

**PUGET SOUND PILOTS AND SUBSIDIARY**

**SPECIAL-PURPOSE CONSOLIDATED  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
(MODIFIED ACCRUAL BASIS)**

**FOR THE YEARS ENDED  
DECEMBER 31, 2015 AND 2014**

# PUGET SOUND PILOTS AND SUBSIDIARY

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Puget Sound Pilots  
Seattle, Washington

We have audited the accompanying special-purpose consolidated financial statements of Puget Sound Pilots (a voluntary association of sole proprietors and incorporated individuals) and Subsidiary which comprise the special-purpose consolidated statements of assets, liabilities and pilots' equity - modified accrual basis as of December 31, 2015 and 2014, and the related special-purpose consolidated statements of revenues, expenses and changes in pilots' equity - modified accrual basis and cash flows - modified accrual basis for the years then ended, and the related notes to the special-purpose consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these special-purpose consolidated financial statements in accordance with the modified accrual basis of accounting described in Note 1; this includes determining that the modified accrual basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair preparation of 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 special-purpose consolidated financial statements based on our audits. We conducted our audits 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 special-purpose consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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 special-purpose consolidated financial statements referred to above present fairly, in all material respects, the assets, liabilities, and pilots' equity of Puget Sound Pilots and Subsidiary, as of December 31, 2015 and 2014, and its revenues, expenses and changes in pilots' equity, and cash flows for the years then ended, in accordance with the basis of accounting described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the special-purpose consolidated financial statements, which describes the basis of accounting. The special-purpose consolidated financial statements are prepared on the modified accrual basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the special-purpose consolidated financial statements as a whole. The additional information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the special-purpose 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 special-purpose consolidated financial statements or to the special-purpose 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 information is fairly stated in all material respects in relation to the special-purpose consolidated financial statements as a whole.

*Shannon & Associates, LLP*

Kent, Washington  
March 11, 2016

**PUGET SOUND PILOTS AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES  
AND PILOTS' EQUITY - MODIFIED ACCRUAL BASIS  
DECEMBER 31, 2015 AND 2014**

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		<u>ASSETS</u>		
		<u>2015</u>	<u>2014</u>	Increase (Decrease)
1.	<b>CURRENT ASSETS</b>			
2.	Cash in banks	\$ 1,858,162	\$ 2,194,244	\$ (336,082)
3.	Accounts receivable, net of allowance for doubtful accounts of \$5,500 at each year end	2,665,394	1,896,909	768,485
4.	Prepaid expenses	<u>96,211</u>	<u>100,293</u>	<u>(4,082)</u>
5.	<b>TOTAL CURRENT ASSETS</b>	4,619,767	4,191,446	428,321
6.	<b>PROPERTY, BOATS AND EQUIPMENT</b>			
7.	Total building, boats, furnishings, and equipment	11,982,229	11,641,822	340,407
8.	Less accumulated depreciation and amortization	<u>10,172,900</u>	<u>9,800,966</u>	<u>371,934</u>
9.	<b>NET PROPERTY, BOATS AND EQUIPMENT</b>	1,809,329	1,840,856	(31,527)
10.	<b>OTHER ASSETS</b>			
11.	Loan fees, net of accumulated amortization of \$3,323 and \$1,948 as of 2015 and 2014	<u>3,327</u>	<u>3,552</u>	<u>(225)</u>
12.	<b>TOTAL ASSETS</b>	<u>\$ 6,432,423</u>	<u>\$ 6,035,854</u>	<u>\$ 396,569</u>

The accompanying notes are an integral part of these special-purpose consolidated financial statements.

**PUGET SOUND PILOTS AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES  
AND PILOTS' EQUITY - MODIFIED ACCRUAL BASIS  
DECEMBER 31, 2015 AND 2014**

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**LIABILITIES AND PILOTS' EQUITY**

	2015	2014	Increase (Decrease)
<b>13. CURRENT LIABILITIES</b>			
14. Funds held in trust	\$ 110,370	\$ 101,794	\$ 8,576
15. Comp day expense payable	0	21,183	(21,183)
16. Accrued taxes	41,653	34,816	6,837
17. Retirement expense payable	342,338	298,051	44,287
18. Current portion of long-term liabilities	339,750	291,576	48,174
<b>19. TOTAL CURRENT LIABILITIES</b>	834,111	747,420	86,691
<b>20. LONG-TERM LIABILITIES, net of current portion</b>	556,121	534,567	21,554
<b>21. UNRECORDED LIABILITIES, COMMITMENTS AND CONTINGENCIES</b>	-	-	-
<b>22. TOTAL LIABILITIES</b>	1,390,232	1,281,987	108,245
<b>23. PILOTS' EQUITY</b>			
24. December distributions payable to pilots	1,661,392	1,256,331	405,061
25. Reserved for operations	750,000	750,000	-
26. Reserved for working capital account	973,679	1,134,999	(161,320)
27. Remainder of pilots' equity	1,657,120	1,612,537	44,583
<b>28. TOTAL PILOTS' EQUITY</b>	5,042,191	4,753,867	288,324
<b>29. TOTAL LIABILITIES AND PILOTS' EQUITY</b>	\$ 6,432,423	\$ 6,035,854	\$ 396,569

The accompanying notes are an integral part of these special-purpose consolidated financial statements.

**PUGET SOUND PILOTS AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN PILOTS' EQUITY - MODIFIED ACCRUAL BASIS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>		<u>2014</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
1. <b>PILOTAGE REVENUE</b>	\$ 32,881,003	100.0 %	\$ 32,623,068	100.0 %
2. <b>OPERATING EXPENSES</b>				
3. Seattle office operating expense and administrative overhead	10,002,012	30.4	9,596,397	29.4
4. Boat operating expense	1,695,680	5.2	2,037,993	6.2
5. Port Angeles station operating expense	<u>521,300</u>	<u>1.6</u>	<u>572,372</u>	<u>1.8</u>
6. <b>TOTAL OPERATING EXPENSES</b>	12,218,992	37.2	12,206,762	37.4
7. <b>TRANSPORTATION FEES PAID DIRECTLY TO PILOTS</b>	<u>1,119,406</u>	<u>3.4</u>	<u>1,083,551</u>	<u>3.3</u>
8. <b>NET INCOME FROM POOLED OPERATIONS</b>	19,542,605	59.4	19,332,755	59.3
9. <b>OTHER INCOME (EXPENSE)</b>				
10. Interest income and finance charges	29,965	0.1	21,874	0.1
11. Miscellaneous income	1,123	0.0	1,270	0.0
12. Loss on asset disposal	<u>-</u>	<u>-</u>	<u>(1,290)</u>	<u>(0.0)</u>
13. <b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>31,088</u>	<u>0.1</u>	<u>21,854</u>	<u>0.1</u>
14. <b>BALANCE OF REVENUE POOL BEFORE DEDUCTIONS OF INDIVIDUAL PILOTS' BUSINESS EXPENSES</b>	19,573,693	<u>59.3 %</u>	19,354,609	<u>59.2 %</u>
15. <b>LESS PER DETAIL BELOW</b>				
16. Buy-ins and buy-outs, net	(161,320)		281,434	
17. All other payments to pilots	<u>(19,124,049)</u>		<u>(20,053,184)</u>	
18. <b>TOTAL DETAIL</b>	<u>(19,285,369)</u>		<u>(19,771,750)</u>	
19. <b>NET INCREASE (DECREASE) IN PILOTS' EQUITY</b>	288,324		(417,141)	
20. <b>BEGINNING PILOTS' EQUITY</b>	<u>4,753,867</u>		<u>5,171,008</u>	
21. <b>ENDING PILOTS' EQUITY</b>	<u>\$ 5,042,191</u>		<u>\$ 4,753,867</u>	

The accompanying notes are an integral part of these special-purpose consolidated financial statements.

**PUGET SOUND PILOTS AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
MODIFIED ACCRUAL BASIS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
1. Balance of revenue pool before deductions of individual pilots' business expenses	\$ 19,573,693	\$ 19,354,609
Adjustments to reconcile balance of revenue pool to cash provided by operating activities:		
2. Depreciation and amortization	373,309	363,557
3. Loss on disposal of assets	-	1,290
4. Decrease (increase) in net accounts receivable	(768,485)	284,876
5. Decrease (increase) in prepaid expenses	4,082	(1,140)
6. Increase in other assets	(1,150)	-
7. Increase (decrease) in funds held for trust	8,576	(17,036)
8. Decrease comp day expense payable	(21,183)	(8,905)
9. Increase (decrease) in accrued taxes and interest	6,837	(5,851)
10. Increase in retirement expense payable	44,287	27,078
11. NET CASH PROVIDED BY OPERATING ACTIVITIES	19,219,966	19,998,478
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
12. Principal payments on notes payable	(291,579)	(291,579)
13. Proceeds from notes payable	20,900	-
14. Proceeds (payments) from buy-in and buy-outs, net	(161,320)	281,434
15. Payments to members	(19,124,049)	(20,053,184)
16. NET CASH USED IN FINANCING ACTIVITIES	(19,556,048)	(20,063,329)
17. NET INCREASE (DECREASE) IN CASH	(336,082)	(64,851)
18. Cash at beginning of year	2,194,244	2,259,095
19. Cash at end of year	\$ 1,858,162	\$ 2,194,244
<b>SUPPLEMENTAL DISCLOSURE</b>		
20. Interest paid	\$ 17,660	\$ 23,276
21. Equipment purchased through long-term financing	\$ 340,408	\$ -

The accompanying notes are an integral part of these special-purpose consolidated financial statements.



**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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**NOTE 1.--NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

The Puget Sound Pilots (PSP) is a voluntary association of sole proprietors and incorporated individuals. Their mission is to protect the marine environment, economy and security of Washington State through the safe navigation of vessels on the Puget Sound and adjacent waterways. They pilot vessels under licenses issued by the U.S. Coast Guard and the State of Washington. Business is conducted in accordance with the Pilotage Act of the State of Washington and specified in RCW 88.16. Revenues are dependent on the tariff set by the Washington State Board of Pilotage Commissioners and the level of maritime traffic on these waters.

Principles of Consolidation

The special-purpose consolidated financial statements (also referred to as special-purpose financial statements) include the accounts of PSP and Pilot Technology Services, LLC (PTS), a wholly-owned subsidiary. Total PTS expenses are included in Seattle operating expenses. All significant intercompany transactions and balances have been eliminated. Unless otherwise noted, PSP refers to the consolidated entity.

PSP has an agreement with PTS under which PTS, having expertise in the area of technological assistance and education to marine pilots, can provide equipment, educational, and related services to pilots licensed in the State of Washington. Under the terms of the agreement, PSP pays PTS for providing equipment (PPUs) and related services to the pilots. Further, under a second agreement, PTS pays PSP for the cost of certain administrative services.

The total (income) and expenses related to the PPU's of the combined entities as of December 31, 2015 and 2014, were:

	<u>2015</u>	<u>2014</u>
Depreciation	\$ 286,768	\$ 286,768
Interest expense	16,367	23,266
Taxes - B&O	7,907	11,444
Taxes - Property	8,771	-
Administrative	194	349
Training lodging and per diem	(1,600)	10,308
Consulting Fees	1,825	-
Computer maintenance	51,473	78,969
	<u>\$ 371,705</u>	<u>\$ 411,104</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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**NOTE 1.--NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting and Reporting

The accompanying special-purpose consolidated financial statements have been prepared on the modified accrual basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. That basis differs from generally accepted accounting principles in that payments to vendors are recognized when paid instead of when goods or services are received. Also, payments to employees and the executive director for compensated absences (sick leave) are recognized when paid instead of when the leave is earned, and payments to pilots for compensated absences (vacation, comp and sick leave), retirement, major medical and redemption of member ownership interests (buy-outs) are recognized when paid rather than when the leave is earned or liability incurred. See Notes 6 and 10 for unrecorded liabilities.

Revenue Recognition

Pilotage revenue is recognized on the accrual basis of accounting when services are performed. Pilotage services are invoiced in accordance with the tariff regulated by the Washington State Board of Pilotage Commissioners (WAC 363-116-300). The tariff is evaluated annually. The tariff is designed to cover current operating costs and liabilities and to maintain competitive earnings for pilots.

Cash in Banks

Cash in banks for purposes of the consolidated statements of cash flows, includes checking, money market and certificates of deposit.

Accounts Receivable and Credit Policies

Accounts receivable are customer obligations due under trade terms requiring payment within 30 days from the invoice date. Accounts receivable are stated at the amount billed to the customer.

Finance charges are accrued at 1.5% monthly if payment is not made within the normal payment terms. Accounts over 90 days were \$8,921 and \$4,903 at December 31, 2015 and 2014, respectively.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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**NOTE 1.--NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounts Receivable and Credit Policies (Continued)

The Company establishes an allowance for uncollectible trade accounts receivable based on historical collection experience and management's evaluation of collectability of outstanding accounts receivable.

Property, Boats, and Equipment

Building, boats, furnishings and equipment are carried at cost. Depreciation and amortization of these assets is provided by the straight-line method over the assets' estimated useful lives which range from 3 to 39 years.

As of January 1, 2014, the Company instituted a policy under which expenditures of \$5,000 or more representing major improvements, replacements or extension of useful lives of property, boats, furnishings and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Major boat and engine repairs are expensed as incurred. Upon sale or retirement of property, boats, furnishings and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in the results of operations.

Depreciation and amortization for the years ended December 31, 2015 and 2014, was \$373,309 and \$363,557, respectively.

Other Assets

Loan fees are recorded at cost and amortized on the straight-line basis over the life of the loan.

Income Taxes

As a voluntary association of sole proprietors and incorporated individuals, the PSP files a US Partnership Return of Income, which is informational in nature. The income and expense of the PSP includes only items relating to the business of the PSP which pass on to the individual or corporate income tax returns of the pilots. Pilots are responsible for their own income, social security and Medicare taxes. Accordingly, no provision for federal income taxes is represented in the special-purpose consolidated financial statements.

PSP asserts on all filings with the Internal Revenue Service that it is a voluntary association of individual persons and corporations and is not a partnership for any purpose whatsoever, including taxation, per a 1954 IRS directive.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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**NOTE 1.--NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Taxes (Continued)

The Company measures and recognizes the implications of positions taken or expected to be taken in its tax returns on an ongoing basis in accordance with income tax guidance. The Company had no unrecognized tax benefits or liabilities and no adjustments to its financial position, results of operations or cash flows related to uncertain tax positions taken for the years ended December 31, 2015 and 2014. The Company is no longer subject to federal, state or local income tax examinations by tax authorities for years prior to 2012. If assessed, the Company recognizes penalties and interest associated with tax matters as part of operating expenses.

Use of Estimates

The preparation of special-purpose consolidated financial statements 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 special-purpose consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications were made to the 2014 financial statement presentation in order to conform to the 2015 financial statement presentation.

**NOTE 2.--PROPERTY, BOATS AND EQUIPMENT**

Property, boats and equipment are summarized as follows:

	<u>2015</u>	<u>2014</u>
Port Angeles station building	\$ 2,095,254	\$ 2,095,254
Port Angeles station furnishings and equipment	153,542	153,542
Boat "Juan de Fuca"	3,229,434	3,229,434
Boat "Puget Sound"	3,718,327	3,718,327
Seattle office furnishings, furniture and equipment, including computers	1,548,441	1,208,034
Portable pilot units	1,141,572	1,141,572
Portable radio equipment	95,659	95,659
	<u>11,982,229</u>	<u>11,641,822</u>
Less accumulated depreciation and amortization	<u>10,172,900</u>	<u>9,800,966</u>
	<u>\$ 1,809,329</u>	<u>\$ 1,840,856</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3.--FUNDS HELD IN TRUST**

Funds held in trust at December 31, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
Pilotage Commission Trust - training surcharge	\$ 101,225	\$ 92,270
Grays Harbor pensions payable	9,145	9,145
Miscellaneous	-	379
	<u>\$ 110,370</u>	<u>\$ 101,794</u>

PSP acts as a fiduciary agent for the Washington State Board of Pilotage Commissioners (Commission) and collects a training surcharge on behalf of the Commission. This fee is set by the Commission and is invoiced by PSP on a per-assignment basis. The funds are scheduled to be transmitted by PSP to the Commission on a monthly basis.

At December 31, 2015 and 2014, approximately \$55,695 and \$57,750 were amounts collected and due the Commission. In addition, amounts billed and uncollected at December 31, 2015 and 2014, were \$45,530 and \$34,520 for total funds "in pilotage commission trust" of \$101,225 and \$92,270, respectively. The total amounts billed and collected were \$623,865 and \$612,855, respectively, for 2015 and \$745,260 and \$757,740, respectively, for 2014.

**NOTE 4.--LONG-TERM LIABILITIES**

Long-term liabilities at December 31, 2015 and 2014, consisted of the following:

	<u>2015</u>	<u>2014</u>
PPU note payable to bank secured by company assets bearing interest at 1.50% plus the lender's cost of funds (2.34% at December 31, 2015 and 2014), monthly payments of \$24,298 beginning November 1, 2013, maturing November 1, 2017.	\$ 534,563	\$ 826,143
Dispatch software note payable to bank secured by company assets bearing interest at 1.25% plus the one month Libor rate (1.69% at December 31, 2015), monthly payments of \$6,022 beginning May 1, 2016, maturing April 1, 2021.	<u>361,308</u>	<u>-</u>
	895,871	826,143
Less current portion	<u>339,750</u>	<u>291,576</u>
Total long-term liabilities	<u>\$ 556,121</u>	<u>\$ 534,567</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 4.--LONG-TERM LIABILITIES (Continued)**

PTS obtained the PPU note payable described above for the purchase of certain equipment and services. PSP is guarantor on the note. Generally, all the assets of PSP and PTS serve as collateral for the borrowing. The terms of the loan require PSP, as a guarantor, to meet certain covenants. Those covenants include maintaining cash and marketable securities having a value of at least \$500,000 and a minimum increase of \$1 in the pilot's equity measured at the fiscal year end. The agreement also requires PSP to provide periodic and annual financial statements prepared in accordance with generally accepted accounting principles. The bank has been provided with these special-purpose consolidated financial statements prepared in accordance with the modified accrual basis of accounting.

PSP converted the line of credit to a term note for the dispatch software note payable described above (see Note 5.) The loan allows for draws up to \$460,000 up to the conversion date which is April 1, 2016. At the conversion date, the interest rate will be the lender's cost of funds plus 1.5%. Generally all of the assets of PSP serve as collateral for the borrowing.

Total interest expense on all borrowings was \$17,660 and \$23,276 for the years ended December 31, 2015 and 2014.

Estimated future maturities of notes payable are as follows:

<u>Years ending December 31,</u>	
2016	\$ 339,750
2017	315,248
2018	72,262
2019	72,262
2020	72,262
Thereafter	<u>24,087</u>
	<u>\$ 895,871</u>

**NOTE 5.--LINE OF CREDIT**

PSP has a line of credit with a bank in the amount of \$500,000 due September 30, 2016. There was no balance outstanding at December 31, 2015 and 2014. The agreement requires PSP to maintain cash and marketable publicly traded securities with a value of at least \$500,000 as of the last day of each quarter. Accounts, equipment, and other assets were security for the line. The agreement also requires PSP to provide periodic and annual financial statements prepared in accordance with generally accepted accounting principles. The bank has been provided with these special-purpose consolidated financial statements prepared in accordance with the modified accrual basis of accounting.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 6.--RETIREMENT PLANS AND UNRECORDED LIABILITY - PILOTS AND FORMER EXECUTIVE DIRECTOR**

A retirement program, identified as Plan 1, was adopted in 1982 and most recently amended in August 2006. The program provides each pilot who retires thereafter an annual income (paid monthly) of 1.50% of the average of the final three years Target Net Income, as established by the Pilotage Commission (or actual average net income for any year in which there is no target net income) multiplied by the number of years of service.

Pilots who retired between December 31, 1978, and December 31, 1981, participate in a retirement plan known as the “Retirement Agreement of 1978.” Members who retired prior to that date participate in a lesser plan known as the “Trust Contract.” Surviving spouses of members receive a benefit equal to 50% of the member’s entitlement.

As part of an agreement with the Pilotage Commission, PSP is paying retirement benefits for the retirees of the Grays Harbor Bar Pilots. The cost was originally offset in part by a 2001 tariff increase of \$8.00 in the LOA rate as well as a Grays Harbor pension charge of \$403 per assignment (effective January 1, 2015) and \$362 per assignment (effective August 1, 2014), respectively, paid by the Port of Grays Harbor to PSP.

Retirement payments are made from currently earned PSP income. There is no fund for satisfaction of future retirement income; and at December 31, 2015 and 2014, there were no assets set aside and available for future benefits. From 1967 to 2006, the Commission reimbursed the annual ongoing cost of the pilot retirement plans with funds from the tariff. Since then, the Commission has taken the added cost of the retirement plan into account when setting the tariff. Management believes the Commission will continue to provide adequate funds, directly or indirectly, in the tariff for the annual funding of the retirement plan expense. An estimate of the unfunded retirement program liability as of December 31, 2015 and 2014, has not been determined. See Note 10 for further discussion of unrecorded liabilities.

The previous Executive Director (through October 2015) is eligible to receive retirement benefits comparable to those available to pilots. In addition, PSP set up a SEP-IRA for the Executive Director. PSP does not contribute to the SEP-IRA plan.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 7.--RETIREMENT PLANS - EMPLOYEES**

All employees, other than the Executive Director, are members of the Inlandboatmen's Union of the Pacific (Union). The Union sponsors a contributory 401(k) plan so that employees may contribute a portion of their pretax income into a retirement plan. All Union employees are eligible to participate upon commencing employment. PSP does not sponsor or contribute to the 401(k) plan. See Note 11 for Union pension information.

In December 2015, PSP set up a 401(k) plan for all non-union employees including the Executive Director. The plan allows for elective deferrals and provides a safe harbor match and discretionary profit sharing contribution. For the year ended December 31, 2015, PSP contributions to the plan were \$9,246.

**NOTE 8.--LEASES**

Port Angeles Station

A building serving as a boarding and boat station is constructed on tidelands leased from the State of Washington. PSP has a lease with the State of Washington Department of Natural Resources that expires June 2021. The lease contains an 8-year renewal option. Rent expense related to this lease for 2015 and 2014 was \$3,679 and \$3,562, respectively.

Seattle Office

The dispatching and management headquarters is leased for seven years ending October 31, 2019, and has a five-year extension option. The lease has annual increases in rental rate per square foot. Rent is expensed as incurred and not amortized ratably over the lease term. Rent expense related to this lease for 2015 and 2014 was \$95,456 and \$92,091, respectively.

The following is a schedule of future minimum lease payments for non-cancelable operating leases with a term greater than one year as of December 31, 2015:

<u>Years ending December 31,</u>	
2016	\$ 85,567
2017	87,643
2018	89,719
2019	76,933
2020	3,685
Thereafter	<u>1,843</u>
	<u>\$ 345,390</u>

Total Leases

Total rent expense for all leases including parking, which is on a month-to-month agreement, was \$117,636 and \$114,064 for 2015 and 2014.



**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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**NOTE 9.--CONCENTRATIONS**

The Company maintains cash balances in certain financial institutions that may, at times, exceed limits insured by the FDIC. The Company does not believe that it is exposed to significant credit risk on cash and cash equivalents as deposits are maintained in high quality financial institutions and the Company has not experienced any losses in such accounts.

Puget Sound Pilots derives its income from services performed within the greater Puget Sound region. Any disruption of ship travel within this region may significantly affect revenues and services.

**NOTE 10.-UNRECORDED LIABILITIES**

As noted in Note 1, these special-purpose financial statements are prepared on the modified accrual basis of accounting. This method of accounting and reporting permits PSP to present these special-purpose consolidated financial statements without recording the related liability for goods and services received but not paid, employee services earned but not paid, and the various pilot services earned but not paid. Thus, PSP is on a “pay-as-you-go” basis for most liabilities.

Had PSP recorded the present value of these future obligations at the time the goods were received, services performed or liability incurred, at the respective balance sheet dates, PSP would report in these financial statements a deficiency of assets, i.e., liabilities would exceed assets and thus pilots’ equity would be negative (line 28, page 6).

The following are unrecorded liabilities at December 31, 2015 and 2014:

Individual pilots earn respite time in paid days for working engagements during the two-week off part of their two-week on (duty)/two-week off (respite) watch periods. In addition, members receive a two-week vacation each year. Whenever the volume of shipping requires, members on respite or vacation may perform assignments during their off duty and be credited with a comp day.

Comp day value at December 31, 2015, was approximately \$4,985,068 compared with approximately \$4,850,700 at December 31, 2014.

Annual unpaid vacation value at December 31, 2015, was approximately \$926,526 compared with approximately \$950,950 at December 31, 2014.

Historical experience indicates that some members receive comp day pay in the periods immediately after the end of their pilotage service. Historically, when setting the tariff, the Commission has considered pilots using comp days under these circumstances to be active pilots for purposes of determining how many pilots the tariff needs to fund.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
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**NOTE 10.-UNRECORDED LIABILITIES (Continued)**

Currently, PSP treats these payments to pilots without a license as an operating expense. Historically, funds to pay the cost to PSP of these comp days have been provided by the tariff. Management has no reason to believe that this will change in the future. In addition, the value of a comp day is directly related to the earnings of an active pilot (balance of pilotage revenue pooled per pilot). If those earnings decline, the value of the comp day - and the amount of the unrecorded liability associated with it - goes down by the same amount.

PSP's major medical plan provides for a continuation of full-share distributions for up to six watches to pilots who, due to illness or injury, are physically unable to pilot. During 2015 and 2014, 5.6 monthly payments and 3.7 monthly payments, respectively, were made to different pilots under this operating rule. An estimate of the liability for major medical as of December 31, 2015 and 2014, has not been determined.

As pilots retire, PSP buys them out over a period of time. As of December 31, 2015 and 2014, the amount due to retired pilots under the buyout is approximately \$3,785,415 and \$2,755,276, respectively.

Redemption of pilot ownership interest for pilots being paid out as of December 31, 2015, due for each of the next five years and in the aggregate are as follows:

<u>Years ended December 31,</u>	
2016	\$1,057,429
2017	850,064
2018	716,723
2019	588,720
2020	438,987
Thereafter	<u>133,492</u>
	<u>\$3,785,415</u>

All Union employees earn vacation and sick leave in accordance with the Union contract. Employees are entitled to 6 days of sick leave per year and may only carry forward a maximum of 45 days.

The Executive Director earns vacation and sick leave in accordance with their contract. The former Executive Director's vacation was to be taken in the year earned. As of October 2015, the Executive Director is allowed a maximum carryover of 10 days of vacation time between calendar years. Under both contracts, unused sick leave may carryover from one year to another and may accrue up to a maximum of 90 days. An estimate of the liability for employee and Executive Director compensated absences as of December 31, 2015 and 2014, has not been determined.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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**NOTE 11.-COMMITMENTS AND CONTINGENCIES**

In October 2011, PSP signed a labor agreement with the Inlandboatmen's Union of the Pacific which was effective from January 1, 2011, to December 31, 2015. An extension was filed to extend the contract until March 2016.

PSP contributes to the Union's Trust, the purpose of which is to provide for hospital, medical, dental, vision care, time loss and life insurance benefits for all Union employees. Contributions to the Trust were \$285,758 and \$274,036 for the years ended December 31, 2015 and 2014, respectively, and are recorded on the cash basis in the accompanying special-purpose consolidated financial statements.

PSP also contributes to the Union's Trust, the purpose of which is to provide pensions and annuities for the benefit of employees who qualify under the provisions of the Union's retirement plan (Inlandboatmen's Union of the Pacific National Pension Plan) and to provide benefits to the beneficiaries of the employees. Contributions to the trust were \$129,035 and \$125,599 for the years ended December 31, 2015 and 2014, respectively, and are recorded on the cash basis in the accompanying special-purpose consolidated financial statements. Contributions include supplemental contributions under the Rehabilitation Plan adopted by the Union of 6.05% per year.

Under the terms of the Union contract, PSP makes "defined contributions" and not "defined benefits." PSP does not consent to the existence or maintenance of any funding deficiency. Accordingly, PSP's liability is limited to the making of contributions as prescribed by the agreement.

**NOTE 12.-SUBSEQUENT EVENTS**

Management has evaluated subsequent events through March 11, 2016, the date which the financial statements were available to be issued.

**ADDITIONAL**

**INFORMATION**

PUGET SOUND PILOTS AND SUBSIDIARY  
COMMENTS ON 2015 OPERATIONS

A. FEATURES OF INDIVIDUAL DISTRIBUTIONS

	2015
1. Total annual duty days	19,416
2. Working Pilot roster (duty days divided by days in year)	53.2 *
3. Piloting engagements	7,788
4. Total pilotage revenue per day per pilot	\$ 1,694
5. Expense per day per pilot	\$ 714
6. Balance of revenue pool per day per pilot	\$ 979
7. Transportation fees per day per pilot	\$ 58

B. OPERATING RESULTS, 2015

	2015
1. Total Pilotage Revenue	\$ 32,881,003
2. Seattle	\$ 10,002,012
3. Boats	1,695,680
4. Port Angeles	<u>521,300</u>
5. Operating expense - pooled	(12,218,992)
6. Individual Business Expense @ \$9,980	\$ 530,881
7. Transportation fees paid directly to pilots	<u>1,119,406</u>
8. Expense - other	<u>(1,650,287)</u>
9. Balance of Pilotage Revenue Pooled	<u>\$ 19,011,724</u>
10. Working Pilot Roster	53.2
11. Balance of Pilotage Revenue Pooled Per Pilot	<u>\$ 357,400</u>

PUGET SOUND PILOTS AND SUBSIDIARY  
CREDIT FOR TRANSPORTATION EXPENSE  
AND PORT ANGELES TRAVEL

Year Ended December 31, 2015

1. Capt. D.S. Anacker .....	\$ 27,438	29. Capt. P.S. Kelly .....	24,996
2. Capt. M.L. Anthony .....	25,335	30. Capt. Klapperich .....	22,852
3. Capt. J.E. Arnold .....	22,673	31. Capt. E.C. Lichty .....	37,164
4. Capt. M.E. Blake .....	30,746	32. Capt. B.E. Lowe .....	10,203
5. Capt. B.W. Bouma .....	22,041	33. Capt. W.W. Lowery .....	40,250
6. Capt. D. Brouillard .....	37,380	34. Capt. E. Marmol .....	26,373
7. Capt. D.E. Brusco .....	17,655	35. Capt. D.W. Mayer .....	27,049
8. Capt. J. Bujacich .....	32,810	36. Capt. B.L. Michelson .....	604
9. Capt. I. Carlson .....	26,773	37. Capt. S. Mork .....	11,529
10. Capt. Cartensen .....	7,275	38. Capt. S.E. Moreno .....	24,540
11. Capt. W.M. Carley .....	28,824	39. Capt. A.J. Newman .....	24,638
12. Capt. F.A. Coe .....	23,940	40. Capt. D.A. Sanders .....	26,102
13. Capt. S.T. Coleman .....	22,990	41. Capt. J.T. Scoggins .....	26,393
14. Capt. T.D. Coryell .....	32,835	42. Capt. J.C. Scragg .....	23,128
15. Capt. L.P. Emerson .....	28,663	43. Capt. J.R. Semler .....	26,861
16. Capt. F.E. Engstrom .....	35,861	44. Capt. S.D. Semler .....	28,630
17. Capt. V.O. Engstrom .....	31,152	45. Capt. S.A. Seymour .....	31,699
18. Capt. J.T. Galvin .....	30,230	46. Capt. D.L. Shaffer .....	28,188
19. Capt. P.A. Giese .....	22,873	47. Capt. J.A. Shaffer .....	23,563
20. Capt. Grobschmit .....	960	48. Capt. M.J. Shuler .....	29,663
21. Capt. J. Hannuksela .....	26,532	49. Capt. W.J. Sliker .....	27,070
22. Capt. J.B. Harris .....	25,804	50. Capt. D. Soriano .....	23,822
23. Capt. B.F. Henshaw .....	26,982	51. Capt. G.P. Thoreson .....	27,063
24. Capt. G. D. Hurt .....	21,574	52. Capt. E.M. VonBrandenfels ..	26,127
25. Capt. B.R. Jensen .....	21,204	53. Capt. J.E. Ward .....	13,787
26. Capt. V.K. Justice .....	15,066	54. Capt. G.R. Wildes .....	25,017
27. Capt. J.E. Kalvoy .....	29,716	55. Capt. M.D. Wood .....	<u>13,459</u>
28. Capt. J. Kearns .....	23,134		
		TOTAL .....	\$ <u>1,349,236</u>

PUGET SOUND PILOTS AND SUBSIDIARY

SCHEDULE OF DAYS OF SERVICE AND DISTRIBUTION OF  
PILOTAGE REVENUE AND EXPENSE

Year Ended December 31, 2015

<u>Pilot Name</u>	(1) Days of Service	(2) Credit for Pilotage Revenue	(3) Charge for Operating Expense	(4) Charge for Other Expense	(5)*** Share of Balance of Pilotage Revenue Pooled
1. Capt. D.S. Anaker .....	365	\$ 618,128	\$ 229,704	\$ 31,038	\$ 357,386
2. Capt. M. Anthony .....	365	618,128	229,704	31,024	357,400
3. Capt. J.E. Arnold .....	365	618,128	229,704	31,024	357,400
4. Capt. M.E. Blake .....	365	618,128	229,704	31,024	357,400
5. Capt. B. Bouma .....	365	618,128	229,704	31,024	357,400
6. Capt. D. Brouillard .....	365	618,128	229,704	31,024	357,400
7. Capt. D. Brusco .....	365	618,128	229,704	31,024	357,400
8. Capt. J. Bujacich .....	365	618,128	229,704	31,024	357,400
9. Capt. I. Carlson .....	365	618,128	229,704	31,024	357,400
10. Capt. W.M. Carley .....	365	618,128	229,704	31,024	357,400
11. Capt. J. Carstensen** .....	86	145,623	54,120	7,277	84,226
12. Capt. F.A. Coe .....	365	618,128	229,704	31,024	357,400
13. Capt. S.T. Coleman .....	365	618,128	229,704	31,024	357,400
14. Capt. T. Coryell .....	365	618,128	229,704	31,024	357,400
15. Capt. L.P. Emerson.....	365	618,128	229,704	31,024	357,400
16. Capt. F. Engstrom.....	365	618,128	229,704	31,024	357,400
17. Capt. V. Engstrom.....	365	618,128	229,704	31,024	357,400
18. Capt. J.T. Galvin.....	365	618,128	229,704	31,024	357,400
19. Capt. P.A. Giese.....	365	618,128	229,704	31,024	357,400
20. Capt. D. Grobschmit.....	<u>365</u>	<u>618,128</u>	<u>229,704</u>	<u>31,024</u>	<u>357,400</u>
Subtotal Forward.....	7,021	\$ 11,890,055	\$ 4,418,496	\$ 596,747	\$ 6,874,812

\* Pilot is retired as of December 31, 2015

\*\* Pilot started in 2015

\*\*\* Amount does not include individual income and social security taxes and does not include transportation payments made to the pilot

Formula for column (5) = (2) - (3) - (4)

See notes on page 25

SCHEDULE OF DAYS OF SERVICE AND DISTRIBUTION OF  
PILOTAGE REVENUE AND EXPENSE

Year Ended December 31, 2015

Pilot Name	(1) Days of Service	(2) Credit for Pilotage Revenue	(3) Charge for Operating Expense	(4) Charge for Other Expense	(5)*** Share of Balance of Pilotage Revenue Pooled
Subtotal Forward.....	7,021	\$ 11,890,055	\$ 4,418,496	\$ 596,747	\$ 6,874,812
21. Capt. J. Hannuksela .....	365	618,128	229,704	31,024	357,400
22. Capt. J.B. Harris.....	365	618,128	229,704	31,024	357,400
23. Capt. B.F. Henshaw.....	365	618,128	229,704	31,024	357,400
24. Capt. G. D. Hurt.....	365	618,128	229,704	31,024	357,400
25. Capt. B. R. Jensen.....	365	618,128	229,704	31,024	357,400
26. Capt. V.K. Justice.....	365	618,128	229,704	31,024	357,400
27. Capt. J. Kalvoy.....	365	618,128	229,704	31,024	357,400
28. Capt. J. Kearns.....	365	618,128	229,704	31,024	357,400
29. Capt. P.S. Kelly.....	365	618,128	229,704	31,024	357,400
30. Capt. E.C. Klapperich .....	365	618,128	229,704	31,024	357,400
31. Capt. E.C. Lichty.....	365	618,128	229,704	31,024	357,400
32. Capt. B. Lowe** .....	88	149,028	55,381	7,480	86,167
33. Capt. W. Lowery .....	365	618,128	229,704	31,024	357,400
34. Capt. E. Marmol.....	365	618,128	229,704	31,024	357,400
35. Capt. D. W. Mayer.....	365	618,128	229,704	31,024	357,400
36. Capt. B.L. Michelson*.....	176	298,056	110,761	14,959	172,336
37. Capt. S.E. Moreno. ....	365	618,128	229,704	31,024	357,400
38. Capt. S. Mork.....	365	618,128	229,704	31,024	357,400
39. Capt. A. J. Newman.....	<u>365</u>	<u>618,128</u>	<u>229,704</u>	<u>31,024</u>	<u>357,400</u>
Subtotal Forward.....	13,490	\$ 22,845,315	\$ 8,489,606	\$ 1,146,594	\$ 13,209,115

\* Pilot is retired as of December 31, 2015

\*\* Pilot started in 2015

\*\*\* Amount does not include individual income and social security taxes and does not include transportation payments made to the pilot

Formula for column (5) = (2) - (3) - (4)

See notes on page 25



PUGET SOUND PILOTS AND SUBSIDIARY

SCHEDULE OF DAYS OF SERVICE AND DISTRIBUTION OF  
PILOTAGE REVENUE AND EXPENSE

Year Ended December 31, 2015

<u>Pilot Name</u>	(1) Days of Service	(2) Credit for Pilotage Revenue	(3) Charge for Operating Expense	(4) Charge for Other Expense	(5)*** Share of Balance of Pilotage Revenue Pooled
Subtotal Forward.....	13,490	\$ 22,845,315	\$ 8,489,606	\$ 1,146,594	\$ 13,209,115
40. Capt. D.A. Sanders.....	365	618,128	229,704	31,024	357,400
41. Capt. J. T. Scoggins.....	365	618,128	229,704	31,024	357,400
42. Capt. J.C. Scragg.....	365	618,128	229,704	31,024	357,400
43. Capt. J.R. Semler.....	365	618,128	229,704	31,024	357,400
44. Capt. S.D. Semler.....	365	618,128	229,704	31,024	357,400
45. Capt. S.A. Seymour.....	365	618,128	229,704	31,024	357,400
46. Capt. D.L. Shaffer.....	365	618,128	229,704	31,024	357,400
47. Capt. J.A. Shaffer.....	365	618,128	229,704	31,024	357,400
48. Capt. M.J. Shuler.....	365	618,128	229,704	31,024	357,400
49. Capt. W.J. Sliker.....	365	618,128	229,704	31,024	357,400
50. Capt. D. Soriano.....	365	618,128	229,704	31,024	357,400
51. Capt. G.P. Thoreson.....	365	618,128	229,704	31,024	357,400
52. Capt. E.M. vonBrandenfels.....	365	618,128	229,704	31,024	357,400
53. Capt. J.K. Ward*.....	212	359,022	133,417	18,019	207,586
54. Capt. J.E. Ward*.....	332	562,242	208,936	28,219	325,087
55. Capt. G.R. Wildes.....	365	618,128	229,704	31,024	357,400
56. Capt. M.D. Wood*.....	<u>272</u>	<u>460,632</u>	<u>171,177</u>	<u>23,119</u>	<u>266,336</u>
Total.....	<u>19,416</u>	<u>\$ 32,881,003</u>	<u>\$ 12,218,992</u>	<u>\$ 1,650,287</u>	<u>\$ 19,011,724</u>

\* Pilot is retired as of December 31, 2015

\*\* Pilot started in 2015

\*\*\* Amount does not include individual income and social security taxes and does not include transportation payments made to the pilot

Formula for column (5) = (2) - (3) - (4)

See notes on page 25

PUGET SOUND PILOTS AND SUBSIDIARY

NOTES TO SCHEDULE OF DAYS OF SERVICE AND DISTRIBUTION  
OF PILOTAGE REVENUE AND EXPENSE

Year Ended December 31, 2015

- A. PSP bylaws provide for distribution of revenues for piloting services in proportion to days of duty and distributions of pooled expenses equally, except for certain treatments and dispensations in unusual circumstances at the discretion of the Board of Directors. See columns (2), (3), (4) and (5).
  
- B. The bylaws also provide for the credit for travel fees per tariff to the pilot performing the services to which travel fees apply. Each pilot is also credited for special Port Angeles transportation amounts applicable to certain engagements. See page 21.

PUGET SOUND PILOTS AND SUBSIDIARY

COMPARATIVE SCHEDULES OF ACCOUNTS RECEIVABLE

DECEMBER 31, 2015 AND 2014

	<u>12-31-15</u>	<u>12-31-14</u>	<u>Increase (Decrease)</u>
1. Current accounts for services rendered during last 30 days of year	\$ 2,285,063	\$ 1,782,173	\$ 502,890
2. 31 to 45 days old	182,513	77,761	104,752
3. 46 to 60 days old	184,844	22,513	162,331
4. 61 to 90 days old	9,553	15,059	(5,506)
5. Over 90 days old	<u>8,921</u>	<u>4,903</u>	<u>4,018</u>
6. Total	2,670,894	1,902,409	768,485
7. Less allowance for doubtful accounts	<u>(5,500)</u>	<u>(5,500)</u>	<u>-</u>
NET TOTAL	<u>\$ 2,665,394</u>	<u>\$ 1,896,909</u>	<u>\$ 768,485</u>

PUGET SOUND PILOTS AND SUBSIDIARY

COMPARATIVE SCHEDULES OF PROPERTY, BOATS AND EQUIPMENT

DECEMBER 31, 2015 AND 2014

	<u>12-31-15</u>	<u>12-31-14</u>	<u>Change</u>
1. Port Angeles Station building	\$ 2,095,254	\$ 2,095,254	\$ 0
2. Accumulated depreciation	<u>(1,178,164)</u>	<u>(1,129,418)</u>	<u>(48,746)</u>
3. BALANCE OF BUILDING	<u>\$ 917,090</u>	<u>\$ 965,836</u>	<u>\$ (48,746)</u>
4. Port Angeles Station furnishings and equipment	\$ 153,542	\$ 153,542	\$ 0
5. Accumulated depreciation	<u>(143,749)</u>	<u>(140,097)</u>	<u>(3,652)</u>
6. BALANCE OF PORT ANGELES STATION AND FURNISHINGS	<u>\$ 9,793</u>	<u>\$ 13,445</u>	<u>\$ (3,652)</u>
7. Boat "Juan de Fuca"	\$ 3,229,434	\$ 3,229,434	\$ 0
8. Accumulated depreciation	<u>(3,228,723)</u>	<u>(3,228,695)</u>	<u>(28)</u>
9. BALANCE OF "JUAN DE FUCA"	<u>\$ 711</u>	<u>\$ 739</u>	<u>\$ (28)</u>
10. Boat "Puget Sound"	\$ 3,718,327	\$ 3,718,327	\$ 0
11. Accumulated depreciation	<u>(3,718,327)</u>	<u>(3,718,327)</u>	<u>0</u>
12. BALANCE OF "PUGET SOUND"	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
13. Seattle office furnishings, furniture and equipment, including computer	\$ 1,548,441	\$ 1,208,034	\$ 340,407
14. Accumulated depreciation	<u>(1,187,133)</u>	<u>(1,153,918)</u>	<u>(33,215)</u>
15. BALANCE OF SEATTLE OFFICE FURNISHINGS	<u>\$ 361,308</u>	<u>\$ 54,116</u>	<u>\$ 307,192</u>
16. Portable radio equipment	\$ 95,659	\$ 95,659	\$ 0
17. Accumulated depreciation	<u>(93,615)</u>	<u>(92,715)</u>	<u>(900)</u>
18. BALANCE OF PORTABLE RADIO EQUIPMENT	<u>\$ 2,044</u>	<u>\$ 2,944</u>	<u>\$ (900)</u>
19. Portable Pilot Units	\$ 1,141,572	\$ 1,141,572	\$ 0
20. Accumulated depreciation	<u>(623,189)</u>	<u>(337,796)</u>	<u>(285,393)</u>
21. BALANCE OF PORTABLE PILOT UNITS	<u>\$ 518,383</u>	<u>\$ 803,776</u>	<u>\$ (285,393)</u>
TOTAL BOOK VALUE OF FIXED ASSETS	<u>\$ 1,809,329</u>	<u>\$ 1,840,856</u>	<u>\$ (31,527)</u>

PUGET SOUND PILOTS AND SUBSIDIARY  
SCHEDULE OF RETIREMENT INCOME FOR INACTIVE  
PILOTS AND WIDOWS OF DECEASED PILOTS

Year Ended December 31, 2015

1. Mrs. Penelope Anderson	\$ 19,223	31. Capt. G. Larson	139,344
2. Capt. W.A. Anderson	36,739	32. Mrs. Sheila Lindholm	7,200
3. Capt. W.A. Bock	95,535	33. Capt. E.J. Lofquist	13,442
4. Capt. W. Bundren	124,983	34. Capt. D. Mackenzie	144,363
5. Mrs. Linda Carey	17,273	35. Capt. Laurance Mathisen	126,912
6. Mrs. Shirley Carlson	12,213	36. Capt. R. McCurdy	120,024
7. Mrs. Carole Cramer	9,694	37. Capt M. Mendenhall	176,616
8. Mrs. Lenore Damon	12,834	38. Capt. B. L. Michelson	66,835
9. Capt. M. Endrody	94,908	39. Capt. F. L. Michelson	25,365
10. Capt. Carl Engstrom	125,198	40. Capt. R.A. Moss	17,395
11. Capt. M. Flavel	171,696	41. Capt. R.W. Murphy	67,709
12. Mrs. Florian	21,860	42. Capt. J. Niederhauser	111,012
13. Capt. A. L. Fosse	95,535	43. Capt. J.P. Osnes	28,003
14. Capt. M. T. Gavin	64,587	44. Capt. K.E. Ostergaard	53,105
15. Capt. T.J. Goodin	50,641	45. Capt. R.S. Peake	35,698
16. Mrs. Grobschmit	7,709	46. Capt. L. Petke	98,544
17. Capt P. Hannigan	162,491	47. Capt. G.M. Poor	45,314
18. Mrs. Katherine Hayes	2,767	48. Capt. S. A. Robichaux	54,173
19. Mrs. Rosalie Henshaw	20,558	49. Capt. L.W. Sackett	20,558
20. Mrs. Joy Holmes	28,791	50. Capt. W.H. Snyder	62,964
21. Capt. Calvin C. Hunziker	124,416	51. Capt. D. Stensager	107,808
22. Capt. Thomas Jacobs	125,198	52. Capt. J.S. Thorsen	48,557
23. Capt. C.A. Johannes	54,173	53. Capt. L.D. Thorsen	39,980
24. Capt. Marin Johnson	52,872	54. Capt. W. Thorsen	110,204
25. Capt. B.E. Joyce	30,651	55. Capt. J. Ward	18,684
26. Capt. D. J. Kelly	67,458	56. Capt. Jonathon E Ward	5,275
27. Capt. V. Kjeldtoff	29,611	57. Capt. N.A. Werner	74,766
28. Capt. B. Knowles	95,572	58. Mrs. Kathy Wiley	39,460
29. Capt. Robert Kromann	149,304	59. Capt. M. Wood	33,631
30. Capt. C.N. Larson	88,222		
		TOTAL	<u>\$ 3,885,653</u>

PUGET SOUND PILOTS AND SUBSIDIARY  
 SCHEDULE OF RETIREMENT INCOME FOR INACTIVE  
 GRAYS HARBOR PILOTS AND  
 WIDOWS OF DECEASED GRAYS HARBOR PILOTS

Year Ended December 31, 2015

Following a public hearing on August 9, 2001, the Washington State Board of Pilotage Commissioners, by lawful motion, directed “that funds derived from the application of the Gray’s Harbor Pilotage District tariff (Pension Charge) for the purposes of offsetting a proportionate share of pension expenses will be remitted to Puget Sound Pilots for payment to retirees of the Grays Harbor Pilotage District and that Puget Sound Pilots will include reporting of the revenue and expenses in their annual audited Financial Statements.”

1. Grays Harbor Pilotage District Pension Charge revenue (included in Pilotage Revenue)	<u>\$ 80,600</u>
2. Grays Harbor Pilotage District Pension expense (included in Seattle Office Operating Expense and Administrative Overhead)	<u>\$ 109,739</u>
a. Mrs. N. Dietrich	\$ 13,318
b. Capt. J.M. Hoyne	39,010
c. Capt. B. Watson	57,411

PUGET SOUND PILOTS AND SUBSIDIARY

SCHEDULE OF SEATTLE OFFICE OPERATING EXPENSE  
AND ADMINISTRATIVE OVERHEAD

(IN DOLLAR AMOUNT AND AS A PERCENTAGE OF PILOTAGE REVENUE)

Year Ended December 31, 2015

1. Attorney fees	\$ 51,605	0.2%
2. Computer maintenance	329,568	1.0%
3. Computer programming	4,862	0.0%
4. Comp day	163,120	0.5%
5. Conferences	34,347	0.1%
6. Consulting services	284,359	0.9%
7. CPA fees	56,665	0.2%
8. Depreciation and amortization	320,884	1.0%
9. Former Director retirement	5,792	0.0%
10. Drug testing	6,737	0.0%
11. Dues	169,583	0.5%
12. Employee benefits	295,484	0.9%
13. Employee salaries	851,238	2.6%
14. Equipment leases	2,915	0.0%
15. Gifts	13,127	0.0%
16. Grays Harbor retirement	109,739	0.3%
17. Insurance	197,078	0.6%
18. Interest	17,660	0.1%
19. License fees - commission	344,500	1.0%
20. Lobbyist	112,294	0.3%
21. Medical insurance - pilots	1,604,390	4.9%
22. Office maintenance and repair	6,042	0.0%
23. Office supplies	31,432	0.1%
24. Pilot training	164,232	0.5%
25. Printing and publications	5,532	0.0%
26. Puget Sound retirement	3,885,653	12.0%
27. Rent and parking	113,957	0.3%
28. Taxes on payroll	61,007	0.2%
29. Taxes, other	9,662	0.0%
30. Taxes on revenue	536,666	1.6%
31. Travel, entertainment and promotion	171,926	0.5%
32. Telephone and communications	<u>39,956</u>	<u>0.1%</u>
TOTAL	<u>\$ 10,002,012</u>	<u>30.4%</u>

PUGET SOUND PILOTS AND SUBSIDIARY

SCHEDULE OF BOAT OPERATING EXPENSE  
(IN DOLLAR AMOUNT AND AS A PERCENTAGE OF PILOTAGE REVENUE)

Year Ended December 31, 2015

1. Depreciation	\$	28	0.0%
2. Employee benefits		237,200	0.7%
3. Employee salaries		750,119	2.3%
4. Fuel of "Juan de Fuca"		128,517	0.4%
5. Fuel of "Puget Sound"		135,906	0.4%
6. Insurance		104,574	0.3%
7. Maintenance and operation of "Juan de Fuca"		115,482	0.4%
8. Maintenance and operation of "Puget Sound"		160,031	0.5%
9. Taxes on payroll		59,512	0.2%
10. Taxes on property		<u>4,311</u>	<u>0.0%</u>
TOTAL	\$	<u><u>1,695,680</u></u>	<u><u>5.2%</u></u>



PUGET SOUND PILOTS AND SUBSIDIARY

SCHEDULE OF PORT ANGELES STATION OPERATING EXPENSE  
(IN DOLLAR AMOUNT AND AS A PERCENTAGE OF PILOTAGE REVENUE)

Year Ended December 31, 2015

1. Depreciation	\$ 52,397	0.2%
2. Food	93,855	0.3%
3. Insurance	38,580	0.1%
4. Lodging	219	0.0%
5. Maintenance and repairs	34,460	0.1%
6. Rent, tideland lease	3,679	0.0%
7. Reposition pilots	229,830	0.7%
8. Supplies	18,994	0.1%
9. Taxes on property	13,668	0.0%
10. Telephone and communications	12,847	0.0%
11. Utilities	<u>22,771</u>	<u>0.1%</u>
TOTAL	<u>\$ 521,300</u>	<u>1.6%</u>

PUGET SOUND PILOTS AND SUBSIDIARY

SCHEDULE OF EMPLOYEES

December 31, 2015

<b>Employee</b>	<b>Position</b>
1. M. Arkins	AR Clerk
2. T. Burnell	Dispatcher/Clerk
3. J. Clark	Relief Deckhand/Engineer
4. A. Dreyer	Boat Operator
5. M. Gregson	Deckhand/Engineer
6. C. Harthome	Accountant/Dispatcher/Clerk
7. K. Houston	Dispatcher/Clerk
8. P. Jacobsen	Deckhand/Engineer
9. M. Juskevich	Boat Operator
10. J. Melvin	Deckhand
11. P. Moore	Accountant/Dispatcher/Clerk
12. J. Rushton	Deckhand/Engineer
13. R. Shelton	Maintenance/Utility
14. D. Shideler	Lead Boat Operator
15. L. Styrk	Executive Director
16. B. Valentine	Dispatcher/Clerk
17. R. Welch	Boat Operator