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**ASSOCIATED BRANCH PILOTS FOR THE
PORT OF LAKE CHARLES
D/B/A
LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2020



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Independent Auditors' Report

To the Stockholders of
Associated Branch Pilots for the
Port of Lake Charles, d/b/a Lake Charles Pilots, Inc.

We have audited the accompanying consolidated financial statements of the Lake Charles Pilots, Inc. and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of operations, change in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Lake Charles Pilots, Inc. and Subsidiaries
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Lake Charles Pilots, Inc. and subsidiaries as of December 31, 2020, and the results of their operations change in stockholders' equity and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of operating expenses on page 26 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Emphasis of Matter

As discussed in Note 19, to the financial statements, the Company has elected to apply Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-605 to the accounting treatment of the government grant received under the Paycheck Protection Program ("PPP"). Our opinion is not modified with respect to that matter.

Joyce Williams, Co., P.C.

Lake Charles, Louisiana
June 29, 2021

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

Consolidated Balance Sheet (Continued)

December 31, 2020

Liabilities and Stockholders' Equity

Current liabilities:	
Short-term note payable	\$ 2,310
Current portion of long-term debt	612,290
Current portion of notes payable to related party	264,331
Accounts payable	300,973
Accrued pilot compensation	2,309,710
Accrued expenses and other	315,676
Total current liabilities	<u>3,805,290</u>
Long-term debt	5,015,262
Deferred income taxes	105,081
Commitments and contingencies	-
Stockholders' equity:	
Common stock	998,400
Discount on common stock	(820,400)
Paid-in capital	641,181
Retained earnings	4,488,784
	<u>5,307,965</u>
Total liabilities and stockholders' equity	<u>\$ 14,233,598</u>

See the accompanying notes to the consolidated financial statements.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

Consolidated Statement of Operations

For the Year Ended December 31, 2020

Revenues:	
Pilotage services	\$ 16,650,576
Total revenues	<u>16,650,576</u>
Operating expenses	<u>16,509,922</u>
Operating income	140,654
Other income (loss):	
Ad valorem tax refund	103,557
Rent income	36,683
Interest and dividend income	7,815
Loss on sale of fixed assets	(39,135)
Interest expense	(273,364)
Cameron LNG user apprentice income	335,303
Cameron LNG user apprentice expense	(325,301)
Paycheck protection program loan forgiveness	468,500
Business interruption insurance	199,262
Casualty loss	(15,941)
	<u>497,379</u>
Income before income taxes	638,033
Provision for income taxes:	
Deferred benefit	(47,311)
	<u>(47,311)</u>
Net income	\$ 685,344

See the accompanying notes to the consolidated financial statements.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES
Consolidated Statement of Change in Stockholders' Equity
For the Year Ended December 31, 2020

Common stock:

Balance at beginning and end of year	\$ 998,400
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Discount on common stock:

Balance at beginning and end of year	\$ (820,400)
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Paid-in-capital:

Balance at beginning and end of year	\$ 641,181
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Retained earnings:

Balance at beginning of year	\$ 3,803,440
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Net income	685,344
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Balance at end of the year	\$ 4,488,784
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Total stockholders' equity	\$ 5,307,965
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See the accompanying notes to the consolidated financial statements.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Year Ended December 31, 2020

Cash flows from operating activities:

Net income	\$ 685,344
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	901,009
Bad debt	6,302
Provision for deferred income taxes	(47,311)
Loss on disposition of fixed assets	39,135
(Increase) decrease in operating assets:	
Trade accounts receivable	(323,284)
Ad valorem tax refunds	(43,855)
Insurance receivable	(199,262)
Other receivables	28,000
Prepaid income taxes	(17,558)
Prepaid expenses and other assets	(54,528)
Increase (decrease) in operating liabilities:	
Accounts payable	(202,200)
Accrued expenses and other	122,626
Accrued pilot compensation	1,322,766
Net cash provided by operating activities	<u>2,217,184</u>

Cash flows from investing activities:

Purchases of property, plant and equipment	<u>(828,940)</u>
Net cash used by investing activities	<u>(828,940)</u>

Cash flows from financing activities:

Borrowings on short-term notes payables	20,114
Principal payments on short-term notes payables	(20,160)
Borrowings on note payables related party	279,300
Principal payments on note payables related party	(268,205)
Borrowings on long-term debt	250,000
Principal payments on long-term debt	(444,916)
Net cash provided by financing activities	<u>(183,867)</u>

Net change in cash and cash equivalents	1,204,377
Cash and cash equivalents at beginning of year	832,438
Cash and cash equivalents at end of year	<u>\$ 2,036,815</u>

See the accompanying notes to the consolidated financial statements.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

Louisiana Revised Statute 34:1073 stipulates there shall be a body of pilots to be known as the Associated Branch Pilots for the Port of Lake Charles whose duty it shall be to pilot seagoing vessels within the state of Louisiana, on all navigable streams, canals, channels, rivers, and boundary waters within the Intracoastal Canal, Calcasieu and Sabine Rivers and across the bars and passes, except that this section shall not apply to the pilotage of vessels or ships for entrance of and upon the Mississippi River or any other waterway connecting the port of New Orleans or any other port on the Mississippi River with the Gulf of Mexico. On July 20, 1983, the Associated Branch Pilots for the Port of Lake Charles was incorporated as Lake Charles Pilots, Inc., (“the Company”), pursuant to the Louisiana Business Corporation Law as permitted by Louisiana Revised Statute 34:1075 and Louisiana Administrative Code (LAC) 46: LXX. Subpart 4, Chapter 91. The Company’s primary activity is to carry on the business of providing pilotage services utilizing state commissioned river port pilots in the pilotage area. Rates and charges for pilotage services are established by the Louisiana Pilotage Fee Commission in the form of a tariff pursuant to Louisiana Revised Statutes La. R.S. 34:1121 and 34:1122.

The Company is owned equally by the stockholders, all commissioned pilots by the State of Louisiana. Corporate officers are elected annually by the stockholders. The Company files a federal and state income tax returns in accordance with Subchapter C of the Internal Revenue Code.

Separate special purpose entities operate for the sole benefit of the Company and each are equally owned and controlled by the stockholders. The officers of the Company are also the officers of each special purpose entity.

Calcasieu Pilot No. 1, Inc. (“Pilot #1”). was incorporated in July 1983 pursuant to the Louisiana Business Corporation Law. Pilot #1’s primary business is the procurement and ownership of a marine vessel and related equipment leased under a bareboat charter to Calcasieu Pilot No. 2, Inc. The corporation files its federal and state income tax returns on a calendar year basis in accordance with Subchapter S of the Internal Revenue Code.

Calcasieu Pilot No. 2, Inc. (“Pilot #2”) was incorporated in April 1983 pursuant to the Louisiana Business Corporation Law. Pilot #2’s primary purpose is to employ a workforce to provide transportation services and marine vessels under a blanket time charter to the Company. The blanket time charter requires the Company to pay all operating expenses including mortgages, insurance, compensation, benefits, vessel repairs, maintenance, fuel and oil, and vessel documentation. The Corporation files its federal and state income tax returns on a calendar year basis in accordance with Subchapter S of the Internal Revenue Code.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS – (Continued)

Calcasieu Pilot No. 3, Inc. (“Pilot #3”) was incorporated in August 1995 pursuant to the Louisiana Business Corporation Law. Pilot #3’s primary business is the procurement and ownership of a marine vessel and related equipment leased under a bareboat charter to Pilot #2. The corporation files its federal and state income tax returns on a calendar year basis in accordance with Subchapter S of the Internal Revenue Code.

Calcasieu Pilot No. 4, Inc. (“Pilot #4”) was incorporated in December 2005 pursuant to the Louisiana Business Corporation Law. Pilot #4’s primary business is the procurement and ownership of a marine vessel and related equipment leased under a bareboat charter to Pilot #2. The corporation files its federal and state income tax returns on a calendar year basis in accordance with Subchapter S of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

In December 2003, the Financial Accounting Standards Board (FASB) revised its Interpretation No. 46 which clarifies the application of Accounting Research Bulletin No. 51, *Consolidated Financial Statements* to certain entities defined as Variable Interest Entities (VIE), in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. In June 2009, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 167 amending Interpretation 46(R) to replace the quantitative approach for determining the primary beneficiary of a VIE with a qualitative approach. SFAS No. 167 was incorporated into FASB’s accounting standards codification (ASC) and is now part of ASC subtopic 810.

The four special purpose entities described in Note 1 operate for the sole benefit of the Company which has the power to direct the activities that most significantly impact the economic performance of each entity. The Company is obligated to absorb losses of each entity pursuant to the blanket time charter with Pilot #2. Accordingly, the four special purpose entities are each considered a VIE subject to consolidation. The accompanying consolidated financial statements have been prepared by consolidating the assets, liabilities, and equity of all five entities as of December 31, 2020 and accumulating revenue and expenses for the twelve months then ended. All intercompany transactions and balances have been eliminated. Stockholders’ personal guarantee of the indebtedness of the variable interest entities provides creditors with indirect recourse against the assets of the Company for those obligations.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Revenue Recognition

The Company records revenues for pilotage services provided to vessels to, from, and within the Calcasieu Ship Channel. These revenues are generally realized or realizable and earned when persuasive evidence of an arrangement exists, services have been rendered, the Company's price to the customer is fixed or determinable, and collectability is reasonably assured. All services are less than one day, therefore the Company records revenues from these services when performance of such services has been completed.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of receivables and demand deposits. The Company maintains cash at one financial institution, which are insured by the Federal Deposit Insurance Corporation up to \$250,000. At various times during the year, the Company's cash in bank balances exceeded the federally insured limits. At December 31, 2020, the Company's uninsured cash balances totaled \$1,871,670.

The petrochemical industry includes the primary users of pilotage services in the pilotage area. Accordingly, the Company is vulnerable to risk of severe financial impact in the event of adverse economic and other conditions affecting the petrochemical industry or the pilotage area.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Accounts Receivable

Trade accounts receivable are stated net of an allowance for doubtful accounts. Allowances are established based on an analysis of specific customers, taking into consideration the age of past due accounts and an assessment of the customer's ability to repay. Uncollected accounts older than 60 days are considered past due. The Company writes off receivables as a charge to the allowance for doubtful accounts when, in their estimation, it is probable that the receivable is worthless. The allowance for doubtful accounts at December 31, 2020 was \$-0-. No interest is charged on past due accounts.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Depreciation is computed primarily using the double declining balance method for financial reporting purposes over the estimated useful lives of the assets.

Repairs and maintenance costs are expensed, while additions and betterments are capitalized. The cost and related accumulated depreciation of assets sold or retired are eliminated from the accounts and any gains or losses are reflected in earnings.

When long-lived asset impairment indicators are present, the Company evaluates impairment of long-lived assets by projecting undiscounted cash flows of the related assets over the remaining estimated useful lives of such assets. If undiscounted cash flow projections are insufficient to recover the carrying value of the long-lived assets under review; impairment is recorded, if any, for the amount by which the carrying value of such assets exceeds their fair values. No triggering events occurred during the year ended December 31, 2020.

Income Taxes

The Company files a C-Corp federal and state income tax returns and each individual Calcasieu Pilot files their own S-Corp federal and state income tax returns.

The Company follows the asset and liability method of accounting for income taxes, under which deferred income tax assets and liabilities are determined based on the difference between the financial reporting and income tax bases of assets and liabilities using the enacted marginal tax rates and laws expected to be in effect when the differences are expected to reverse. Temporary differences result primarily from depreciation and certain accruals. Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes. The deferred tax assets and liabilities represent the future return consequences of those differences that will either be taxable or deductible when the assets and liabilities are recovered or settled. The effect of a change in tax rates is recognized in the period that includes the enactment date.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for a period of three years beyond the filing of those returns.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Income Taxes – (Continued)

In accordance with FASB ASC Topic 740, the Company evaluates and measures all uncertain tax positions taken or to be taken on tax returns, and records liabilities for the amount of such positions that are not more-likely-than-not to be sustained, or may only partially be sustained, upon examination by relevant taxing authorities. It is management's opinion that there are no significant unsustainable tax positions taken by the Company for the periods subject to examination.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts; and the valuation of deferred tax liabilities.

Fair Value of Financial Instruments

Management considers the initial amounts recorded for accounts receivable, other receivables, accounts payable and accrued liabilities to be the fair value of those financial instruments due to the short term carrying period and other factors. Management considers the outstanding principal of notes payable and other debt obligations to be reasonable estimates of fair value based on associated interest rates and periods to maturity. Management does not require collateral or other security to support its exposure to financial instruments subject to credit risk.

Advertising

The Company expenses all advertising costs when incurred.

Government Grant – Paycheck Protection Program

The Company has elected to apply FASB ASC 958-605 to the accounting treatment of the government grant received under the paycheck protection program ("PPP"). Under this model, government assistance is not recognized until there is reasonable assurance that (1) any conditions attached to the assistance will be met and (2) the assistance will be received.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)*

Government Grant – Paycheck Protection Program – (Continued)

Once there is reasonable assurance that the conditions will be met, the earnings impact of government grants is recorded “on a systemic basis over the periods in which the grants are intended to compensate.” Accordingly, the Company recorded the initial cash inflow from the PPP loan as a deferred income liability. Subsequent to initial recognition, the Company reduced the liability with the offset through earnings included in the statement of operations under other income as it recognized the related cost to which the loan relates.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted.

A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are evaluating the impact that ASU 2016-02 will have on our financial statements and related disclosures.

In 2018 the FASB issued ASU No. 2018-09, *Codification Improvements*; ASU No. 2018-10, *Codification Improvements to Topic 942, Leases*; ASU No. 2018-11 *Leases (Topic 942): Targeted Improvements*; ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors*. These amendments made the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. We are evaluating the impact that ASU 2016-02 will have on our financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments - a consensus of the Emerging Issues Task Force* (“ASU 2016-15”). The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Certain issues addressed in this guidance include - Debt payments or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions received from equity method investments and beneficial interests in securitization transactions.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Recently Issued Accounting Standards – (Continued)

ASU 2016-15 is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. We are evaluating the impact that ASU 2016-15 will have on our financial statements and related disclosures.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes – Simplifying the Accounting for Income Taxes*. The new guidance simplifies the accounting for income taxes by removing several exceptions in the current standard and adding guidance to reduce complexity in certain areas, such as requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. We are evaluating the impact that ASU 2019-12 will have on our financial statements and related disclosures.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows:

	Estimated Useful Lives	December 31, 2020
Land		\$ 111,300
Buildings and improvements	5-40 years	3,339,646
Marine vessels and accessories	5-30 years	11,791,078
Automobiles and trucks	5 years	328,982
Communication equipment	3-15 years	514,437
Furniture, fixtures and equipment	3-10 years	296,342
Leasehold improvements	5-40 years	158,135
Total property plant and equipment		16,539,920
Less accumulated depreciation		(6,835,937)
Net property plant and equipment in service		9,703,983
Plant and equipment not in service		357,784
Property, plant and equipment, net		\$ 10,061,767

Depreciation expense for the year ending December 31, 2020 was \$901,009.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SHORT-TERM NOTE PAYABLE

Short-term notes payable as of December 31, 2020 consist of the following:

LWCC Insurance, matures March 2021, 0.0% interest rate, due in monthly installments of \$768, uncollateralized	\$ 2,310
Total short-term notes payables	\$ 2,310

5. LONG-TERM DEBT

Long-term debt as of December 31, 2020 are as follows:

Note payable to bank, secured by real estate, bearing interest rate at 5.0%; payable in 47 principal and interest installments of \$3,581, with one irregular payment of \$365,291 in September 2022.	\$ 408,516
Note payable to auto finance company, secured by a vehicle, bearing interest rate at 0.0%; payable in 60 principal and interest installments of \$905, maturing in September 2022.	18,995
Note payable to auto finance company, secured by a vehicle, bearing interest rate at 0.0%; payable in 60 principal and interest installments of \$1,155, maturing in August 2024.	50,826
Note payable to bank, secured by vehicle, bearing interest rate at 4.8%; payable in 36 principal and interest installments of \$2,222, maturing in May 2021.	17,451
Note payable to bank, secured by marine vessel, bearing interest rate at 4.9%; payable in 17 principal and interest installments of \$14,487, maturing in July 2021.	141,557
Note payable to bank, secured by marine vessel, bearing interest rate at 4.5%; payable in 50 principal and interest installments of \$31,744, with one irregular payment of \$3,263,251 in January 2024.	3,968,568

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. LONG-TERM DEBT – (Continued)

Note payable to bank, secured by marine vessels, bearing interest rate at 4.5%; payable in 60 principal and interest installments of \$20,307, originally maturing May 2020 which was renewed and extended to May 2025.	<u>1,021,638</u>
	5,627,551
Less: current maturities	<u>(612,290)</u>
	<u><u>\$ 5,015,261</u></u>

Long-term debt at December 31, 2020 matures as follows:

<u>Year Ending</u>	<u>Amount</u>
2021	\$ 612,290
2022	832,399
2023	458,099
2024	3,567,151
2025	157,612
	<u><u>\$ 5,627,551</u></u>

Based on market rates for similar loans, at December 31, 2020, the fair value of these notes approximates their carrying amount. All stockholders provide personal guarantees for amounts owed to financial institutions.

6. NOTES PAYABLE TO RELATED PARTY

Notes payable related party as of December 31, 2020 are as follows:

Note payable to stockholder, unsecured, bearing interest at 4.5%; interest only payments until January 2021, then payable in monthly installments of principal and interest of \$6,941, maturing October 2021	\$ 68,000
Note payable to stockholder, unsecured, bearing interest at 4.75%; payable in monthly installments of principal and interest of \$5,767, maturing June 2021	57,331

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. NOTES PAYABLE TO RELATED PARTY – (Continued)

Note payable to stockholder, unsecured, bearing interest at 4.5%; interest only payments until January 2021, then payable in monthly installments of principal and interest of \$5,002, maturing October 2021	49,000
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Note payable to stockholder, unsecured, bearing interest at 4.5%; interest only payments until January 2021, then payable in monthly installments of principal and interest of \$7,684, maturing January 2022	90,000
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264,331

Less: current maturities on notes payable	(264,331)
Notes payable related party due after one year	<u>\$ -</u>

Notes payable related party at December 31, 2020 matures as follows:

<u>Year Ending</u>	<u>Amount</u>
2021	\$ 264,331
	<u>\$ 264,331</u>

7. INCOME TAXES

The Company's income tax benefit consists of the following:

Federal taxes - current expense	\$ -
State taxes - current expense	-
	<u>-</u>

Federal deferred tax benefit	(35,646)
State deferred income tax benefit	(11,665)
	<u>(47,311)</u>

Provision for income tax benefits	<u>\$ (47,311)</u>
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LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. INCOME TAXES – (Continued)

The reconciliation between federal income taxes computed by applying the statutory tax rate of 21% to income before income taxes to the effective income tax rate is as follows:

Tax at statutory rate	\$	166,399
Tax effects of the following		
Subchapter S income		(136,631)
Political donations		1,565
PPP loan forgiveness		(73,937)
Lobby expenses		11,590
Others, net		(16,297)
Total income tax provision	<u>\$</u>	<u>(47,311)</u>

Deferred tax assets and liabilities are measured based on the differences between the financial statement and tax basis of assets and liabilities at the applicable tax rates. The significant components of the Company’s net deferred tax liabilities consisted of the following:

Deferred tax assets		
Net operating loss	\$	66,333
Contribution carryover		<u>1,648</u>
Total deferred tax assets		67,981
Deferred tax liabilities		
Fixed assets		<u>(173,062)</u>
Total deferred tax liabilities		<u>(173,062)</u>
Total net deferred tax liabilities	<u>\$</u>	<u>(105,081)</u>

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. STOCKHOLDERS' EQUITY

Common stock consisted of the following as of December 31, 2020:

<i>Lake Charles Pilots, Inc. - C Corporation</i>	
Common stock, \$100 par value, 11,000 shares authorized, 8,500 shares issued and outstanding	\$ 850,000
<i>Calcasieu Pilots No. 1, Inc. - Subchapter S Corporation</i>	
Common stock, \$100 par value, 1,000 shares authorized, 289 shares issued and outstanding	28,900
<i>Calcasieu Pilots No. 2, Inc. - Subchapter S Corporation</i>	
Common stock, \$-0- par value, 10,000 shares authorized, 1,700 shares issued and outstanding	51,000
<i>Calcasieu Pilots No. 3, Inc. - Subchapter S Corporation</i>	
Common stock, \$-0- par value, 1,000 shares authorized, 850 shares issued and outstanding	66,800
<i>Calcasieu Pilots No. 4, Inc. - Subchapter S Corporation</i>	
Common stock, \$10 par value, 1,000 shares authorized, 170 shares issued and outstanding	1,700
Total common stock	<u><u>\$ 998,400</u></u>

9. COMPENSATED ABSENCES

Compensated absences for sick pay and personal time have not been accrued since they cannot be reasonably estimated. The Company's policy is to recognize these costs, if any, when they are actually paid.

10. RENTAL ACTIVITIES

The Company's rental activities consist of the renting of office spaces on a month to month basis. Total rental income for the year ending December 31, 2020 was \$36,683.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. PILOT CONTRACT SERVICES

Total pilot compensation consists of the following for the year ended December 31, 2020:

Base compensation	\$	9,068,405
Retirement		969,000
Health insurance		455,888
Disability, long-term care and life insurance		252,989
License insurance		61,455
Continuing education		47,736
Dues		39,100
Other		4,547
		\$ 10,899,120

12. EMPLOYEE BENEFIT PLANS

All eligible employees participate in the Lake Charles Pilots, Inc. 401(K) Profit Sharing Plan and Trust. Employer contributions are 25%, which includes a 3% safe harbor match, of eligible compensation subject to annual limitations under current regulations. Retirement expense for the year ended December 31, 2020 is \$296,119 of which \$62,452 was payable at December 31, 2020. Individual pilots are allowed to adopt this plan through their limited liability company. Contributions to or for the benefit of each pilot are included as a component of total pilot compensation.

In January 2020, the Company adopted a Nonqualified Employee Post-Retirement Arrangement (“Plan”). This Plan is an unfunded, nonqualified post-retirement arrangement for discretionary benefits covering the highly compensated Pilots, a select group of management and highly compensated employees of the Company. Benefits will be paid on retirement, death and disability. The Pilots, select group of management and highly compensated employees do not have a legally binding right to the benefit and the benefit may be terminated at any time. The payment of benefits is also conditioned on the collection of the pilotage fee. For the year ended December 31, 2020, the Company had \$21,431 in expenses relating to this plan.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. OPERATING LEASE

The Company leases various equipment and radio towers throughout the year for its operations. These leases are classified as operating leases and their terms vary from month-to-month to 5-year leases. Total lease payments made for the year ended December 31, 2020 was \$53,825. Future minimum lease payments as of December 31, 2020 are as follows:

<u>Year Ending</u> <u>December 31,</u>		
2021	\$	2,786

14. RELATED PARTY

All transactions associated with any of the pilots during the year are considered related party transactions.

At the December 31, 2020, the Company had note payables to various pilots of \$264,331, see Note 6 for details, and had accrued pilot compensation and retirement in the amount of \$2,309,710.

For the year ending December 31, 2020, the Company paid \$10,899,120 in pilot contract services, see note 11 for details.

15. CONCENTRATION OF CREDIT RISK

The Company had three customers who accounted for 75.04% of the trade receivables and 59.94% of total revenue as of December 31, 2020.

16. COMMITMENT AND CONTINGENCIES

Various legal claims arise from time to time in the normal course of business. In the opinion of management, there were no such matters at December 31, 2020, which are expected to have a material adverse effect on the financial condition of the Company.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. CASUALTY LOSS

The Company was impacted by Hurricanes Laura and Delta when they made landfall in August and October 2020, respectively. As a result, the Company sustained damages to their property and equipment. The Company has filed a claim with their insurance carrier and as of December 31, 2020 they have received only \$83,879 in insurance proceeds. For the year ended December 31, 2020 the Company has offset repairs of \$137,160 with insurance these insurance proceeds. For the year ended December 31, 2020, the Company expensed a total casualty loss of \$15,941 with the remaining balance of \$53,227 included in prepaid expense. In 2021, the Company plans to make a supplemental claim for additional insurance proceeds relating to these hurricane claims.

18. CASH FLOW INFORMATION

Supplemental cash flow disclosures for the year ended December 31, 2020 are as follows:

Cash paid for interest and income taxes for the year as follows:

Cash paid for income taxes	<u>\$ 17,883</u>
Cash paid for interest	<u>\$ 273,364</u>

19. GOVERNMENT GRANT-PPP

In April 2020, the Company received proceeds of \$481,500 from the paycheck protection program administered by the Small Business Administration. Under the terms of the Coronavirus Aid, Relief and Economic, Security Act (CARES Act), PPP loan recipients can apply for and be granted forgiveness for all or a portion of loans granted under the PPP. The Note is subject to forgiveness to the extent proceeds are used for payroll costs, including payments required to continue group health care benefits, and certain rent, utility, and mortgage interest expenses (collectively, "Qualifying Expenses"), pursuant to the terms and limitations of the PPP. The Company believes that it used all of the proceeds from the Note for Qualifying Expenses. The Company's Qualifying Expenses totaled \$481,500. The Company applied for loan forgiveness and was granted the forgiveness in November and December of 2020.

20. SUBSEQUENT EVENTS

The Management of the Company has evaluated its December 31, 2020 financial statements for subsequent events through the date of the independent auditors' report, the date the financial statements were available to be issued. Management is not aware of any subsequent event which would require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

Consolidated Schedule of Operating Expenses

For the Year Ended December 31, 2020

Accounting	\$	45,906
Automobile expenses		43,425
Bad debt		6,302
Bank service charge		621
Boat maintenance and supplies		273,429
Pilot contract services		10,899,120
Apprentice pay		348,910
Continuing education		3,812
Depreciation		901,009
Fuel and oil		334,019
Insurance-boat and liability		110,922
Insurance-health		586,525
Insurance-disability		49,085
Insurance-long term care		12,614
Insurance-auto		23,010
Insurance-workers compensation		20,793
Insurance-office		28,453
Insurance-station		57,059
Insurance-umbrella		30,437
Legal fees		56,640
Medical expense		24,710
Miscellaneous expense		3,709
NOAA ports system charge		90,355
Office expense		96,458
Professional dues		2,222
Professional publications		17,762
Public relations		54,574
Repairs and maintenance		53,672
Rent		48,000
Retirement plan-employees		296,119
Salaries		1,455,847
Station expenses		110,561
Tariff expense-legal		120,000
Taxes and licenses		143,046
Payroll tax expense		95,942
Telephone		26,250
Travel		16,310
Transportation expense		700
Utilities		21,594
		21,594
Total operating expenses	\$	16,509,922

See the accompanying notes to the consolidated financial statements.