

SOUTH DAKOTA INTRASTATE PIPELINE COMPANY, INC.

Financial Statements

December 31, 2016

(With Independent Accountant's Report Thereon)

SOUTH DAKOTA INTRASTATE PIPELINE COMPANY, INC.

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David N. McCullough, CPA PC

Independent Accountant's Compilation Report

To the Shareholders
South Dakota Intrastate Pipeline, Inc.:

Management is responsible for the accompanying financial statements of South Dakota Intrastate Pipeline, Inc., which comprise the balance sheet as of December 31, 2016, and the related statement of operations for the year then ended in accordance with U.S. generally accepted accounting principles. I have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services committee of the AICPA. I did not audit or review the financial statements nor was I required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, I do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

The statement of cash flows and statement of retained earnings(deficit) have not been presented. Accounting principles generally accepted in the United States of America require that such a statement be presented when financial statements purport to present financial position and results of operations.

David N. McCullough CPA PC

Lewisville, TX

November 15, 2017

SOUTH DAKOTA INTRASTATE PIPELINE COMPANY, INC.
BALANCE SHEET
DECEMBER 31, 2016

ASSETS

Current Assets	
Cash	\$0
Accounts receivable (net of reserve of \$0)	482,756
Prepaid insurance	69,845
Due from Shareholder	<u>5,620</u>
Total Current Assets	558,221
Pipeline, equipment, and other fixed assets (at cost less accumulated depreciation of \$12,601,686)	<u>1,724,166</u>
Total Assets	<u><u>\$2,282,387</u></u>

LIABILITIES & EQUITY

Current Liabilities	
Checks In Excess of Bank Balance	\$44,015
Accounts Payable	23,340
Line of Credit	125,000
Current Portion of Long Term Debt	8,193
Accrued interest	3,851
Taxes payable	<u>54,138</u>
Total Current Liabilities	258,537
Long Term Debt, Net of Current Portion	<u>18,714</u>
Total Liabilities	277,251
Capital Stock - \$1 par value; 100,000 shares authorized; 1,000 shares issued and outstanding	\$1,000
Additional Paid In Capital	3,457,602
Retained (Deficit)	<u>\$ (1,453,466)</u>
Total Equity	<u>2,005,136</u>
	<u><u>\$2,282,387</u></u>

See accountant's compilation report and notes to financial statements

SOUTH DAKOTA INTRASTATE PIPELINE COMPANY, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

Transportation Revenue	\$2,193,844
Expenses:	
Payroll Expense	665,610
Integrity Management and Public Awareness	171,321
Depreciation Expense	857,546
Board of Directors Fees	504,000
Operations	105,538
Insurance	111,678
Taxes	66,959
Rent	52,500
Payroll Taxes	48,882
Utilities	35,470
Employee Benefits	32,761
Vehicle Expense	53,895
Legal and Professional	13,293
Office and administrative	47,228
Travel	14,010
Interest Expense	5,179
Meals and Entertainment	6,629
Charitable contributions	7,820
Fines and Penalties	7,388
Total Expenses	<u>2,807,707</u>
Net Income (Loss)	<u>\$ (613,863)</u>

See accountant's compilation report and notes to financial statements

South Dakota Intrastate Pipeline, Inc.
Notes to Financial Statements
December 31, 2016

Note 1 – Organization

South Dakota Intrastate Pipeline, Inc. (the “Company”) contracted with Montana-Dakota Utilities Company (MDUC) to provide the transportation of natural gas to locations in South Dakota. The original contract covers the term March 8, 1993 through August 31, 2018. The contract contains renewal options with five year terms beginning September 1, 2018. The Company is privately held and employs seven people.

Note 2 – Summary of Significant Accounting Policies

- A. Basis of Financial Statements - The financial statements have been prepared using the accrual method of accounting. The Company has been generating financial statements by tracking receipts and disbursements on a Company maintained general ledger system and transmitting the summary of activities to an outside CPA who maintained the fixed asset records and made other adjustments/accruals to conform to generally accepted accounting principles. In the fourth quarter of 2017, the Company began conversion to a cloud-based accounting system to enable more accurate, GAAP compliant financial statements.
- B. Cash and Cash Equivalents – The Company considers cash on hand and cash in bank to be cash and cash equivalents. The Company does not have interest bearing or certificates of deposit. The bank account was fully insured by the FDIC.
- C. Accounts receivable – The company records sales and receivables at the end of each month using daily volume reports generated by Northern Borders Pipeline. The report is generally made available to the Company and MDUC within five working days. The Company uses this report to prepare and submit a formal invoice to MDUC by the fifteenth day following the closed month. Terms of the invoice are ten days. The Company does not maintain a reserve for uncollectible accounts as volumes are measured by an independent company and the rates are contractually set.
- D. Property and Equipment – The pipeline is carried at cost. Depreciation is computed using the straight-line method over the original 25 year estimated life of the pipeline. Vehicles, maintenance equipment, and other fixed assets are recorded at cost and depreciated over estimated lives of five to seven years.
- E. Accounts Payable and Accrued Expenses – The company has generally booked expenses in the period when the invoice was received or charged. Accordingly, some expenses may be recorded in the month following the actual expense. The Company’s policy has been to adjust accounts payable for December only. The Company pays its employees twice monthly; payroll tax payments are made in accordance with Federal and State regulations.
- F. Income Taxes – The Company has elected to be taxed as an S Corporation under Section 1372 of the Internal Revenue Code. The Company incurs no federal income tax,

South Dakota Intrastate Pipeline, Inc.

Notes to Financial Statements

December 31, 2016

as the stockholders are taxed on their proportional share of the Company's income. The Company is subject to the South Dakota Gross Receipts tax.

- G. Interest Expense – The Company incurred interest expense on an operating line of credit and an equipment loan during the year.
- H. Long Term Debt – The Company's long term debt is an installment note secured by a vehicle. Payments of \$749 are due monthly until maturity in January 2020.
- I. Vehicle and Equipment Leases – The Company leases three pickups for pipeline maintenance duties. The Company carries this expense as an operating lease.
- J. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- K. Budgets – The Company does not follow a formal budgeting process. Instead, the company compares monthly cash-basis revenues and expenditures with prior year numbers to monitor the Company's progress.

3. Contract with Montana-Dakota Utilities Company

The contract with Montana-Dakota Utilities Company contains a minimum transportation quantity commitment for each contract year. For the first twenty years of the original contract period (see note 1), MDU was required to pay for the greater of 1,100,000 DK or actual DK transported, whichever was larger. Since September 1, 2012, the Company has been paid only for the actual DK transported. The current transportation rate is \$2.398 per DK.