

ELECTROSTEEL USA, LLC
AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024 AND 2023



Holland, Bromley,
Barnhill & Brett LLP
Certified Public Accountants and Business Advisors

ELECTROSTEEL USA, LLC AND SUBSIDIARY

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MARCH 31, 2024 AND 2023

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Independent Auditor's Report

April 24, 2024

To the Board of Directors and Member of
Electrosteel USA, LLC and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of Electrosteel USA, LLC (a Delaware corporation) and subsidiary (the Company), which comprise the consolidated balance sheets as of March 31, 2024 and 2023, and the related consolidated statements of income, member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Electrosteel USA, LLC and subsidiary as of March 31, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the consolidated financial statements, in 2024, the Company adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-13, "*Financial Instruments—Credit Losses.*" Our opinion is not modified with respect to this matter.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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



Holland, Bromley, Barnhill & Brett, LLP
Savannah, Georgia

ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2024 AND 2023

| | <u>2024</u> | <u>2023</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and equivalents | \$ 425,039 | \$ 586,024 |
| Accounts receivable, net | 1,282,694 | 5,095,522 |
| Other receivables | - | 38,716 |
| Income taxes receivable | 287,400 | 264,500 |
| Inventory, net | 18,690,337 | 14,520,065 |
| Prepaid expenses | <u>128,692</u> | <u>79,070</u> |
| Total current assets | 20,814,162 | 20,583,897 |
| Operating lease right-of-use assets | 3,260,081 | 641,698 |
| Deferred tax asset | 77,718 | 4,175 |
| Security deposit | 76,899 | 11,139 |
| Property and equipment, net | <u>571,537</u> | <u>413,514</u> |
| Total assets | <u>\$ 24,800,397</u> | <u>\$ 21,654,423</u> |
| LIABILITIES AND MEMBER'S EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 12,629,949 | \$ 11,779,451 |
| Income taxes payable | - | 44,300 |
| Accrued expenses | 190,054 | 430,929 |
| Finance lease liabilities | 74,539 | 49,151 |
| Operating lease liabilities | 502,258 | 204,379 |
| Notes payable | <u>2,264,046</u> | <u>2,263,196</u> |
| Total current liabilities | <u>15,660,846</u> | <u>14,771,406</u> |
| Long-term liabilities | | |
| Finance lease liabilities | 225,126 | 128,247 |
| Operating lease liabilities | 2,828,684 | 432,241 |
| Notes payable | <u>21,456</u> | <u>37,085</u> |
| Total long-term liabilities | <u>3,075,266</u> | <u>597,573</u> |
| Total liabilities | <u>18,736,112</u> | <u>15,368,979</u> |
| Member's equity | | |
| Contributed capital | 3,000,000 | 3,000,000 |
| Retained earnings | <u>3,064,285</u> | <u>3,285,444</u> |
| Total member's equity | <u>6,064,285</u> | <u>6,285,444</u> |
| Total liabilities and member's equity | <u>\$ 24,800,397</u> | <u>\$ 21,654,423</u> |

(The accompanying notes are an integral part of the consolidated financial statements.)

ELECTROSTEEL USA, LLC AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED MARCH 31, 2024 AND 2023

| | <u>2024</u> | <u>2023</u> |
|---------------------------------------|---------------------|---------------------|
| Net sales | \$ 16,920,059 | \$ 36,645,366 |
| Cost of goods sold | <u>(13,063,605)</u> | <u>(30,011,659)</u> |
| Gross profit | <u>3,856,454</u> | <u>6,633,707</u> |
| Operating expenses | | |
| Payroll, related taxes, and benefits | 2,176,769 | 1,466,487 |
| Leases | 436,691 | 189,388 |
| Travel | 195,630 | 88,553 |
| Interest | 193,259 | 115,564 |
| Professional fees and contract labor | 153,629 | 78,127 |
| Product testing and development | 135,134 | 16,150 |
| Depreciation | 124,575 | 65,650 |
| Insurance | 101,870 | 91,544 |
| Advertising | 86,816 | 53,110 |
| Repairs and maintenance | 80,455 | 106,304 |
| Supplies | 78,845 | 58,661 |
| Taxes | 75,596 | 43,556 |
| Utilities | 74,182 | 44,109 |
| Commissions | 72,465 | 115,823 |
| Financing fees | 54,104 | 78,841 |
| Automobile | 39,550 | 47,777 |
| Technology | 35,690 | 33,770 |
| Meals | 22,160 | 16,586 |
| Dues and subscriptions | 19,006 | 20,882 |
| Entertainment | 10,628 | 50,907 |
| Shipping | 9,398 | 15,069 |
| Bank fees | 6,119 | 7,118 |
| Licenses and permits | 884 | 1,150 |
| Credit losses | <u>(50,000)</u> | <u>-</u> |
| Total operating expenses | <u>4,133,455</u> | <u>2,805,126</u> |
| Other income | <u>18,402</u> | <u>20,043</u> |
| Net (loss) income before income taxes | <u>(258,599)</u> | <u>3,848,624</u> |
| Income tax benefit (expense) | <u>37,440</u> | <u>(862,791)</u> |
| Net (loss) income | <u>\$ (221,159)</u> | <u>\$ 2,985,833</u> |

(The accompanying notes are an integral part of the consolidated financial statements.)

ELECTROSTEEL USA, LLC AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
FOR THE YEARS ENDED MARCH 31, 2024 AND 2023

| | Contributed Capital | Retained Earnings | Member's Equity |
|---------------------------|------------------------|----------------------|---------------------|
| Balance at March 31, 2022 | \$ 3,000,000 | \$ 299,611 | \$ 3,299,611 |
| Net income | <u>-</u> | <u>2,985,833</u> | <u>2,985,833</u> |
| Balance at March 31, 2023 | 3,000,000 | 3,285,444 | 6,285,444 |
| Net loss | <u>-</u> | <u>(221,159)</u> | <u>(221,159)</u> |
| Balance at March 31, 2024 | <u>\$ 3,000,000</u> | <u>\$ 3,064,285</u> | <u>\$ 6,064,285</u> |

(The accompanying notes are an integral part of the consolidated financial statements.)

ELECTROSTEEL USA, LLC AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2024 AND 2023

| | <u>2024</u> | <u>2023</u> |
|---|-------------------|-------------------|
| Cash flows from operating activities | | |
| Net (loss) income | \$ (221,159) | \$ 2,985,833 |
| Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities: | | |
| Depreciation | 124,575 | 65,650 |
| Gain on sale of equipment | - | (8,500) |
| Changes in: | | |
| Accounts receivable, net | 3,812,828 | (3,216,098) |
| Other receivables | 38,716 | 153,233 |
| Income taxes receivable and payable | (67,200) | (231,700) |
| Inventory, net | (4,170,272) | (8,202,440) |
| Prepaid expenses | (49,622) | (6,590) |
| Security deposit | (65,760) | (11,139) |
| Accounts payable | 850,498 | 8,128,612 |
| Accrued expenses | (240,875) | 208,170 |
| Operating leases liabilities and right-of-use assets | 75,939 | (5,078) |
| Deferred tax asset | (73,543) | (20,175) |
| Deferred revenue | - | (25,125) |
| Net cash provided by (used for) operating activities | <u>14,125</u> | <u>(185,347)</u> |
| Cash flows from investing activities | | |
| Proceeds from sale of equipment | - | 8,500 |
| Purchases of equipment | <u>(282,598)</u> | <u>(199,880)</u> |
| Net cash used for investing activities | <u>(282,598)</u> | <u>(191,380)</u> |
| Cash flows from financing activities | | |
| Borrowings from finance lease liabilities | 192,384 | 148,471 |
| Borrowings from notes payable | - | 29,520 |
| Payments on finance lease liabilities | (70,117) | (19,365) |
| Payments on notes payable | <u>(14,779)</u> | <u>(8,253)</u> |
| Net cash provided by financing activities | <u>107,488</u> | <u>150,373</u> |
| Net decrease in cash | (160,985) | (226,354) |
| Cash - beginning of year | <u>586,024</u> | <u>812,378</u> |
| Cash - end of year | <u>\$ 425,039</u> | <u>\$ 586,024</u> |
| Cash paid during the year for | | |
| Interest | \$ 182,225 | \$ 101,902 |
| Income taxes | \$ 103,226 | \$ 1,115,120 |

(The accompanying notes are an integral part of the consolidated financial statements.)

ELECTROSTEEL USA, LLC AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024 AND 2023

NOTE 1 - DESCRIPTION OF ORGANIZATION

Electrosteel USA, LLC (the Company) is a wholly owned subsidiary of Electrosteel Castings, LTD (the Parent) and is responsible for the exclusive distribution of their castings throughout North America. These castings include ductile iron pipe, fabricated ductile iron pipe, and ductile iron fittings used extensively in the waterworks industry. The Company unloads inventory and fabricates the castings in the United States of America while maintaining a sales team responsible for marketing to utilities and contractors. The Company was organized on September 30, 2008 as a limited liability company in the state of Delaware to engage principally in the business of providing ductile iron pipes and fittings. The liability of the member of the Company is limited to the member's total capital contributions.

NOTE 2 - SUMMARY OF MATERIAL ACCOUNTING POLICIES

Basis of accounting

The Company's consolidated financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Expenses are recognized when incurred, rather than when paid. Revenues are recognized when earned, rather than when received.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Electrosteel USA, LLC and its wholly owned subsidiary, Waterfab LLC, collectively referred to as the Company. Upon consolidation, all material intercompany balances and transactions are eliminated. Effective March 31, 2014, operations of Waterfab, LLC were discontinued.

Cash and equivalents

For financial statement purposes, the Company considers cash and equivalents to include all investments with an original maturity of ninety days or less.

Accounts receivable and allowance for credit losses

The Company maintains an insurance policy which insures the collectability of certain customer balances up to a preapproved credit limit. Based on management's analysis of receivables, historical experience, forecasted information, and the insurance policy, an allowance for credit losses of \$50,000 and \$100,000 is included in accounts receivable on the accompanying consolidated balance sheets as of March 31, 2024 and 2023, respectively.

Shipping income and related cost

Revenue derived from shipping costs charged to customers is recorded as a reduction of cost of goods sold, and shipping costs incurred by the Company are recorded as increases of cost of goods sold in the accompanying consolidated statements of income.

NOTE 2 - SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Inventory

Inventory is stated at the lower of cost or net realizable value, with cost determined based on average cost of all similar items available during the period. As of March 31, 2024 and 2023, inventory consists of finished goods, including pipes, fittings, glands, and related products. Based on management's review of the net realizable value of certain inventory items, an impairment reserve for inventory of \$0 and \$3,200 is included in inventory on the accompanying consolidated balance sheets as of March 31, 2024 and 2023.

During the years ended March 31, 2024 and 2023, certain Company sales involving large quantities of custom finished goods were fulfilled and shipped directly by the Parent to the customer. Since no such inventory items were on hand at March 31, 2024 and 2023, they are not included in management's analysis of the lower of cost or net realizable value of inventory on hand.

Property and equipment

Property and equipment acquisitions are recorded at cost. Depreciation is calculated over the estimated useful lives of the related assets using the straight-line method. Estimated useful lives by asset class are as follows: machinery and equipment, three to ten years; furniture and fixtures, five to seven years; computer equipment, three years; and land and leasehold improvements, five to ten years. Depreciation expense totaled \$124,575 and \$65,650 for the years ended March 31, 2024 and 2023, respectively.

Revenue recognition

The Company generates revenues primarily from sales of pipes and fittings. Revenues are recognized when control of these products is transferred to customers, in an amount that reflects the consideration the Company expects to receive for providing the products, net of discounts. This typically takes place at the time the product is shipped and there are no related contract assets or liabilities recorded. Certain sales of custom, fabricated pipe require customer deposits, resulting in the recognition of contract liabilities. Contract liabilities are included in deferred revenue on the accompanying consolidated statements of income. No such deferred revenue was recorded as of March 31, 2024 and 2023. Prices of pipe and fittings are fixed and do not include any variable consideration. Purchase order modifications and estimations are minimal, and each purchase order is tracked separately. The Company does not have any significant financing components as payment is received at or shortly after the point of sale.

Product warranties

The Company provides a one-year warranty on all products sold, which covers defects in materials. The Company's warranty liability is based upon historical warranty cost experience. For each of the years ending March 31, 2024 and 2023, management determined an accrual related to estimated warranties was not deemed necessary.

Advertising

Advertising costs are expensed as incurred and presented separately on the accompanying consolidated statements of income.

NOTE 2 - SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Use of estimates

Estimates are monetary amounts in financial statements that are subject to measurement uncertainty. Estimates are developed to achieve the objectives set out by accounting policies and involve selection of a measurement technique (estimation or valuation) and selection of inputs to be used when applying the chosen measurement technique. The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New accounting pronouncement

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-13 “*Financial Instruments—Credit Losses*” (Topic 326), which requires entities to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The new guidance broadens the information to be considered when measuring credit losses to include forward-looking information, increases usefulness of the financial statements by requiring timely inclusion of forecasted information in forming expectations of credit losses, and aligns the recognition of credit losses with the reporting period in which the changes occur. The Company implemented this ASU as of and for the year ended March 31, 2024, on a modified-retrospective basis. The adoption of ASU 2016-13 did not have a significant impact on the consolidated financial statements. No changes were required to previously reported consolidated financial statements as a result of the adoption.

Income taxes

The Company is organized as a limited liability company. For federal and state income tax purposes, the Company elected to be treated as a C-corporation and is subject to income taxes under Internal Revenue Service guidelines.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. Once this threshold is met, the amount recognized in the financial statements is the largest amount of tax benefit likely realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Company does not expect the total amount of unrecognized tax benefit to significantly change in the next twelve months. The Company is no longer subject to examination by taxing authorities for the years before 2020.

If incurred, the Company recognizes interest and penalties related to income tax withholdings and unrecognized tax benefits in interest expense. The Company had \$0 accrued for interest and penalties as of March 31, 2024 and 2023, and no such expenses were recorded for the years then ended.

Reclassification

Certain prior year amounts have been reclassified to conform with current year presentation.

NOTE 2 - SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Concentration of credit risk

During each of the years ended March 31, 2024 and 2023, approximately 23% of total sales were to two customers. At March 31, 2024 and 2023, approximately 66% and 37%, respectively, of total accounts receivable were from three customers.

During the years ended March 31, 2024 and 2023, the Company purchased substantially all inventory from the Parent.

The Company maintains cash at a commercial bank in deposit accounts. As of March 31, 2024 and 2023, the Federal Deposit Insurance Corporation (FDIC) insured deposits up to \$250,000 per financial institution. At March 31, 2024 and 2023, the Company had uninsured cash of approximately \$377,000 and \$495,000, respectively.

Subsequent events

The Company has evaluated subsequent events through April 24, 2024, the date the consolidated financial statements were available to be issued.

NOTE 3 - RETIREMENT PLAN

The Company sponsors a SIMPLE IRA retirement plan. Employees are eligible to participate immediately with no minimum service requirement. The SIMPLE IRA plan provides for an employer match of 100% of the first 3% of salary deferred by an employee. For the years ended March 31, 2024 and 2023, the Company's contributions into the retirement plan totaled \$35,787 and \$16,369, respectively.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2024 and 2023 consists of the following:

| | <u>2024</u> | <u>2023</u> |
|---------------------------------|-------------------|-------------------|
| Computer equipment | \$ 20,927 | \$ 18,271 |
| Land and leasehold improvements | 220,655 | 182,912 |
| Furniture and fixtures | 14,005 | 2,775 |
| Machinery and equipment | <u>1,015,671</u> | <u>798,562</u> |
| | 1,271,258 | 1,002,520 |
| Accumulated depreciation | <u>(699,721)</u> | <u>(589,006)</u> |
| Total property and equipment | <u>\$ 571,537</u> | <u>\$ 413,514</u> |

NOTE 5 - RELATED PARTY TRANSACTIONS

For the years ended March 31, 2024 and 2023, the Company purchased inventory from the Parent totaling \$16,321,539 and \$25,458,186, respectively.

During the years ended March 31, 2024 and 2023, respectively, the Company paid \$61,366 and \$67,591 to the Parent in consideration of the line of credit maintained by the Parent and used as

NOTE 5 - RELATED PARTY TRANSACTIONS (continued)

collateral for the Company's short-term loan facility with ICICI Bank UK, as described in Note 6. During the years ended March 31, 2024 and 2023, an agreement renewal fee of \$9,375 and \$11,250, respectively, was paid by the Company directly to ICICI Bank U.K. Of the amounts paid in the year ended March 31, 2024, \$16,637 is included in prepaid expenses.

The Company has an amount due to the Parent of \$12,375,571 and \$9,798,263 at March 31, 2024 and 2023, respectively, which is included in accounts payable on the consolidated balance sheets.

NOTE 6 - INCOME TAXES

The Company elected a C-Corporation status for income tax purposes. The provision for income taxes includes current federal and state income taxes and deferred taxes arising from temporary differences between income for financial reporting and income tax purposes.

Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be settled or realized. At March 31, 2024 and 2023, the Company recorded a long term deferred tax asset of \$77,718 and \$4,175, respectively, related to differences between financial accounting and tax basis accounting for depreciation, net operating losses (NOLs) carried forward, and certain assets and liabilities.

For federal income tax purposes, no NOL was carried forward from prior years. For the year ended March 31, 2024, \$739,000 of federal NOL was generated. For state income tax purposes, NOLs for Georgia, Alabama, and California are also recorded.

At March 31, 2024, the Company has federal income taxes receivable of \$282,300 and state income taxes receivable of \$5,100 recorded on the accompanying consolidated balance sheets. At March 31, 2023, the Company has federal income taxes receivable of \$264,500 and state income taxes payable of \$44,300 recorded on the accompanying consolidated balance sheets.

The Company's income tax expense shown on the consolidated statements of income for the year ended March 31, 2024, consists of \$36,103 in current tax expense and \$73,543 in deferred tax benefit. The Company's income tax expense shown on the consolidated statements of income for the year ended March 31, 2023, consists of \$882,966 in current tax expense and \$20,175 in deferred tax benefit.

NOTE 7 - NOTES PAYABLE

ICICI Bank

In August 2016, the Company entered into a short-term loan facility agreement with ICICI Bank UK for \$2,250,000. Interest on the loan is charged at a rate of LIBOR plus 2% and is payable by the Company to ICICI Bank UK quarterly. Interest expense of \$172,376 and \$112,193 related to this note is included in the accompanying consolidated statements of income for the years ended March 31, 2024 and 2023, respectively. The loan originally matured on August 23, 2017, was renewed annually, and currently matures on June 18, 2024. The loan is included in current liabilities on the accompanying consolidated balance sheets. The loan is collateralized by a \$2,500,000 line of credit maintained by the Parent. Fees paid and payable to the Parent for maintaining this line of credit as collateral, as well as other loan fees, totaled \$54,104 and \$78,841 for the years ended March 31, 2024 and 2023, respectively. These fees are included as financing fees in the accompanying consolidated statements of income.

NOTE 7 - NOTES PAYABLE (continued)

Coastal States Bank

Long-term debt with Coastal States Bank consists of the following:

| | <u>March 31,</u> | |
|---|------------------|------------------|
| | <u>2024</u> | <u>2023</u> |
| Note payable dated February 1, 2023 originally totaling \$29,520, payable in 60 monthly principal and interest payments of \$600 bearing interest of 8% through February 1, 2028, when outstanding principal and interest are due. | \$ 23,282 | \$ 29,045 |
| Note payable dated September 22, 2020 originally totaling \$40,000, payable in 60 monthly principal and interest payments of \$755 bearing interest at 4.95% through September 22, 2025, when outstanding principal and interest are due. | <u>12,220</u> | <u>21,236</u> |
| | 35,502 | 50,281 |
| Less amounts due within one year | <u>(14,046)</u> | <u>(13,196)</u> |
| Balance due after one year | <u>\$ 21,456</u> | <u>\$ 37,085</u> |

Aggregate maturities of the loans with Coastal States Bank are as follows:

| <u>Year ending March 31,</u> | |
|------------------------------|------------------|
| 2025 | \$ 14,046 |
| 2026 | 10,359 |
| 2027 | 6,400 |
| 2028 | 4,697 |
| Thereafter | <u>-</u> |
| | <u>\$ 35,502</u> |

Interest expense of \$2,921 and \$1,340 related to loans with Coastal States Bank is included in the accompanying consolidated statements of income for the years ended March 31, 2024 and 2023, respectively.

NOTE 8 - LEASE AGREEMENTS

The Company leases certain real estate under four long-term operating lease agreements and certain equipment under five finance lease agreements. The Company assesses whether an arrangement qualifies as a lease (i.e. conveys the right to control the use of an identified asset for a period of time in exchange for consideration) at inception and only reassesses its determination if the terms and conditions of the arrangement are changed. Leases with an initial term of twelve months or less are not recorded on the balance sheet. Lease expense is recognized for these leases on a straight-line basis over the lease term. Expenses related to these short-term leasing arrangements totaled \$61,317 and \$54,156 during the years ended March 31, 2024 and 2023, respectively.

NOTE 8 - LEASE AGREEMENTS (continued)

The Company made an accounting policy election not to separate lease and non-lease components of contracts for its real estate and equipment. As such, lease payments may represent payments on both lease and non-lease components. At lease commencement, lease liabilities are recognized based on the present value of the remaining lease payments and discounted using the Company's incremental borrowing rate when an implicit rate is not provided in the lease agreement. Right-of-use assets initially equal the lease liability, adjusted for any lease payments made prior to lease commencement and for any lease incentives. The Company's lessee arrangements predominantly consist of noncancelable operating leases for depot space and noncancelable finance leases for equipment, expiring at various times through 2029. Lease terms may contain renewal and extension options and early termination features. Generally, these options do not impact the lease term because the Company is not reasonably certain that they will exercise the options. There are no variable payment terms, and no material residual value or material restrictive covenants included in any of the operating and finance leases to which the Company is a party.

The Company does not sublease any of the leased space or equipment. Certain finance leases include options to purchase the leased equipment. The depreciable life of this equipment is limited by the expected lease term unless there is a transfer of title or purchase option reasonably certain of exercise.

The following summarizes the line items on the consolidated balance sheets which include amounts for operating and finance leases as of March 31:

| | <u>2024</u> | <u>2023</u> |
|--|--------------|-------------|
| Operating Leases | | |
| Operating lease right-of-use assets | \$ 3,260,081 | \$ 641,698 |
| Current portion of operating lease liabilities | \$ 502,258 | \$ 204,379 |
| Long-term operating lease liabilities | 2,828,684 | 432,241 |
| Total operating lease liabilities | \$ 3,330,942 | \$ 636,620 |
| Finance Leases | | |
| Property and equipment | \$ 374,826 | \$ 253,379 |
| Accumulated depreciation | (78,527) | (42,921) |
| Property and equipment, net | \$ 296,299 | \$ 210,458 |
| Current portion of finance lease liabilities | \$ 74,539 | \$ 49,151 |
| Long-term finance lease liabilities | 225,126 | 128,247 |
| Total finance lease liabilities | \$ 299,665 | \$ 177,398 |

NOTE 8 - LEASE AGREEMENTS (continued)

The following summarizes the weighted average remaining lease term and discount rate as of March 31:

| | <u>2024</u> | <u>2023</u> |
|--|-------------|-------------|
| Weighted Average Remaining Lease Term | | |
| Operating leases | 4.8 years | 2.8 years |
| Finance leases | 4.0 years | 4.0 years |
| Weighted Average Discount Rate | | |
| Operating leases | 7.40% | 6.50% |
| Finance leases | 7.26% | 7.20% |

The maturities of lease liabilities as of March 31, 2024 are as follows:

| <u>Year ending March 31,</u> | <u>Operating</u> | <u>Finance</u> |
|------------------------------------|---------------------|-------------------|
| 2025 | \$ 735,809 | \$ 94,148 |
| 2026 | 864,512 | 85,257 |
| 2027 | 771,662 | 75,789 |
| 2028 | 802,528 | 75,789 |
| 2029 | 834,630 | 16,812 |
| Thereafter | - | - |
| Total lease payments | 4,009,141 | 347,795 |
| Less: Interest | (678,199) | (48,130) |
| Present value of lease liabilities | <u>\$ 3,330,942</u> | <u>\$ 299,665</u> |

The following summarizes the line items on the consolidated income statements which include the components of lease expense for the year ended March 31:

| | <u>2024</u> | <u>2023</u> |
|---|-------------------|-------------------|
| Operating lease expense included in lease expense | <u>\$ 375,374</u> | <u>\$ 135,232</u> |
| Finance lease costs: | | |
| Amortization of lease assets included in depreciation expense | \$ 63,906 | \$ 19,776 |
| Interest on lease liabilities included in interest expense | <u>17,962</u> | <u>2,031</u> |
| Total finance lease costs | <u>\$ 81,868</u> | <u>\$ 21,807</u> |

NOTE 8 - LEASE AGREEMENTS (continued)

The following summarizes cash flow information related to leases for the year ended March 31:

| | <u>2024</u> | <u>2023</u> |
|---|-------------|-------------|
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows from operating leases | \$ 299,435 | \$ 130,154 |
| Operating cash flows from finance leases | 17,962 | 2,031 |
| Financing cash flows from finance leases | 70,117 | 19,365 |
| Lease assets obtained in exchange for lease obligations: | | |
| Operating leases | 3,127,433 | 341,798 |
| Finance leases | 192,384 | 159,721 |

NOTE 9 - OTHER RECEIVABLES

The Company included \$38,716 in other receivables on the accompanying consolidated balance sheet as of March 31, 2023 related to insurance proceeds expected to be received due a container of pipe inventory that was destroyed in a trucking accident in February 2023. The Company received the proceeds from these receivables in September 2023.