

Document Index

Lorimor Municipal Gas Utility, Lorimor, Iowa - 388.2A Compliance

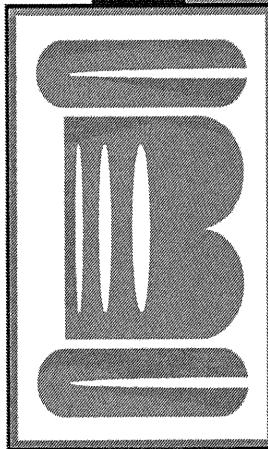
1. Appraisals
 - a. BCC Advisers Appraisal
 - b. HDH Advisers Appraisal
2. Fair Market Value Determination
3. Inventory of Real/Personal Property
4. Balance Sheet
5. Financial Information Statement:
 - a. Current Rate Schedules
 - b. Projected Rate Schedules for next five fiscal years
 - c. Five most recent Fiscal Year Revenue Statements
 - d. Projection of Revenue Statements for next five Fiscal years
6. Documentation of Alternatives Considered

Appraisal Report:

BCC Appraisal (Selected by LMGU)

**LORIMOR
MUNICIPAL GAS
UTILITY**

**BCC
ADVISERS**



APPRAISAL REPORT

DECEMBER 31, 2022



BCC
ADVISERS

MERGERS & ACQUISITIONS
BUSINESS VALUATION
LITIGATION SUPPORT

June 7, 2023

Ahlers & Cooney P.C.
Attn. Steve Nadel
snadel@ahlerslaw.com

To Mr. Nadel:

BCC Advisers was engaged by the City of Lorimor to provide an independent opinion as to the fair market value of a controlling, non-marketable interest in Lorimor Municipal Gas Utility as of December 31, 2022. The intended users are the Lorimor City Council and their professional advisers, and the intended use is for a potential transaction. The information in the attached report may not be used for any other purpose without the written consent of BCC Advisers.

Based upon the entire analysis and for the intended use stated above, it is our opinion that the fair market value of the subject interest was \$493,000. Reliance on this value should include a full reading of the Appraisal Report for an understanding of the assumptions, limiting conditions and methodology underlying the appraised value.

BCC ADVISERS

Matthew J. Fett, CFA, ASA
Vice President

Gregory L. Weber, CPA/ABV, ASA
Senior Vice President

TABLE OF CONTENTS

<i>Section</i>	<i>Page</i>
INTRODUCTION	4
DESCRIPTION OF UTILITY	7
INDUSTRY	9
ECONOMY	10
FINANCIAL STATEMENT ANALYSIS	11
APPRAISAL OF FAIR MARKET VALUE	12
CONCLUSION OF VALUE	16

Appendices

- 1 Sources of Information
- 2 Contingent and Limiting Conditions
- 3 Appraisal Certification
- 4 Statement of Qualifications
- 5 Industry Review
- 6 Economic Review
- 7 Historical Financial Statements
- 8 Discounted Cash Flow Method
- 9 Merger and Acquisition Method
- 10 Depreciated Value of Capital Assets

INTRODUCTION

Description of Assignment

BCC Advisers was engaged by the City of Lorimor to provide an independent opinion as to the fair market value of a controlling, non-marketable interest in Lorimor Municipal Gas Utility (“LMGU” or the “Utility”) as of December 31, 2022. The intended users are the Lorimor City Council and their professional advisers, and the intended use is for a potential transaction. This opinion may not be used for any other purpose without the written consent of BCC Advisers.

This appraisal has been prepared in conformity with the following professional standards:

- Uniform Standards of Professional Appraisal Practice (“USPAP”) of the Appraisal Foundation,
- Business Valuation Standards (“BVS”), Principles of Appraisal Practice and Code of Professional Ethics of the American Society of Appraisers,
- Statement on Standards for Valuation Services (“SSVS”) No. 1, Statement on Standards for Consulting Services (“SSCS”) No. 1 and Code of Professional Conduct of the American Institute of Certified Public Accountants,
- National Association of Certified Valuation Analysts Professional Standards.

This report is an Appraisal Report as defined by USPAP and a Detailed Report as defined by SSVS No. 1.

Statement of Independence

BCC Advisers has no financial interest in the property being appraised, does not act as an employee or agent of the subject company, and has had no dealing with the subject company that would prejudice its ability to render a fair and impartial opinion of value. The value opinion is independent of the fee paid.

Standard of Value

Since the Utility is privately held, this valuation relies on traditionally accepted techniques to simulate market considerations in establishing fair market value. This concept of value is defined in The International Glossary of Business Valuation Terms as:

“The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and

INTRODUCTION (Continued)

able seller, acting at arm's length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.”

This appraisal follows the established guidelines for estimating fair market value found in Internal Revenue Service Revenue Ruling 59-60, which requires that the valuation of closely held stocks include the following:

- The nature of the business and history of the enterprise.
- The economic outlook in general and condition and outlook of the specific industry.
- The book value of the stock and the financial condition of the business.
- The company's earning capacity.
- The company's dividend paying capacity.
- Whether or not the enterprise has goodwill or other intangible value.
- Sales of stock and size of the block to be valued.
- The market prices of stocks of corporations engaged in the same or similar lines of business whose stocks are actively traded in a free and open market, either on an exchange or over the counter.

Fair market value cannot be determined exactly because there is no universally accepted formula for computing value. The value opinion in this analysis should be interpreted as an experienced opinion regarding fair market value as of the date of this report.

Premise of Value

Premise of value is defined in The International Glossary of Business Valuation Terms as:

“An assumption as to the set of actual or hypothetical transactional circumstances applicable to the subject valuation.”

An interest in a business can be analyzed under various premises of value, resulting in varying conclusions. The Utility was analyzed under the *going concern* premise of value, which is defined in Valuing a Business as:

“The value in continued use, as a mass assemblage of income producing assets, and as a going-concern business enterprise.”

INTRODUCTION (Continued)

Sources of Information

Information was received from Amanda Ritchie, Lorimor City Clerk, and Steve Nadel and Elizabeth Burnett, professional advisers to the City of Lorimor. Appendix 1 lists documents and various sources of information used in this appraisal. Historical and prospective information provided was reviewed, and its reasonableness and appropriateness for use in the valuation process was considered. However, no procedures have been performed by BCC Advisers to authenticate the information received.

DESCRIPTION OF UTILITY

History

Lorimor Municipal Gas Utility is a not-for-profit government entity owned by the City of Lorimor, Iowa (the "City"), which has a population of 378. The Utility provides gas utility transmission and distribution to residents of Lorimor. During 2022 approximately 86% of LMGU's customers were residential users while the remaining 14% represented commercial and industrial users. Of the 10.62 million cubic feet of gas sold in 2022, approximately 82% was for residential.

The Utility's gas distribution system was designed by Frank, Hoblick, & Associates in 1971. Today, the distribution system includes over 8 miles of protected pipes constructing the mains and approximately 4 miles of service lines. The transmission system is comprised of approximately 4.75 miles of protected pipe.

LMGU purchases its natural gas from Clayton Energy Corporation, a Wahoo, Nebraska based municipal utilities supplier.

Management

The City entered into an operations and maintenance agreement with Interstate Power and Light Company ("IP&L") on October 24, 2022. The City remains fully responsible for all gas purchasing, capital project financing, customer service, rate setting, billing, regulatory compliance, and all other activities relating to the delivery of natural gas to the customers in the City.

IP&L is responsible for all daily operations and system management activities relating to the safe and compliant delivery of natural gas service to customers, including maintenance of the City's natural gas transmission line. Other services provided by IP&L include regulatory reporting, regular inspections, and monitoring. Services not provided by IP&L include:

- Locating of underground facilities,
- Customer billing/posting,
- Employee training,
- Repair work on customer side of meter,
- Providing customer notices,
- Providing call center services for the customers of the Lorimor Gas System,
- Meter reading,
- Non-routine main, service, and metering work,
- Non-routine station maintenance, operation and repair activities.

DESCRIPTION OF THE UTILITY (Continued)

City Gas Rates Compared to Peers

Based on information gathered from annual reports to the Iowa Utilities Board, the residents of the City of Lorimor consistently paid higher rates for their natural gas. The following table compares the revenue per MCF sold to the ultimate customer for Lorimor, four nearby local gas utilities, and the four large gas utilities within Iowa.

TABLE 1

REVENUE PER MCF SOLD TO ULTIMATE CUSTOMER				
	2020	2021	2022	Average
Lorimor	\$11.31	\$20.06	\$18.20	\$16.52
Prescott	\$8.02	\$15.65	\$12.50	\$12.05
Lamoni	\$8.35	\$8.31	\$8.62	\$8.43
Lenox	\$4.26	\$8.73	\$8.66	\$7.22
Liberty Utilities	\$7.08	\$10.30	\$13.69	\$10.35
Black Hills Energy	\$7.20	\$9.40	\$14.01	\$10.20
Interstate Power	\$7.16	\$9.51	\$11.06	\$9.24
MidAmerican	\$5.88	\$10.50	\$9.14	\$8.51

Source: Annual reports to the Iowa Utilities Board

Based on Lorimor's annual usage amounts show in Appendix 7, the City paid between \$49,000 and \$103,000 more, on average over the last three years, compared to their peers as shown in the following table.

TABLE 2

ANNUAL LORIMOR GAS PAYMENTS IN EXCESS OF PEERS				
	2020	2021	2022	Average
Prescott	\$39,954	\$47,409	\$60,559	\$49,307
Lamoni	\$35,907	\$126,264	\$101,712	\$87,961
Lenox	\$85,512	\$121,813	\$101,299	\$102,875
Liberty Utilities	\$51,357	\$104,917	\$47,942	\$68,072
Black Hills Energy	\$49,850	\$114,575	\$44,577	\$69,667
Interstate Power	\$50,381	\$113,382	\$75,887	\$79,883
MidAmerican	\$65,859	\$102,808	\$96,200	\$88,289

DESCRIPTION OF THE UTILITY (Continued)

Environmental, Regulatory and Other Conflicts

Management represents that there are no known problems with environmental, tax, or other regulatory matters nor any material personnel issues. There are no in-progress or pending litigation issues involving the Utility as of the valuation date.

INDUSTRY

An understanding of the nature and outlook of the industry in which the Utility operates allows the Utility to be evaluated in that context. The Utility operates in the natural gas distribution industry. A review of this industry was considered in this appraisal. Key industry conditions as of the valuation date are discussed in detail in Appendix 5 and summarized below.

Natural Gas Distribution Industry

- There is little competition within the industry due to the regional nature of the industry. Furthermore, the capital intensity and heavy regulation make it very difficult for new entrants to become established.
- Residential households have historically represented the largest market for the industry, regularly accounting for over one-third of total industry revenue. Other major markets include the industrial, electrical power, and commercial markets.
- The industry is subject to high levels of volatility in market conditions as well as commodity prices. The price of natural gas fell 22% in 2020 followed by 91% and 82% increases in 2021 and 2022.
- Over the last five years, demand from the commercial and industrial sectors declined amid mandatory shutdowns for non-essential businesses while the residential sector excelled as housing starts increased and people spent more time at home during the COVID-19 pandemic. Industry revenue increased at a real annualized rate of 3.2% over the last five years as a result of these mixed trends.
- Over the next five-year period, total domestic consumption of natural gas is expected to increase, while prices are anticipated to fall slightly. The forecast decrease in the price of natural gas is expected to hamper the industry's expansion, causing industry revenue to decrease at a real annualized rate of 0.8%.

The current outlook for the industry is reflected in the discount rate as discussed in the Discounted Cash Flow Method and in the selection of the multiples under the Market Approach.

ECONOMY

A review of the general economic factors prevailing at the valuation date provides insight into the economic climate in which "willing and able" buyers and sellers transact. Investors' perceptions are influenced by the overall economic environment and its outlook. A detailed analysis of national and local economic conditions as of the valuation date is presented in detail in Appendix 6 and summarized below.

National Economy

- Gross domestic product ("GDP") increased 2.9% in the fourth quarter of 2022 and showed an annual increase of 2.1% for all of 2022. Growth was driven by increased consumer spending, industrial production, and business investment.
- Consumer spending, which accounts for approximately 70% of the U.S. GDP, increased 2.1% in the fourth quarter of 2022, down from 2.3% growth in the prior quarter. In 2022, consumer spending rose 2.8%, down from 8.3% growth in 2021.
- The U.S. Department of Labor reported that the unemployment rate decreased to 3.5% in December 2022. The labor-force participation rate of 62.3% showed little net change during 2022.
- The Consumer Price Index, which is used as a measure of inflation, rose 6.5% in 2022 and inflationary concerns remained elevated.
- Real GDP is expected to increase 0.2% in 2023 and 1.6% in 2024. In the long-term, real GDP is expected to grow by an average annual rate of 2.0% between 2025 and 2032.

Local Economy - State of Iowa

- Iowa's real GDP decreased at a real annualized rate of 1.2% in the fourth quarter of 2022 after increasing 0.3% in the prior quarter. The state's real GDP decreased 1.5% in 2022, primarily due to declines in the agricultural sector.
- Iowa's unemployment rate was 3.0% in December 2022, equal to the prior month.
- The Iowa Business Council index increased in the fourth quarter of 2022 and indicated positive sentiment. The increase follows a three-quarter decline in optimism but indicated concerns relating to workforce attraction and retention, inflation, and the overall business climate.

The current outlook for the local economy is reflected in the discount rate as discussed in the Discounted Cash Flow Method and in the selection of the multiples under the Market Approach.

FINANCIAL STATEMENT ANALYSIS

In the following section, the operating performance and financial condition of the Utility are analyzed and compared to industry averages. Financial statements of the Utility from FY 2020 to FY 2022 (the “period analyzed”) are summarized in Appendix 7.

The operating performance of the Utility is analyzed and compared to industry medians published by the Risk Management Association (“RMA”). Although industry statistics are a useful source of general analytical data, significant variation can exist in the reporting practices and operational methods of companies within a given industry. Therefore, industry statistics as used throughout this report should not be regarded as absolute norms or standards.

Operating Performance

Revenue

Total revenue of \$196,000 in FY 2022 decreased 10.1% from FY 2021. Total revenue consisted of residential (81.6%), small commercial and industrial (16.8%) and other operating revenues (1.6%). The average price per thousand cubic feet (“MCF”) sold ranged between \$11.31 and \$20.06 during the last three years and was \$18.20 in FY 2022. The price per MCF sold increased at a compound annual rate of 26.9% due to large swings in the price of natural gas. The volume of gas sold decreased in each year over the period analyzed.

Operating Expenses & Net Profit

Operating expenses of \$148,000 in FY 2022 decreased 30.8% from FY 2021. As a percentage of total revenue, operating expenses represented 75.5% during FY 2022, the lowest over the period analyzed. The resulting net profit margin of 24.5% for FY 2022 was the highest over the period analyzed and higher than the industry median of 13.3%. The Utility’s net profit margin averaged 13.7% over the period analyzed.

The above factors are reflected in the discount rate as discussed in the Discounted Cash Flow Method and in the selection of multiples under the Market Approach.

APPRAISAL OF FAIR MARKET VALUE

Three approaches for valuing closely held companies were considered in estimating the fair market value of the Utility. The Asset, Income Approach, and Market Approach are discussed in the following paragraphs.

Income Approach

The Income Approach uses methods that base value on future cash flow provided by a business to an owner or investor. Analysis of value under the Discounted Cash Flow Method is presented in Appendix 8.

Market Approach

The Market Approach estimates the value of a company based on comparisons to companies with similar characteristics, or “guideline” companies. Market data is used to calculate ratios which represent relationships set by investors in the market. The ratios can be applied to the subject company to provide an indication of value. Generally, two sources of guideline transaction data are used: stock market data on publicly traded companies and data from recent mergers and acquisitions in the same or similar industry to the subject company. Methods are discussed below.

- *Merger/Acquisition Method* - Data from merger and acquisition transactions in the industry in which a subject company operates can provide an estimate of the price a buyer might be willing to pay for a company similar to the subject company. Analysis of value under this method is presented in Appendix 9.
- *Guideline Public Company Method* - Multiples implied by stock prices of publicly traded companies can also be used to provide an estimate of fair market value. However, given the nature and size of the Utility’s operations, appropriately comparable public companies could not be identified, and this method was not used to indicate values for the Utility.
- *Prior Transactions in Stock* - Under certain circumstances, transactions involving the sale or purchase of a subject company’s stock may be used to provide an indication of that company’s value. The transactions must be at arm’s length and for a negotiated price. Additionally, a sufficient number of transactions is required to indicate a consistent value. No transactions met these requirements during the five most recent years.

APPRAISAL OF FAIR MARKET VALUE (Continued)

Asset Approach

The Asset Approach uses methods that base value on the book value of a business, adjusted for various items. This approach is most appropriate for a non-operating company or a business that is capital or intangible asset intensive. An analysis of the depreciated value of the capital assets of the Utility is presented in Appendix 10.

The value of the assets does not provide a reasonable estimate of the value of the Utility since these assets cannot be moved. Therefore, a buyer would more likely offer a price based on the cash flow the assets would generate, and the value of assets for any given buyer may differ from the value calculated under the Discounted Cash Flow Method herein due to the buyer's specific circumstances including its costs of providing the gas service and its economies of scale, with such factors producing a more representative value of what a buyer would pay to acquire the Utility. Therefore, the asset approach was not used as an indication of value.

Valuation Summary

A comparison of the values indicated under the Income and Market Approaches for a controlling, marketable interest in the Utility is shown in the following table.

TABLE 3

CONCLUSION OF VALUE			
Approach / Method	Reference	Indicated MVIC	Weight
Income Approach			
Discounted Cash Flow Method	Appendix 8	\$508,000	100%
Market Approach			
<u>Merger and Acquisition Method</u>			
Revenue	Appendix 9	\$499,000	0%
EBITDA	Appendix 9	\$438,000	0%
Indicated controlling, marketable MVIC		\$508,000	100%

The values above are prior to the application of a discount for lack of marketability which is discussed later in the report. Since the information available under the Merger and Acquisition Method was somewhat limited, indications of value provided by the

APPRAISAL OF FAIR MARKET VALUE (Continued)

Market Approach were not given weighting and were used to assess the reasonableness of the values indicated under the Discounted Cash Flow Method. A value of \$508,000 was estimated for a controlling, marketable interest in the invested capital of the Utility.

Discount for Lack of Control

Distinct differences are apparent between company owners with the rights to exercise control and those with little or no ability to exercise significant influence over an entity's affairs. Holders of a controlling interest in a company are able to determine corporate policies and procedures and to direct the daily operations of the company. Powers typically exclusive to a company's controlling shareholders include the ability to:

- Elect directors and appoint management.
- Declare and pay dividends.
- Set compensation levels, including their own.
- Liquidate, sell, or merge the business or certain assets of the business.
- Amend the certificate of incorporation, charter, bylaws, and other corporate documents.
- Block any of the above actions.

The values calculated using the Income and Market Approaches represent a controlling interest in the Utility. As the interest being appraised is a controlling interest, no discount for lack of control or control premium was applied.

Discount for Lack of Marketability

With all other things being equal, a company is worth more if it is readily marketable, or less if it is not. Shares of non-publicly held companies generally suffer from a lack of marketability. It is, therefore, a common practice in business valuations to discount the value of a non-publicly held company to account for this lack of marketability. The term *marketability discount* is defined in The International Glossary of Business Valuation Terms as "an amount or percentage deducted from the value of an ownership interest to reflect the relative absence of marketability."

For a controlling interest, the typical means of liquidating ownership is selling either the entire business or a controlling block of stock in a private transaction. Transactions are often lengthy, expensive, and uncertain. To sell a company similar to the Utility, brokerage fees generally range from 2% to 4% of the transaction price, with the total transaction costs ranging from 2% to 5%. Associated risks and costs to create a market

APPRAISAL OF FAIR MARKET VALUE (Continued)

increases the relative size of the discount for lack of marketability to be applied when valuing the Utility.

The size of the discount for lack of marketability depends on various factors specific to a given valuation. Factors that may increase the discount include restrictions on transfer, little or no dividend history, and little or no prospect of public offering or sale of the company. Factors that may decrease the discount include a “put” option, the existence of a limited market available that may purchase shares, an imminent public offering or sale of the company, and a history of high dividends. Other factors whose effect may either increase or decrease the discount include the size of the block of stock and the existence of a buy-sell agreement. The impact of these factors is discussed below:

- Restrictions on transfer – The sale of the Utility requires approval from the Lorimor City Council. This provision restricts the transferability of the Utility and its assets, which warrants an increase in the discount for lack of marketability.
- Distribution history– The owner of a controlling interest could initiate distributions as desired (assuming the Utility had adequate funds). This ability to make distributions as desired warrants a slightly reduced discount for lack of marketability.
- Prospect of public offering or sale of the company – As of the valuation date, the City was exploring the possibility of a sale of the Utility. As a known liquidity event is expected, a lower discount for lack of marketability is warranted. This reduction is limited by the fact that the Utility would still incur professional fees and transaction-related expenses in selling the Utility.
- Size of the block of interest – The size of the block does not have an impact on the discount.
- Financial statement analysis – The volume of gas sold by the Utility decreased in each year over the period analyzed which indicates higher risk to ownership of the Utility. On the other hand, the Utility’s average net profit margin over the period analyzed (13.7%) was similar to the industry median (13.3%). The financial condition and earnings history warrant a slight increase to the discount for lack of marketability.

Since this valuation represents a controlling interest in a privately held company for which no public market exists, it is appropriate to apply a discount for lack of marketability. By analyzing specific attributes of the Utility, a discount for lack of marketability of 3% was applied.

CONCLUSION OF VALUE

It is our opinion that the market value of invested capital of the Utility was \$508,000. After subtracting the debt, the fair market value of a controlling, marketable equity interest was \$508,000 as of December 31, 2022. Applying a discount for lack of marketability of 3% resulted in a controlling, non-marketable value of \$493,000.

TABLE 4

Controlling, marketable market value of invested capital	\$508,000
Less: debt	\$0
Controlling, marketable equity value	<u>\$508,000</u>
Discount for lack of marketability	3% <u>(\$15,000)</u>
Value for controlling, non-marketable interest	<u>\$493,000</u>

Considerations Under Iowa Code

In accordance with Iowa Code 388.2A, the following items were considered:

1. The depreciated value of the capital assets to be sold was estimated to be \$563,000 as shown in Appendix 10.
2. The present value of the future cash flows to the city utility was \$508,000 as shown in Appendix 9. However, the City's residents paid between \$49,000 and \$103,000 more, on average over the last three years, compared to their peers as shown in Table 2.
3. The Utility indicated that they have an exposed pipe on a transmission line due to soil erosion. The Utility's estimate to repair the pipeline is \$4,000.

While the individual assumptions may not be precise, taken as a whole, the valuation conclusion derived above is reasonable, in our opinion, and meets the standards of fair market value.

Utility Information

Year-end Iowa Utilities Board financial reports for years ended December 31, 2020 through 2022.

Municipal gas utility service agreement.

Operations and Maintenance Agreement between the City of Lorimor and Interstate Power and Light Company.

City of Lorimor Hedging Agreement.

Contract documents and specifications for the construction of the Lorimor natural gas distribution system performed by Fank Hoblick and Associates of Carthage, Missouri in 1971.

Economic Information

"Federal Reserve Statistical Release H.15." *Board of Governors of the Federal Reserve System.*

"Economic Outlook Update 4Q 2022." *Business Valuation Resources*, Feb. 2023, www.bvresources.com.

"2022 State Profile." *Woods & Poole Economics, Inc*, 2022.

"BEA: Gross Domestic Product and Personal Income by State." *U.S. Bureau of Economic Analysis*, www.bea.gov/data/gdp/gdp-state.

Goss, Dr. Ernie P. "December 2022 Mid-American Economy Report." *Creighton University*, Jan. 2022, creighton.edu/economicoutlook.

"Highlights from the December 2022 Farm Income Forecast." *Economic Research Service. United States Department of Agriculture*, 1 Dec. 2022, www.ers.usda.gov.

"Housing Units Authorized by Building Permits." *U.S. Census Bureau*, www.census.gov/construction/bps/.

"IBC Projects Positive Six-Month Economic Outlook." *Iowa Business Council*, 5 Jan. 2023, iowabusinesscouncil.org.

SOURCES OF INFORMATION

APPENDIX 1

“Iowa Ag News – Crop Production.” *United States Department of Agriculture. National Agricultural Statistics Service*, 12 Jan. 2023, www.nass.usda.gov.

“Iowa Corporate Income Tax Rate Changes for 2023.” *Iowa Department of Revenue*, tax.iowa.gov.

“Iowa Leading Indicators Index December 2022 Report.” *Iowa Department of Revenue*, 2 Feb. 2023, www.tax.iowa.gov/report/economic-indicators.

“Land Values 2021 Summary.” *United States Department of Agriculture*, Aug. 2021, www.nass.usda.gov/Publications.

“Monthly Labor Force Data.” *Iowa Department of Labor*.

“December Quarterly Hogs and Pigs Survey.” *United States Department of Agriculture. National Agricultural Statistics Service*, 23 Dec. 2022, www.nass.usda.gov.

“December Home Sales Monthly Indicators.” *Iowa Association of Realtors*, 18 Jan. 2023, iowarealtors.com.

“State and Area Employment, Hours, and Earnings.” *U.S. Department of Labor. Bureau of Labor Statistics*, data.bls.gov.

“State Income and Employment Summary.” *United States Bureau of Economic Analysis*, www.bea.gov.

Walczak, Jared, et. al. “2023 State Business Tax Climate Index.” *Tax Foundation*, www.taxfoundation.org.

Industry Information

“Annual Statement Studies, Financial Ratio Benchmarks.” *The Risk Management Association*, 2022-2023, www.rmahq.org.

“Cost of Capital Navigator.” *Kroll, LLC*, 2022, costofcapital.kroll.com.

Clark, Caleb. “Natural Gas Distribution in the US: 22121.” *IBISWorld Industry Report*, Jan. 2023.

“Deal & Market Data.” *Business Valuation Resources, LLC*, www.bvmarketdata.com.

Mergerstat Review. *Houlihan Lokey Howard & Zukin*, 2021, Los Angeles, California.

SOURCES OF INFORMATION

APPENDIX 1

“Valuation Handbook: Industry Cost of Capital.” *Kroll, LLC*, 2022, Chicago, Illinois.

May 2023 Short-Term Energy Outlook; U.S. Energy Information Administration.

PHMSA FY 2022 Natural Gas Distribution Infrastructure Safety and Modernization Grants.

Oren Smith, Zachary. “MidAmerican to Begin \$72 Million Gas Line Replacement Project”. Press Citizen. 16 May 2019. press-citizen.com.

Annual Gas Distribution Report. Department of Transportation. Pipeline and Hazardous Materials Safety Administration. 2022.

CONTINGENT & LIMITING CONDITIONS

APPENDIX 2

This Appraisal Report is made subject to the following general contingent and limiting conditions:

1. The analyses, opinions, and conclusions presented in this Appraisal Report apply to this engagement only and may not be used out of the context presented herein. This Appraisal Report is valid only for the effective date(s) specified herein and only for the purpose(s) specified herein.
2. BCC Advisers has compiled summary financial data and ratios that are contained in the Appraisal Report and various appendices. The data in these appendices represent financial data extracted from the Utility's historical financial statements as well as other sources. BCC Advisers has not audited or reviewed this financial data, and therefore does not express an opinion or any other form of assurance on it. The financial summaries presented in the appendices do not constitute a complete presentation of the Utility's financial statements in accordance with generally accepted accounting principles.
3. Public information, as well as industry and statistical information, have been obtained from sources we believe to be reliable. However, BCC Advisers makes no representation as to the accuracy or completeness of such information and has performed no procedures to corroborate the information.
4. The projections of earnings or cash flow used in the analysis herein are solely to assist in the development of the value conclusion presented in this Appraisal Report. These presentations do not include all disclosures required by the guidelines established by the American Institute of Certified Public Accountants for the presentation of a financial projection. These projections have been based upon identified assumptions. Some of these assumptions may not materialize and unanticipated events may occur; therefore, the actual results achieved may vary from the projection and the variations may be substantial. Therefore, BCC Advisers expresses no assurance on these projections.
5. We assume responsible ownership and competent management with respect to the subject assets, properties, or business interests. The calculations of value herein assume that the current level of management expertise and effectiveness continues to be maintained, and that the character and integrity of the enterprise through any sale, reorganization, exchange, or diminution of owners' participation would not be materially or significantly changed.
6. We assume that there is full compliance with all applicable federal, state, and local regulations and laws unless the lack of compliance is stated, defined, and considered in the Appraisal Report. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject business due to

future federal, state, or local legislation, including any environmental or ecological matters or interpretations thereof.

7. We assume that all required licenses, certificates of occupancy, consents, or legislative or administrative authority from any local, state, or national government, or private entity or organization have been or can be obtained or reviewed for any use on which the opinion contained in this Appraisal Report is based.
8. Unless otherwise stated in this Appraisal Report, BCC Advisers did not observe, and we have no knowledge of, the existence of hazardous materials with regard to the subject assets, properties, or business interests. However, we are not qualified to detect such substances. BCC Advisers assumes no responsibility for such conditions or for any expertise required to discover them.
9. This Appraisal Report and the conclusion of value arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Neither the Appraisal Report nor conclusion of value may be used for any other purpose or by any other party for any purpose. Furthermore, the Appraisal Report and conclusion of value are not intended by BCC Advisers and should not be construed by the reader to be investment advice in any manner whatsoever.
10. The conclusion of value represents the considered opinion of BCC Advisers, based on the information furnished to us by representatives of the business and other sources.
11. No change of any item in this Appraisal Report shall be made by anyone other than BCC Advisers, and we shall have no responsibility for any such unauthorized change.
12. Neither all nor any part of the contents of this Appraisal Report (especially the conclusion of value, the identity of any valuation specialists, or the firm with which such valuation specialists are connected or any reference to any of their professional designations) shall be disseminated to the public through advertising, media, public relations, news media, sales media, mail, direct transmittal, or any other means of communication without the prior written consent and approval of BCC Advisers.
13. Future services regarding the subject matter of this Appraisal Report, including, but not limited to testimony or attendance in court, shall not be required of BCC Advisers unless previous arrangements have been made in writing.

CONTINGENT & LIMITING CONDITIONS

APPENDIX 2

14. BCC Advisers has conducted interviews with current management of the subject business concerning past, present, and prospective operating results of the business.
15. Except as noted, BCC Advisers has relied upon the representations of the owners, management, and other third parties concerning the value and useful conditions of all equipment, real estate, investments used in the business, and any other assets or liabilities, except as specifically stated to the contrary in the Appraisal Report. We have not attempted to confirm if all assets of the business are free and clear of liens and encumbrances or that the entity has good title to all assets. BCC Advisers assumes no hidden or unapparent conditions regarding the subject assets, properties, or business interests.

We hereby certify the following statements regarding this Appraisal:

1. Neither Mr. Fett nor Mr. Weber has personally inspected the assets, properties, or business interests encompassed by this Appraisal.
2. The parties for whom the information and use of the Appraisal Report is restricted have been specifically identified in the Appraisal Report. The Appraisal Report should not be used by anyone other than the identified parties.
3. We hold ourselves out to the public as appraisers, we perform appraisals on a regular basis, and we are qualified to make appraisals of the type of property being valued.
4. We have no past, present or prospective future interest in the assets, properties, or business interests that are the subject of this Appraisal Report.
5. We have no personal interest or bias with respect to the subject matter of this Appraisal Report or the parties involved.
6. None of the individuals, involved in the valuation, nor BCC Advisers, has been subject to any prior criminal, civil or regulatory proceeding related to prior valuation work.
7. Compensation for making the Appraisal is in no way contingent upon the value reported or upon any predetermined value.
8. We have not been engaged to provide business appraisal services or other consulting services related to the subject property within the prior three years.
9. We understand that a substantial or gross valuation misstatement resulting from an appraisal of the value of property that the appraiser knows, or reasonably should have known, would be used in connection with a return or claim for refund, may subject the appraiser to a civil penalty under IRC Section 6695A.
10. There were no departures from standard valuation methodologies and all standard metrics were considered.
11. The economic and industry data included in this Appraisal Report have been obtained from various printed or electronic reference sources that we believe to be reliable. We have not performed any corroborating procedures to substantiate that data. To the best of our knowledge and belief, the statements of facts contained in this Appraisal Report, upon which the analyses, conclusions, and opinions expressed herein are based, are true and correct.

12. Our analyses, opinions, and conclusions were developed, and this Appraisal Report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice, as promulgated by The Appraisal Foundation, the Business Valuation Standards, Principles of Appraisal Practice and Code of Professional Ethics of the American Society of Appraisers; the Statement on Standards for Valuation Services of the American Institute of Certified Public Accountants; and the National Association of Certified Valuation Analysts Professional Standards.
13. The following individual provided significant professional assistance to the persons signing this Appraisal Report:
 - Trevor Yuska, Financial Analyst – Provided economic, industry, financial statement, and guideline data research, analysis, and narrative.
14. The reported analyses, opinions, and conclusions are limited only by the reported contingent and limiting conditions, and they represent our unbiased professional analyses, opinions, and conclusions.
15. We have no obligation to update this Appraisal Report or the conclusion of value for information that may come to our attention after the date of the Appraisal Report.
16. Disclosure of the contents of this Appraisal Report is subject to the requirements of The Appraisal Institute, the American Society of Appraisers, the American Institute of Certified Public Accountants, and the other professional organizations, of which we are members, related to review by their duly authorized representatives.
17. The American Society of Appraisers and the National Association of Certified Valuation Analysts have mandatory re-certification programs for all their accredited members. All of BCC Advisers' personnel, who hold ASA or CVA credentials, comply with these respective programs.



Matthew J. Fett, CFA, ASA



Gregory L. Weber, CPA/ABV, ASA

STATEMENT OF QUALIFICATIONS

APPENDIX 4

MATT J. FETT, CFA, ASA

Vice President/Shareholder

Matt specializes in providing business valuations for closely held companies in a variety of industries, for purposes including ESOP's, mergers/acquisitions, SBA 7(a) loan valuations, estate taxes, buy/sell agreements, intra-family transfers/gifting, charitable donations, built-in gains calculations, management decision-making, financial reporting, and limited partnerships. Matt joined BCC in 2009.

OTHER PROFESSIONAL EXPERIENCE

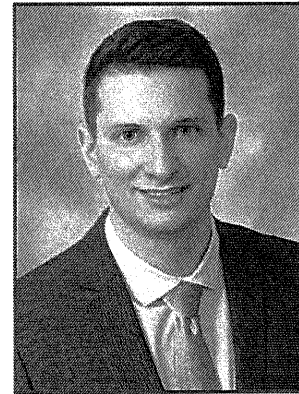
- Aegon Real Estate Investors, Cedar Rapids, IA Intern, Real Estate Valuation Team
- City of Ames, Ames, IA
Housing Inspector

EDUCATION, LICENSES, & CERTIFICATIONS

- B.A. in Finance, Iowa State University
Studied international business in Alicante, Spain
- Chartered Financial Analyst (CFA), CFA Institute
- Accredited Senior Appraiser (ASA), American Society of Appraisers

PROFESSIONAL & COMMUNITY INVOLVEMENT

- CFA Society of Iowa – Member
- Iowa-Nebraska Chapter of the American Society of Appraisers – Former President, Former Vice President, Former Treasurer, Former Secretary
- Greater Des Moines Music Coalition – Former Board Member
- Rotary Club, Norwalk, Iowa – Charter Member
- Leadership Iowa Class of 2017-2018, Iowa Association of Business and Industry



- ESOP
 - Valuation, consulting
- Business valuation
 - Corporate/strategic planning
 - Mergers & acquisitions
 - Buy/sell agreements
 - Estate taxation
 - Transfers/gifting
 - Regulatory compliance
 - Shareholder transactions
- SBA 7(a) loan valuations
- Purchase price allocation
- Impairment testing
- Fairness opinions

STATEMENT OF QUALIFICATIONS

APPENDIX 4

GREGORY L. WEBER, CPA/ABV, ASA

Senior Vice President/Shareholder

Greg is a consultant and business adviser focusing on business valuations for closely held businesses. His expertise extends to a wide range of industries, employing a personalized approach to each assignment from the typical to the very complex. Greg joined BCC in 1998 and has particular expertise in appraisals for Employee Stock Ownership Plans (ESOPs) and estate and gift tax filings. His ESOP work includes initial and transaction consulting, fairness opinions, and ongoing appraisals.

OTHER PROFESSIONAL EXPERIENCE

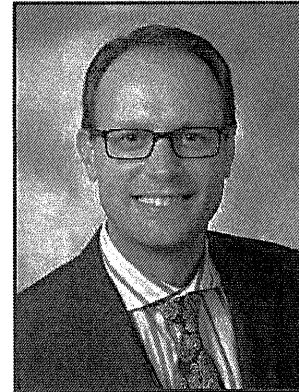
- KPMG, LLP, Des Moines, IA
Assurance Manager
- Arthur Andersen & Co., Minneapolis, MN
Audit and Business Advisory Experienced Senior

EDUCATION, LICENSES, & CERTIFICATIONS

- B.A. in Accounting, University of Northern Iowa
- Certified Public Accountant (CPA), State of Iowa
- Accredited in Business Valuation (ABV),
American Institute of CPAs
- Accredited Senior Appraiser (ASA), American Society
of Appraisers
- Elijah Watt Sells Award recipient

PROFESSIONAL & COMMUNITY INVOLVEMENT

- Iowa Society of CPAs - Member
- American Institute of CPAs - Member
- American Society of Appraisers, Iowa Chapter -
Member, Past President
- St. Francis of Assisi Catholic Church – Past Finance
Council
- “The Morning Club” Breakfast Club – Past Treasurer,
Past President
- Des Moines Business Record “Forty Under 40”
honoree



- ESOP
 - Valuation, consulting
- Business valuation
 - Corporate/strategic planning
 - Mergers & acquisitions
 - Buy/sell agreements
 - Estate taxation
 - Transfers/gifting
 - Regulatory compliance
 - Shareholder transactions
- Purchase price allocation
- Impairment testing
- Fairness opinions

STATEMENT OF QUALIFICATIONS

APPENDIX 4

TREVOR A. YUSKA

Financial Analyst

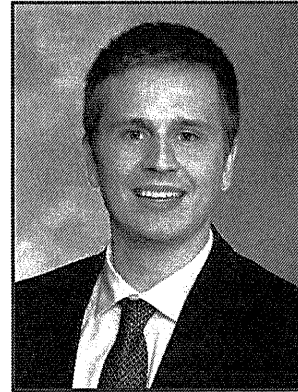
Trevor is primarily responsible for gathering, analyzing, and documenting company background, financial, comparable company, economic, and industry information. Prior to joining BCC in 2019, Trevor completed an internship with the Dallas County Assessor as a residential real estate appraiser. He also worked in the University of Northern Iowa's Office of Business Operations working within the accounts receivable division and performing audits for the university. Trevor competed in national competitions for business valuation issues and real estate investment while attending UNI.

EDUCATION, LICENSES, & CERTIFICATIONS

- B.A. in Finance and Real Estate, University of Northern Iowa

PROFESSIONAL & COMMUNITY INVOLVEMENT

- American Society of Appraisers - Candidate Member
- American Society of Appraisers – Iowa-Nebraska Chapter Treasurer
- United Way LINC (Lead, Impact, Network, Change) - Member
- Des Moines Young Professionals Connection – Member



- ESOP
 - Valuation, consulting
- Business valuation
 - Corporate/strategic planning
 - Mergers & acquisitions
 - Buy/sell agreements
 - Estate taxation
 - Transfers/gifting
 - Regulatory compliance
 - Shareholder transactions

Natural Gas Distribution Industry

There is little competition within the industry, with operators often having near monopolies in certain areas. Natural gas distributors usually operate at a local or regional level and experience little threat of an outside company encroaching on their territory due to high barriers to entry and heavy regulation which make it very difficult for new entrants to become established and compete.

Residential households have historically represented the largest market for the industry, regularly accounting for over one-third of total industry revenue. Consumers use natural gas for numerous applications, including to power household appliances and for heating. Since residential consumers lack access to wholesale gas markets, these customers typically pay higher retail prices for natural gas compared with industrial users. Other major markets for the industry include the industrial, electrical power, and commercial markets.

Demand for the industry depends on the price and availability of natural gas, economic growth, and the presence of alternative sources of energy. When economic activity is high, businesses and manufacturers demand more energy to power lighting and machinery, thereby bolstering demand for natural gas.

A large proportion of households obtain their heat and electricity from natural gas. Households also use natural gas for a variety of appliances, such as stoves, dryers, furnaces, lights and water heaters. In turn, a growing number of households results in greater demand for natural gas. The number of housing starts has increased at a real annualized rate of 3.2% over the last five years, strengthening domestic consumption of natural gas. In addition to rising housing starts, the COVID-19 pandemic benefitted this sector as the amount of people who stay at home, whether during non-essential business closures or the subsequent spike in working from home, increased.

Electric power generators are the largest consumers of natural gas by volume, accounting nearly 40% of total natural gas consumption. Falling natural gas prices and efforts to reduce carbon emissions have bolstered consumption of natural gas by utility producers over the past several decades. According to data from the Energy Information Administration, natural gas surpassed coal as the greatest source of electric power in 2015 and has continued to grow to account for nearly half of all electric power generation.

The industry has benefited greatly from the outburst of natural gas availability since the early 2000's as a result of the growing prevalence of advanced drilling techniques. Many end users, particularly electric power plants, have been pressed to transition to this energy source at the expense of others, such as coal, due to its increased affordability and comparatively lower environmental impact.

Over the last five years, the industry has experienced mixed results. The commercial and industrial sectors experienced large revenue declines in 2020 amid mandatory shutdowns for non-essential businesses. The residential sector, however, excelled over the last five years as housing starts increased significantly and people spent more time at home during the COVID-19 pandemic. Industry revenue increased at a real annualized rate of 3.2% over the last five years as a result of these mixed trends.

Despite strong revenue growth amidst growing demand, industry operators have endured wild swings in revenue as a result of extremely volatile market conditions and commodity prices. The price of natural gas fell 22% in 2020 followed by 91% and 82% increases in 2021 and 2022. Over the next five years, the price of natural gas is expected to fall at a real annualized rate of 2.6%.

Over the next five-year period, natural gas production is expected to rise marginally, while infrastructure investments will boost pipeline and export capacity. Total domestic consumption is expected to increase, while prices are anticipated to fall slightly as production comes back online. The forecast decrease in the price of natural gas is expected to hamper the industry's expansion. Industry revenue is forecast to decrease at a real annualized rate of 0.8% over the next five years.

National Economy¹

General Economic Conditions

The U.S. economy expanded in the fourth quarter of 2022 and showed an annual increase for 2022. Fourth quarter growth was the result of increases in private inventory investment, consumer spending, government spending, and nonresidential fixed investments. The unemployment rate decreased to 3.5% in December 2022, the lowest since the onset of the COVID-19 pandemic. The federal funds rate was increased twice during the fourth quarter in an effort to combat rising inflation. Stocks performed poorly for the year as all indices steeply declined in 2022. The following table summarizes historical financial statistics from 2019 to 2022.

TABLE 6-1

HISTORICAL ECONOMIC DATA				
	2019	2020	2021	2022
<i>Percentage Change:</i>				
Real GDP	2.3%	-2.8%	5.9%	2.1%
Industrial production	-0.7%	-7.0%	4.9%	3.9%
Consumer spending	2.0%	-3.0%	8.3%	2.8%
Business investment	3.6%	-4.9%	6.4%	3.6%
Government spending	3.3%	2.6%	0.6%	-0.6%
Consumer price inflation	1.8%	1.2%	4.7%	6.5%
Unemployment rate	3.7%	8.1%	5.4%	3.5%
<i>Actual (in millions):</i>				
Housing starts	1.3	1.4	1.6	1.6

Source: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau and The Federal Reserve Board.

The Bureau of Economic Analysis (“BEA”) reported that real GDP increased at an annualized rate of 2.9% in the fourth quarter of 2022, after rising 3.2% in the prior quarter, and showed an annual increase of 2.1% for all of 2022. GDP is the total market value of goods and services produced in the U.S. economy and is generally considered the most comprehensive measure of economic growth. The increase in real GDP in the

¹ All of the contents of the national economic section are quoted from the Economic Outlook Update™ 4Q 2022 published by Business Valuation Resources, LLC, © 2023, reprinted with permission. The editors and Business Valuation Resources, LLC, while considering the contents to be accurate as of the date of publication of the Update, take no responsibility for the information contained therein. Relation of this information to this valuation engagement is the sole responsibility of the author of this valuation report

fourth quarter primarily reflected increases in private inventory investment, consumer spending, federal government spending, state and local government spending, and nonresidential fixed investments. Growth, however, was tempered by decreases in residential fixed investment and exports. Imports, which are a subtraction in the calculation of GDP, declined.

Consumer spending, also referred to as “personal consumption,” accounts for approximately 70% of U.S. GDP. Consumer spending increased 2.1% during the fourth quarter of 2022, down from 2.3% growth in the prior quarter. The increase in consumer spending reflected an increase in both goods and services. In 2022, consumer spending expanded 2.8%, down from an 8.3% increase in 2021.

Business investment increased 0.7% in the fourth quarter of 2022 after rising 6.2% in the prior quarter. Residential fixed investment, often considered a proxy for the housing market, fell significantly by 26.7% in the fourth quarter. Residential fixed investment fell 10.7% in 2022.

America’s trade deficit expanded in the fourth quarter of 2022 from the prior quarter. Exports decreased 1.3% in the fourth quarter of 2022 after increasing 14.6% in the third quarter. Imports decreased 4.6% in the fourth quarter after decreasing 7.3% in the prior quarter.

Consumer Prices and Inflation Rates

The BEA reported that the Consumer Price Index (“CPI”) decreased 0.1% in December, after increasing 0.1% in November. Over the prior twelve months, CPI increased 6.5%. A decrease in the index for gasoline contributed the most to the December CPI decrease, offsetting increases in the index for shelter. CPI is a measure of products and services, including housing, electricity, food, and transportation, and is used as a measure of inflation. Excluding food and energy prices (“Core CPI”), the price index for gross domestic purchases rose 0.3% in December after increasing 0.2% in November. Core CPI rose 5.7% over the prior twelve months.

The Department of Labor (“DOL”) reported that the Producer Price Index (“PPI”) increased 13.5% in 2022, indicating a continuation of increased inflation. PPI is a gauge of inflation in the manufacturing process that can be a precursor to inflation in consumer prices. PPI is expected to fall significantly to 2.4% in 2023 and decline further to 1.6% in 2024.

Energy Prices

The Energy Information Administration (“EIA”) reported that the West Texas Intermediate crude oil spot price averaged \$94.91 per barrel in 2022 and predicted an

average of \$77.18 per barrel in 2023. The EIA reported retail prices for regular-grade gas averaged \$3.97 per gallon in 2022 and predicted averages of \$3.32 per gallon in 2023 and \$3.09 per gallon in 2024.

Interest Rates

The federal funds rate is the interest rate at which a commercial bank lends immediately available funds in balances at the Federal Reserve to another commercial bank. The board of directors of each Reserve Bank establishes the discount rate every 14 days, subject to the approval of the Board of Governors.

The Federal Open Market Committee ("FOMC") maintained the federal funds rate between 0.0% and 0.25% since the onset of the pandemic in 2020 until recently voting to increase the rates in efforts to combat inflation. The FOMC increased the federal funds rate twice during the fourth quarter of 2022, increasing the rate to between 4.25% and 4.5%. The FOMC stated that indicators in spending and production, robust job gains, and low unemployment pointed to modest growth. Inflation, however, remained elevated due to pandemic-related supply chain disruptions, rising food and energy prices, and other broad price pressures. The committee cited its goal to return inflation to the committee's 2.0% objective.

Unemployment

Total nonfarm payroll employment increased by 260,000 jobs in December and the unemployment rate declined to 3.5%. Job gains were most notable in the leisure and hospitality, healthcare, construction, other services, and social assistance sectors.

The labor-force participation rate rose slightly in December to 62.3% and showed little net change during 2022. The employment-population ratio, which is the share of the working-age population with a job, increased slightly in December to 60.1% but remained 1.0 percentage point below its level from February 2020, prior to the pandemic. The number of long-term unemployed (those jobless for 27 weeks or more) decreased by 146,000 in December, totaling 1.07 million, and was down from 2.00 million in the year prior. The DOL reported that average hourly earnings were \$32.82 in December, up 4.6% over the prior twelve months.

Consumer Confidence

The Conference Board Consumer Confidence Index is an indicator designed to measure consumer confidence, which is the degree of optimism on the state of the economy that consumers express through saving and spending. A decreasing month-over-month trend in the Consumer Confidence Index suggests that consumers have a

negative outlook about their ability to secure and retain good jobs, whereas a rising trend in consumer confidence indicates improvements in consumer buying patterns.

The Conference Board, which surveys 5,000 households, reported that the Consumer Confidence Index decreased 0.8% in December to 110.7, after declining 0.8% in November. The decline reflected consumers' deteriorating economic outlook amid inflation, weakened labor and financial markets, and a slowdown in housing construction and manufacturing. The index decreased 3.8% over the past six months, which showed a more severe decline than the 2.3% drop in the previous six-month period.

Stock and Bond Markets

Stocks performed poorly in 2022, as indicated by steep declines among all indices. The downturn in stocks resulted from the disruption in international politics and supply-chain woes compounded by interest rates and inflation fears. The NASDAQ Composite Index, consisting mainly of high-tech stocks, experienced the sharpest decline, falling 33.1% in 2022, followed by the small-cap Russell 2000 Index, which fell 21.6%. The S&P 500 Index, which consists of a representative sample of 500 leading companies of the U.S. economy and commonly viewed as a proxy for the market, dropped by 19.4% and the Dow Jones Industrial Average, an index of 30 of the largest and most widely held public companies in the U.S., fell by 8.8%.

Despite the annual decline, the stock market made a comeback in the fourth quarter of 2022 as most of the major equity indices increased substantially. However, the NASDAQ Composite Index fell 1.0% in the fourth quarter after declining 4.1% in the prior quarter. The Russell 2000 Index rose 5.8% in the fourth quarter of 2022 after falling 2.5% in the prior quarter. The S&P 500 Index rose 7.1% in the fourth quarter after falling 5.3% in the prior quarter. The Dow Jones Industrial Average increased 15.4% in the fourth quarter after declining 6.7% in the prior quarter.

The Treasury yield curve rose throughout the fourth quarter. The 10-year Treasury yield increased from 3.7% to 3.9%, the 20-year Treasury yield increased from 4.0% to 4.1%, and the 30-day T-bill rate increased from 2.9% to 4.1% in the fourth quarter. The prime lending rate rose from 6.3% to 7.5% and the discount window increased from 3.3% to 4.5% in the fourth quarter.

Construction

According to the U.S. Census Bureau, December housing starts decreased 1.4% from the prior month and 21.8% from the prior year. Single-family starts in December increased 11.3% from the prior month but declined 25.0% from the prior year while multifamily housing starts in December declined 18.9% from the prior month and

declined 16.3% from the prior year. The multifamily-home sector consists of buildings with five units or more and tends to be more volatile than the single-family-home sector.

Building permit authorizations for privately owned housing units, considered a leading indicator of demand for new homes, fell 1.6% to a seasonally adjusted rate of 1.33 million in December. Building permit authorizations were 29.9% lower than one year prior. Overall spending on construction was at a seasonally adjusted annual rate of \$1,427.1 billion in December. This figure was 0.4% below the November rate but 6.6% above the rate from one year earlier.

Manufacturing

The Federal Reserve reported that total industrial production decreased 0.7% in December and fell at an annual rate of 1.7% in the fourth quarter of 2022. At 103.4% of its 2017 average, total industrial production in December was 1.6% above its level from one year ago. Industrial production is an output measure of the industrial sector of the economy. The industrial sector includes manufacturing, mining, and utilities. Manufacturing accounts for approximately 75% of total industrial production. Industrial capacity utilization decreased 0.6 percentage points in December, to 78.8%, a rate that was 0.8 percentage points above its long-run average (1972 to 2021). Capacity utilization is the percentage of production capacity manufacturers actually use.

The Institute for Supply Management reported a manufacturing index ("PMI") in December of 48.4%, the lowest reading since May 2020. A reading above 50% indicates that the manufacturing economy is generally expanding; a reading below 50% indicates that it is generally contracting. A PMI in excess of 48.7%, over a period of time, generally indicates an expansion of the overall economy. December's Manufacturing PMI indicated a contraction in the overall economy, following 30 consecutive months of expansion.

Real Estate

Existing-home sales are completed transactions that include single-family houses, townhomes, condominiums, and co-ops. The National Association of Realtors ("NAR") reported that existing-home sales declined 1.5% in December which represented the 11th consecutive month of declines. Over the past twelve months, sales dropped 34.0%. Higher interest rates and increased home prices due to tight inventory contributed to the decline. Interest rates were the main factor that impacted housing affordability and reduced incentives for prospective sellers. However, the real estate market is expected to pick up its pace as mortgage rates are slowly declining. Housing inventory remained low in December, down 13.4% from November but up 10.2% from one year prior.

The national median existing-home price for all housing types was \$367,000 in December, up 2.3% from a year earlier as prices rose across all regions. December's price increase marked the 130th consecutive month of year-over-year price gains, the longest-running streak on record.

Economic Outlook

Consensus Economics Inc. reports that a consensus of U.S. forecasts expect real GDP to decrease at seasonally adjusted annual rates of 0.4% in the first quarter of 2023 and 0.7% in the second quarter of 2023. Every month, Consensus Economics surveys a panel of 30 prominent U.S. economic and financial forecasters for predictions on a range of variables, including future growth, inflation, current account and budget balances, and interest rates. These forecasts expect GDP to increase 0.2% in 2023 and 1.6% in 2024. The following table summarizes key forecast economic statistics.

TABLE 6-2

CONSENSUS FORECASTS				
	2023	2024	2025-2027	2028-2032
<i>Percentage Change:</i>				
Real GDP	0.2%	1.6%	2.2%	1.9%
Industrial production	-0.5%	1.6%	2.0%	1.7%
Consumer spending	0.8%	1.5%	2.2%	1.9%
Business investment	0.6%	1.8%	3.1%	2.7%
Government spending	0.9%	N/A	N/A	N/A
Consumer price inflation	4.1%	2.4%	2.3%	2.2%
Unemployment rate	4.4%	N/A	N/A	N/A
<i>Forecast (in millions):</i>				
Housing starts	1.3	N/A	N/A	NA

Source: Consensus Forecasts - USA, December 2022

Consumer prices are expected to increase 4.1% in 2023 and 2.4% in 2024. Producer prices are expected to increase 2.7% in 2023. Real disposable personal income is expected to increase 1.6% in 2023 and 2.6% in 2024. The unemployment rate is expected to average 4.4% in 2023.

The three-month Treasury bill rate is expected to be 4.7% at the end of the first and second quarters of 2023. The 10-year Treasury bond yield is expected to be 4.0% at the end of the first and second quarters of 2023.

Local Economy - State of Iowa and Union County

The operations of the Utility are located in Lorimor, Iowa (Union County). Therefore, a review of the Iowa economy and demographic information for Union County were considered in this appraisal.

Iowa’s real GDP decreased at a real annualized rate of 1.2% in the fourth quarter of 2022 after increasing 0.3% in the prior quarter. The state’s decrease in GDP in the fourth quarter ranked 48th among states. In 2022, Iowa’s real GDP decreased 1.5% in 2022, primarily due to declines in the agriculture sector. Iowa personal income increased at a real annualized rate of 3.3% in 2022 due to an increase in net earnings. Iowa’s unemployment rate was 3.0% in December 2022, equal to the prior month. The following table shows key economic data for the state from 2018 to 2022.

TABLE 6-3

IOWA ECONOMIC DATA				
	Historical Data			
	2019	2020	2021	2022
<i>Percentage Change:</i>				
Iowa real GDP	0.1%	-1.6%	5.1%	-1.5%
Personal income	2.9%	6.0%	7.4%	3.3%
Non-farm personal income	3.3%	6.3%	5.3%	2.0%
Farm income *	-15.3%	-8.2%	126.1%	36.4%
Non-farm employment	0.3%	-4.5%	2.4%	1.8%
Manufacturing employment	0.0%	-3.4%	1.3%	1.7%
Construction employment	1.0%	-1.1%	4.0%	2.1%
Construction permits	3.1%	6.3%	16.1%	N/A
<i>Actual:</i>				
Farm land values	\$7,190	\$7,070	\$7,740	\$9,400
State unemployment rate	2.7%	4.3%	2.9%	3.0%

*The increase in 2021 and 2022 farm income includes government payments.

Sources: U.S. Department of Commerce, U.S. Department of Labor, U.S. Census Bureau, U.S. Department of Agriculture

The Iowa Business Council quarterly economic survey reported its overall economic outlook index increased to 59.3 in the fourth quarter of 2022, up 0.5 index points from the prior quarter. The fourth quarter reading marks the tenth consecutive quarter where the index measured above 50, indicating positive sentiment, and is the first increase after a three-quarter decline in overall optimism. The report cites concerns relating to workforce attraction and retention, inflation, and the overall business climate.

According to the housing trends report released by the Iowa Association of Realtors, homes in December 2022 had a median sales price that was 0.5% greater than the previous year. However, 34.8% fewer homes sold in December 2022 as compared to the prior year. During all of 2022, Iowa experienced an 11.9% decline in sales from 2021. Homes continued to sell quickly with an average of 33 days on the market in 2022 which compared to 38 days on the market in 2021. Home inventory was 2.7% higher in December 2022 as compared to the prior year.

Iowa's 84,900 farms collectively account for 23.21 million planted acres and the production of 23.6 million hogs and 5.9 million cattle. Corn, soybeans, and hogs are Iowa's chief agricultural products. According to the U.S. Department of Agriculture ("USDA"), in 2022 Iowa led the nation with 12.9 million acres of corn planted, representing approximately 15% of the nation's planted corn acres to be harvested. Iowa farmers also planted 10.1 million acres of soybeans, accounting for approximately 12% of the nation's planted soybean acres to be harvested. The USDA reports that Iowa is, by far, the largest producer of hogs, holding 32% of the nationwide hog inventory in December 2022.

Net farm income increased to \$162.7 billion in FY 2022, up 15.5% from the prior year. In inflation-adjusted dollars, net farm income increased 8.3% in 2022 and represented the highest level since 1973. Total expenses increased by a nominal rate of 18.5% in 2022, tempering the increase in net income.

The Iowa Leading Indicators Index decreased 0.1 to 109.2 in December from November. The index is based on eight economic indicators determined by the Iowa Department of Revenue to be significantly correlated to the immediate future direction of the Iowa economy. Long-term trends suggest that non-farm employment will continue to grow at a slower rate over the next three to six months.

Iowa's Business Conditions Index remained constant at 47.8 in December from November, marking the third consecutive month that the index was below growth neutral. An index greater than 50 indicates an expansionary economy over the course of the following three to six months. All components of the index were below growth neutral as the delivery lead time component fell to 47.1 in December from 52.3 in November.

Each year the Tax Foundation releases the "State Business Tax Climate Index" that compares the various state tax systems. States with the best tax systems are likely to be competitive in attracting new businesses and effective at generating economic and employment growth. In each year since 2007, Iowa has consistently ranked as one of the worst business tax climates in the country, ranking 38th for 2023. Iowa ranks 34th for corporate taxes, 40th for property taxes, 33rd for unemployment insurance taxes, 40th for individual income taxes, and 15th for sales taxes.

Iowa passed a comprehensive tax reform package that includes gradually decreasing the state’s high graduated income tax rate into a flat tax of 3.9% and decreasing the corporate income tax to 5.5%. The decreased corporate tax rates are expected if corporate tax receipts exceed \$700 million in the preceding fiscal year.

The Union County labor force had an unemployment rate of 2.4% in December 2022, which was below the rates for Iowa and the nation. Median household income for Union County was below the medians for the state and nation. The total population of Union County is forecast to remain growth neutral over the next ten years. The following table summarizes statistics relating to the national, state, and local economic conditions affecting the Utility.

TABLE 6-4

ECONOMIC STATISTICS SUMMARY						
Region	Median Household Income	Population			Labor Force	Unemployment Rate
		2022	2032	CAGR		
	(a)	(b)	(b)		(c)	(c)
United States	\$70,784	334,193,837	356,413,897	0.7%	164,224,000	3.5%
State of Iowa	\$72,429	3,204,251	3,301,211	0.3%	1,722,709	3.0%
Union County	\$55,698	12,018	12,017	0.0%	6,154	2.4%

Sources:
 (a) Census Reporter; Federal Reserve Economic Data - Federal Reserve Bank of St. Louis
 (b) Woods & Poole Economics, Inc.
 (c) U.S. Department of Labor; Bureau of Labor Statistics - December 2022

Summary

Real GDP rose in the fourth quarter, but at a rate slower than the prior quarter, and annual growth in 2022 slowed from strong growth in the prior year. The federal funds rate was increased and is expected to remain elevated to combat inflationary pressures. The unemployment rate decreased in December 2022 to its lowest level since the onset of COVID-19 but is expected to increase in the near-term. The U.S. stock markets declined in 2022 but increased in the fourth quarter. Home sales decreased from the prior year due to inventory shortages, higher prices, and higher interest rates. Consensus forecasts for GDP, along with other key indicators, indicated that growth is expected to continue to slow in 2023 due to inflationary pressures. GDP is expected to increase moderately over the mid-term.

HISTORICAL FINANCIAL STATEMENTS

APPENDIX 7

Income Statement

(amounts in thousands)

	IUB Report		
	2020	2021	2022
Revenue:			
Residential	118	179	160
Small commercial & industrial	19	37	33
Other operating revenue	11	2	3
Total revenue	148	218	196
Operating expenses:			
Uncollectible revenues	10	20	0
State sales tax	3	4	2
Other operating expenses	113	190	146
Total expenses	126	214	148
Net profit	22	4	48
MCF sold - residential	10,809	9,353	8,674
MCF sold - commercial & industrial	1,312	1,400	1,942
MCF sold - total	12,121	10,753	10,616
price per MCF sold	\$11.31	\$20.06	\$18.20
customers - residential	173	147	146
customers - commercial & industrial	21	22	23
customers - total	194	169	169

HISTORICAL FINANCIAL STATEMENTS

APPENDIX 7

Income Statement

% of total revenue

	IUB Report			Industry
	2020	2021	2022	NAICS #221210
Revenue:				
Residential	79.7%	82.1%	81.6%	
Small commercial & industrial	12.8%	17.0%	16.8%	
Other operating revenue	7.4%	0.9%	1.5%	
Total revenue	100.0%	100.0%	100.0%	100.0%
Operating expenses:				
Uncollectible revenues	6.8%	9.2%	0.0%	
State sales tax	2.0%	1.8%	1.0%	
Other operating expenses	76.4%	87.2%	74.5%	
Total expenses	85.1%	98.2%	75.5%	86.7%
Net profit	14.9%	1.8%	24.5%	13.3%

HISTORICAL FINANCIAL STATEMENTS

APPENDIX 7

Income Statement

% increase over prior year

	IUB Report			CAGR
	2020	2021	2022	
Revenue:				
Residential	N/A	51.7%	-10.6%	16.4%
Small commercial & industrial	N/A	94.7%	-10.8%	31.8%
Other operating revenue	N/A	-81.8%	50.0%	-47.8%
Total revenue	5.0%	47.3%	-10.1%	15.1%
Operating expenses:				
Uncollectible revenues	N/A	100.0%	-100.0%	-100.0%
State sales tax	N/A	33.3%	-50.0%	-18.4%
Other operating expenses	N/A	68.1%	-23.2%	13.7%
Total expenses	15.6%	69.8%	-30.8%	8.4%
Net profit	-31.3%	-81.8%	1100.0%	47.7%

DISCOUNTED CASH FLOW METHOD

The Discounted Cash Flow Method uses the present value of a company's forecast cash flow to indicate fair market value. A forecast was prepared based on the Utility's historical performance, industry trends, economic considerations in the Utility's market. Amounts and assumptions used are discussed in the notes in this appendix.

TABLE 8-1

FORECAST CASH FLOW STREAM									
(AMOUNTS IN THOUSANDS)									
	Historical			Forecast					Residual
	FY 20 - 22	FY 2022		Year 1	Year 2	Year 3	Year 4	Year 5	
Revenue	172	196	(1)	89	114	116	118	120	122
Operating expenses	(137)	(148)	(2)	(71)	(91)	(92)	(94)	(96)	(98)
Net profit	35	48		18	23	24	24	24	24
Discount rate			(3)						6.4%
Long-term growth rate			(4)						2.0%
Capitalization rate			(5)						4.4%
Residual value			(6)						545
Present value factor		6.4%	(7)	0.9695	0.9111	0.8563	0.8048	0.7564	0.7564
Discounted cash flow			(8)	17	21	21	19	18	412
Total discounted cash flow = value of invested capital								(8)	508
Ratio analysis:									
Operating expense ratio	79.7%	75.5%	(2)	79.7%	79.7%	79.7%	79.7%	79.7%	80.3%
Operating margin	20.3%	24.5%		20.2%	20.2%	20.7%	20.3%	20.0%	19.7%
Growth rates:									
Revenue			(1)	-54.7%	27.8%	2.0%	2.0%	2.0%	2.0%

(1) Over the next ten years, the Union County population is forecast to remain steady as shown in Table 6-4. Therefore, future revenue growth is forecast to reflect expected annual changes in gas prices. The Henry Hub spot price from the May 2023 Short Term Energy Outlook published by the U.S. Energy Information Administration is shown in the following table. Revenue growth for Year 1 and Year 2 was based on the change in the spot price. Over the remainder of the forecast, revenues are forecast to grow by the long-term growth rate of 2.0% used in this analysis.

TABLE 8-2

HENRY HUB SPOT		
Year	Price	Change
2022	\$6.67	
2023	\$3.02	-54.7%
2024	\$3.86	27.8%

Source: EIA May '23 Short Term Energy Outlook

- (2) Operating expenses are forecast using the Utility's historical average ratio of operating expenses to revenue. Implied forecast net profit is reflective of net cash flow available for distribution.
- (3) A discount rate or required rate of return was developed to convert future cash flow into present value. To calculate the value of a company's invested capital, the company's weighted average cost of capital ("WACC") is calculated and used as the discount rate. The WACC consists of a cost of equity component and a cost of debt component, as discussed later in this Appendix. The discount rate is from Table 8-7.
- (4) Long-term growth expectations are influenced by economic growth and inflationary expectations. The results of several surveys providing consensus estimates for expected inflation are shown in the following table.

TABLE 8-3

LONG TERM EXPECTED INFLATION ESTIMATES	
Consensus Economics	2.3%
Livingston Survey	2.5%
Survey of Professional Forecasters	2.8%
Cleveland Federal Reserve	2.1%
University of Michigan Survey	2.8%
Inflation implied using 20-Year U.S. TIPS (6/30/22)	2.6%

Sources: Federal Reserve Bank of Philadelphia, Federal Reserve Bank of Cleveland, Bloomberg, Board of Governors of the Federal Reserve

Considering expected demographic and industry trends and the Utility's historical average growth rate, a 2.0% long-term growth rate was considered appropriate.

- (5) The capitalization rate is equal to the discount rate less the long-term growth rate.
- (6) The residual value at the end of Year 5 is calculated by capitalizing the residual cash flow at the applicable capitalization rate.
- (7) Forecast cash flow was assumed to be generated evenly throughout each year. Thus, each year's cash flow was discounted using the WACC in Table 8-7 at mid-year to calculate the net present value.
- (8) Discounted cash flow amounts equal the invested capital net cash flow (net profit) or the residual value from (6) multiplied by the present value factor from (7). The total discounted cash flow represents the total value of invested capital (equity plus debt) of the Utility.

Since the forecast cash flow stream includes normalizing adjustments reflective of the ability to control the operations and capital structure of the Utility, the value indication represents a value attributable to a controlling interest in the Utility.

Development of a Discount Rate

To calculate the value of a company's invested capital, the company's weighted average cost of capital ("WACC") is calculated and used as the discount rate. The WACC consists of a cost of equity component and a cost of debt component, as discussed below.

Cost of Equity

A widely used method of estimating the cost of equity capital is the build-up method in which certain risk premiums are added to a risk-free rate. This method is based on the premise that a company's discount rate is composed of identifiable risk (or return) factors, the sum of which represents the total return that a prudent investor would demand from the purchase of the company. Two data sets are commonly used to estimate the cost of equity: the Center for Research in Security Prices Deciles Size Premia exhibits (the "CRSP Method") and the Risk Premium Report exhibits (the "RPR Method"). The following table estimates the cost of equity capital using the build-up method.

TABLE 8-4

COST OF EQUITY CAPITAL				
	Notes	Build-Up Method		
		CRSP	RPR	
Risk-free rate	(1)	4.14%	4.14%	4.14%
Equity risk premium	(2)	6.00%	6.00%	6.00%
Size premium	(3)	3.40%	5.60%	9.70%
Industry risk premium	(4)	-2.70%	-2.70%	-2.70%
Specific risk premium	(5)	-4.00%	-4.00%	-4.00%
Cost of equity estimate		6.84%	9.04%	13.14%
Cost of equity capital selected				9.5%

- (1) The **risk-free investment rate** is the return available on a security that the market generally regards as free of the risk of default. The rate on U.S. Treasuries with a twenty-year maturity as of the valuation date was selected as the risk-free investment rate.
- (2) The **equity risk premium** is the extra return over the risk-free return investors expect to receive from an investment in a market portfolio of common stocks. ERP is estimated by several methods whose results are presented in the following table.

TABLE 8-5

SUMMARY OF ERP ANALYSIS	
Historical long-term ERP (1926-2021)	7.46%
Historical long-term ERP adjusted for WWII bias	6.50%
Supply side long-term ERP (1926-2021)	6.22%
Supply side long-term ERP adjusted for WWII bias	5.26%
Damodaran implied ERP model (2011-2021)	4.69%
Default spread model	4.74%

ERP estimation methods inherently include weaknesses: Historical data may not indicate future performance, estimates vary according to the period selected, and some methods apply subjective assumptions which affect results. Despite inherent weaknesses, these estimates provide a reasonable basis for an equity risk premium of 6.0% which was selected for this analysis.

- (3) The **size premium** is based on the empirical observation that companies of smaller size are associated with greater risk. The CRSP Deciles Size Premia Study and the Risk Premium Report's Size Study identifies a negative correlation between size and return. A comparison of the two data sets is discussed below.

CRSP method: The CRSP method classifies all companies listed on the NYSE, NYSE MKT, and NASDAQ into deciles based on market capitalization. Size premia were calculated for the period 1926 – 2022 for each decile. The smallest decile (companies with a market capitalization less than \$218 million) was further divided into two groups. The smallest group (Decile 10b) includes several larger companies that were classified into this group due to operating problems, so the size premium associated with Decile 10a was considered appropriate in this analysis.

RPR method: Using a portfolio method, the subject company's size characteristics in various categories are compared to 25 portfolios for similarity to indicate a size premium. An alternative method estimates an appropriate size premium using a regression equation. The following table presents results for both the portfolio method and the regression method.

TABLE 8-6

Premium Over CAPM aka "Size Premium"	Company Size	Guideline Portfolio	Size Premium	Constant Term	Slope Term	log (Size)	Size Premium
	Portfolio Median			Regression Analysis			
Market value of equity (\$mills)	0.5	25	5.9%	10.540%	-1.983%	(0.294)	11.1%
5-year average net income (\$mills)	0.0	25	5.5%	6.701%	-1.433%	(1.674)	9.1%
MVIC (\$mills)	0.5	25	5.7%	10.292%	-1.846%	(0.294)	10.8%
5-year average EBITDA (\$mills)	0.0	25	5.4%	7.377%	-1.450%	(1.674)	9.8%
Sales (\$mills)	0.2	25	5.4%	8.547%	-1.423%	(0.708)	9.6%
Number of employees	4	25	5.9%	10.297%	-1.725%	0.602	9.3%
Median size premium			5.6%				9.7%

- (4) The **industry risk premium** is a measure of beta risk or the tendency of a stock's price to correlate with changes in the market. A beta higher than one indicates more risk than the market while a beta less than one indicates less risk than the market. *Kroll Cost of Capital* includes estimates of industry betas based on Global Classification Industry Standard ("GICS") code, adjusted to an industry risk premium using the ERP. The Utility is classified within GICS #55102010, gas utilities, indicating an industry risk premium of -2.70% as of the valuation date.

- (5) The **specific risk premium** relates to the particular risks perceived in investing in a business in consideration of its location, financial condition, operational diversity, management depth, etc. This adjustment, which may be either positive or negative, requires a judgmental analysis of risks associated with the subject business in comparison to the average small public company in the same industry.

Based on our review of discount rate research, our experience in assigning premiums to other business entities, and the analysis of other factors relevant to the Utility, a cost of equity was estimated as shown in Table 8-4 above.

Cost of Debt

The cost of debt component of the WACC is the rate of interest the Utility must pay its creditors. The interest rate at which a buyer could obtain long-term debt was assumed to equal 2.6%, which was the average yield on municipal bonds with a 10-year maturity as of the valuation date.

WACC Calculation

The costs of equity and debt calculated above were weighted based on the respective market values of each component. Because this appraisal is of a controlling interest with the ability to change the capital structure. The capital structure was assumed to consist of 55% equity and 45% debt. This capital structure is validated based on the median capital structures for businesses classified in GICS #55102010 as published in *Kroll Cost of Capital*, which indicated debt-to-MVIC ("Market Value of Invested Capital") ratios ranging from of 36.5% to 43.6%. WACC calculations are shown in the following table.

TABLE 8-7

WEIGHTED AVERAGE COST OF CAPITAL		
	Equity	Debt
After-tax cost of capital	9.5%	2.6%
% of capital structure	55%	45%
Weighted cost of component	5.2%	1.2%
Weighted average cost of capital		6.4%

MERGER & ACQUISITION METHOD

APPENDIX 9

This Appendix includes transactions obtained from the DealStats database and the S&P Capital IQ platform. Transactions involving companies considered most similar to the Utility are presented.

(amounts in thousands)

Transaction Details			Financial Information			Multiple		Adj. Multiple (1)		
Date	Price	SIC	Revenue	EBITDA	EBITDA/ Revenue	Revenue	EBITDA	Revenue	EBITDA	
(1)	07/02/07	\$475,000	4924	\$455,964	\$49,857	10.9%	1.04	9.5	1.15	10.5
(2)	11/09/07	\$846,010	4924	\$640,500	\$84,040	13.1%	1.32	10.1	1.45	11.1
(3)	10/01/08	\$510,000	4924	\$135,033	\$42,815	31.7%	3.78	11.9	4.15	13.1
(4)	10/07/09	\$173,420	4924	\$117,830	\$18,760	15.9%	1.47	9.2	1.62	10.2
(5)	10/28/09	\$127,730	4931	\$168,548	\$18,021	10.7%	0.76	7.1	0.83	7.8
(6)	09/02/14	\$1,529,900	4924	\$559,550	\$131,330	23.5%	2.73	11.6	3.01	12.8
(7)	02/12/16	\$1,691,650	4924	\$492,130	\$109,560	22.3%	3.44	15.4	3.78	17.0
(8)	01/01/17	\$2,413,607	4911	\$605,573	\$219,902	36.3%	3.99	11.0	4.38	12.1
(9)	09/20/17	\$217,629	4923	\$68,840	\$17,646	25.6%	3.16	12.3	3.48	13.6
(10)	03/16/20	\$4,247,558	4923	\$913,973	\$284,613	31.1%	4.65	14.9	4.65	14.9
(11)	07/06/22	\$121,468	4924	\$35,236	\$7,697	21.8%	3.45	15.8	3.45	15.8
Median - EBITDA margin > 22.3%				\$559,550	\$131,330	31.1%	3.78	11.9	4.15	13.1
Median - all transactions				\$455,964	\$49,857	22.3%	3.16	11.6	3.45	12.8
Median - EBITDA margin < 22.3%				\$312,256	\$34,309	14.5%	1.40	9.8	1.54	10.8
Company average FY 20 & 22				\$172	\$35	20.3%				

Transactions were selected for companies that were determined to be most comparable to the Utility, with search criteria including companies located in the United States or Canada, in a similar industry, with similar revenue size and positive EBITDA, and with a transaction date in recent history. Circumstances impacting guideline transactions were diverse and differences exist between the Utility and the companies included in this analysis. Qualitative judgments were made comparing the characteristics of the companies acquired in the selected transactions and those of the Utility. EBITDA and revenue multiples were selected based upon these judgments, which included the following:

- Prices paid in some of the transactions are likely to have included synergies, but synergies are not a component of fair market value. The multiples selected are lower than those that would be warranted in a synergistic value analysis.
- Revenue multiples were generally higher for those businesses with higher EBITDA margins. Conversely, EBITDA multiples were lower for those businesses with higher EBITDA margins. The Utility's historical average EBITDA margin (20.3%) was between the median of all transactions (22.3%) and the median for transactions with EBITDA margins less than 22.3% (14.5%). This suggests that an appropriate

revenue multiple is between 1.54 and 3.45 and an appropriate EBITDA multiple is between 10.8 and 12.8 before adjustments for characteristics specific to the Utility.

Considering the profitability analysis and other characteristics discussed above, a revenue multiple of 2.90 and an EBITDA multiple of 12.5 were selected.

TABLE 9-1

MERGER & ACQUISITION METHOD CONCLUSION (AMOUNTS IN THOUSANDS)		
	Revenue	EBITDA
Selected multiple	2.90	12.5
x Company average FY 20 & 22	\$172	\$35
= Market value of invested capital	\$499	\$438

“Transaction Price” obtained from transactions in the DealStats database represents the market value of invested capital (“MVIC”). The calculations in this method result in a value attributable to a controlling, marketable interest in the Utility.

DEPRECIATED VALUE OF CAPITAL ASSETS

The depreciated value of the capital assets was estimated as shown in the following table.

TABLE 10-1

DEPRECIATED VALUE OF CAPITAL ASSETS		
Selected cost per mile to replace	\$220,000	(1)
Miles to replace	8	(2)
Estimated cost of replacement assets	<u>\$1,760,000</u>	(3)
Estimated useful life (years)	75	(4)
Annual depreciation	<u>\$23,467</u>	(5)
Remaining useful life (years)	24	(6)
Remaining depreciable value (rounded)	<u><u>\$563,000</u></u>	

- (1) The Bipartisan Infrastructure Law appropriated \$1 billion to DOT-PHMSA for the agency's infrastructure grant for pipelines aimed at mitigating safety risk from the highest-risk, legacy natural gas distribution pipes, particularly in underserved communities. In April 2023, PHMSA awarded nearly \$196 million in funding to modernize 270 miles of pipes in underserved and transportation-disadvantaged communities through 37 projects in 19 states.

Of the grant recipients, we narrowed the list down to only include cities with populations of less than 7,000 that were not a part of a larger metro statistical area. Two additional recipients were also removed because they are located on mountains causing the construction costs to be higher. The following table shows the remaining grant recipients, the grant amount received, and the miles of gas pipeline that were to be replaced.

Two of the cities included in the table had fewer than 500 residents, similar to Lorimar. The average award per mile for these two was \$219,069.

TABLE 10-2

2022 PHMSA GRANT AWARDS CITIES WITH FEWER THAN 7,000 RESIDENTS				
Applicant	State	Award	Miles	Award/Mile
Tallassee	AL	9,749,000	17.75	549,239
Lanett	AL	4,303,235	7.55	569,965
Cordova	AL	2,794,896	6.60	423,469
Hawkinsville	GA	680,316	5.38	126,453
Woodworth	LA	2,064,007	6.25	330,241
Montpelier *	LA	872,613	3.94	221,475
Stuart *	NE	216,662	1.00	216,662
Deshler	OH	2,218,193	4.50	492,932
<i>* Cities with fewer than 500 residents</i>				
			High	569,965
			Median	376,855
			Low	126,453

In addition to the PHMSA grant data, we also reviewed a project that started in 2019 in which MidAmerican Energy Company planned to replace 345 miles of distribution system and move over 2,600 residential gas meters from inside customers' houses to their exterior. The cost for this project was estimated to be \$72 million, or \$208,696 per mile.

Given this information, we estimated that the cost to replace the Utilities' system to be \$220,000 per mile which was similar to the two grant recipients with fewer than 500 residents.

- (2) According to LMGU's Annual Gas Distribution Report to the U.S. Department of Transportation, the Utility's system included 8 miles that was installed in the 1970s.
- (3) Using the \$220,000 per mile from note (1) and the 8 miles from note (2) resulted in a total cost of \$1.76 million to replace the current system.
- (4) The industry standard for life expectancy on gas pipelines is 50 years. However, it was reported that LMGU's system is still in good shape and there are no near-term plans to replace it. For this analysis, it was estimated that the useful life of the system is 75 years.
- (5) Using a cost of \$1.76 million and a useful life of 75 years, the annual depreciation would equal \$23,467.

DEPRECIATED VALUE OF CAPITAL ASSETS

APPENDIX 10

- (6) Based on documents provided by LMGU, it was estimated that the system was put into place in 1972, making the system 51 years old, leaving 24 years of remaining life.
- (7) Based on 24 years of remaining life and annual depreciation of \$23,467, it was estimated that the current depreciated value of LMGU's capital assets is \$563,000.

The calculation above is only an estimate and is not a formal opinion of value.

Appraisal Report:

HDH Appraisal (IUB Approved Appraiser)

LORIMOR MUNICIPAL
GAS SYSTEM

HDH ADVISORS

Appraisal Report
as of June 16, 2023



June 16, 2023

Tim O'Neil, Mayor and Lorimor City Council
City of Lorimor, Iowa

Copy to:
Steven Nadel, Attorney
AHLERS & COONEY, PC
100 Court Avenue, Suite 600
Des Moines, Iowa 50309-2231

Re: *Appraisal of the Lorimor Municipal Gas System*

Dear Mayor and City Council:

We have performed a business appraisal to establish our opinion of the fair market value of 100% of the ownership interest in the Lorimor Municipal Gas System as of June 16, 2023. It is our understanding that this analysis will be used for the potential disposal of a city utility by sale; use is restricted to and consistent with this stated purpose only.

Based upon the data, information, and analysis presented in the accompanying appraisal, it is our opinion that the fair market value of the Lorimor Municipal Gas System is **\$770,000 on a controlling basis**.

The accompanying appraisal describes the information considered, the process of analysis that was followed, and our appraisal conclusion. It also sets forth all special considerations, assumptions, and limiting conditions pertinent and is an integral component in understanding the appraisal conclusion. The appraisal and conclusion should not be distributed or circulated, quoted from, or cited in any manner that is not consistent with the stated purpose.

We are pleased to provide you with the accompanying appraisal regarding this matter and appreciate the opportunity to be of service to you. If you have any questions regarding this report, please contact us at (515) 225-3796

Respectfully,

HDH ADVISORS, LLC

Contents

Introduction	4
Utility Profile	6
Valuation Analysis.....	10
Valuation Summary.....	11
Appendix A: Appraisers' Certification.....	12
Appendix B: Assumptions & Limiting Conditions	13
Appendix C: Sources	15
Appendix D: Appraisers' Qualifications.....	16
Exhibit 1: Valuation Summary	17
Exhibit 2: Income Statement.....	18
Exhibit 3: Volume Sold	19
Exhibit 4: Discounted Cash Flow.....	20
Exhibit 5: Discount Rate	21
Exhibit 6: Depreciated Asset Value	22
Exhibit 7: PHMSA Grant Projects	23

Introduction

Subject of the Appraisal

Subject Interest

Lorimer Municipal Gas System ("LMGS" or the "Utility") is a city utility operated by the City of Lorimer, Iowa. It is a distributor of natural gas to residential, commercial, industrial, and institution customers in the city.

HDH Advisors, LLC ("HDH Advisors") was engaged to appraise the fair market value of one hundred percent (100%) of LMGS ("Subject Interest") as of June 16, 2023 ("Effective Date").

The appraisal was issued on June 7, 2023. HDH Advisors has neither obligation nor responsibility to update the appraisal or report for events, circumstances or information that arise after the date the report was issued.

Intended User

This appraisal is for the exclusive use by the Mayor and City Council (collectively the "Governing Body") and the City's legal representatives.

The purpose of the appraisal is to assist the Governing Body in determining the fair market value of the Utility to comply with regulatory requirements of Iowa Code Chapter 388.2A "Procedure for disposal of city utility by sale." Use of the appraisal is restricted to and consistent with these stated users and purposes only.

Standard of Value

The standard of value is *Fair Market Value*, which is considered to represent the price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, each acting at arms-length in an open and unrestricted market, when neither is under compulsion to buy or to sell and when both have reasonable knowledge of relevant facts¹.

¹ International Business Glossary – Business Valuation. American Society of Appraisers. February 24, 2022.

Professional Standards

The appraisal has been prepared in accordance with the following professional standards:

- ◆ Standards 9 and 10 of the Uniform Standards of Professional Appraisal Practice ("USPAP") of the Appraisal Foundation.
- ◆ American Society of Appraisers ("ASA") Business Valuation Standards ("BVS").
- ◆ American Institute of Certified Public Accountants ("AICPA") Statement on Standards for Valuation Services ("SSVS") No. 1.

Scope of Work

The appraisal is conducted with accordance to Chapter 388.2A(2) of the Iowa Code and considers:

[T]he depreciated value of the capital assets to be sold, the loss of future revenues to the city utility, including the right to generate surpluses, and the cost of any capital improvements reasonably necessary to provide adequate service and facilities to the city's utility's customers.

Additional factors considered include internal and external influences that can impact the value of the Utility, including:

- ◆ History since inception.
- ◆ Condition and outlook of economic and industry conditions.
- ◆ Book value of the assets and financial condition of the utility.
- ◆ Whether or not the Utility has goodwill or other intangible value.
- ◆ Analysis of the historical and estimated future financial condition of the utility.
- ◆ Analysis of other pertinent facts and data resulting in the conclusion of value.

Significant Assumptions

The appraisal was conducted without a physical inspection. It is assumed that the regulatory reports filed with the Iowa Utilities Board ("IUB"), the U.S. Energy Information Administration ("EIA"), and the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration ("PHMSA") are accurate. The

appraisal does not guarantee or imply that the Utility or any structures are free of defects or property condition problems.

Fair Market Value interpreted through the confines of the Iowa Code.

No other extraordinary assumptions or hypothetical conditions were utilized in the preparation of the appraisal.

Basis of Value

The Subject Interest is a controlling interest and has the ability to direct administration, management, and operations.

Limiting Conditions

An appraisal Certification is included as Appendix A and a statement of Assumptions and Limiting Conditions is included as Appendix B. Both appendices describe important conditions, restrictions, and assumptions used in this analysis. Additional assumptions and restrictions are noted throughout this report. Users of this report should read and study the entire report to understand the conclusion of value.

-- END OF SECTION --

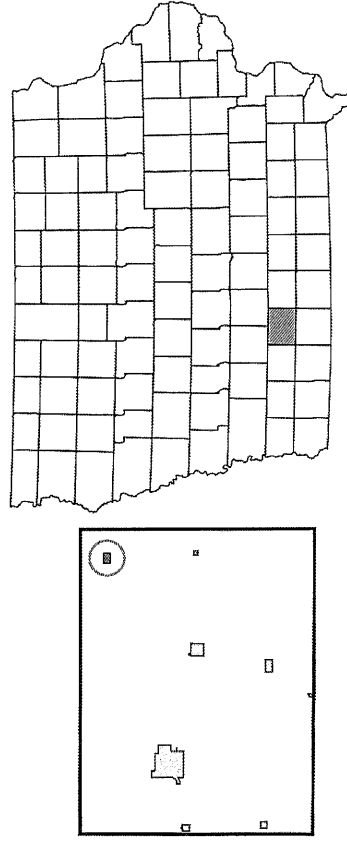
Sources of Information

We have read, studied, considered, and relied on various information sources for this appraisal. These included both internal and external information sources. A listing of information relied upon is in the appendices to this report.

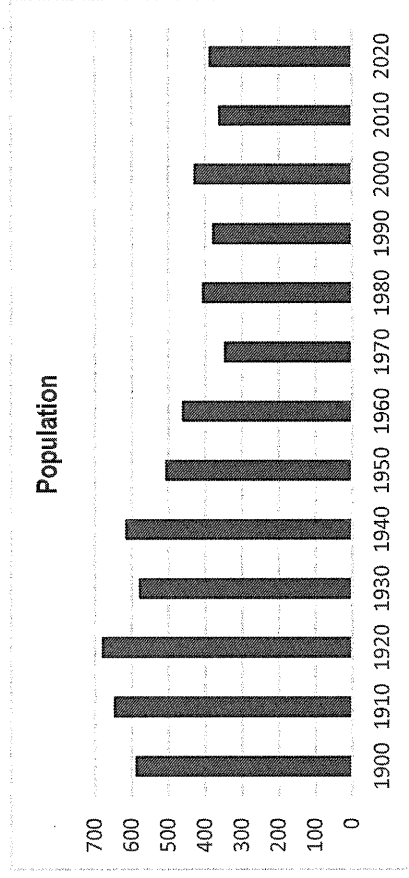
Utility Profile

Background

LMGS provides natural gas distribution to residential, commercial, industrial and institutional customers in Lorimer (Union County), a largely rural area in southwest Iowa. The city has a total area of 0.43 square miles.



After peaking at over 600 residents in the 1920s and 1940s, population has trended downward to less than 400 the past 20+ years.



A notice of public hearing on plans, specifications, and proposed form of contract for construction of a natural gas transmission and distribution system was published in July 1971.

The notice called for construction of a municipal utility with 30,000 ft. of 2" pipe; 10,000 ft. of 1.5" pipe; 4,000 ft. of 1.25" pipe, and 16,000 ft. of 0.75" service pipe. Final construction details and costs are unknown and not recorded in city archives.

According to the PHMSA, there was a total of 6 miles of coated steel pipe installed to 179 billing addresses. Limited growth occurred over the next two decades until an additional 2 miles of coated steel and plastic pipeline were installed to serve 27 new addresses. Growth has remained low over the past three decades.

New Service	Decades					
	1970-1979	1980-1989	1990-1999	2000-2009	2010-2019	2020-2023
	179	2	27	2	4	0

Services & Maintenance Agreement

A Natural Gas Services and Maintenance Agreement was entered into on September 19, 2022, between the City and Interstate Power and Light Company ("IPL"). Key terms include:

- **Term.** Month-to-month that may be terminated by any party with seven days notice.
- **Emergency Services.** Responding to leak calls such as inside and outside gas odors and carbon monoxide investigations will remain with the City. IPL may provide emergency services as specifically requested by the City with a minimum 48 hours' notice for part-time services. Full-time emergency response services may be requested by providing 30 days' notice. Service requests may be rejected by IPL.
- **Excluded Services.** Management or compliance related services remain with the City. Liability remains with the City for any rejection of City requests for emergency services.
- **Pricing.** \$500/month administrative fee for part-time or \$1,000/month for full-time emergency services plus expenses for equipment and materials, plus overhead, margin, and taxes.

The monthly administrative fee may be raised once annually with 30 days' notice (no more than 5% increase).

The labor rate is \$144.91/hour for business hours (7:30 a.m. to 3:30 p.m. M-F). Off hours will be at time and a half and double time for holidays. Off hours will be billed for a minimum of three hours.

Administrative work will be charged at \$100 per hour of work performed during business hours.

Equipment rates are \$57.96/hour for Pick Up; \$131.12/hour for trencher, Mini-Excavator; \$69.29/hour for Construction Truck, Welder. Overtime rates do not apply.

Material will be billed at cost plus 25%.

Labor and equipment rates will have an annual 3% cost escalation rate effective September 1, 2023.

- **Insurance.** The City must maintain workers' compensation insurance (\$1.0 million), commercial general liability insurance (\$5.0 million), and automobile liability insurance (\$1.0 million).

Operations Agreement

A Natural Gas Operations and Maintenance Agreement was entered into on October 22, 2022, between the City and IPL. Key terms include:

- **Term.** November 1, 2022 to May 1, 2023 and month-to-month thereafter that may be terminated by any party with 30 days' notice.
- **Services.** The City remains responsible for all daily operations and system management. IPL will provide operational, maintenance, repair, and other services, including regulatory filing, regular inspections, and monitoring.

IPL will coordinate with the City regarding gas purchase pricing and procurement arrangements, as well as establishing accounting policies so the City can accurately set rates and bill customers.

- **City Responsibilities.** The City remains responsible for all capital projects, exercise its authorities under the Iowa Code to establish and bill for rates and charges for all operating expenses, and remains responsible for the cost of purchasing and transporting natural gas.

In addition, the City will adopt IPL's Operations and Maintenance, Work Practices, Standards and Operator Qualification Plans.

- **Pricing.** \$1,500/month administrative fee that can be raised once annually with 30 days' notice (no more than 5% increase).

The labor rate is \$144.91/hour for business hours. Off hours will be at time and a half and double time for holidays. Off hours will be billed for a minimum of three hours.

Administrative work will be charged at \$100 per hour of work performed during business hours.

Equipment rates are \$57.96/hour for Pick Up; \$131.12/hour for trencher, Mini-Excavator; \$69.29/hour for Construction Truck, Welder. Overtime rates do not apply.

Material will be billed at cost plus 25%.

Labor and equipment rates will have an annual cost escalation rate (no greater than 5%) effective November 1, 2023.

Additional services available to be billed at time and material rates include meter reading; non-routine main, service, and metering work; and non-routine station maintenance, operation, and repair activities.

- **Insurance.** The City must maintain workers' compensation insurance (\$1.0 million), commercial general liability insurance (\$5.0 million), and automobile liability insurance (\$1.0 million).

Supplier Agreements

The Utility maintains natural gas supplier and hedging contracts involving Clayton Energy Corporation; Public Energy Facilities Authority, Inc.; and J. Aron & Company, LLC.

Management/Staff

IPL performs daily management under the Operations Agreement and is coordinated by a committee of two individuals, one from each party.

There are no full-time employees of the Utility. Rather, duties are split among the City staff.

Utility Profile

- **City Clerk/Treasurer:** Responsible for compiling financial information from the Utility and incorporating the data into the City's annual financial report to the State.
- **Deputy Clerk/Utility Clerk:** Manages and maintains the Utility billing system in its entirety, including answering phones/voicemails, emails, and picking up mail and drop box contents.
- **Public Works:** Must be OQ Certified². Responsible for natural gas utility system and prepare/submit all gas reports, gas audits, annual reports, and questionnaires.

Operating Performance

Available financial information and analysis for LMGs is presented in attached exhibits.

- Fiscal year July 1, 2018 to June 30, 2019 extracted from City of Lorimor financial reports submitted to the State of Iowa.
- Calendar years 2020 and 2021 from the IUB.
- Calendar year 2022 Utility submissions to the IUB (under review by the IUB).
- Additional data unavailable from the City archives.

The analysis of operating performance focuses primarily on two areas: (1) the strength of profitability; and (2) the rate at which operating activities grow over time.

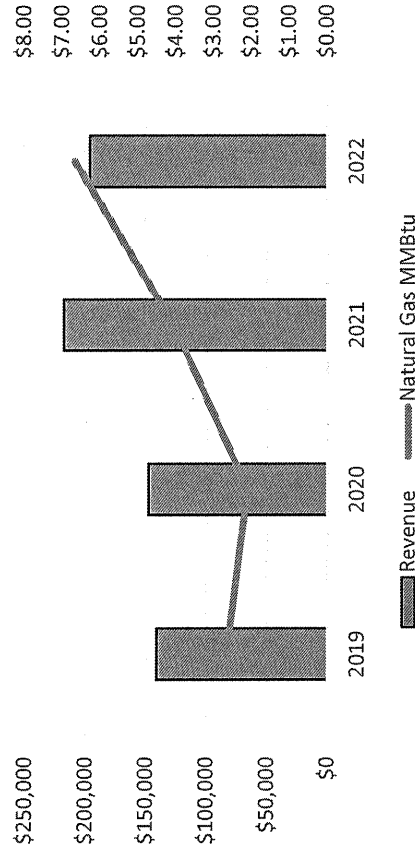
Customers

The average number of customers dropped from 194 in 2020 to 169 in the past two years. Residential customers decreased from 173 to 146, while commercial customers increased by 1 in each of the past two years to 23 in 2022 (see Exhibit 4).

Volume

Volume is largely dependent upon winter temperatures. Average volume over the past three years ranged between 62 and 64 MCF³. Commercial volume exhibited the largest variance. While mirroring residential in 2020 and 2021 at 62 and 64 MCF, respectively, commercial volume increased to 84 MCF with the addition of one customer (see Exhibit 4).

Revenue



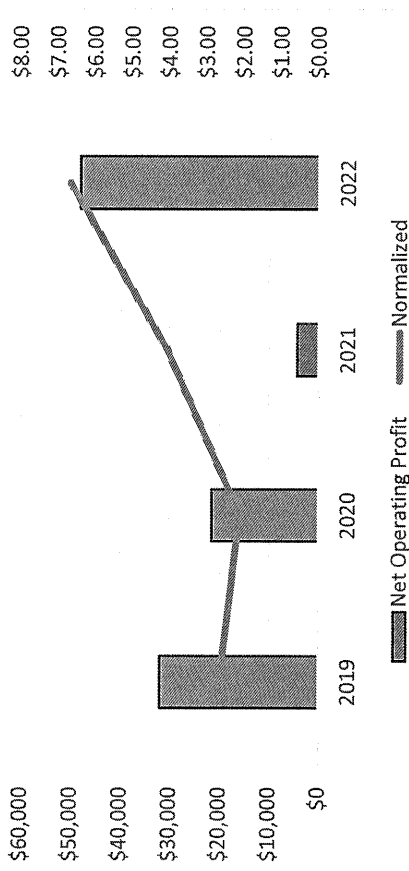
Revenue is dependent not only on volume, but market rates for natural gas, which spiked in the past two years.

² Operator Qualified by the PHMSA.

³ Million Cubic Feet.

Profitability

Generally, higher prices lead to higher profits. However, a deep freeze in Texas during the winter of 2020-2021 sent pricing shocks across the country as gas prices spiked for utilities in pricing cooperatives. This led to much higher bills for customers, but more of the revenue was passed on to suppliers, resulting in lower profits in 2021.



-- END OF SECTION --

Financial Condition

Typically, the financial condition analysis focuses on several areas: (1) the strength of the asset base; (2) the ability to pay obligations when they come due (liquidity); (3) the amount of funding obtained from creditors (leverage); and (4) the ability to build stockholders' equity.

- ◆ **Assets.** The only assets consist of the natural gas distribution system. However, no information is available indicating the ultimate cost of installation of the system in the 1970 or expansion in the 1990s.
- ◆ **Liquidity.** The Utility does not maintain a balance sheet. A credits and debits are made through the City's accounts.
- ◆ **Leverage.** The Utility is debt free, and its assets are not used to secure any debt issued by the City.
- ◆ **Equity.** Unknown.

Valuation Analysis

As in any discussion involving appraisal issues, it is important to understand that appraisal theory is based on two principles: “the principle of substitution” and “the principle of future benefits.”

The principle of substitution states that the value of an asset tends to be determined by the cost of acquiring an equally desirable substitute. In other words, a person will not purchase a particular asset if an equally desirable asset can be purchased at a lower price.

The principle of future benefits states that the economic value of an asset reflects anticipated future benefits. An individual who purchases an asset is purchasing it to receive the benefits it can provide in the future, not for what it has done in the past. For example, a business that has had poor earnings in the past but has bright prospects will be worth more than a business that has been successful in the past but will not be profitable in the future.

These principles form the basis for the generally accepted theory of business appraisal stated in Valuing a Business:

In its simplest sense, the theory surrounding the value of an interest in a business depends on the future benefits that will accrue to the owner of it. The value of the business interest, then, depends upon an estimate of the future benefits and the required rate of return at which those future benefits are discounted back to the appraisal date.

In quantifying the future benefits, it is important to consider that the future benefits of ownership in a business must come from the following sources:

- ◆ Earnings or cash flow from either operations or investments.
- ◆ Liquidation or hypothecation of the assets.
- ◆ Sale of the interest.

However, no single formula can be used to determine the value of every business interest in every situation. Therefore, three different business appraisal approaches have evolved over time that focus on the ability of the business interest to provide benefits to its owner from one or some combination of the above sources. These approaches are:

- ◆ The asset-based approach.
- ◆ The income-based approach.
- ◆ The market-based approach.

Not all approaches are applicable in every valuation; valuation approaches and methods must be consistent with the purpose of the valuation, the standard and definition of value, the type of ownership interest being valued, and any legal or regulatory requirements of the engagement. In addition, industry conditions, company factors, and the availability of information must be considered when determining valuation approaches and methods. The following analysis details each of the approaches and the methods we considered applicable for the subject interest.

Asset-Based Approach

Under the asset-based approach, the value is equal to the net value of its assets and liabilities. When an asset-based approach is used, assets are adjusted to market value, then liabilities are deducted to determine the market value.

The importance of assets in the valuation process depends on the extent to which they can be utilized to generate municipal surpluses. Assets provide the means for continuing cash flow and some defense against the risk of periods of losses.

From the perspective of a potential seller, the asset-based approach provides a minimum value for an asset. Owners would not be willing to accept a price that is less than the amount they could receive by selling the assets and paying its liabilities.

The Natural Gas Distribution Infrastructure Safety and Modernization grant program established by the 2021 Bipartisan Infrastructure Law provides nearly \$1 billion in funding over the course of five years to modernize municipally and community-owned natural gas distribution pipes. On April 5, 2023, the PHMSA announced \$196 million in grants for 37 municipal gas projects spread across 19 states. Exhibit 7 summarizes

13 grants that were for municipally owned systems most similar in size to LMGs and analyzes replacement costs on a per mile basis. Exhibit 6 presents the depreciated value of the assets on a replacement level basis.

The depreciated value of the Utility's assets is **\$966,000 on a control basis**.

Income-Based Approach

Cash flow is the primary source of future benefits and is one of the most important factors affecting the going-concern value of an enterprise. The income-based approach calculates value using this premise directly as future cash flow is converted to a present value by using an appropriate discount rate.

Exhibit 4 presents a discounted cash flow analysis. Key assumptions include:

- ◆ **Cash Flow Proxy:** Net Operating Profit using 2022 as a base year.
- ◆ **Growth:** Annual forecast change in natural gas prices from the EIA; assumes volume will remain consistent with 2022 levels.
- ◆ **Period:** Estimated remaining useful life for the original distribution system (24 years; see Exhibit 6).
- ◆ **Discount Rate:** Based on 20-year averages for short-, intermediate-, and long-term municipal bond returns (see Exhibit 5).

The present value of future cash flow surplus is **\$710,000 on a control basis**.

Market-based Approach

Inadequate data available.

Valuation Summary

The asset-based and income-based approaches provide a range of value of \$710,000 and \$966,000. The income-based approach was given primary consideration, indicating that the fair market value for Lorimer Municipal Gas System is \$774,000 (see Exhibit 1).

LMGS has no interest-bearing debt. The estimated cost (\$4,000) for remediation of an exposed pipeline is deducted from the value, indicated that the fair market value is **\$770,000 on a control basis**.

Sincerely,

HDH ADVISORS LLC



Brian Crotty, ASA, ABV, CBA, CVA, CFE, CDFA
Managing Director



Greg Patterson, ASA
Manager

APPENDIX A: APPRAISERS' CERTIFICATION

We certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the American Society of Appraisers Business Valuation Standards, the American Institute of Certified Public Accountants Statement on Standards for Valuation Services, and the Uniform Standards of Professional Appraisal Practice standards for conducting and reporting on business valuations.
8. No one provided significant professional assistance to the persons signing this report.
9. The economic, macro-environmental and industry data included in the valuation report have been obtained from various printed or electronic reference sources that the valuation analyst believes to be reliable. The valuation analyst has not performed any corroborating procedures to substantiate that date.

10. The parties for which the information and use of the appraisal report is restricted are identified; the valuation report is not intended to be and should not be used by anyone other than such parties.

11. We have no obligation to update the report or the opinion of value for information that comes to our attention after the date of the report.



Brian Crotty, ASA, ABV, CBA, CVA, CFE, CDFA
Managing Director



Greg Patterson, ASA, ARM
Manager

Assumptions & Limiting Conditions

APPENDIX B: ASSUMPTIONS & LIMITING CONDITIONS

We have relied upon information:

We have based our report on historical and prospective financial information, historical and current entity information, and other information provided by the City and third parties. We have not audited or reviewed this information, and the resulting report should not be construed, or referred to as an audit, examination, or review. Had we audited or reviewed the underlying data and information, matters may have come to our attention that would have resulted in our using amounts that differ from those provided. Accordingly, we take no responsibility for the underlying data presented or relied upon in this report. We have assumed that all the representations and information supplied by the city and agents are true, accurate, and complete.

We have relied on public and other information sources we believe to be reliable. However, we make no representation as to the accuracy, completeness or correctness of such information and have performed no procedures to corroborate the information.

We based this valuation in part on forecasts of revenues, earnings, and other matters. Some assumptions inevitably will not materialize, and numerous unanticipated events and circumstances may occur. Therefore, the actual performance in the areas forecasted will vary from the forecasts and the variations may be material. HDH Advisors expresses no form of assurance whatsoever on the likelihood of achieving the forecasts or on the reasonableness of the assumptions, representations, and conclusions.

The report will not be used for:

We have performed this valuation only for the City of Lorimer for the purpose stated herein. The report and any information contained within are not to be used for any other purpose by any other party. Such other use will render the report invalid and is not authorized.

The report, its information and findings are confidential and are not to be published, copied, reproduced, disclosed, or disseminated in any way by any means, in whole or in part, without the express prior written permission of a duly authorized officer of HDH Advisors. This report is copyrighted and remains the property of HDH Advisors.

Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales or other media without the prior written consent and approval of HDH Advisors.

Assumptions (not all inclusive):

In determining the opinion of value included in this report, we have assumed that the existing management will maintain the character and integrity of the Utility through any reorganization or reduction of any existing owner's/manager's participation in the activities of the Utility.

We have assumed that there are no factors such as restrictive agreements of any kind, other than those noted herein, which will affect or impair value in any way or the ability to affect an expedient sale of the ownership interest being valued.

We have assumed for valuation purposes that the Utility is in good standing and is not in violation of any laws or regulatory statute of any kind; this has not been independently verified. We have also assumed that there are no contingent or other liabilities of any kind, including pending or threatened lawsuits, environmental or hazardous waste or other similar matters except as noted herein.

The dollar amount of any value reported is based on the purchasing power of the U.S. dollar as of the valuation date. The appraiser assumes no responsibility for economic or physical factors occurring after the date that may affect the opinions reported.

HDH Advisors is not an environmental consultant, engineer, or auditor, and takes no responsibility for any actual or potential liability from environmental contamination or injury from such contaminants or hazardous substances. HDH Advisors has not independently determined whether the subject business enterprise is subject to any present or future liability relating to environmental matters (including but not limited to CERCLA/Superfund liability, contamination of soil, water or air, or release of any substance that could damage the environment or individuals) nor the scope of any such liabilities. We take no such liabilities into account, except as they have been reported to us by the subject company or by an environmental consultant working for the subject company, and then only to the extent that the liability was reported to us in an actual or estimated dollar amount. Such matters, if any, are noted in the report. To the extent such information has been reported to us, HDH Advisors has relied on it without verification and offers no warranty or representation as to its accuracy or completeness.

The estimate of fair market value assumes that the Utility is a "going concern," based on an all-cash purchase, or equivalent terms thereof. The Utility would have a materially different value in liquidation. No estimate of the value that could be achieved in liquidation is included in this report.

Assumptions & Limiting Conditions

If the business is sold or transferred:

HDH Advisors, Brian Crotty and Greg Patterson do not purport to be guarantors of value. Valuations involving closely held companies is an imprecise science, with value being a question of fact, and reasonable people differing in their opinions of value. However, HDH Advisors and the individual analysts have used conceptually sound and commonly accepted methods and procedures of valuation in determining the opinion of value included in this report.

Nothing in this report is intended to recommend, imply, or provide any guarantees, representations, or opinions of any kind whatsoever regarding the financial prudence, collateral, investment potential or debt service ability of the Utility. Such parties should undertake a full due diligence review of the Utility and make their own independent determinations of its prospects, financial and otherwise, and the financial prudence, tax, legal, and all other ramifications of any contemplated transaction and should retain independent and qualified advisors.

Nothing in this report should be construed as providing a "due diligence" study of the Utility, as such a study has not been undertaken. Such a study could uncover factors not considered herein which could result in a materially different estimate of value. No "fairness opinion" of any kind is expressed herein regarding an ownership interest in the subject entity or for any pending or contemplated transaction.

Nothing in this report constitutes a recommendation regarding the purchase or sale of any securities or assets. HDH Advisors expresses no opinion, guarantees or form of assurance of any kind, expressed or implied, on the potential investment performance resulting from a purchase of an interest in the Utility or its assets.

This report is neither an offer to sell, nor a solicitation to buy securities, and/or equity in, or assets of, the subject entity.

Other:

We have no present or contemplated financial interest in the Utility. Our fee for this analysis is based upon our customary billing rates plus out-of-pocket expenses and is in no way contingent upon the results of our findings. We have no responsibility or obligation to update this report for events or circumstances occurring after the date of this report, although we would be happy to do so should prior arrangements be made, including providing expert testimony or to be in attendance in court or at any government hearing with reference to the matters contained herein. The opinion expressed herein is valid only for the stated Effective Date, and only for the stated

valuation purpose. The actual value realized at a date after the valuation date may vary from the value set forth and such variations may be material.

No change of any item in the report shall be made by anyone other than HDH Advisors, and we shall have no responsibility for any such unauthorized change.

The Effective Date is stated in the report without any guarantees as to the fair market value at the valuation date or any future date, or any contrary opinions as to the value as of the same date. Possession of the report or work papers or other written documentation regarding the analysis does not carry with it the right of publication of all or part of it, nor may it be used or relied upon without previous written consent for any purpose other than that set forth above. No third parties are intended to benefit. HDH Advisors assumes no responsibility for any liability for damages of any kind resulting from reliance on this report by the Utility or any other party. Schedules, information, and other work papers developed during the assignment by HDH Advisors or supplied by the client are the sole property of HDH Advisors and are not subject to examination or production to the client at any time during or after the engagement.

The process of preparing a business valuation is not an exact science. It requires certain judgments to be made by HDH Advisors. These judgments include selection of valuation method, determination of earnings stream, and computation of discount rates, to name a few. Not every professional business valuator will make the same judgments. In fact, a business that is subject to multiple valuations by professional valuators would rarely result in one singular fair market value. The result would be a range of values that would be considered fair market value.

APPENDIX C: SOURCES

- ◆ Contract Documents and Specifications for Construction of a Natural Gas Transmission and Distribution System. Frank Hoblick & Associates. City of Lorimor. July 1971.
- ◆ Annual Report for Municipal Gas Utilities (MG-1) for Year Ended December 31, 2020 & 2021. State of Iowa.
- ◆ Annual Report for Municipal Gas Utilities (MG-1) for Year Ended December 31, 2022. City of Lorimor.
- ◆ General List of Assets. Lorimor Municipal Gas Utility.
- ◆ Service Meter Listing. Lorimor Municipal Gas Utility. April 12, 2023.
- ◆ Exposed Pipe Report. Lorimor Municipal Gas Utility. March 31, 2023.
- ◆ Hedging Agreement by and between Public Energy Facilities Authority and City of Lorimor.
- ◆ Report of Abandoned Facilities. Lorimor Municipal Gas Utility. August 10, 2021.
- ◆ Financial Reports for Fiscal Years ending June 30, 2019-2022. City of Lorimor.
- ◆ Historical Gas Volume, 2016-2023. City of Lorimor.
- ◆ Adoption of Budget and Certification of City Taxes for Fiscal Years Ending June 30, 2019-2024. City of Lorimor.
- ◆ Customer Invoices. City of Lorimor.
- ◆ Natural Gas Services and Maintenance Agreement between Interstate Power and Light Company and The City of Lorimor. September 19, 2022.
- ◆ Natural Gas Operations and Maintenance Agreement between Interstate Power and Light Company and The City of Lorimor. October 24, 2022.
- ◆ Forward Pricing of Natural Gas. Clayton Energy. February 21, 2023.
- ◆ Lorimor PGA. Clayton Energy.
- ◆ Natural Gas Invoices. Lorimor Municipal Gas. Clayton Energy Corporation.
- ◆ Expense Journal Entries. City of Lorimor.
- ◆ Accounts Receivable Audit Report. City of Lorimor.
- ◆ Vendor Summary. City of Lorimor.
- ◆ Employee List. City of Lorimor.
- ◆ Job Descriptions. City of Lorimor.
- ◆ Chapter 388 – Municipal Utilities. Iowa Code.
- ◆ Location of Lorimor, Iowa Map. Arkyan.
- ◆ Natural Gas Prices & Forecasts. U.S. Energy Information Administration.
- ◆ Natural Gas Distribution Replacement and Modernization. National Association of Regulatory Utility Commissioners. January 2020.
- ◆ PHMSA FY 2022 Natural Gas Distribution and Infrastructure Safety and Modernization Grants.
- ◆ Natural Gas Weekly Update. U.S. Energy Information Administration. June 1, 2023.
- ◆ Pipeline Repair Estimate. Friday Excavation LLC.

APPENDIX D: APPRAISERS' QUALIFICATIONS

BRIAN CROTTY, ASA, ABV, CVA CBA, CDF, CFE

Brian is a Managing Director with HDH Advisors, LLC with over twenty years of experience in business appraisals, litigation support, corporate finance and an additional two years of experience in the legal research and support field. Brian has testified as an expert witness in various court proceedings throughout the state of Iowa. Brian was the first business appraisal expert in the state of Iowa trained in Mediation, Collaborative Law and court appointed as Special Master on Valuation and Forensic Accounting in the Iowa Business Specialty Court Pilot Project.

Prior to joining HDH Advisors, Brian was in the Business Valuation and Litigation Support Group of RSM US, LLP (previously RSM McGladrey, Inc.) and the National Valuation Consulting Group of CliftonLarsonAllen (previously Clifton Gunderson, LLP). Brian started his career as a clerk for the law firm of Bray & Klockau, PLC.

Brian has performed numerous appraisal and litigation support services for companies in various industries and sizes, including companies with revenue exceeding billions of dollars per year.

Brian has extensively prepared full appraisal reports that adhered to Revenue Ruling 59-60, the Uniform Standards of Professional Appraisal Practice ("USPAP"), and the American Institute of CPAs ("AICPA") Statement of Standards for Valuation Services. Brian has also prepared expert reports for wrongful death and injury related damages, lifestyle analyses, and estimated after-tax income available for alimony and child support. Brian provides mediation services as a roster mediator in the Fifth District of Iowa.

GREG PATTERSON, ASA, ARM

Mr. Patterson is an Accredited Senior Appraiser and a Manager with HDH Advisors, a financial advisory services firm with offices in West Des Moines, Iowa and in Atlanta, Georgia. The firm's financial advisory services include business and intangible asset valuation, transfer pricing analysis, family limited partnership valuations, fairness and solvency opinions and litigation support consulting services.

As a Manager at HDH Advisors, Mr. Patterson is responsible for project production, client communication, and internal staffing for various business valuation, consulting, and litigation support engagements. He has nearly twenty years of experience in corporate finance, securities valuation, and litigation support services. Mr. Patterson has performed valuations of smaller privately held companies and larger multinational clients, common and preferred stocks, partnership interests, stock options, warrants, and intangible assets, for both privately and publicly held entities.

Mr. Patterson has worked with companies in nearly every industry with a presence in the Midwest and Southeast, from agriculture to precision manufacturing to health care.

A graduate of the University of Iowa and Drake Law School, Mr. Patterson worked at a national insurance company for two years before joining McGladrey & Pullen in 1999 (now RSM US, LLP). Mr. Patterson became earned the Accredited Senior Appraiser credential in business valuation from the American Society of Appraisers in 2007 and in appraisal review in 2016. He joined Corporate Continuity Group, LLC in 2007, a predecessor of HDH Advisors.

EXHIBIT 1: VALUATION SUMMARY

OPINION OF VALUE

Depreciated Value of Capital Assets	\$ 966,000	<u>Weighting</u> 25%
Discounted Cash Flow to Generate Surplus	\$ 710,000	75%
Indicated Value	<u>\$ 774,000</u>	
Less: Cost of Exposed Pipeline Remediation	(4,000)	
Indicated Value, Net	<u>\$ 770,000</u>	
on a control, marketable basis		

Income Statement

EXHIBIT 2: INCOME STATEMENT

	as of June 30, ^{FN1}		as of December 31, ^{FN2}	
	2019		2021	2022
Revenue				
Residential	n/a		178,891	159,701
Small Commercial / Industrial	n/a		36,778	33,561
Sales of Natural Gas	n/a		215,669 \$	193,262
Other Operating Revenues	n/a		2,151	2,606
Total Gas Services Revenue	\$ 141,178		\$ 217,820	\$ 195,868
Expenses				
Uncollectible Revenues	n/a		20,241	140
State Sales Tax	n/a		4,295	2,373
Operating Expenses	n/a		188,982	145,334
Total Expenses	\$ 109,279		\$ 213,518	\$ 147,847
Net Operating Profit	\$ 31,899		\$ 4,302	\$ 48,021
Supplemental Information				
Average Henry Hub Spot Price ^{FN3}	\$ 2.67		\$ 2.11	\$ 6.67
Normalized ^{FN4}				
Operating Profit	\$ 33,804			
Spot Price	\$ 3.82			

Notes:

FN1: City of Lorimor Financial Report for the Fiscal Year ended June 30, 2019; State of Iowa.

FN2: Lorimor Municipal Gas, Annual Report for Municipal Gas Utilities, Iowa Utilities Board.

Final: Years Ending December 31, 2020 and 2021.

Pending: Year ended December 31, 2022.

FN3: By MMBtu, U.S. Energy Information Administration

FN4: Simple average excluding 2021.

EXHIBIT 3: VOLUME SOLD

	as of December 31, ^{FN1}	
	2020	2021
MCF Sold ^{FN2}		
Residential	10,809	9,353
Average # of Customers	173	147
MCF / Residential Customer	62	64
MCF Sold		
Small Commercial / Industrial	1,312	1,400
Average # of Customers	21	22
MCF / Small Commercial & Industrial	62	64
MCF Sold		
Total	12,121	10,753
Average # of Customers	194	169
MCF Total	62	64

Notes:

FN1: Lorimer Municipal Gas, Annual Report for Municipal Gas Utilities, Iowa Utilities Board.

Final: Years Ending December 31, 2020 and 2021.

Pending: Year ended December 31, 2022.

FN2: Million Cubic Feet.

Discounted Cash Flow

EXHIBIT 4: DISCOUNTED CASH FLOW

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	TOTAL
Nominal Change in Prices ^{FN2}	-61.7%	33.2%	3.0%	4.1%	3.7%	4.9%	4.7%	4.8%	4.8%	3.5%	
Net Operating Profit	\$ 18,379	\$ 24,478	\$ 25,212	\$ 26,246	\$ 27,217	\$ 28,550	\$ 29,892	\$ 31,327	\$ 32,142	\$ 33,267	
Period	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	
Discount Rate ^{FN3}	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	
Discounted Cash Flow	\$ 18,048	\$ 23,179	\$ 23,023	\$ 23,112	\$ 23,112	\$ 23,379	\$ 23,605	\$ 23,855	\$ 23,602	\$ 23,557	\$ 228,472
Nominal Change in Prices ^{FN2}	3.7%	2.9%	2.5%	2.1%	1.8%	2.2%	1.8%	1.9%	2.0%	1.8%	
Net Operating Profit	\$ 34,498	\$ 35,498	\$ 36,385	\$ 37,149	\$ 37,818	\$ 38,650	\$ 39,346	\$ 40,093	\$ 40,895	\$ 41,631	
Period	0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	
Discount Rate	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%	
Discounted Cash Flow	\$ 33,876	\$ 33,615	\$ 33,226	\$ 32,714	\$ 32,114	\$ 31,650	\$ 31,070	\$ 30,530	\$ 30,030	\$ 29,480	\$ 318,305
Nominal Change in Prices ^{FN2}	1.8%	2.1%	2.5%	2.6%							
Net Operating Profit	\$ 42,381	\$ 43,271	\$ 44,353	\$ 45,506							
Period	0.5	1.5	2.5	3.5							
Discount Rate	3.7%	3.7%	3.7%	3.7%							
Discounted Cash Flow	\$ 41,618	\$ 40,976	\$ 40,502	\$ 40,072							\$ 163,167
											Total
											\$ 710,000

Notes:

FN1: See Exhibit 2.

FN2: Annual increase in cash flow for 2023 & 2024:

	Henry Hub	Change	Inflation	Cumulative
2022	\$ 6.67			
2023	\$ 2.27	-66.0%	4.3%	-61.7%
2024	\$ 2.96	30.6%	2.6%	33.2%

* 2024: Henry Hub: Futures Prices, Natural Gas Weekly Update, U.S. Energy Information Administration, June 1, 2023.

** Inflation: Consensus Economics, April 2023.

Annual increase in cash flow for 2025+: Long Term Delivered Prices (Nominal), U.S. Energy Information Administration, January 2021.

FN3: Average 20-Year Annual Returns for Municipal Bonds. See Exhibit 5.

EXHIBIT 5: DISCOUNT RATE

Year	Inflation	Cash	U.S. Bond Markets			
			Municipal Bonds		Long-Term	
			Short-Term	Inter-Term	Term	Term
2003	1.9%	1.0%	1.6%	4.5%	5.2%	
2004	3.3%	1.3%	1.1%	3.2%	4.1%	
2005	3.4%	3.1%	1.7%	2.2%	3.1%	
2006	2.5%	4.8%	3.3%	4.4%	5.2%	
2007	4.1%	4.6%	4.2%	3.4%	2.5%	
2008	0.1%	1.5%	3.7%	-0.1%	-4.9%	
2009	2.7%	0.2%	3.1%	10.2%	14.1%	
2010	1.5%	0.1%	1.0%	2.1%	1.5%	
2011	3.0%	0.1%	1.6%	9.6%	10.7%	
2012	1.7%	0.1%	1.0%	5.7%	8.1%	
2013	1.5%	0.1%	48.0%	-1.6%	-3.0%	
2014	0.8%	0.0%	0.7%	7.3%	11.1%	
2015	0.7%	0.1%	0.5%	2.9%	4.0%	
2016	2.1%	0.3%	0.4%	0.1%	0.6%	
2017	2.1%	0.9%	1.0%	4.5%	6.4%	
2018	1.9%	1.9%	1.6%	1.3%	0.9%	
2019	2.3%	2.1%	2.4%	6.8%	8.5%	
2020	1.4%	0.4%	1.8%	5.1%	6.2%	
2021	7.0%	0.4%	0.2%	1.1%	2.3%	
2022	6.5%	1.8%	-0.8%	-6.9%	-10.4%	

Annual Asset Class Return Averages

5-Years	3.8%	1.3%	1.0%	1.5%	1.5%
10-Years	2.6%	0.8%	5.6%	2.1%	2.7%
15-Years	2.3%	0.7%	4.4%	3.2%	3.7%
20-Years	2.5%	1.2%	3.9%	3.3%	3.8%

Notes:

Source: Portfolio Visualizer, Silicon Cloud Technologies

Depreciated Asset Value

EXHIBIT 6: DEPRECIATED ASSET VALUE

	Decades					
	1970-1979	1980-1989	1990-1999	2000-2009	2010-2019	2020-2023
Average Service Addresses ^{FN1}	179	2	27	2	4	0
Installations						
Linear Feet						
Mains						
Service Lines						
Total						
Divided by:						
Total Miles ^{FN2}	6		2			
New Cost Per Mile ^{FN3}			\$ 300,000			
Estimated Replacement Cost			\$ 1,800,000			
Depreciation Factor ^{FN4}						TOTAL
Depreciated Value			\$ 576,000			\$ 966,000

Notes:

FN1: Annual Reports, Pipeline and Hazardous Materials Safety Administration (PHMSA), U.S. Department of Transportation.

FN2: 1970-1979: Original Contract Bid submitted in 1971.

1990-1999: Total miles indicated by PHMSA data (7 miles steel coated, 1 mile plastic).

FN3: See Exhibit 7.

	1970-1979		1990-1999	
	1972	2023	1995 (estimated)	2023
Year Built				
Current Year				
Age	51		28	
Estimated Service Life (years)	75		80	
Less: Age	51		28	
Remaining Useful Life	24		52	
Percent Remaining	32.0%		65.0%	

EXHIBIT 7: PHMSA GRANT PROJECTS

Applicant	State	Award	Miles	Cost / Mile	Summary
Lanett	AL	\$ 9,749,000	17.75	\$ 549,239	Mains, Service Lines, Gate Station, Leak Detection
Cordova	AL	\$ 2,794,896	6.60	\$ 423,469	Mains & Service Lines
Apopka	FL	\$ 3,125,027	13.13	\$ 238,007	Mains & Service Lines
Lawrenceville	GA	\$ 7,726,607	21.11	\$ 366,016	Mains, Service Lines, Leak Detection
Carencro	LA	\$ 3,445,760	5.00	\$ 689,152	Mains & Service Lines
Morgan	LA	\$ 6,882,339	11.90	\$ 578,348	Mains, Services Lines, Meters
Alexandria	LA	\$ 3,300,600	6.25	\$ 528,096	Mains & Service Lines
Woodworth	LA	\$ 2,064,007	6.25	\$ 330,241	Mains & Service Lines
Wakefield	MA	\$ 1,275,059	1.37	\$ 930,700	Mains, Service Lines, Meters
Metro Utilities	NE	\$ 10,000,000	23.20	\$ 431,034	Mains, Service Lines, Gate Station, Leak Detection
Deshler	OH	\$ 2,218,193	4.50	\$ 492,932	Mains, Service Lines, Metering Station
Laurens	SC	\$ 5,083,760	8.22	\$ 618,462	Mains & Service Lines
York County	SC	\$ 5,580,794	13.60	\$ 410,353	Mains & Service Lines
			4th Quartile	\$ 930,700	
			3rd Quartile	\$ 578,348	
			Median	\$ 492,932	
			1st Quartile	\$ 410,353	
			Low	\$ 238,007	
			Selected	\$ 300,000	

Fair Market Value Determination

LMGU Fair Market Value Determination

After considering the appraisals obtained pursuant to paragraph “a” of Iowa Code Section 388.2A(2), the governing body shall establish the city utility’s fair market value. The fair market value shall be the greater of any of the following:

- (1) The average of the two appraisals obtained pursuant to paragraph “a”.
- (2) The depreciated value of the capital assets to be sold.
- (3) The amount necessary to retire all of the city’s outstanding revenue and general obligations issued for purposes of the city utility.

Average of the two appraisals:

BCC Advisers	\$493,000
HDH Advisers	<u>\$770,000</u>
Total	\$1,263,000
AVERAGE	= \$1,263,000 / 2 = \$631,500

Depreciated value of capital assets to be sold*:

BCC Advisers	\$563,000
HDH Advisers	<u>\$966,000</u>
Total	\$1,529,000
AVERAGE	= \$1,529,000 / 2 = \$764,500

*Given the two appraisals calculated differing depreciated values, the City will calculate the depreciated value using an average of the two values calculated by the appraisals.

Outstanding revenue and general obligations issued for purposes of the city utility: **None (\$0)**

The greater of the three is the average of the depreciated value of capital assets to be sold: **\$764,500**

LMGU’s Fair Market Value is determined to be \$764,500.

Inventory of Real/Personal Property

Lorimor Municipal Gas Utility

Inventory of Property

Distribution:

- Mains
 - 7 miles – 2" or less coated steel/cathodically protected pipe
 - 1 mile – greater than 2" but less than 4" coated steel/cathodically protected pipe
- Main Valves
 - 14 – 2" or less steel plug valves
- Service Lines (average service line length is approx. 100 ft.)
 - 153 – 1" or less coated steel/cathodically protected pipe
 - 61 – 1" or less plastic polyethylene pipe
- Service Line Valves
 - 214 – 1" or less
- Excess Flow Valves
 - 12 – 1" or less
- Regulator Station (DRS)
 - 2 – 2" Belgas P627 regulators
 - 1 – 2" Fisher 1808 relief valve
 - 5 – 2" Rockwell/Nordstrom steel plug valves
 - 1 – 1" Rockwell/Nordstrom steel plug valve
 - 1 – 2" Catco Enclosure Heater

Transmission:

- Take Point Equipment
 - 1 – 50 gallon bypass type odorant system with approx. 20 gallons of mercaptan remaining in tank
- Mains
 - 4.75 miles – 2" or less coated steel/cathodically protected pipe
- Valves
 - 2 – 2" Rockwell/Nordstrom steel plug valves
 - 1 – 2" blowdown valve (Rockwell/Nordstrom steel plug valve)
- Farm Tap Installations (10 total)
 - 9 – ¾" Rockwell 041 regulators
 - 9 – ¾" Fisher 1805 relief valves
 - 1 – ¾" Fisher 627 regulator
 - 1 – ¾" Fisher 1808 relief valve

Miscellaneous Stock Items/Equipment:

- 1 – Bacharach Odorometer
- 1 – Sensit Gold
- ≤ 6 – American AC 250 meters
- ≤ 6 – ¾" body Sensus/American residential regulators
- ≤ 6 – ¾" service valves
- ≤ 6 – 1" or less Permasert coupling
- ≤ 2 – 1" or less Permasert repair coupling
- ≤ 3 – ¾" Permasert end caps
- ≤ 3 – ¾" Dresser fittings
- 1 – MSA Gascope Combustible Gas Indicator, model 53
- 1 – Radiodetection Ltd. Digital Precision Buried Pipe & Cable Locator with Compact Transmitter S/N CY22867GB
- Pressure Regulator* (D-3)

* This item is located in a City building located at 406 Main St. Lorimor, Iowa 50149. The building will either need to be sold by the City or the infrastructure would need to be relocated.

Real Properties:

- Gas Sub Station for Main Line, *3148 Carver Road Lorimor, Iowa 50149* (D-1)
- Main Shut Off, *1175 Hwy 169 Lorimor, Iowa 50149* (D-2)

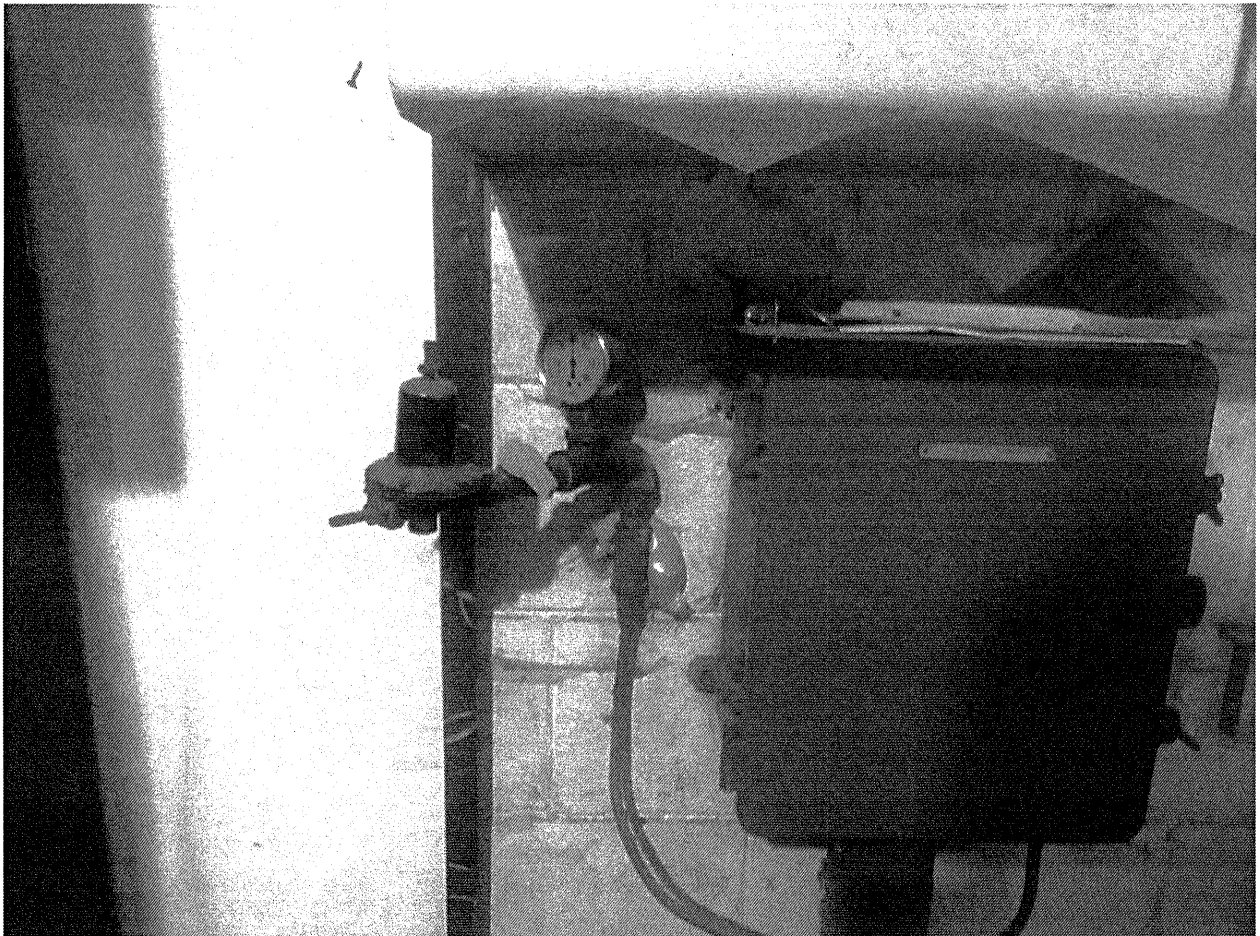
D-1



D-2



D-3



Balance Sheet

CITY OF LORIMOR
BALANCE SHEET
CALENDAR 6/2022, FISCAL 12/2022

ACCOUNT NUMBER	ACCOUNT TITLE	MTD BALANCE	YTD BALANCE
640-000-1110	CHECKING - GAS	70.43	345,894.31
640-000-1170	CD 153437/OLD 147377/GAS	.00	15,456.11
640-000-1171	CD 154933/ OLD 154429 / GAS	10.56	5,290.83
640-050-2020	ACCOUNTS PAYABLE	.00	.00
640-050-2120	FEDERAL W/H PAYABLE	.00	.00
640-050-2121	FICA W/H PAYABLE	.00	.00
640-050-2122	STATE W/H PAYABLE	.00	.00
640-050-2123	IPERS W/H PAYABLE	.00	.00
640-050-2126	GARNISHMENT PAYABLE	.00	.00
640-050-3950	FUND BALANCE	22,851.76	366,641.25
		=====	=====
	PROOF	22,770.77-	.00
		=====	=====

Financial Information Statement:

Current Rate Schedules

CHAPTER 110

MUNICIPAL GAS UTILITY

110.01 Service Rules and Regulations	110.07 Service Reconnection Fee
110.02 Rates	110.08 Propane Tanks
110.03 Rate Adjustment for Cost of Purchased Gas	110.09 Gas Meters
110.04 Return Check Charge	110.10 Right to Enter and Read Meter
110.05 Posting Fee	110.11 Shutting Off Gas
110.06 Benefit of Service	110.12 Other Services and Charges

110.01 SERVICE RULES AND REGULATIONS. The rules and regulations for gas service are contained in the "Municipal Gas Utility of the City of Lorimor Tariff," on file with the Utilities Division of the Iowa Department of Commerce. Also, an official copy of the rules and regulations as adopted is now on file in the office of the Clerk. The rules and regulations contained therein shall apply to all users of the municipal gas system.

110.02 RATES. The rates for gas service shall be as follows:

1. Minimum meter charge. \$11.70
2. Firm Gas Service. Standard uninterruptible gas service shall be available in accordance with Section 110.03, Rate of Adjustment for Cost of Purchased Gas. Each customer will be charged 50 cents per unit over and above the price of purchased gas.

110.03 RATE ADJUSTMENT FOR COST OF PURCHASED GAS. The rates established in Section 110.02 are subject to an adjustment, either an increase or decrease, due to a large cost change from the base price for gas purchased on a per-mcf basis on which the above rates are based, occurring subsequent to the effective date of those rates. Adjustments may be made no more often than once per billing period and said adjustments shall be set out as a separate item or by a clear statement on each customer's bill. Changes in rates shall only be made in one-cent steps stated to the nearest cent and the calculation thereof shall be made by the Clerk, who shall then inform the Council of the pendency of said increase or decrease at the next regularly scheduled Council meeting.

110.04 RETURN CHECK CHARGE. A service charge of \$30.00 shall apply to each check returned unpaid by the bank on which it was drawn.

110.05 POSTING FEE. All customers that have not paid their gas utility bill after being given the required 12-day past due notice will have their residence posted with a 24-hour notice of disconnection of services. A posting fee of \$25.00 will be charged each customer that is posted for disconnection of services.

110.06 BENEFIT OF SERVICE. The Utility may disconnect service with appropriate notice if the premises has an outstanding debt and the person responsible for incurring the outstanding debt occupies and receives the benefit of service provided to that premises.

110.07 SERVICE RECONNECTION FEE. When service is disconnected because of an act or omission by the customer or because of nonpayment of a bill or deposit, the customer shall be required to pay a reconnection charge of \$60.00. A charge equal to Alliant Energy's

charge to the City plus 10 percent shall apply whenever reconnection is required after normal business hours of the utility.

110.08 PROPANE TANKS. The setting of propane tanks and the use of propane as the primary heating source for residences, businesses, garages, or outbuildings is prohibited unless special provision is granted by the Council.

110.09 GAS METERS. Gas meters must be accessible to City staff at all times. When, in the opinion of Council a meter is inaccessible to the reader because of location, prohibited entry due to animals or barriers (including fences), or for any other reason, the Clerk may cause to be installed a gas meter extension and shall charge the cost of said gas meter extension and the installation thereof to the user.

110.10 RIGHT TO ENTER AND READ METER. Authorized City employees shall have the authority to enter the premises of any customer at reasonable hours to read and/or remove the gas meter or change said meter in the pursuit of maintenance and safety programs.

110.11 SHUTTING OFF GAS. The City may shut off the gas supply to a customer when said customer may be affecting the safety or proper operation of the system.

110.12 OTHER SERVICES AND CHARGES. The City may purchase or furnish and establish charges for such services in connection with the natural gas system as the Council may, by resolution, approve from time to time.

[The next page is 491]

Financial Information Statement:

Projected Rate Schedules for Next Five
Fiscal Years

Chapter 388.2A(2)(e) states the governing body shall prepare a financial information statement of the utility that includes “projected rate schedules for the next five fiscal years”

The following is the rate schedule projected for Fiscal Years 2024, 2025, 2026, 2027, and 2028*.

Rates. The rates for gas service charge shall be as follows:

1. Minimum meter Charge. \$11.70
2. Firm Gas Service. Standard uninterruptible gas service shall be available in accordance with Section 110.03, Rate of Adjustment for Cost of Purchased Gas. Each customer will be charged 50 cents per unit over and above the price of purchased gas.

*The projected rate schedule is based on LMGU’s current rate schedule established pursuant to Section 110.02 of the Lorimor, Iowa, Code of Ordinances.

Financial Information Statement:

Five Most Recent Fiscal Year Revenue
Statements

CITY OF LORIMOR
 REVENUE & EXPENSE REPORT
 CALENDAR 6/2018, FISCAL 12/2018

ACCOUNT NUMBER	ACCOUNT TITLE	MTD BALANCE	YTD BALANCE	BUDGET	DIFFERENCE
GAS DEPARTMENT					
640-825-4500	CHARGES/FEES FOR SERVICES	5,275.78	110,678.81	120,000.00	9,321.19
640-825-4530	PENALTIES	55.07	486.11		486.11-
640-825-4550	MISC CHARGE FOR SERVICES	52.16	1,077.02	4,000.00	2,922.98
640-825-4560	SALES TAXES COLLECTED	111.29	1,930.04		1,930.04-
640-825-4730	DEPOSITS - GAS		1,234.56	2,800.00	1,565.44
GAS DEPARTMENT					
640-825-6010	WAGES - GAS	204.97-	12,696.72	10,000.00	2,696.72-
640-825-6110	FICA/MEDICARE - GAS	152.56	880.90	2,000.00	1,119.10
640-825-6130	IPERS - GAS	157.29	1,435.08	2,000.00	564.92
640-825-6160	WORKER'S COMP			1,000.00	1,000.00
640-825-6210	DUES		1,016.98		1,016.98-
640-825-6230	TRAINING		973.95	6,000.00	5,026.05
640-825-6331	VEHICLE OPERATIONS	12.18	1,649.49	2,000.00	350.51
640-825-6371	UTILITIES		3.98		3.98-
640-825-6373	TELEPHONE/COMMUNICATIONS		74.42		74.42-
640-825-6374	GAS/SEWER	.01	526.93		526.93-
640-825-6402	ADVERTISING	95.50	216.43		216.43-
640-825-6412	DRUG TESTING - GAS		367.00		367.00-
640-825-6413	CONTRACT SERVICE	500.00	4,500.00	10,000.00	5,500.00
640-825-6418	SALES TAX EXPENSE - GAS	.14	133.32	5,000.00	4,866.68
640-825-6419	TECHNOLOGY SERVICES		5,403.00	2,500.00	2,903.00-
640-825-6491	IOWA ONE CALL		72.50		72.50-
640-825-6498	DEPOSIT REFUNDS	133.39	2,051.52	2,500.00	448.48
640-825-6499	MISC EXPENSES	101.09	2,551.37	3,400.00	848.63
640-825-6503	GAS PURCHASED	846.71	50,473.86	50,000.00	473.86-
640-825-6506	OFFICE SUPPLIES		553.06		553.06-
640-825-6508	POSTAGE	138.05	963.10	1,000.00	36.90
TRANSFERS IN/OUT DEPARTMENT					
	Report Total	3,562.35	28,862.93	29,400.00	537.07

CITY OF LORIMOR
 REVENUE & EXPENSE REPORT
 CALENDAR 6/2019, FISCAL 12/2019

ACCOUNT NUMBER	ACCOUNT TITLE	MTD BALANCE	YTD BALANCE	BUDGET	DIFFERENCE
GAS DEPARTMENT					
640-825-4500	CHARGES/FEEES FOR SERVICES	8,547.77	129,784.71	86,000.00	43,784.71-
640-825-4530	PENALTIES	60.65	703.54		703.54-
640-825-4550	MISC CHARGE FOR SERVICES	60.00	1,394.04	2,000.00	605.96
640-825-4560	SALES TAXES COLLECTED	115.25	2,158.51		2,158.51-
640-825-4730	DEPOSITS - GAS		1,993.89	1,000.00	993.89-
GAS DEPARTMENT					
640-825-6010	WAGES - GAS	1,087.18	16,307.78	25,000.00	8,692.22
640-825-6110	FICA/MEDICARE - GAS	151.73	414.40	1,915.00	1,500.60
640-825-6130	IPERS - GAS	187.25	908.03	2,360.00	1,451.97
640-825-6210	DUES	130.66	2,072.64	900.00	1,172.64-
640-825-6230	TRAINING		10,566.63	2,000.00	8,566.63-
640-825-6241	MILEAGE	22.41	105.57		105.57-
640-825-6331	VEHICLE OPERATIONS	211.69	2,397.28	4,500.00	2,102.72
640-825-6332	VEHICLE REPAIRS		851.33		851.33-
640-825-6350	OPERATIONAL EQUIP REPAIR		696.26		696.26-
640-825-6371	UTILITIES		137.21	1,200.00	1,062.79
640-825-6373	TELEPHONE/COMMUNICATIONS	129.86	556.80	480.00	76.80-
640-825-6374	GAS/SEWER	76.49	607.81	950.00	342.19
640-825-6402	ADVERTISING		210.98		210.98-
640-825-6408	INSURANCE - PROPERTY		1,192.34		1,192.34-
640-825-6411	LEGAL PUBLISHING	171.56	1,386.28	370.00	1,016.28-
640-825-6412	DRUG TESTING - GAS		217.00	200.00	17.00-
640-825-6413	CONTRACT SERVICE	1,000.00	8,791.60	6,000.00	2,791.60-
640-825-6418	SALES TAX EXPENSE - GAS		1,356.00		1,356.00-
640-825-6491	IOWA ONE CALL		60.30	100.00	39.70
640-825-6498	DEPOSIT REFUNDS	578.26	1,430.13	900.00	530.13-
640-825-6499	MISC EXPENSES		976.13	700.00	276.13-
640-825-6503	GAS PURCHASED	1,072.86	52,847.88	45,000.00	7,847.88-
640-825-6506	OFFICE SUPPLIES		1,892.27	1,500.00	392.27-
640-825-6508	POSTAGE		1,132.63	650.00	482.63-
TRANSFERS IN/OUT DEPARTMENT					
	Report Total	3,963.72	28,919.41	5,725.00-	34,644.41-

CITY OF LORIMOR
 REVENUE & EXPENSE REPORT
 CALENDAR 6/2020, FISCAL 12/2020

ACCOUNT NUMBER	ACCOUNT TITLE	MTD BALANCE	YTD BALANCE	BUDGET	DIFFERENCE
GAS DEPARTMENT					
640-825-4500	CHARGES/FEES FOR SERVICES	8,982.39	122,765.31	120,000.00	2,765.31-
640-825-4530	PENALTIES	64.64	502.85	500.00	2.85-
640-825-4550	MISC CHARGE FOR SERVICES	185.00	1,140.63	1,500.00	359.37
640-825-4560	SALES TAXES COLLECTED	135.60	2,293.67	2,000.00	293.67-
640-825-4730	DEPOSITS - GAS		1,438.15	2,000.00	561.85
GAS DEPARTMENT					
640-825-6010	WAGES - GAS	1,322.97	26,026.18	24,000.00	2,026.18-
640-825-6110	FICA/MEDICARE - GAS	720.39-	4,689.50	1,900.00	2,789.50-
640-825-6130	IPERS - GAS	84.19	2,178.94	2,300.00	121.06
640-825-6210	DUES		4,219.80	2,500.00	1,719.80-
640-825-6230	TRAINING		2,076.27	1,000.00	1,076.27-
640-825-6241	MILEAGE	52.85	282.10	100.00	182.10-
640-825-6331	VEHICLE OPERATIONS		631.99	2,500.00	1,868.01
640-825-6332	VEHICLE REPAIRS		111.97	1,000.00	888.03
640-825-6350	OPERATIONAL EQUIP REPAIR	.80	10,432.57	500.00	9,932.57-
640-825-6371	UTILITIES	65.87	4,351.34	250.00	4,101.34-
640-825-6373	TELEPHONE/COMMUNICATIONS	65.49	457.52	480.00	22.48
640-825-6374	GAS/SEWER	81.41	566.53	600.00	33.47
640-825-6402	ADVERTISING		1,638.80	250.00	1,388.80-
640-825-6408	INSURANCE - PROPERTY		1,790.39	1,400.00	390.39-
640-825-6411	LEGAL PUBLISHING			1,500.00	1,500.00
640-825-6412	DRUG TESTING - GAS		778.18	50.00	728.18-
640-825-6413	CONTRACT SERVICE	1,000.00	27,846.32	8,500.00	19,346.32-
640-825-6418	SALES TAX EXPENSE - GAS		2,190.00		2,190.00-
640-825-6419	TECHNOLOGY SERVICES	5,497.67	5,497.67		5,497.67-
640-825-6485	REFUNDS/REIMBURSEMENTS		150.00		150.00-
640-825-6490	TRANSMISSION LINE		24,171.78	500.00	23,671.78-
640-825-6491	IOWA ONE CALL		3,006.95	100.00	2,906.95-
640-825-6492	TESTING			200.00	200.00
640-825-6498	DEPOSIT REFUNDS	265.59	1,171.23	1,000.00	171.23-
640-825-6499	MISC EXPENSES	520.35	2,682.53	1,000.00	1,682.53-
640-825-6503	GAS PURCHASED	926.75	17,844.39	40,000.00	22,155.61
640-825-6506	OFFICE SUPPLIES	112.53	1,680.24	2,500.00	819.76
640-825-6508	POSTAGE		207.07	1,500.00	1,292.93
TRANSFERS IN/OUT DEPARTMENT					
	Report Total	91.55	18,539.65-	30,370.00	48,909.65

CITY OF LORIMOR
 REVENUE & EXPENSE REPORT
 CALENDAR 6/2021, FISCAL 12/2021

ACCOUNT NUMBER	ACCOUNT TITLE	MTD BALANCE	YTD BALANCE	BUDGET	DIFFERENCE
GAS DEPARTMENT					
640-825-4500	CHARGES/FEES FOR SERVICES	13,027.32	215,124.60	202,000.00	13,124.60-
640-825-4530	PENALTIES	121.18	865.82	500.00	365.82-
640-825-4550	MISC CHARGE FOR SERVICES	25.00	1,766.00		1,766.00-
640-825-4560	SALES TAXES COLLECTED	163.92	3,452.16	2,000.00	1,452.16-
640-825-4730	DEPOSITS - GAS		2,179.81	2,500.00	320.19
GAS DEPARTMENT					
640-825-6010	WAGES - GAS	1,221.49	15,498.51	14,000.00	1,498.51-
640-825-6110	FICA/MEDICARE - GAS	93.44	1,185.54	1,900.00	714.46
640-825-6130	IPERS - GAS	115.30	1,434.95	2,300.00	865.05
640-825-6160	WORKER'S COMP		186.00		186.00-
640-825-6210	DUES		1,416.00	2,500.00	1,084.00
640-825-6230	TRAINING		355.00	1,000.00	645.00
640-825-6241	MILEAGE		23.00	100.00	77.00
640-825-6331	VEHICLE OPERATIONS			2,500.00	2,500.00
640-825-6332	VEHICLE REPAIRS		50.00	1,000.00	950.00
640-825-6350	OPERATIONAL EQUIP REPAIR		5,103.25	500.00	4,603.25-
640-825-6371	UTILITIES		667.87	664.44	3.43-
640-825-6373	TELEPHONE/COMMUNICATIONS		460.15	480.00	19.85
640-825-6374	GAS/SEWER	15.75	858.81	600.00	258.81-
640-825-6402	ADVERTISING	89.25	475.47	250.00	225.47-
640-825-6408	INSURANCE - PROPERTY		1,156.75	1,400.00	243.25
640-825-6411	LEGAL PUBLISHING		1,291.25	1,500.00	208.75
640-825-6412	DRUG TESTING - GAS		126.00	50.00	76.00-
640-825-6413	CONTRACT SERVICE	191.50	23,214.87	18,870.00	4,344.87-
640-825-6418	SALES TAX EXPENSE - GAS		4,288.85		4,288.85-
640-825-6419	TECHNOLOGY SERVICES		1,001.00		1,001.00-
640-825-6490	TRANSMISSION LINE		11,077.43	11,077.43	
640-825-6491	IOWA ONE CALL	20.70	3,335.34	3,335.34	
640-825-6492	TESTING			200.00	200.00
640-825-6498	DEPOSIT REFUNDS	217.88	831.38	1,000.00	168.62
640-825-6499	MISC EXPENSES	54.94	2,081.82	1,000.00	1,081.82-
640-825-6503	GAS PURCHASED	1,143.84	97,697.79	97,697.79	
640-825-6506	OFFICE SUPPLIES	112.73	484.72	2,500.00	2,015.28
640-825-6508	POSTAGE		370.55	1,500.00	1,129.45
TRANSFERS IN/OUT DEPARTMENT					
	Report Total	10,060.60	48,716.09	39,075.00	9,641.09-

ACCOUNT NUMBER	ACCOUNT TITLE	MTD BALANCE	YTD BALANCE	BUDGET	DIFFERENCE
GAS DEPARTMENT					
640-825-4500	CHARGES/FEES FOR SERVICES	13,419.04	190,445.59		190,445.59-
640-825-4530	PENALTIES	70.39	1,079.85		1,079.85-
640-825-4550	MISC CHARGE FOR SERVICES	60.00	1,537.38		1,537.38-
640-825-4560	SALES TAXES COLLECTED	220.46	4,428.87		4,428.87-
640-825-4730	DEPOSITS - GAS	261.53	2,574.61		2,574.61-
GAS DEPARTMENT					
640-825-6010	WAGES - GAS	1,173.74	16,125.81		16,125.81-
640-825-6110	FICA/MEDICARE - GAS	89.79	1,233.58		1,233.58-
640-825-6130	IPERS - GAS	110.79	1,522.30		1,522.30-
640-825-6210	DUES		1,822.00		1,822.00-
640-825-6331	VEHICLE OPERATIONS		232.18		232.18-
640-825-6332	VEHICLE REPAIRS		225.13		225.13-
640-825-6350	OPERATIONAL EQUIP REPAIR		990.34		990.34-
640-825-6371	UTILITIES	83.64	815.42		815.42-
640-825-6373	TELEPHONE/COMMUNICATIONS	152.64	1,191.01		1,191.01-
640-825-6374	GAS/SEWER	97.45	833.75		833.75-
640-825-6402	ADVERTISING		357.00		357.00-
640-825-6408	INSURANCE - PROPERTY		1,159.30		1,159.30-
640-825-6411	LEGAL PUBLISHING		1,170.00		1,170.00-
640-825-6412	DRUG TESTING - GAS		84.00		84.00-
640-825-6413	CONTRACT SERVICE	7,693.00	55,182.49		55,182.49-
640-825-6418	SALES TAX EXPENSE - GAS	1,794.53	5,749.04		5,749.04-
640-825-6419	TECHNOLOGY SERVICES		3,725.19		3,725.19-
640-825-6490	TRANSMISSION LINE		13,040.97		13,040.97-
640-825-6491	IOWA ONE CALL	171.05	4,118.61		4,118.61-
640-825-6498	DEPOSIT REFUNDS		49.14		49.14-
640-825-6499	MISC EXPENSES		16,734.46		16,734.46-
640-825-6503	GAS PURCHASED	2,506.47	68,561.92		68,561.92-
640-825-6506	OFFICE SUPPLIES	87.89	355.07		355.07-
640-825-6508	POSTAGE		403.17		403.17-
TRANSFERS IN/OUT DEPARTMENT					
	Report Total	70.43	4,384.42	.00	4,384.42-

Financial Information Statement:

Projection of Revenue Statements for
Next Five Fiscal Years

Chapter 388.2A(2)(e) states the governing body shall prepare a financial information statement of the utility that includes

“a projection of the city utility’s revenue statements for the next five fiscal years”

The following revenue projections for Fiscal Years 2023, 2024, 2025, 2026, and 2027 are based on a forecast provided by BCC Advisers*, based on the Utility’s historical performance, industry trends, and economic considerations in the utility’s market, utilizing certain assumptions listed in the attached details**.

REVENUE PROJECTED	21-22	22-23	23-24	24-25	25-26	26-27
5 YEARS						
TOTAL REVENUE PER YEAR*	196,000	89,000	114,000	116,000	118,000	120,000
TOTAL EXPENSES PER YEAR *	(148,000)	(71,000)	(91,000)	(92,000)	(94,000)	(96,000)
NET	\$48,000	\$18,000	\$23,000	\$24,000	\$24,000	\$24,000

*HDH’s appraisal calculated the net operating profit to be \$48,021, \$18,379, \$24,478, \$25,212 \$26,246, \$27,217, respectively. See attached details for HDH’s forecast of revenue. The City is using the lower, more conservative values calculated by BCC for the utility’s projected revenue.

**See attached details for BCC’s forecast and assumptions.

DISCOUNTED CASH FLOW METHOD

The Discounted Cash Flow Method uses the present value of a company's forecast cash flow to indicate fair market value. A forecast was prepared based on the Utility's historical performance, industry trends, economic considerations in the Utility's market. Amounts and assumptions used are discussed in the notes in this appendix.

TABLE 8-1

FORECAST CASH FLOW STREAM									
(AMOUNTS IN THOUSANDS)									
	Historical			Forecast					Residual
	FY 20 - 22	FY 2022		Year 1	Year 2	Year 3	Year 4	Year 5	
Revenue	172	196	(1)	89	114	116	118	120	122
Operating expenses	(137)	(148)	(2)	(71)	(91)	(92)	(94)	(96)	(98)
Net profit	35	48		18	23	24	24	24	24
Discount rate			(3)						6.4%
Long-term growth rate			(4)						2.0%
Capitalization rate			(5)						4.4%
Residual value			(6)						545
Present value factor		6.4%	(7)	0.9695	0.9111	0.8563	0.8048	0.7564	0.7564
Discounted cash flow			(8)	17	21	21	19	18	412
Total discounted cash flow = value of invested capital								(8)	508
Ratio analysis:									
Operating expense ratio	79.7%	75.5%	(2)	79.7%	79.7%	79.7%	79.7%	79.7%	80.3%
Operating margin	20.3%	24.5%		20.2%	20.2%	20.7%	20.3%	20.0%	19.7%
Growth rates:									
Revenue			(1)	-54.7%	27.8%	2.0%	2.0%	2.0%	2.0%

- (1) Over the next ten years, the Union County population is forecast to remain steady as shown in Table 6-4. Therefore, future revenue growth is forecast to reflect expected annual changes in gas prices. The Henry Hub spot price from the May 2023 Short Term Energy Outlook published by the U.S. Energy Information Administration is shown in the following table. Revenue growth for Year 1 and Year 2 was based on the change in the spot price. Over the remainder of the forecast, revenues are forecast to grow by the long-term growth rate of 2.0% used in this analysis.

TABLE 8-2

HENRY HUB SPOT		
Year	Price	Change
2022	\$6.67	
2023	\$3.02	-54.7%
2024	\$3.86	27.8%

Source: EIA May '23 Short Term Energy Outlook

- (2) Operating expenses are forecast using the Utility's historical average ratio of operating expenses to revenue. Implied forecast net profit is reflective of net cash flow available for distribution.
- (3) A discount rate or required rate of return was developed to convert future cash flow into present value. To calculate the value of a company's invested capital, the company's weighted average cost of capital ("WACC") is calculated and used as the discount rate. The WACC consists of a cost of equity component and a cost of debt component, as discussed later in this Appendix. The discount rate is from Table 8-7.
- (4) Long-term growth expectations are influenced by economic growth and inflationary expectations. The results of several surveys providing consensus estimates for expected inflation are shown in the following table.

TABLE 8-3

LONG TERM EXPECTED INFLATION ESTIMATES	
Consensus Economics	2.3%
Livingston Survey	2.5%
Survey of Professional Forecasters	2.8%
Cleveland Federal Reserve	2.1%
University of Michigan Survey	2.8%
Inflation implied using 20-Year U.S. TIPS (6/30/22)	2.6%

Sources: Federal Reserve Bank of Philadelphia, Federal Reserve Bank of Cleveland, Bloomberg, Board of Governors of the Federal Reserve

Considering expected demographic and industry trends and the Utility's historical average growth rate, a 2.0% long-term growth rate was considered appropriate.

- (5) The capitalization rate is equal to the discount rate less the long-term growth rate.
- (6) The residual value at the end of Year 5 is calculated by capitalizing the residual cash flow at the applicable capitalization rate.
- (7) Forecast cash flow was assumed to be generated evenly throughout each year. Thus, each year's cash flow was discounted using the WACC in Table 8-7 at mid-year to calculate the net present value.
- (8) Discounted cash flow amounts equal the invested capital net cash flow (net profit) or the residual value from (6) multiplied by the present value factor from (7). The total discounted cash flow represents the total value of invested capital (equity plus debt) of the Utility.

Since the forecast cash flow stream includes normalizing adjustments reflective of the ability to control the operations and capital structure of the Utility, the value indication represents a value attributable to a controlling interest in the Utility.

Development of a Discount Rate

To calculate the value of a company's invested capital, the company's weighted average cost of capital ("WACC") is calculated and used as the discount rate. The WACC consists of a cost of equity component and a cost of debt component, as discussed below.

Cost of Equity

A widely used method of estimating the cost of equity capital is the build-up method in which certain risk premiums are added to a risk-free rate. This method is based on the premise that a company's discount rate is composed of identifiable risk (or return) factors, the sum of which represents the total return that a prudent investor would demand from the purchase of the company. Two data sets are commonly used to estimate the cost of equity: the Center for Research in Security Prices Deciles Size Premia exhibits (the "CRSP Method") and the Risk Premium Report exhibits (the "RPR Method"). The following table estimates the cost of equity capital using the build-up method.

Documentation of Alternatives Considered

June 5, 2023

The City Council of Lorimor, Iowa, met in ___ Regular ___ session, in the Council Chambers, 503 Main Street, Lorimor, Iowa, at ___ 6 ___ o'clock P.M., on the above date. There were present Mayor, ___ Tim O'Neil ___ in the chair, and the following named Council Members:

___ Suzzie Weibel, Jodi King, Jack Kilpatrick, Matt Lenhart ___

Absent: ___ Karen Tucker _____

Vacant: _____

Council Member ___Jack Kilpatrick___ introduced the following Resolution entitled "RESOLUTION CONSIDERING ALTERNATIVES TO THE SALE OF THE LORIMOR MUNICIPAL GAS UTILITY SYSTEM", and moved its adoption. Council Member ___Matt Lenhart___ seconded the motion to adopt. The roll was called and the vote was,

AYES: _Weibel, King, Kilpatrick, & Lenhart _____

NAYS: _____

Whereupon, the Mayor declared the following Resolution duly adopted:

RESOLUTION CONSIDERING ALTERNATIVES TO THE SALE
OF THE LORIMOR MUNICIPAL GAS UTILITY SYSTEM

WHEREAS, the City of Lorimor is pursuing the sale of the Lorimor Municipal Gas Utility (LMGU) System; and

WHEREAS, Section 388.2A of the Iowa Code outlines certain procedures which must be followed for the disposal of a city utility by sale and one of those procedures requires the City Council to consider alternatives to disposing of the city utility system by sale; and

WHEREAS, the City Council has considered alternatives to disposing of the LMGU System, as set forth in Exhibit A, attached hereto and incorporated herein as though set out in full.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LORIMOR, IOWA:

Section 1. That the City Council has previously and hereby further considers the alternatives to disposing of the LMGU System set forth in Exhibit A.

Section 2. That the City Council hereby finds that none of the alternatives to the disposal of the LMGU System by sale are viable for the reasons set forth in Exhibit A.


Section 3. There being no viable alternatives, the City Council hereby finds that the sale of the LMGU System is in the best interest of LMGU, the City, the ratepayers, and the residents.

PASSED AND APPROVED, this 5th day of June, 2023.



Mayor

ATTEST:



City Clerk

EXHIBIT A

CONSIDERATION OF ALTERNATIVES TO THE SALE OF THE MUNICIPAL GAS UTILITY SYSTEM

The City of Lorimor, Iowa, has considered the following alternatives to disposing of the Lorimor Municipal Gas Utility (“LMGU”) System by sale:

1. Operating and maintaining the LMGU System itself
 - a. The City has had difficulty maintaining the gas system independently.
 - b. The City has had difficulty employing qualified personnel to operate the LMGU System on an independent basis.
 - c. Under the City’s management, LMGU was cited for safety violations and staffing problems prevented the City from addressing the violations.

2. Retaining a third party to operate and maintain the LMGU System
 - a. In 2018, the City retained Iowa Association of Municipal Utilities (“IAMU”) on a temporary basis to operate LMGU, and IAMU, having provided operating service for a period of time, will no longer provide this service.
 - b. The City has had difficulty locating and contracting with any other entity to maintain the gas system.
 - c. In 2022, the City contracted with Interstate Power and Light (IPL) to assist in operating the LMGU System on a temporary basis. IPL has expressed concern about continuing the contract on a permanent basis.
 - d. There are no neighboring municipal utilities willing to assist in running the LMGU System in a cooperative manner.

3. Other alternatives
 - a. The City is not aware of any other feasible alternatives besides selling the LMGU System.