthly and have interest rates ranging from 4.75% to 5.50%. These notes mature in 2022 and 2024 and are secured by equipment.

NAVITAS UTILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

(3) Long-term debt (continued)

We have two loans at a bank with outstanding balances totaling \$574 at December 31, 2021. Payments on these loans are due monthly and have interest rates ranging from 5.24% to 5.94%. These notes mature in 2023 and 2024 and are secured by equipment.

We have one loan at a bank with outstanding balance totaling \$260 at December 31, 2021. Payments on this loan are due monthly and have interest rate of 2.09%. This note matures in 2026 and is secured by a vehicle.

We have one loan at a bank with outstanding balance totaling \$1,299 at December 31, 2021. Payments on this loan are due monthly and have interest rate of 3.99%. This note matures in 2026 and is secured by a vehicle.

We have a line of credit at a bank with outstanding balance totaling \$26,272 at December 31, 2021. Payments on this loan are due monthly and have interest rate of 3.99%. This note matures in 2026 and is secured by a vehicle.

We secured an Economic Injury Disaster Loan through the U.S. Small Business Administration for \$2,000,000 during the year ended December 31, 2021. The outstanding balance was \$2,000,000 at December 31, 2021. Payments on this loan are due monthly starting in 2024 and has an interest rate of 3.75%. The loan matures in 2051 and is secured by equipment and real property.

Principal maturities are as follows:

2022	\$	29,324
2023		18,946
2024		142,522
2025		142,522
2026		131,134
Thereafter		1,629,272
	\$	<u>2,093,720</u>

Reconciliation to balance sheet

Current portion of long-term debt	\$	29,324
Lines-of-credit		156,272
Long-term debt, less current portion		<u>2,064,396</u>
	\$	<u>2,249,991</u>

NAVITAS UTILITY CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

(4) Commitments

We have several multi-year agreements with Enogex, Southern Star, CenterPointe and Seminole. These contracts are to specifically supply gas to systems managed by Navitas Utility Corporation.

(5) Transactions With Affiliates and Related Parties

We control fifteen percent of the member units of Navitas Assets, LLC (NALLC), and our shareholders also control member units of NALLC. The majority of our revenues are for services and construction performed for NALLC. During the course of our operations, we bill and are charged for products and services and sometimes we advance and receive money for cash flow needs. At December 31, 2021, we have a receivable from NALLC for \$3,463,548 resulting from billings for goods and services and they are required to pay interest of WSJ prime +2% on the unpaid balance.

Our shareholders have guaranteed some of our debt.

(6) Concentrations

We purchase gas from a limited number of suppliers for resale to a related entity, Navitas Assets, LLC, and two of those suppliers provide us with 95% of our gas purchases.

Substantially all of our revenues are derived from commodity sales or service revenues to a related entity, Navitas Assets, LLC.

(7) Income taxes

We elected to be treated as an S Corporation for income tax purposes and, therefore, all tax liability is passed on to its shareholders. We did adopt standards to account for uncertainty in income taxes as required by generally accepted accounting principles. During 2020, we evaluated tax positions and it was our determination that we had not taken any positions that would be subject to uncertainty, however, uncertain tax positions are ultimately the responsibility of the Company's shareholders. The statute of limitations for examining our federal and state tax returns is generally three years from the filing date, so our 2019 through 2021 income tax returns are subject to examination.

(8) Subsequent events

In May 2022, Navitas Utility Corporation created a new wholly owned subsidiary and acquired two hydroelectric plants in North Carolina.

We have accounted for subsequent events through March 22, 2023, the date our consolidated financial statements were issued, and we believe that all required subsequent events disclosures have been made.

SUPPLEMENTARY SCHEDULES

NAVITAS UTILITY CORPORATION
SUPPLEMENTARY SCHEDULE
DETAIL OF OPERATING EXPENSES
YEAR ENDED DECEMBER 31, 2021

Direct costs:

Equipment maintenance	\$ 104,895
Line maintenance	208,010
Line service	1,075,086
	<u>\$ 1,387,991</u>

Indirect costs:

Administrative and general sales	\$ 1,147,073
Audit and accounting fees	67,239
Bank fees	5,260
Communication equipment	24,599
Communication service	59,038
Customer assistance	221,529
Customer records	58,320
Fuel	7,179
Insurance-other	161,446
Legal expenses	8,798
Licenses, permits and memberships	3,822
Office consumables	27,205
Office supplies	49,737
Other employee benefits	490,490
Other rentals	156,263
Outside services	245,129
Plant maintenance	44,924
Postage	17,245
Safety and security	22,696
Utilities	9,834
	<u>\$ 2,827,826</u>