

**MID SOUTH PETROLEUM CORPORATION**

**FINANCIAL STATEMENTS**

**September 30, 2019**

# MID SOUTH PETROLEUM CORPORATION

September 30, 2019

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## TABLE OF CONTENTS

	<u>PAGE</u>
Independent Accountant's Review Report	2
<b><u>Financial Statements</u></b>	
Balance Sheet	3 - 4
Statement of Income and Retained Earnings	5
Statement of Cash Flows	6 - 7
Notes to the Financial Statements	8 -14

# MCCABE AND ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

321 A First Avenue N.E.

Fayette, Alabama 35555

Richard N. McCabe, CPA

Telephone 205-932-8096

Fax 205-932-8280

Member

American Institute of Certified Public  
Accountants / Alabama Society of  
Certified Public Accountants

## Independent Accountant's Review Report

Board of Directors

Mid South Petroleum Corporation

P.O. Box 1163

Vernon, Alabama 35592

We have reviewed the accompanying financial statements of **Mid South Petroleum Corporation** (a corporation) which comprise the balance sheet as of September 30, 2019 and the related statements of income and retained earnings and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

### **Management's Responsibility for the Financial Statements**

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

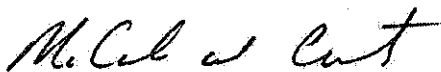
### **Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

### **Accountant's Conclusion**

Based on our review, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that deferred income taxes be recognized for the tax effects of differences between the financial and tax basis of assets and liabilities and for operating losses and tax credits that are available to offset future taxable income. The Company has not recorded deferred taxes in the accompanying financial statements. The effect of this departure from accounting principles generally accepted in the United States of America has not been determined.



Fayette, Alabama

August 17, 2020

## FINANCIAL STATEMENTS

MID SOUTH PETROLEUM CORPORATION

BALANCE SHEET

September 30, 2019

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ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 713,451
Accounts receivable	4,110,303
Prepaid Taxes	4,902
Inventory	<u>1,909,495</u>

Total current assets \$ 6,738,151

PROPERTY AND EQUIPMENT

Land and land improvements	166,000
Buildings and parking lot	1,661,526
Machinery and equipment	15,798,954
Transportation equipment	3,148,515
Other	342,463
Less: Accumulated depreciation	<u>( 12,027,894 )</u>

Property and equipment – net 9,089,564

OTHER ASSETS

Investments – Coop	<u>4,000</u>
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Total other assets 4,000

Total assets \$ 15,831,715

See accompanying notes and Independent Accountant's Review Report.

MID SOUTH PETROLEUM CORPORATION

BALANCE SHEET

September 30, 2019

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LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$ 753,473
Payroll deductions payable	7,296
Sales taxes payable	3,094
Retirement payable	2,526
Notes payable (Credit lines)	1,306,487
Current maturities of long-term debt	<u>1,279,551</u>

Total current liabilities \$ 3,352,427

LONG-TERM LIABILITIES

Deferred Income	1,147,266
Notes payable	7,912,585
Current maturities of long-term debt	<u>( 1,279,551 )</u>

Total long-term liabilities 7,780,300

Total liabilities 11,132,727

STOCKHOLDERS' EQUITY

Common stock (\$1 par value, 1,000,000 shares authorized, 1,000 shares issued and outstanding)	1,000
Retained earnings	4,072,666
Accumulated other comprehensive Income (loss)	<u>625,321</u>

Total stockholders' equity 4,698,988

Total liabilities and stockholders'  
equity \$ 15,831,715

See accompanying notes and Independent Accountant's Review Report.

MID SOUTH PETROLEUM CORPORATION

STATEMENT OF INCOME, COMPREHENSIVE INCOME, AND RETAINED EARNINGS

For the Year Ended September 30, 2019

SALES		\$ 155,309,587
COST OF SALES		<u>142,240,303</u>
Gross profit		13,069,284
OPERATING EXPENSES		
Salaries	2,083,351	
Taxes and licenses	702,878	
Insurance	575,459	
Legal and accounting	188,423	
Repairs	1,590,195	
Depreciation	1,542,005	
Truck expense	678,586	
Usage expense	4,501,975	
Commission	1,747,816	
Supplies	192,821	
Miscellaneous	<u>544,480</u>	
Total operating expenses		<u>14,347,989</u>
Operating income (loss)		(1,278,705)
OTHER INCOME (EXPENSE)		
Interest	9,946	
Interest expense	( 545,882 )	
Rental Income	2,367,546	
Gain (loss) on sale of equipment	<u>77,052</u>	
Total other income (expense)		<u>1,908,662</u>
Income before income taxes		629,957
Income tax expense		( 4,638 )
Net income		<u>\$ 625,319</u>
Retained earnings – October 1, 2018		4,072,669
Net Income		<u>625,319</u>
Retained earnings – September 30, 2019		<u>\$ 4,697,988</u>

See accompanying notes and Independent Accountant's Review Report.

MID SOUTH PETROLEUM CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2019

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CASH FLOWS FROM OPERATING ACTIVITIES

Net Income \$ 625,319

Adjustments to reconcile net income  
to net cash provided by operating  
activities:-

Depreciation	\$ 1,542,005
Decrease in accounts receivable	3,093,013
Decrease in inventory	486,805
Increase in prepaid taxes	(4,902)
Decrease in accounts payable	(669,787)
Increase in payroll deductions payable	1,714
Increase in sales tax payable	1,378
Decrease in income tax payable	(3,959)

Total Adjustments 4,446,267

Net cash provided (used) by operations 5,071,586

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment ( 1,515,899)

Sale of property and equipment 77,052

Net cash used in investing activities ( 1,438,847 )

See accompanying notes and Independent Accountant's Review Report.



MID SOUTH PETROLEUM CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2019

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CASH FLOWS FROM FINANCING ACTIVITIES

Decrease in deferred income (83,465 )

Decrease in current maturities of

Long-term debt (369,070)

Decrease in credit line (1,080,869)

Payment of long-term debt (2,115,460)

Net cash provided (used) by financing activities (3,648,864)

Net decrease in cash and cash equivalents (16,125)

Cash and cash equivalents, September 30, 2018 729,576

Cash and cash equivalents, September 30, 2019 \$ 713,451

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for:

Interest \$ 545,882

See accompanying notes and Independent Accountant's Review Report.

# MID SOUTH PETROLEUM CORPORATION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

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### **Note1. Nature of Business and Significant Accounting Policies**

#### **Nature of Business:**

Mid South Petroleum Corporation (the Company) is a distributor of petroleum and petroleum related products in Alabama and Mississippi. The Company was incorporated May, 1990. The Company grants credit to customers located in the vicinity of the operating locations.

#### **Significant Accounting Policies:**

##### **Basis of accounting:**

The financial statements are prepared on an accrual basis, which recognizes all revenue as gross income when earned, and cost of goods sold and operating expenses as deductions from gross income when incurred.

##### **Use of estimates:**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

##### **Cash and cash equivalents:**

The Company considers cash equivalents to be all highly liquid debt instruments purchased with a maturity of three months or less.

The Company maintains cash balances with several financial institutions located in various cities in Alabama and Mississippi. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At September 30, 2019, cash on deposit was not in excess of the federally-insured limits.

# MID SOUTH PETROLEUM CORPORATION

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

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### **Trade accounts receivable:**

Trade accounts receivable are stated at the amount management expects to collect from customers. Management provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance. Changes in the allowance have not been material to the financial statements.

### **Inventories:**

Inventory is stated at the lower of cost or market value. Cost is determined under the first-in, first-out (FIFO), specific cost and average cost method.

### **Property and equipment:**

Property and equipment are recorded at cost. Repairs and maintenance and small equipment purchases are charged to expense when incurred. Expenditures that significantly increase assets' values or extend useful lives are capitalized. Depreciation expense is recognized using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is recognized using the straight-line method over the lesser of the useful life of the improvement or the remaining term of the lease at the time the improvement is placed in service.

Depreciation and amortization are being recognized over the following periods:

	<u>Years</u>
Office furniture and equipment	5-7
Equipment	5-7
Automobiles and trucks	3-7
Leasehold improvements	5-7
Pumps and improvements	3-39
Bulk storage plant	3-15

### **Long-lived assets:**

The Company evaluates its long-lived assets for indicators of possible impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company compares the carrying amount to estimated future net undiscounted cash flows expected to be generated by such assets. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's fair value.

**MID SOUTH PETROLEUM CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

**For the Year Ended September 30, 2019**

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**Shipping and handling charges:**

The Company reports shipping and handling fees charged to customers as part of net sales and the associated expense as part of cost of sales.

**Presentation of sales tax:**

The States of Alabama and Mississippi and cities and counties within Alabama impose a sales tax on some of the Company's sales. The Company collects that sales tax from customers and remits the entire amount to the States and local governments. The Company's accounting policy is to exclude the tax collected and remitted to the States from revenue and cost of sales.

**Advertising:**

The Company expenses advertising as incurred. Advertising expense was \$167,418 for the year ended September 30, 2019.

**Income taxes:**

Deferred income taxes are not provided.

**Note 2. Inventories**

The components of inventories consist of gasoline, diesel fuel, other petroleum products, equipment and parts, and convenience store items which total \$2,396,300.

**Note 3. Property and Equipment**

Major classes of property and equipment and accumulated depreciation and amortization are as stated on the Balance Sheet.

Depreciation and amortization expense for the year ended September 30, 2019 was \$1,542,005.

**Note 4. Intangible Assets**

There are no intangible assets.

**Note 5. Goodwill**

There is no goodwill booked.

MID SOUTH PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

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**Note 6. Line of Credit**

The Company has a \$3,000,000 line of credit with a local bank of which \$731,649 is outstanding and due on October 23, 2019. The line bears interest at the prime-lending rate. The balance is due on demand and is secured by inventory, accounts receivable and all real estate.

The Company has a \$1,200,000 line of credit with a local bank of which \$-0- is outstanding. The line bears interest at 4.00% per annum and due February 5, 2020. The balance is secured by accounts receivable and inventories and certain real estate. A co-borrower, Sipsey River Oil Corporation, has drawn as of September 30, 2019 \$33,927.

The Company has a \$425,000 line of credit with a local bank of which \$0.00 is outstanding. The line bears interest at 4.50% per annum and due on September 18, 2020. The balance is unsecured.

**Note 7. Long-Term Debt**

Long-term debt consists of the following:

Note payable to financial institution due in monthly installments of \$29,559 with interest at 4.00%; final installment due February 1, 2020; collateralized by first mortgage on certain real estate and certain personal property	\$ 146,857
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Note payable to financial institution due in monthly installments of \$59,445 with interest at prime; final installment due June 27, 2028; collateralized by real estate, inventory, and accounts receivable	4,291,271
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Note payable to financial institution due in monthly installments of \$31,928 with interest at prime; final installment due August 15, 2028; collateralized by real estate, inventory, and accounts receivable	2,762,480
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MID SOUTH PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

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Note payable to financial institution  
due in monthly installments of \$12,923  
with interest at 4.00%; final installment  
due June 6, 2021; collateralized  
by machinery and equipment and  
certain leases and rents 261,827

Note payable to financial institution  
due in monthly installments of \$93,992  
with interest at prime rate; final installment  
due August 16, 2023; collateralized by  
all real estate, inventory and accounts receivable  
The note has co-borrowers of Sipse River Oil  
Corporation and Southern Oil Company, Inc. 207,915

All three companies have amounts borrowed with payments as follows:

	<u>Payment</u>	<u>Amount Owed</u>
MidSouth Petroleum Corporation	\$ 38,036	\$ 207,915
Sipse River Oil Corporation	55,956	3,370,162
Southern Oil Company, Inc.	-0-	-0-
Total	<u>\$ 93,992</u>	<u>\$ 3,578,077</u>

Note payable to Lita Mayers Family Trust is due on demand with no interest. 208,308

7,912,585  
Less current installments 1,278,551  
\$ 6,634,034

Aggregate maturity of long-term debt:

2020	\$ 1,278,551
2021	932,356
2022	859,854
2023	904,047
2024 and after	<u>3,937,777</u>
	<u>\$ 7,912,585</u>

MID SOUTH PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

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**Note 8. Operating Leases**

The Company is lessee of various real estate under different agreements with different terms. During the year ended September 30, 2019, the Company paid \$4,501,975 rents for these leases.

The minimum rental commitments during the next five years are as follows:

September 30, 2020	\$ 4,501,975
September 30, 2021	4,501,975
September 30, 2022	4,501,975
September 30, 2023	4,501,975
September 30, 2024	4,501,975
	<u>\$ 22,509,875</u>

**Note 9. Income Taxes**

The income tax expense of the Company consists of the following:

Federal	\$ -0-
State	<u>4,638</u>
Total	<u>\$ 4,638</u>

**Note 10. Related Party Transactions**

The Company's major stockholder provides accounting services to the Company and owns various real estate, which is leased to the Company. Also the Company's major stockholder owns 72.5% of Sipsey River Oil Corporation, 55% of High Cotton Oil Company, Inc. and 55% of Cadillac Jack Oil Company, Inc. all of which owns and leases real estate to the Company.

**Note 11. Deferred Revenue**

The Company has received revenue from certain oil companies of \$1,147,266 to reimburse the company for imaging costs. These costs are booked as depreciable assets with depreciation taken over the estimated useful lives. The advances given to the company are forgiven in future years. As the amounts are forgiven, the company recognizes the forgiven amounts as income in the year forgiven.

MID SOUTH PETROLEUM CORPORATION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2019

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**Note 12. Employee Benefit Plans**

The company maintains a SIMPLE retirement plan covering all employees who meet the eligibility requirement set forth in the plan. Expenses of the plan are recorded as employee benefit expenses and were \$16,571 for the year.

**Note 13. Income Taxes**

The tax years ending September 30, 2015, 2016, 2017 and 2018 remain subject to examination by the Internal Revenue Service and Alabama Department of Revenue.

The Company follows the guidance of FASB Topic ASC 740, *Accounting for Uncertainty in Income Taxes*. As of September 30, 2019, the Company had no known uncertain tax positions that qualify for disclosure in the financial statements.

**Note 14. Variable Interest Entity**

Generally accepted accounting principles in Financial Accounting Standards Board Interpretation 46R require that variable interest entities be consolidated into the financial statements of primary beneficiaries. One such legal entity with respect to the Company is Sipsey River Oil Corporation which leases real estate to the Company. The majority shareholder of the Company owns 72.5% of the outstanding common stock of Sipsey River Oil Corporation.

The Company has not consolidated this entity in the enclosed financial statements.

**Note 15. Subsequent Events**

Management has evaluated subsequent events through August 17, 2020, the date which the financial statements were available to be issued.