

Exh. JR-8r  
Docket TP-190976  
Witness: Jordan Royer

BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND PILOTS,

Respondent.

**DOCKET TP-190976**

**EXHIBIT TO  
TESTIMONY OF  
Jordan Royer  
ON BEHALF OF  
PACIFIC MERCHANT SHIPPING ASSOCIATION**

**BPC PSP Financial Reports 2015-2019**

May 27, 2020

*Revised July 8, 2020*

**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****TABLE OF CONTENTS**

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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**

<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**

**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**

	<u>2015</u>	<u>2014</u>
<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	<u>44,287</u>	<u>27,078</u>
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	<u>(19,124,049)</u>	<u>(20,053,184)</u>
16. NET CASH USED IN FINANCING ACTIVITIES	<u>(19,556,048)</u>	<u>(20,063,329)</u>
17. NET INCREASE (DECREASE) IN CASH	(336,082)	(64,851)
18. Cash at beginning of year	<u>2,194,244</u>	<u>2,259,095</u>
19. Cash at end of year	<u><u>\$ 1,858,162</u></u>	<u><u>\$ 2,194,244</u></u>
<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**

**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**

**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**  
**DECEMBER 31, 2015 AND 2014**

**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**  
**DECEMBER 31, 2015 AND 2014**

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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**  
**DECEMBER 31, 2015 AND 2014**

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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**  
**DECEMBER 31, 2015 AND 2014**

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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**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015 AND 2014**

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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

	<u>2015</u>
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

		<u>2015</u>
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

Pilot Name	(1)	(2)	(3)	(4)	(5)****
	Days of Service	Credit for Pilotage Revenue	Charge for Operating Expense	Charge for Other Expense	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 pil

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. Kjeldtoft	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>\$ 1,695,680</u>	<u>5.2%</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

**PUGET SOUND PILOTS AND SUBSIDIARY**

**SPECIAL-PURPOSE CONSOLIDATED  
FINANCIAL STATEMENTS  
(MODIFIED ACCRUAL BASIS)**

**FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015**

**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, 2016 and 2015, 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 special-purpose consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special-purpose consolidated 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 special-purpose 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 special-purpose consolidated 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, 2016 and 2015, 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.

**Restriction on Use**

Our report is intended solely for the information and use of Puget Sound Pilots and the Puget Sound Pilotage Commission and is not intended and should not be used by anyone other than these specified parties.

*Shannon ? Associates, LLP*

Kent, Washington

April 12, 2017

**PUGET SOUND PILOTS AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES  
AND PILOTS' EQUITY - MODIFIED ACCRUAL BASIS  
DECEMBER 31, 2016 AND 2015**

		<u>ASSETS</u>		
		2016	2015	Increase (Decrease)
1.	<b>CURRENT ASSETS</b>			
2.	Cash in banks	\$ 1,741,856	\$ 1,858,162	\$ (116,306)
3.	Accounts receivable, net of allowance for doubtful accounts of \$5,500 at each year end	2,421,042	2,665,394	(244,352)
4.	Prepaid expenses	<u>113,486</u>	<u>96,211</u>	<u>17,275</u>
5.	<b>TOTAL CURRENT ASSETS</b>	4,276,384	4,619,767	(343,383)
6.	<b>PROPERTY, BOATS AND EQUIPMENT</b>			
7.	Total building, boats, furnishings, and equipment	12,199,076	11,982,229	216,847
8.	Less accumulated depreciation and amortization	<u>10,599,068</u>	<u>10,172,900</u>	<u>426,168</u>
9.	<b>NET PROPERTY, BOATS AND EQUIPMENT</b>	1,600,008	1,809,329	(209,321)
10.	<b>OTHER ASSETS</b>			
11.	Loan fees, net of accumulated amortization of \$4,728 and \$3,323 as of 2016 and 2015	<u>1,722</u>	<u>3,327</u>	<u>(1,605)</u>
12.	<b>TOTAL ASSETS</b>	<u>\$ 5,878,114</u>	<u>\$ 6,432,423</u>	<u>\$ (554,309)</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, 2016 AND 2015**

**LIABILITIES AND PILOTS' EQUITY**

		<u>2016</u>	<u>2015</u>	Increase (Decrease)
13.	<b>CURRENT LIABILITIES</b>			
14.	Funds held in trust (See Note 3)	\$ 74,438	\$ 110,370	\$ (35,932)
15.	Accrued taxes	38,474	41,653	(3,179)
16.	Retirement expense payable	352,772	342,338	10,434
17.	Current portion of long-term liabilities	<u>334,983</u>	<u>339,750</u>	<u>(4,767)</u>
18.	<b>TOTAL CURRENT LIABILITIES</b>	800,667	834,111	(33,444)
19.	<b>LONG-TERM LIABILITIES, net of current portion</b>	299,000	556,121	(257,121)
20.	<b>UNRECORDED LIABILITIES, COMMITMENTS AND CONTINGENCIES</b>	-	-	-
21.	<b>TOTAL LIABILITIES</b>	1,099,667	1,390,232	(290,565)
22.	<b>PILOTS' EQUITY</b>			
23.	December distributions payable to pilots	1,522,269	1,661,392	(139,123)
24.	Reserved for operations	750,000	750,000	-
25.	Reserved for working capital account	693,460	973,679	(280,219)
26.	Remainder of pilots' equity	<u>1,812,718</u>	<u>1,657,120</u>	<u>155,598</u>
27.	<b>TOTAL PILOTS' EQUITY</b>	<u>4,778,447</u>	<u>5,042,191</u>	<u>(263,744)</u>
28.	<b>TOTAL LIABILITIES AND PILOTS' EQUITY</b>	<u>\$ 5,878,114</u>	<u>\$ 6,432,423</u>	<u>\$ (554,309)</u>

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, 2016 AND 2015**

	<u>2016</u>		<u>2015</u>	
	Amount	Percent	Amount	Percent
1. <b>PILOTAGE REVENUE</b>	\$ 34,183,294	100.0 %	\$ 32,881,003	100.0 %
2. <b>OPERATING EXPENSES</b>				
3. Seattle office operating expense and administrative overhead	9,789,222	28.6	10,002,012	30.4
4. Boat operating expense	1,828,644	5.3	1,695,680	5.2
5. Port Angeles station operating expense	<u>498,628</u>	<u>1.5</u>	<u>521,300</u>	<u>1.6</u>
6. <b>TOTAL OPERATING EXPENSES</b>	12,116,494	35.4	12,218,992	37.2
7. <b>TRANSPORTATION FEES PAID DIRECTLY TO PILOTS</b>	<u>1,097,809</u>	<u>3.2</u>	<u>1,119,406</u>	<u>3.4</u>
8. <b>NET INCOME FROM POOLED OPERATIONS</b>	20,968,991	61.3	19,542,605	59.4
9. <b>OTHER INCOME (EXPENSE)</b>				
10. Interest income and finance charges	48,843	0.1	29,965	0.1
11. Miscellaneous income	<u>-</u>	<u>-</u>	<u>1,123</u>	<u>0.0</u>
12. <b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>48,843</u>	<u>0.1</u>	<u>31,088</u>	<u>0.1</u>
13. <b>BALANCE OF REVENUE POOL BEFORE DEDUCTIONS OF INDIVIDUAL PILOTS' BUSINESS EXPENSES</b>	21,017,834	<u>61.4 %</u>	19,573,693	<u>59.3 %</u>
14. <b>LESS PER DETAIL BELOW</b>				
15. Buy-ins and buy-outs, net	(280,219)		(161,320)	
16. All other payments to pilots	<u>(21,001,359)</u>		<u>(19,124,049)</u>	
17. <b>TOTAL DETAIL</b>	<u>(21,281,578)</u>		<u>(19,285,369)</u>	
18. <b>NET INCREASE (DECREASE) IN PILOTS' EQUITY</b>	(263,744)		288,324	
19. <b>BEGINNING PILOTS' EQUITY</b>	<u>5,042,191</u>		<u>4,753,867</u>	
20. <b>ENDING PILOTS' EQUITY</b>	<u>\$ 4,778,447</u>		<u>\$ 5,042,191</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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
1. Balance of revenue pool before deductions of individual pilots' business expenses	\$ 21,017,834	\$ 19,573,693
Adjustments to reconcile balance of revenue pool to cash provided by operating activities:		
2. Depreciation and amortization	427,772	373,309
3. Decrease (increase) in net accounts receivable	244,352	(768,485)
4. Decrease (increase) in prepaid expenses	(17,275)	4,082
5. Increase (decrease) in other assets	-	(1,150)
6. Increase (decrease) in funds held in trust (see Note 3)	(35,932)	8,576
7. Decrease in comp day expense payable	-	(21,183)
8. Increase (decrease) in accrued taxes	(3,179)	6,837
9. Increase in retirement expense payable	<u>10,434</u>	<u>44,287</u>
10. NET CASH PROVIDED BY OPERATING ACTIVITIES	21,644,006	19,219,966
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
11. Purchase of property, boats, and equipment	(216,850)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
12. Principal payments on notes payable	(291,576)	(291,579)
13. Proceeds from notes payable	29,692	20,900
14. Proceeds (payments) from buy-in and buy-outs, net	(280,219)	(161,320)
15. Payments to members	<u>(21,001,359)</u>	<u>(19,124,049)</u>
16. NET CASH USED IN FINANCING ACTIVITIES	<u>(21,543,462)</u>	<u>(19,556,048)</u>
17. NET INCREASE (DECREASE) IN CASH	(116,306)	(336,082)
18. Cash at beginning of year	<u>1,858,162</u>	<u>2,194,244</u>
19. Cash at end of year	<u>\$ 1,741,856</u>	<u>\$ 1,858,162</u>
<b>Supplemental disclosure of cash flow information</b>		
20. Interest paid	\$ 21,462	\$ 17,660
<b>Non-cash investing and financing transactions</b>		
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**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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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 ensure against the loss of lives, loss of or damage to property and vessels, and to protect the marine environment by maintaining efficient and competent pilotage service on out State's inland waters within the Puget Sound Pilotage District. 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. Customers are international and domestic companies that pay established rates to utilize pilotage services within Puget Sound.

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 for the years ended December 31, 2016 and 2015, were:

	<u>2016</u>	<u>2015</u>
Depreciation and amortization	\$ 286,768	\$ 286,768
Interest expense	9,502	16,367
Taxes - B&O	8,964	7,907
Taxes - Property	4,958	8,771
Administrative	1,015	194
Training lodging and per diem	-	(1,600)
Consulting Fees	-	1,825
Computer maintenance	54,792	51,473
	<u>\$ 365,999</u>	<u>\$ 371,705</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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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 accounting principles generally accepted in the United States of America 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 to their commercial customers 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 provide competitive compensation for pilots.

Cash and Cash Equivalents

Cash in banks for purposes of the consolidated statements of cash flows, includes checking accounts, money market accounts, 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 \$264,812 and \$8,921 at December 31, 2016 and 2015, respectively.

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

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

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.

Effective January 1, 2014, PSP 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, 2016 and 2015, was \$427,772 and \$373,309, 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.

PSP 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. PSP 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, 2016 and 2015. PSP is no longer subject to federal, state or local income tax examinations by tax authorities for years prior to 2013. If assessed, PSP recognizes penalties and interest associated with tax matters as part of operating expenses.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

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 2015 financial statement presentation in order to conform to the 2016 financial statement presentation.

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

Property, boats and equipment are summarized as follows:

	<u>2016</u>	<u>2015</u>
Port Angeles station building	\$ 2,104,532	\$ 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	1,756,010	1,548,441
Portable pilot units	1,141,572	1,141,572
Portable radio equipment	<u>95,659</u>	<u>95,659</u>
	12,199,076	11,982,229
Less accumulated depreciation and amortization	<u>10,599,068</u>	<u>10,172,900</u>
	<u>\$ 1,600,008</u>	<u>\$ 1,809,329</u>

**NOTE 3.--FUNDS HELD IN TRUST - TRAINING SURCHARGE AND GRAYS HARBOR PENSION**

Pilotage Commission Trust - Training Surcharge

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.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

**NOTE 3.--FUNDS HELD IN TRUST - TRAINING SURCHARGE AND GRAYS HARBOR PENSION (Continued)**

Funds held in trust at December 31, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Pilotage Commission Trust - training surcharge	\$ 65,135	\$ 101,225
Grays Harbor pensions payable	9,145	9,145
Miscellaneous	158	-
	<u>\$ 74,438</u>	<u>\$ 110,370</u>

Training surcharge detail for years ended December 31, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Training surcharge billed to customers (excluded from Pilotage Revenue on Page 7)	\$ 457,800	\$ 623,865
Training surcharge collected from customers	474,155	612,855
Collected and due to Pilotage Commission at December 31, 2016	39,960	55,695
Billed and uncollected amounts due to Pilotage Commission at December 31, 2016	29,175	45,530

Grays Harbor Pension Payable

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, Page 7)                                      | <u>\$ 105,247</u> |
| 2. Grays Harbor Pilotage District Pension expense (included in Seattle Office Operating Expense and Administrative Overhead, Page 7) | <u>\$ 109,739</u> |

Detail of Grays Harbor Pension Expense

a. Mrs. N. Dietrich	\$ 13,318
b. Capt. J.M. Hoyne	39,010
c. Capt. B. Watson	57,411



**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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

Long-term liabilities at December 31, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
PPU note payable to bank secured by PSP assets bearing interest at 1.50% plus the lender's cost of funds (total rate of 2.34% at December 31, 2016 and 2015), monthly payments of \$24,298 beginning November 1, 2013, maturing November 1, 2017.	\$ 242,983	\$ 534,563
Dispatch software note payable to bank secured by PSP assets bearing interest at 1.50% plus the lender's cost of funds at December 31, 2016, and 1.25% plus the one-month Libor rate at December 31, 2015 (total rate of 3.16% and 1.69% at December 31, 2016 and 2015, respectively), monthly payments of \$6,022 beginning May 1, 2016, maturing April 1, 2021.	<u>391,000</u>	<u>361,308</u>
	633,983	895,871
Less current portion	<u>334,983</u>	<u>339,750</u>
Total long-term liabilities	<u>\$ 299,000</u>	<u>\$ 556,121</u>

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 obtained a term note for the dispatch software note payable described above. The loan allows for draws up to \$460,000 up to the conversion date which was April 1, 2016. At the conversion date, the interest rate is 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 \$21,462 and \$17,660 for the years ended December 31, 2016 and 2015.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE 4.--LONG-TERM LIABILITIES (Continued)**

Estimated future maturities of notes payable are as follows:

<u>Years ending December 31,</u>	
2017	\$ 334,983
2018	92,000
2019	92,000
2020	92,000
2021	23,000
Thereafter	<u>-</u>
	<u>\$ 633,983</u>

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

PSP has a line of credit with a bank in the amount of \$500,000 due September 30, 2017. There was no balance outstanding at December 31, 2016 and 2015. 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.

**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 retired pilot and a former executive director 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 \$463 per assignment (effective January 1, 2016) and \$362 per assignment (effective August 1, 2014), respectively, paid by the Port of Grays Harbor to PSP. See also Note 3.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE 6.--RETIREMENT PLANS AND UNRECORDED LIABILITY - PILOTS AND FORMER EXECUTIVE DIRECTOR (Continued)**

Retirement payments are made from currently earned PSP income. There is no fund for satisfaction of future retirement income; and at December 31, 2016 and 2015, 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, 2016 and 2015, has not been determined. See Note 10 for further discussion of unrecorded liabilities.

**NOTE 7.--RETIREMENT PLANS - EMPLOYEES**

Eligible employees 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 Union's 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. The plan allows for elective deferrals and provides a safe harbor match and discretionary profit sharing contribution. PSP contributions to the Plan for 2016 and 2015 were \$28,452 and \$9,246, respectively.

**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 2016 and 2015 was \$4,001 and \$3,679, 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 2016 and 2015 was \$99,320 and \$95,456, respectively.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE 8.--LEASES (Continued)**

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, 2016:

<u>Years ending December 31,</u>	
2017	\$ 87,643
2018	89,719
2019	76,933
2020	3,685
2021	1,843
Thereafter	<u>-</u>
	<u>\$ 259,823</u>

Total Leases

Total rent expense for all leases including parking, which is on a month-to-month agreement, was \$121,846 and \$117,636 for 2016 and 2015.

**NOTE 9.--CONCENTRATIONS**

PSP maintains cash balances in certain financial institutions that may, at times, exceed limits insured by the FDIC.

PSP 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 PSP has not experienced any losses in such accounts.

PSP derives its income from services performed within Puget Sound waters. 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 27, page 6).

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE 10.--UNRECORDED LIABILITIES (Continued)**

The following are unrecorded liabilities at December 31, 2016 and 2015:

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 (respice) watch periods. In addition, members receive a two-week vacation each year. Whenever the volume of shipping requires, members on respice or vacation may perform assignments during their off duty and be credited with a comp day.

Comp day value at December 31, 2016, was approximately \$6,206,368 compared with approximately \$4,985,068 at December 31, 2015.

Annual unpaid vacation value at December 31, 2016, was approximately \$1,018,326 compared with approximately \$926,526 at December 31, 2015.

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.

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, 5.6 monthly payments were made to different pilots under this operating rule. There were none during 2016. An estimate of the liability for major medical as of December 31, 2016 and 2015, has not been determined.

As pilots retire, PSP buys them out over a period of time. As of December 31, 2016 and 2015, the amount due to retired pilots under the buyout is approximately \$3,340,809 and \$3,785,415, respectively.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE 10.-UNRECORDED LIABILITIES (Continued)**

Redemption of pilot ownership interest for pilots being paid out as of December 31, 2016, due for each of the next five years and in the aggregate are as follows:

<u>Years ended December 31,</u>	
2017	\$ 968,681
2018	835,341
2019	707,337
2020	557,604
2021	252,110
Thereafter	<u>19,736</u>
	<u>\$3,340,809</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. 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, 2016 and 2015, has not been determined.

**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. The contract was extended through April 30, 2017.

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 \$275,856 and \$285,758 for the years ended December 31, 2016 and 2015, 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 \$121,897 and \$129,035 for the years ended December 31, 2016 and 2015, 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 .05% per year.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

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**NOTE 11.-COMMITMENTS AND CONTINGENCIES (Continued)**

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 April 12, 2017, the date which the financial statements were available to be issued.



Dr. Sheri Jeanne Tonn, Chair  
STATE OF WASHINGTON  
**BOARD OF PILOTAGE COMMISSIONERS**  
2901 Third Avenue, Suite 500  
Seattle, Washington 98121  
TonnS@wsdot.wa.gov  
(206) 515-3904

**VIA ELECTRONIC MAIL**

4/30/18

Dear Chairwoman Tonn,

Puget Sound Pilots, is pleased to report that Shannon & Associates has completed their audit of the accompanying special-purpose consolidated financial statements of Puget Sound Pilots and Subsidiary (Pilot Technology Services). These statements include the special-purpose consolidated statements of assets, liabilities and pilot equity- modified accrual basis as of December 31, 2017 and 2016, and the related special-purpose consolidated statements of revenues, expenses and changes in pilots' equity- modified accrual basis and cash flows, and related notes to the statements. The Independent Auditors' Report reflects their opinion that the statements referred to above are presented fairly, in all material respects, and in accordance with the modified accrual basis of accounting used.

In addition, Shannon & Associates has completed their audit of information contained in the Supplemental Information Schedules. These schedules are provided to facilitate compliance with RCW 88.16. reporting requirements. As requested, our auditors have provided a letter expressing, in their opinion, this information is fairly stated in all material respects in relation to the special-purpose consolidated financial statements as a whole.

Puget Sound Pilots' also consulted with Shannon & Associates regarding continued efforts to improve our financial reporting to be more informative, transparent and aligned with normal and customary financial statement reporting and practices. This 2017 report further enhances notes, including reference to the new BPC self-insurance liability (SILA) items. In addition, based on the notes from our 5-11-17 meeting regarding RCW Reporting Compliance, PSP incorporated improvements to the "Schedule of Days of Service and Distribution of Pilotage Revenue and Expense" by enhancing and clarifying the Notes to the Schedule. As a result, we



believe the quality of the financial statements reporting and supplemental information schedules continue to improve.

We look forward to presenting the special-purpose consolidated financial statements of Puget Sound Pilots and Subsidiary for 2017-2016 and related information at the May 17th Commission meeting. We plan to have our tax account, Hale & Associates, in attendance.

Respectfully,



Linda Styrk  
Executive Director  
Puget Sound Pilots

CC: Jaimie Bever, BPC Executive Director  
Eric vonBrandenfels, PSP President

**PUGET SOUND PILOTS AND SUBSIDIARY**

**SPECIAL-PURPOSE CONSOLIDATED  
FINANCIAL STATEMENTS  
(MODIFIED ACCRUAL BASIS)**

**FOR THE YEARS ENDED  
DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016, 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 special-purpose consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special-purpose consolidated 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 special-purpose 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 special-purpose consolidated 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, 2017 and 2016, and its revenues, expenses and changes in pilots' equity, and cash flows for the years then ended, in accordance with the modified accrual 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.

**Restriction on Use**

This report is intended solely for the information and use of Puget Sound Pilots and the Puget Sound Pilotage Commission and is not intended and should not be used by anyone other than these specified parties.

*Shannon ? Associates, LLP*

Kent, Washington

April 20, 2018

**PUGET SOUND PILOTS AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES  
AND PILOTS' EQUITY - MODIFIED ACCRUAL BASIS  
DECEMBER 31, 2017 AND 2016**

<u>ASSETS</u>			
	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
1. <b>CURRENT ASSETS</b>			
2. Cash in banks	\$ 1,674,869	\$ 1,741,856	\$ (66,987)
3. Accounts receivable, net of allowance for doubtful accounts of \$5,500 at each year end	2,471,361	2,421,042	50,319
4. Prepaid expenses	<u>80,639</u>	<u>113,486</u>	<u>(32,847)</u>
5. <b>TOTAL CURRENT ASSETS</b>	4,226,869	4,276,384	(49,515)
6. <b>PROPERTY, BOATS AND EQUIPMENT</b>			
7. Total building, boats, furnishings, and equipment	12,199,076	12,199,076	-
8. Less accumulated depreciation and amortization	<u>11,000,246</u>	<u>10,599,068</u>	<u>401,178</u>
9. <b>NET PROPERTY, BOATS AND EQUIPMENT</b>	1,198,830	1,600,008	(401,178)
10. <b>OTHER ASSETS</b>			
11. Loan fees, net of accumulated amortization of \$460 and \$4,728 as of 2017 and 2016	<u>690</u>	<u>1,722</u>	<u>(1,032)</u>
12. <b>TOTAL ASSETS</b>	<u>\$ 5,426,389</u>	<u>\$ 5,878,114</u>	<u>\$ (451,725)</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, 2017 AND 2016**

**LIABILITIES AND PILOTS' EQUITY**

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
13. <b>CURRENT LIABILITIES</b>			
14. Funds held in trust (See Note 3)	\$ 78,075	\$ 74,438	\$ 3,637
15. Accrued taxes	38,675	38,474	201
16. Retirement expense payable	377,505	352,772	24,733
17. Current portion of long-term liabilities	<u>92,000</u>	<u>334,983</u>	<u>(242,983)</u>
18. <b>TOTAL CURRENT LIABILITIES</b>	586,255	800,667	(214,412)
19. <b>LONG-TERM LIABILITIES, net of current portion</b>	206,997	299,000	(92,003)
20. <b>TOTAL LIABILITIES</b>	793,252	1,099,667	(306,415)
21. <b>PILOTS' EQUITY</b>			
22. December distributions payable to pilots	1,441,694	1,522,269	(80,575)
23. Reserved for operations	750,000	750,000	-
24. Reserved for working capital account	602,807	693,460	(90,653)
25. Remainder of pilots' equity	<u>1,838,636</u>	<u>1,812,718</u>	<u>25,918</u>
26. <b>TOTAL PILOTS' EQUITY</b>	<u>4,633,137</u>	<u>4,778,447</u>	<u>(145,310)</u>
27. <b>TOTAL LIABILITIES AND PILOTS' EQUITY</b>	<u>\$ 5,426,389</u>	<u>\$ 5,878,114</u>	<u>\$ (451,725)</u>

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, 2017 AND 2016**

	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
1. <b>PILOTAGE REVENUE</b>	\$ 32,841,659	100.0 %	\$ 34,183,294	100.0 %
2. <b>OPERATING EXPENSES</b>				
3. Seattle office operating expense and administrative overhead	9,956,847	30.3	9,789,222	28.6
4. Boat operating expense	1,605,694	4.9	1,828,644	5.3
5. Port Angeles station operating expense	<u>730,114</u>	<u>2.2</u>	<u>498,628</u>	<u>1.5</u>
6. <b>TOTAL OPERATING EXPENSES</b>	12,292,655	37.4	12,116,494	35.4
7. <b>TRANSPORTATION FEES PAID DIRECTLY TO PILOTS</b>	<u>1,029,520</u>	<u>3.1</u>	<u>1,097,809</u>	<u>3.2</u>
8. <b>NET INCOME FROM POOLED OPERATIONS</b>	19,519,484	59.4	20,968,991	61.3
9. <b>OTHER INCOME</b>				
10. Interest income and finance charges	91,604	0.3	48,843	0.1
11. <b>BALANCE OF REVENUE POOL BEFORE DEDUCTIONS OF INDIVIDUAL PILOTS' BUSINESS EXPENSES</b>	19,611,088	<u>59.7 %</u>	21,017,834	<u>61.5 %</u>
12. <b>LESS PER DETAIL BELOW</b>				
13. Buy-ins and buy-outs, net	(90,653)		(280,219)	
14. All other payments to pilots	<u>(19,665,745)</u>		<u>(21,001,359)</u>	
15. <b>TOTAL DETAIL</b>	<u>(19,756,398)</u>		<u>(21,281,578)</u>	
16. <b>NET INCREASE (DECREASE) IN PILOTS' EQUITY</b>	(145,310)		(263,744)	
17. <b>BEGINNING PILOTS' EQUITY</b>	<u>4,778,447</u>		<u>5,042,191</u>	
18. <b>ENDING PILOTS' EQUITY</b>	<u>\$ 4,633,137</u>		<u>\$ 4,778,447</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
1. Balance of revenue pool before deductions of individual pilots' business expenses	\$19,611,088	\$21,017,834
Adjustments to reconcile balance of revenue pool to cash provided by operating activities:		
2. Depreciation and amortization	402,210	427,772
3. Decrease (increase) in net accounts receivable	(50,319)	244,352
4. Decrease (increase) in prepaid expenses	32,847	(17,275)
5. Increase (decrease) in funds held in trust (see Note 3)	3,637	(35,932)
6. Increase (decrease) in accrued taxes	201	(3,179)
7. Increase in retirement expense payable	<u>24,733</u>	<u>10,434</u>
8. NET CASH PROVIDED BY OPERATING ACTIVITIES	20,024,397	21,644,006
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
9. Purchase of property, boats, and equipment	-	(216,850)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
10. Principal payments on notes payable	(334,986)	(291,576)
11. Proceeds from notes payable	-	29,692
12. Payments from buy-in and buy-outs, net	(90,653)	(280,219)
13. Payments to members	<u>(19,665,745)</u>	<u>(21,001,359)</u>
14. NET CASH USED IN FINANCING ACTIVITIES	<u>(20,091,384)</u>	<u>(21,543,462)</u>
15. NET DECREASE IN CASH	(66,987)	(116,306)
16. Cash at beginning of year	<u>1,741,856</u>	<u>1,858,162</u>
17. Cash at end of year	<u>\$ 1,674,869</u>	<u>\$ 1,741,856</u>
<b>Supplemental disclosure of cash flow information</b>		
18. Interest paid	\$ 13,763	\$ 21,462

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**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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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 ensure against the loss of lives, loss of or damage to property and vessels, and to protect the marine environment by maintaining efficient and competent pilotage service on out State's inland waters within the Puget Sound Pilotage District. 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. Customers are international and domestic companies that pay established rates to utilize pilotage services within Puget Sound.

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. PTS was closed and all assets disposed of in 2018. See Note 12.

The total expenses related to the PPU's of the combined entities for the years ended December 31, 2017 and 2016, were:

	<u>2017</u>	<u>2016</u>
Depreciation and amortization	\$ 233,792	\$ 286,768
Interest expense	2,604	9,502
Taxes - B&O	5,317	8,964
Taxes - Property	1,195	4,958
Administrative	96	1,015
Computer maintenance	<u>57,918</u>	<u>54,792</u>
	<u>\$ 300,922</u>	<u>\$ 365,999</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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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 accounting principles generally accepted in the United States of America 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 to their commercial customers 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 provide competitive compensation for pilots.

Cash and Cash Equivalents

Cash in banks for purposes of the consolidated statements of cash flows, includes checking accounts, money market accounts, 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 \$202,288 and \$264,812 at December 31, 2017 and 2016, respectively.

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

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

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.

Effective January 1, 2014, PSP 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, 2017 and 2016, was \$402,210 and \$427,772, 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.

PSP 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. PSP 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, 2017 and 2016. PSP is no longer subject to federal, state or local income tax examinations by tax authorities for years prior to 2014. If assessed, PSP recognizes penalties and interest associated with tax matters as part of operating expenses.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

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.

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

Property, boats and equipment are summarized as follows:

	<u>2017</u>	<u>2016</u>
Port Angeles station building	\$ 2,104,532	\$ 2,104,532
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	1,756,010	1,756,010
Portable pilot units	1,141,572	1,141,572
Portable radio equipment	<u>95,659</u>	<u>95,659</u>
	12,199,076	12,199,076
Less accumulated depreciation and amortization	<u>11,000,246</u>	<u>10,599,068</u>
	<u>\$ 1,198,830</u>	<u>\$ 1,600,008</u>

**NOTE 3.--FUNDS HELD IN TRUST - TRAINING SURCHARGE, SELF-INSURANCE LIABILITY PREMIUM AND GRAYS HARBOR PENSION**

Funds held in trust at December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Pilotage Commission Trust - training surcharge	\$ 52,280	\$ 65,135
Pilotage Commission self-insurance premium	17,760	-
Grays Harbor pensions payable	8,035	9,145
Miscellaneous	<u>-</u>	<u>158</u>
	<u>\$ 78,075</u>	<u>\$ 74,438</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**NOTE 3.-- FUNDS HELD IN TRUST - TRAINING SURCHARGE, SELF-INSURANCE LIABILITY PREMIUM AND GRAYS HARBOR PENSION (Continued)**

Pilotage Commission Trust - Training Surcharge

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.

Training surcharge detail for years ended December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Training surcharge billed to customers (excluded from Pilotage Revenue on Page 7)	\$ 499,455	\$ 457,800
Training surcharge collected from customers	505,365	474,155
Collected and due to Pilotage Commission at December 31, 2017 and 2016	33,015	39,960
Billed and uncollected amounts due to Pilotage Commission at December 31, 2017 and 2016	23,265	29,175

Pilotage Commission Trust – Self-insurance Liability Premium

PSP acts as a fiduciary agent for the Washington State Board of Pilotage Commissioners (Commission) and collects a self-insurance liability account (SILA) surcharge on behalf of the Commission. This fee was established as a result of the Washington legislative action in 2017.

In order to promptly comply with the provisions described in the Engrossed Senate bill 5096 Sec. 108, effective May 18, 2017, the Commission filed a new rule under emergency provisions. A public hearing was held at a future date in order to permanently adopt the rule, WAC 363-116-301 New Revenue Collection: Effective May 18, 2017 through June 30, 2019, Engrossed Senate Bill No. 5096 Section 108, the board of pilotage commissioners is appropriated \$1,100,000 from the multimodal transportation account solely for self-insurance liability premium expenditures. This appropriation requires three stipulated conditions: 1) The Puget Sound Pilots shall pay to the board, from its tariffs, \$150,000 annually on July 1, 2017 and July 1, 2018. 2) The board shall maintain the Puget Sound pilotage tariff at the rate which became effective on January 1, 2017. 3) A self-insurance premium surcharge of \$16 shall be added to each Puget Sound pilotage assignment on all vessels requiring pilotage. The Puget Sound Pilots shall remit the total amount of such surcharge generated to the board by the 10<sup>th</sup> of each month. The surcharge is in effect from July 1, 2017 through June 30, 2019.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

**NOTE 3.-- FUNDS HELD IN TRUST - TRAINING SURCHARGE, SELF-INSURANCE  
LIABILITY PREMIUM AND GRAYS HARBOR PENSION (Continued)**

Self-insurance premium surcharge payable detail for years ended December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
Self-insurance premium surcharge billed to customers excluded from Pilotage Revenue on Page 7)	\$ 58,880	\$ -
Self-insurance premium surcharge collected from customers	50,688	-
Collected and due to Pilotage Commission at December 31, 2017	9,568	-
Billed and uncollected amounts due to Pilotage Commission at December 31, 2017	8,192	-

Grays Harbor Pension Payable

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 Grays 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.” Subsequent to year end, an agreement was reached in which the Puget Sound Pilots would no longer pay the pension on behalf of Grays Harbor. See note 12.

1. Grays Harbor Pilotage District Pension Charge revenue (included in Pilotage Revenue, Page 7)	<u>\$ 137,004</u>
2. Grays Harbor Pilotage District Pension expense (included in Seattle Office Operating Expense and Administrative Overhead, Page 7)	<u>\$ 100,861</u>

Detail of Grays Harbor Pension Expense

a. Mrs. N. Dietrich	\$ 4,440
b. Capt. J.M. Hoyne	39,010
c. Capt. B. Watson	57,411

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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

Long-term liabilities at December 31, 2017 and 2016, consisted of the following:

	<u>2017</u>	<u>2016</u>
PPU note payable to bank secured by PSP assets bearing interest at 1.50% plus the lender's cost of funds (total rate of 2.34% at December 31, 2017 and 2016), monthly payments of \$24,298 began November 1, 2013, and matured November 1, 2017.	\$ -	\$ 242,983
Dispatch software note payable to bank secured by PSP assets bearing interest at 1.50% plus the lender's cost of funds (total rate of 3.16% at December 31, 2017 and 2016), monthly payments of \$6,022 began May 1, 2016, maturing April 1, 2021.	<u>298,997</u>	<u>391,000</u>
	298,997	633,983
Less current portion	<u>92,000</u>	<u>334,983</u>
Total long-term liabilities	<u>\$ 206,997</u>	<u>\$ 299,000</u>

PTS had obtained the PPU note payable described above for the purchase of certain equipment and services. PSP was guarantor on the note. Generally, all the assets of PSP and PTS served as collateral for the borrowing. The terms of the loan required PSP, as a guarantor, to meet certain covenants.

Those covenants included 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 required PSP to provide periodic and annual financial statements prepared in accordance with generally accepted accounting principles. The bank has been previously provided with these special-purpose consolidated financial statements prepared in accordance with the modified accrual basis of accounting.

PSP obtained a term note for the dispatch software note payable described above. The loan allowed for draws up to \$460,000 up to the conversion date which was April 1, 2016.

Total interest expense on all borrowings was \$13,763 and \$21,462 for the years ended December 31, 2017 and 2016.



**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**NOTE 4.--LONG-TERM LIABILITIES (Continued)**

Estimated future maturities of notes payable are as follows:

<u>Years ending December 31,</u>	
2018	\$ 92,000
2019	92,000
2020	92,000
2021	22,997
2022	-
Thereafter	-
	<u>\$ 298,997</u>

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

PSP has a line of credit with a bank in the amount of \$500,000 due September 30, 2018. There was no balance outstanding at December 31, 2017 and 2016. 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.

**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 retired pilot and a former executive director 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.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**NOTE 6.--RETIREMENT PLANS AND UNRECORDED LIABILITY - PILOTS AND FORMER EXECUTIVE DIRECTOR (Continued)**

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 partially offset by a one-time tariff increase of \$8.00 in the LOA rate in 2001 as well as a Grays Harbor pension charge of \$528 per assignment (effective January 1, 2017) and \$463 per assignment (effective January 1, 2016), respectively, paid by the Port of Grays Harbor to PSP. See also Notes 3 and 12.

Retirement payments are made from currently earned PSP income. There is no fund for satisfaction of future retirement income; and at December 31, 2017 and 2016, 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, 2017 and 2016, has not been determined. See Note 10 for further discussion of unrecorded liabilities.

**NOTE 7.--RETIREMENT PLANS - EMPLOYEES**

Eligible employees 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 Union's 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. The plan allows for elective deferrals and provides a safe harbor match and discretionary profit sharing contribution. PSP contributions to the Plan for 2017 and 2016 were \$30,980 and \$28,452, respectively.

**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 2017 and 2016 was \$4,310 and \$4,001, respectively.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**NOTE 8.--LEASES (Continued)**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 2017 and 2016 was \$103,940 and \$99,320, 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, 2017:

<u>Years ending December 31,</u>	
2018	\$ 89,577
2019	76,791
2020	3,543
2021	3,543
2022	-
Thereafter	-
	<u>\$ 173,454</u>

Total Leases

Total rent expense for all leases including parking, which is on a month-to-month agreement, was \$125,516 and \$121,846 for 2017 and 2016.

**NOTE 9.--CONCENTRATIONS**

PSP maintains cash balances in certain financial institutions that may, at times, exceed limits insured by the FDIC.

PSP 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 PSP has not experienced any losses in such accounts.

One customer accounted for approximately 11% of accounts receivable at December 31, 2017. No customer accounted for more than 10% of accounts receivable at December 31, 2016.

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

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**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 26, page 6).

The following are unrecorded liabilities at December 31, 2017 and 2016:

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 be called back to perform assignments during their off duty (respite) period and be credited with a comp day.

Comp day value at December 31, 2017, was approximately \$5,583,894 compared with approximately \$6,206,368 at December 31, 2016.

Annual unpaid vacation value at December 31, 2017, was approximately \$935,990 compared with approximately \$1,018,326 at December 31, 2016.

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.

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 adjust up or down, the value of the comp day - and the amount of the unrecorded liability associated with it - adjusts up or down by the same amount.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**NOTE 10.-UNRECORDED LIABILITIES (Continued)**

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 2017 and 2016, .9 and 5.6 monthly payments, respectively, were made to different pilots under this operating rule. An estimate of the liability for major medical as of December 31, 2017 and 2016, has not been determined.

As pilots retire, PSP buys them out over a period of time. As of December 31, 2017, and 2016, the amount due to retired pilots under the buyout is approximately \$3,083,739 and \$3,340,809, respectively.

Redemption of pilot ownership interest for pilots being paid out as of December 31, 2017, due for each of the next five years and in the aggregate, are as follows:

<u>Years ended December 31,</u>	
2018	\$ 957,331
2019	829,327
2020	679,594
2021	374,100
2022	141,727
Thereafter	<u>101,660</u>
	<u>\$3,083,739</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 90 days.

The Executive Director earns vacation and sick leave in accordance with their contract. 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, 2017 and 2016, has not been determined.

**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. The contract was extended through November 30, 2017. See also Note 12.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

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**NOTE 11.-COMMITMENTS AND CONTINGENCIES (Continued)**

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 \$281,072 and \$275,758 for the years ended December 31, 2017 and 2016, 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 \$112,393 and \$121,897 for the years ended December 31, 2017 and 2016, 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 .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**

In 2018 the Puget Sound Pilots (PSP) obtained a new operating lease for new equipment and Pilot Technology Services, LLC (PTS) was closed.

Effective January 1, 2018 a collective bargaining agreement between the Puget Sound Pilots (PSP) and the Inlandboatmen's Union of the Pacific was contracted effective January 1, 2018 through June 30, 2021.

An agreement was reached that beginning in April 2018 the Puget Sound Pilots (PSP) will no longer collect and pay the pension for Grays Harbor.

The Washington State legislature passed a bill (SB 6519) revising the establishment of marine pilotage tariffs that was signed into law on March 15, 2018. The law transfers the function of marine pilotage rate-setting from the Board of Pilotage Commissioners to the Utilities and Transportation Commission, beginning July 1, 2019. As a result, Puget Sound Pilots anticipates additional attorney, CPA, consultant and related incremental expenses in 2018 through 2019 to prepare and adapt to this transfer.

Management has evaluated subsequent events through April 20, 2018, the date which the financial statements were available to be issued.



## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors  
Puget Sound Pilots  
Seattle, Washington

We have audited the special-purpose consolidated financial statements of Puget Sound Pilots (a voluntary association of sole proprietors and incorporated individuals) and Subsidiary as of and for the years ended December 31, 2017 and 2016, and our report thereon dated April 20, 2018 which expressed an unmodified opinion on those financial statements, appears on pages 3- 4. Our audit was conducted for the purpose of forming an opinion on those financial statements as a whole. The Schedule of Days of Service and Distribution of Pilotage Revenue and Expense, Schedule of Retirement Income for Inactive Pilots and Widows of Deceased Pilots, Schedule of Seattle Office Operating Expense and Administrative Overhead, Schedule of Boat Operating Expense, Schedule of Port Angeles Station Operating Expense and the Schedule of Employees are presented for purposes of additional analysis and are not a required part of the special-purpose 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 special-purpose consolidated 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.

### Restriction on Use

This report is intended solely for the information and use of Puget Sound Pilots and the Puget Sound Pilotage Commission and is not intended and should not be used by anyone other than those specified parties.

*Shannon & Associates, LLP*

Kent, Washington  
April 20, 2018

PUGET SOUND PILOTS AND SUBSIDIARY  
SCHEDULE OF DAYS OF SERVICE AND DISTRIBUTION OF  
PILOTAGE REVENUE AND EXPENSE

Year Ended December 31, 2017

Pilot Name	(1) Days of Service	(2) Credit for Pilotage		(3) Charge for		(4) Charge for Other Expense	(5)*** Annual earnings after deductions
		Revenue	Operating Expense	Operating Expense	Revenue		
1. Capt. D.S. Anaker .....	365	\$ 626,291	\$ 234,421	\$ 234,421	\$ 30,883	\$ 360,987	
2. Capt. M. Anthony .....	365	626,291	234,421	234,421	30,883	360,987	
3. Capt. J.E. Arnold .....	365	626,291	234,421	234,421	30,883	360,987	
4. Capt. M.E. Blake* .....	271	464,988	174,054	174,054	22,928	268,006	
5. Capt. B. Bouma .....	365	626,291	234,421	234,421	30,883	360,987	
6. Capt. D. Brouillard .....	365	626,291	234,421	234,421	30,883	360,987	
7. Capt. D. Brusco .....	365	626,291	234,421	234,421	30,883	360,987	
8. Capt. J. Bujacich .....	365	626,291	234,421	234,421	30,883	360,987	
9. Capt. I. Carlson .....	365	626,291	234,421	234,421	30,883	360,987	
10. Capt. W.M. Carley .....	365	626,291	234,421	234,421	30,883	360,987	
11. Capt. J. Carstensen .....	365	626,291	234,421	234,421	30,883	360,987	
12. Capt. F.A. Coe .....	365	626,291	234,421	234,421	30,883	360,987	
13. Capt. S.T. Coleman .....	365	626,291	234,421	234,421	30,883	360,987	
14. Capt. T. Coryell .....	365	626,291	234,421	234,421	30,883	360,987	
15. Capt. L.P. Emerson .....	365	626,291	234,421	234,421	30,883	360,987	
16. Capt. F. Engstrom .....	365	626,291	234,421	234,421	30,883	360,987	
17. Capt. V. Engstrom* .....	319	547,361	204,878	204,878	26,991	315,492	
18. Capt. J.T. Galvin .....	365	626,291	234,421	234,421	30,883	360,987	
19. Capt. P.A. Giese* .....	334	573,099	214,511	214,511	28,260	330,328	
20. Capt. D. Grobschmit .....	<u>365</u>	<u>626,291</u>	<u>234,421</u>	<u>234,421</u>	<u>30,883</u>	<u>360,987</u>	
Subtotal Forward .....	7,129	\$ 12,232,395	\$ 4,578,600	\$ 4,578,600	\$ 603,190	\$ 7,050,605	

\* Pilot is retired as of December 31, 2017

\*\* Pilot started in 2017

\*\*\* Amount does not include individual income and social security taxes and does not include Port Angeles transportation payments

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



PUGET SOUND PILOTS AND SUBSIDIARY  
SCHEDULE OF DAYS OF SERVICE AND DISTRIBUTION OF  
PILOTAGE REVENUE AND EXPENSE  
Year Ended December 31, 2017

Pilot Name	(1) Days of Service	(2) Credit for Pilotage		(3) Charge for		(4) Charge for		(5)*** Annual earnings after deductions
		Revenue	Operating Expense	Operating Expense	Other Expense	Other Expense	Other Expense	
Subtotal Forward.....	7,129	\$ 12,232,395	\$	4,578,600	\$	603,190	\$	7,050,605
21. Capt. J. Hannuksela .....	365	626,291		234,421		30,883		360,987
22. Capt. J.B. Harris.....	365	626,291		234,421		30,883		360,987
23. Capt. D. Henderson** .....	174	298,561		111,751		14,722		172,088
24. Capt. B.F. Henshaw.....	365	626,291		234,421		30,883		360,987
25. Capt. P. V. Hunter**.....	80	137,269		51,380		6,769		79,120
26. Capt. G. D. Hurt*.....	330	566,236		211,942		27,922		326,372
27. Capt. B. R. Jensen.....	365	626,291		234,421		30,883		360,987
28. Capt. J. Kalvoy.....	365	626,291		234,421		30,883		360,987
29. Capt. J. Kearns.....	365	626,291		234,421		30,883		360,987
30. Capt. N.T. Kelleher.....	365	626,291		234,421		30,883		360,987
31. Capt. P.S. Kelly.....	365	626,291		234,421		30,883		360,987
32. Capt. E.C. Klapperich .....	365	626,291		234,421		30,883		360,987
33. Capt. E.C. Lichty.....	365	626,291		234,421		30,883		360,987
34. Capt. B. Lowe.....	365	626,291		234,421		30,883		360,987
35. Capt. W. Lowery .....	365	626,291		234,421		30,883		360,987
36. Capt. E. Marmol.....	365	626,291		234,421		30,883		360,987
37. Capt. D. W. Mayer.....	365	626,291		234,421		30,883		360,987
38. Capt. S.E. Moreno.....	365	626,291		234,421		30,883		360,987
39. Capt. S. Mork*.....	269	461,568		172,765		22,760		266,043
40. Capt. R.A. Myers**.....	<u>34</u>	<u>58,339</u>		<u>21,836</u>		<u>2,877</u>		<u>33,626</u>
Subtotal Forward.....	13,491	\$ 23,148,733	\$	8,664,589	\$	1,141,485	\$	13,342,659

\* Pilot is retired as of December 31, 2017

\*\* Pilot started in 2017

\*\*\* Amount does not include individual income and social security taxes and does not include Port Angeles transportation payments

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

PUGET SOUND PILOTS AND SUBSIDIARY  
SCHEDULE OF DAYS OF SERVICE AND DISTRIBUTION OF  
PILOTAGE REVENUE AND EXPENSE

Year Ended December 31, 2017

Pilot Name	(1) Days of Service	(2) Credit for Pilotage		(3) Charge for		(4) Charge for		(5)*** Annual earnings after deductions
		Revenue	Operating Expense	Operating Expense	Other Expense	Other Expense	Other Expense	
Subtotal Forward.....	13,491	\$ 23,148,733	\$ 8,664,589	\$ 1,141,485	\$ 1,141,485	\$ 1,141,485	\$ 1,141,485	\$ 13,342,659
41. Capt. A. J. Newman.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
42. Capt. C. F. Rounds**.....	174	298,561	111,751	14,722	14,722	14,722	14,722	172,088
43. Capt. D.A. Sanders.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
44. Capt. J. T. Scoggins.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
45. Capt. J.C. Scragg.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
46. Capt. J.R. Semler.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
47. Capt. S.D. Semler .....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
48. Capt. S.A. Seymour.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
49. Capt. D.L. Shaffer.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
50. Capt. J.A. Shaffer.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
51. Capt. M.J. Shuler.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
52. Capt. W.J. Sliker.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
53. Capt. D. Soriano.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
54. Capt. G.P. Thoreson .....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
55. Capt. E.M. VonBrandenfels.....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
56. Capt. G.R. Wildes .....	365	626,291	234,421	30,883	30,883	30,883	30,883	360,987
Total.....	19,140	\$ 32,841,659	\$ 12,292,655	\$ 1,619,452	\$ 1,619,452	\$ 1,619,452	\$ 1,619,452	\$ 18,929,552

\* Pilot is retired as of December 31, 2017

\*\* Pilot started in 2017

\*\*\* Amount does not include individual income and social security taxes and does not include Port Angeles transportation payments.

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

## PUGET SOUND PILOTS AND SUBSIDIARY

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

Year Ended December 31, 2017

- 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).
- a. Column (1): Days of Service is the total number of days the pilot was an active pilot on pilot roster.
  - b. Column (2): Credit for pilotage revenue is the total gross tariff revenue which represents the annual earnings of individual pilots before deductions for expenses of pilot organization [Ref: RCW 88.16.035 (1)(f)]. Column (2) includes transportation expense charges (TEC).
  - c. Column (3): Charge for operating expense is the deduction from pilotage revenue for operating expenses of the Puget Sound Pilots shared evenly among all pilots based on days of service. Column (3) does not include transportation expense charges (TEC).
  - d. Column (4): Charge for other expense includes the transportation expense charges (TEC) paid directly to pilots (included in column (2)) as well as the individual out of pocket allowance of \$11,250 per pilot for annual physical exam, disability insurance and meals and lodging outside of Port Angeles while away from home.
  - e. Column (5): Annual earnings after deductions represents the annual earnings of individual pilots after deductions for expenses of pilot organization. [Ref: RCW 88.16.035 (1)(f)].
- 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.

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

Year Ended December 31, 2017

1. Mrs. Penelope Anderson	\$ 19,223	32. Capt. C.N. Larson	96,242
2. Capt. W.A. Anderson	36,739	33. Capt. G. Larson	75,478
3. Capt. M.E. Blake	15,743	34. Mrs. Sheila Lindholm	7,200
4. Capt. W.A. Bock	95,535	35. Mrs. Carol Lofquist	13,442
5. Capt. W. Bundren	124,983	36. Capt. D. Mackenzie	144,363
6. Mrs. Linda Carey	17,273	37. Capt. Laurance Mathisen	126,912
7. Mrs. Shirley Carlson	12,213	38. Capt. R. McCurdy	120,303
8. Mrs. Carole Cramer	9,694	39. Capt M. Mendenhall	176,616
9. Mrs. Lenore Damon	2,139	40. Capt. B. L. Michelson	133,670
10. Capt. M. Endrody	94,908	41. Capt. F. L. Michelson	25,365
11. Capt. Carl Engstrom	125,198	42. Capt. S.E. Mork	22,899
12. Capt. Vic Engstrom	5,963	43. Capt. R.A. Moss	17,395
13. Capt. M. Flavel	171,696	44. Capt. R.W. Murphy	67,709
14. Mrs. Florian	7,287	45. Capt. J. Niederhauser	111,012
15. Capt. A. L. Fosse	95,535	46. Capt. K.E. Ostergaard	53,105
16. Capt. M. T. Gavin	64,587	47. Capt. R.S. Peake	35,698
17. Capt. P. A. Giese	11,927	48. Capt. L. Petke	98,544
18. Capt. T.J. Goodin	50,641	49. Capt. G.M. Poor	45,314
19. Capt P. Hannigan	162,491	50. Capt. S. A. Robichaux	54,173
20. Mrs. Joy Holmes	28,791	51. Capt. L.W. Sackett	20,558
21. Capt. Calvin C. Hunziker	124,416	52. Capt. W.H. Snyder	62,964
22. Capt. G.D. Hurt	7,872	53. Capt. D. Stensager	107,808
23. Capt. Thomas Jacobs	125,198	54. Capt. J.S. Thorsen	48,557
24. Capt. C.A. Johannes	54,173	55. Capt. L.D. Thorsen	39,980
25. Capt. Marin Johnson	52,872	56. Capt. W. Thorsen	110,204
26. Capt. B.E. Joyce	30,651	57. Capt. Jonathon E Ward	63,945
27. Capt. V.K. Justice	151,901	58. Capt. J. Ward	45,295
28. Capt. D. J. Kelly	22,486	59. Capt. N.A. Werner	74,766
29. Capt. V. Kjeldtoft	29,611	60. Mrs. Kathy Wiley	39,460
30. Capt. B. Knowles	96,242	61. Capt. M. Wood	135,884
31. Capt. Robert Kromann	149,304		

TOTAL

\$ 4,172,153

## 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, 2017

1. Attorney fees	\$ 95,458	0.3%
2. Bad debts	53,581	0.2%
3. Commisssion - senate bill 5096	150,000	0.5%
4. Computer maintenance	181,189	0.6%
5. Computer programming	139,579	0.4%
6. Conferences	40,284	0.1%
7. Consulting services	84,790	0.3%
8. CPA fees	78,028	0.2%
9. Depreciation and amortization	355,567	1.1%
10. Drug testing	3,398	0.0%
11. Dues	165,910	0.5%
12. Employee benefits	191,127	0.6%
13. Employee salaries	842,741	2.6%
14. Equipment leases	4,877	0.0%
15. Former Director retirement	69,502	0.2%
16. Gifts	3,228	0.0%
17. Grays Harbor retirement	100,861	0.3%
18. Insurance	182,141	0.6%
19. Interest	13,763	0.0%
20. License fees - commission	344,500	1.0%
21. Lobbyist	67,336	0.2%
22. Medical insurance - pilots	1,453,478	4.4%
23. Office maintenance and repair	10,171	0.0%
24. Office supplies	30,162	0.1%
25. Pilot training	233,351	0.7%
26. Printing and publications	19,045	0.1%
27. Puget Sound retirement	4,172,153	12.6%
28. Rent and parking	121,206	0.4%
29. Taxes on payroll	53,757	0.2%
30. Taxes, other	2,224	0.0%
31. Taxes on revenue	536,464	1.6%
32. Travel, entertainment and promotion	121,041	0.4%
33. Telephone and communications	<u>35,935</u>	<u>0.1%</u>
 TOTAL	 <u>\$ 9,956,847</u>	 <u>30.3%</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, 2017

1.	Depreciation	\$	28	0.0%
2.	Employee benefits		233,318	0.7%
3.	Employee salaries		802,534	2.4%
4.	Fuel of "Juan de Fuca"		136,721	0.4%
5.	Fuel of "Puget Sound"		164,639	0.5%
6.	Insurance		91,064	0.3%
7.	Maintenance and operation of "Juan de Fuca"		49,693	0.2%
8.	Maintenance and operation of "Puget Sound"		61,569	0.2%
9.	Taxes on payroll		62,299	0.2%
10.	Taxes on property		<u>3,829</u>	<u>0.0%</u>
	TOTAL	\$	<u>1,605,694</u>	<u>4.9%</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, 2017

1.	Depreciation	\$	46,615	0.1%
2.	Food		104,390	0.3%
3.	Insurance		36,583	0.1%
4.	Maintenance and repairs		217,227	0.7%
5.	Rent, tideland lease		4,310	0.0%
6.	Reposition pilots		242,870	0.7%
7.	Supplies		19,447	0.1%
8.	Taxes on property		12,241	0.0%
9.	Telephone and communications		21,624	0.1%
10.	Utilities		<u>24,807</u>	<u>0.1%</u>
	TOTAL	\$	<u>730,114</u>	<u>2.2%</u>

## PUGET SOUND PILOTS AND SUBSIDIARY

## SCHEDULE OF EMPLOYEES

December 31, 2017

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





Dr. Sheri Jeanne Tonn, Chair  
STATE OF WASHINGTON  
**BOARD OF PILOTAGE COMMISSIONERS**  
2901 Third Avenue, Suite 500  
Seattle, Washington 98121  
TonnS@wsdot.wa.gov  
(206) 515-3904

**VIA ELECTRONIC MAIL**

5/8/19

Dear Chairwoman Tonn,

Puget Sound Pilots, is pleased to report that Shannon & Associates has completed their audit of the accompanying special-purpose consolidated financial statements of Puget Sound Pilots and Subsidiary (Pilot Technology Services). These statements include the special-purpose consolidated statements of assets, liabilities and pilot equity- modified accrual basis as of December 31, 2018 and 2017, and the related special-purpose consolidated statements of revenues, expenses and changes in pilots' equity- modified accrual basis and cash flows, and related notes to the statements. The Independent Auditors' Report reflects their opinion that the statements referred to above are presented fairly, in all material respects, and in accordance with the modified accrual basis of accounting used.

In addition, Shannon & Associates has completed their audit of information contained in the Supplementary Information Schedules. These schedules are provided to facilitate compliance with RCW 88.16. reporting requirements. As requested, our auditors have provided a letter expressing, in their opinion, this information is fairly stated in all material respects in relation to the special-purpose consolidated financial statements as a whole.

Puget Sound Pilots' also consulted with Shannon & Associates regarding continued efforts to improve our financial reporting to be more informative, transparent and aligned with normal and customary financial statement reporting and practices. This 2018 report further enhances notes, including reference to the Port of Grays Harbor taking over administration and accounting of Grays Harbor pension expense from Puget Sound Pilots in April 2018. In addition, to address privacy concerns related to personal information, two supplementary schedules were enhanced to replace individual's full names with a three letter reference,

namely the Schedule of Days of Service and Distribution of Pilotage Revenue and Expense and the Schedule of Retirement Income for Inactive Pilots and Other Eligible Participants. As a result, we believe the quality of the financial statements reporting and supplementary information schedules continue to improve year-over-year.

We look forward to presenting a summary review of the financial statements of Puget Sound Pilots and Subsidiary for 2018-2017 and related information at the May 16th meeting of the Board of Pilotage Commissioners.

Respectfully,



Linda Styrk  
Executive Director  
Puget Sound Pilots

CC: Jaimie Bever, BPC Executive Director  
Capt. Eric vonBrandenfels, PSP President

**PUGET SOUND PILOTS AND SUBSIDIARY**

**SPECIAL-PURPOSE CONSOLIDATED  
FINANCIAL STATEMENTS  
(MODIFIED ACCRUAL BASIS)**

**FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017**

**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, 2018 and 2017, 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 as described in Note 1; this includes determining that the modified accrual basis of accounting is an acceptable basis for preparation of the special-purpose consolidated 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 special-purpose 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 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 special-purpose consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special-purpose consolidated 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 special-purpose 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 special-purpose consolidated 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, 2018 and 2017, and its revenues, expenses and changes in pilots' equity, and cash flows for the years then ended, in accordance with the modified accrual 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.

**Restriction on Use**

This report is intended solely for the information and use of Puget Sound Pilots, the Puget Sound Pilotage Commission, and the Utilities and Transportation Commission and is not intended and should not be used by anyone other than these specified parties.

*Shannon ? Associates, LLP*

Kent, Washington

April 30, 2019

**PUGET SOUND PILOTS AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES  
AND PILOTS' EQUITY - MODIFIED ACCRUAL BASIS  
DECEMBER 31, 2018 AND 2017**

		<u>ASSETS</u>		
		<u>2018</u>	<u>2017</u>	Increase (Decrease)
1.	<b>CURRENT ASSETS</b>			
2.	Cash in banks	\$ 1,495,202	\$ 1,674,869	\$ (179,667)
3.	Accounts receivable, net of allowance for doubtful accounts of \$5,500 at each year end	2,542,397	2,471,361	71,036
4.	Prepaid expenses	<u>75,641</u>	<u>80,639</u>	<u>(4,998)</u>
5.	<b>TOTAL CURRENT ASSETS</b>	4,113,240	4,226,869	(113,629)
6.	<b>PROPERTY, BOATS AND EQUIPMENT</b>			
7.	Total building, boats, furnishings, and equipment	10,159,007	12,199,076	(2,040,069)
8.	Less accumulated depreciation and amortization	<u>9,122,378</u>	<u>11,000,246</u>	<u>(1,877,868)</u>
9.	<b>NET PROPERTY, BOATS AND EQUIPMENT</b>	1,036,629	1,198,830	(162,201)
10.	<b>OTHER ASSETS</b>			
11.	Loan fees, net of accumulated amortization of \$690 and \$460 as of 2018 and 2017	<u>460</u>	<u>690</u>	<u>(230)</u>
12.	<b>TOTAL ASSETS</b>	<u>\$ 5,150,329</u>	<u>\$ 5,426,389</u>	<u>\$ (276,060)</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, 2018 AND 2017**

**LIABILITIES AND PILOTS' EQUITY**

	2018	2017	Increase (Decrease)
<b>13. CURRENT LIABILITIES</b>			
14. Funds held in trust (See Note 3)	\$ 150,772	\$ 78,075	\$ 72,697
15. Accrued taxes	38,163	38,675	(512)
16. Retirement expense payable	393,599	377,505	16,094
17. Current portion of long-term liabilities	92,000	92,000	-
<b>18. TOTAL CURRENT LIABILITIES</b>	674,534	586,255	88,279
<b>19. LONG-TERM LIABILITIES, net of current portion</b>	114,997	206,997	(92,000)
<b>20. TOTAL LIABILITIES</b>	789,531	793,252	(3,721)
<b>21. PILOTS' EQUITY</b>			
22. December distributions payable to pilots	1,481,341	1,441,694	39,647
23. Reserved for operations	750,000	750,000	-
24. Reserved for working capital account	356,444	602,807	(246,363)
25. Remainder of pilots' equity	1,773,013	1,838,636	(65,623)
<b>26. TOTAL PILOTS' EQUITY</b>	4,360,798	4,633,137	(272,339)
<b>27. TOTAL LIABILITIES AND PILOTS' EQUITY</b>	\$ 5,150,329	\$ 5,426,389	\$ (276,060)

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, 2018 AND 2017**

	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
1. <b>PILOTAGE REVENUE</b>	\$ 33,996,799	100.0 %	\$ 32,841,659	100.0 %
2. <b>OPERATING EXPENSES</b>				
3. Seattle office operating expense and administrative overhead	10,252,297	30.2	9,956,847	30.3
4. Boat operating expense	1,679,687	5.0	1,605,694	4.9
5. Port Angeles station operating expense	<u>538,388</u>	<u>1.5</u>	<u>730,114</u>	<u>2.2</u>
6. <b>TOTAL OPERATING EXPENSES</b>	12,470,372	36.7	12,292,655	37.4
7. <b>TRANSPORTATION FEES PAID DIRECTLY TO PILOTS</b>	<u>1,036,161</u>	<u>3.0</u>	<u>1,029,520</u>	<u>3.1</u>
8. <b>NET INCOME FROM POOLED OPERATIONS</b>	20,490,266	60.3	19,519,484	59.4
9. <b>OTHER INCOME (EXPENSE)</b>				
10. Interest income and finance charges	(6,355)	(0.0)	91,604	0.3
11. <b>BALANCE OF REVENUE POOL BEFORE DEDUCTIONS OF INDIVIDUAL PILOTS' BUSINESS EXPENSES</b>	20,483,911	<u>60.3 %</u>	19,611,088	<u>59.7 %</u>
12. <b>LESS PER DETAIL BELOW</b>				
13. Buy-ins and buy-outs, net	(246,363)		(90,653)	
14. All other payments to pilots	<u>(20,509,887)</u>		<u>(19,665,745)</u>	
15. <b>TOTAL DETAIL</b>	<u>(20,756,250)</u>		<u>(19,756,398)</u>	
16. <b>NET DECREASE IN PILOTS' EQUITY</b>	(272,339)		(145,310)	
17. <b>BEGINNING PILOTS' EQUITY</b>	<u>4,633,137</u>		<u>4,778,447</u>	
18. <b>ENDING PILOTS' EQUITY</b>	<u>\$ 4,360,798</u>		<u>\$ 4,633,137</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
1. Balance of revenue pool before deductions of individual pilots' business expenses	\$ 20,483,911	\$ 19,611,088
Adjustments to reconcile balance of revenue pool to cash provided by operating activities:		
2. Depreciation and amortization	162,429	402,210
3. Increase in net accounts receivable	(71,036)	(50,319)
4. Decrease in prepaid expenses	5,000	32,847
5. Increase in funds held in trust (see Note 3)	72,697	3,637
6. Increase (decrease) in accrued taxes	(512)	201
7. Increase in retirement expense payable	<u>16,094</u>	<u>24,733</u>
8. NET CASH PROVIDED BY OPERATING ACTIVITIES	20,668,583	20,024,397
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
9. Principal payments on notes payable	(92,000)	(334,986)
10. Payments from buy-in and buy-outs, net	(246,363)	(90,653)
11. Payments to members	<u>(20,509,887)</u>	<u>(19,665,745)</u>
12. NET CASH USED IN FINANCING ACTIVITIES	<u>(20,848,250)</u>	<u>(20,091,384)</u>
13. NET DECREASE IN CASH	(179,667)	(66,987)
14. Cash at beginning of year	<u>1,674,869</u>	<u>1,741,856</u>
15. Cash at end of year	<u>\$ 1,495,202</u>	<u>\$ 1,674,869</u>
<b>Supplemental disclosure of cash flow information</b>		
16. Interest paid	\$ 8,203	\$ 13,763

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**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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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 ensure against the loss of lives, loss of or damage to property and vessels, and to protect the marine environment by maintaining efficient and competent pilotage service on our State's inland waters within the Puget Sound Pilotage District. 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. The Washington State legislature passed a bill (SB 6519) revising the establishment of marine pilotage tariffs that was signed into law on March 15, 2018. The law transfers the function of marine pilotage rate-setting from the Board of Pilotage Commissioners to the Utilities and Transportation Commission, beginning July 1, 2019. Customers are international and domestic companies that pay established rates to utilize pilotage services within Puget Sound.

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 (dissolved in 2018). 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 had an agreement with PTS under which PTS, having expertise in the area of technological assistance and education to marine pilots, provided equipment, educational, and related services to pilots licensed in the State of Washington. Under the terms of the agreement, PSP paid PTS for providing equipment (PPUs) and related services to the pilots. Further, under a second agreement, PTS paid PSP for the cost of certain administrative services. PTS was closed and all assets disposed of in 2018. PSP obtained an operating lease for PPU's in 2018. All future PPU operating expenses will be paid by PSP.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

The total expenses related to the PPU's recorded under PTS for the years ended December 31, 2018 and 2017, were:

	<u>2018</u>	<u>2017</u>
Depreciation and amortization	\$ -	\$ 233,792
Interest expense	-	2,604
Taxes - B&O	867	5,317
Taxes - Property	-	1,195
Administrative	-	96
Computer maintenance	-	57,918
	<u>\$ 867</u>	<u>\$ 300,922</u>

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 accounting principles generally accepted in the United States of America 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 to their commercial customers in accordance with the tariff regulated by the Washington State Board of Pilotage Commissioners (WAC 363-116-300) see above. The tariff is evaluated annually. The tariff is designed to cover current operating costs and liabilities and to provide competitive compensation for pilots.

Cash and Cash Equivalents

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

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

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 \$68,008 and \$202,288 at December 31, 2018 and 2017, respectively.

PSP 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.

Effective January 1, 2014, PSP 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, 2018 and 2017, was \$162,429 and \$402,210, 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.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

Income Taxes (Continued)

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.

PSP 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. PSP 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, 2018 and 2017. PSP is no longer subject to federal, state or local income tax examinations by tax authorities for years prior to 2015. If assessed, PSP 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.

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

Property, boats and equipment are summarized as follows:

	<u>2018</u>	<u>2017</u>
Port Angeles station building	\$ 2,104,532	\$ 2,104,532
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	857,513	1,756,011
Portable pilot units	-	1,141,571
Portable radio equipment	<u>95,659</u>	<u>95,659</u>
	10,159,007	12,199,076
Less accumulated depreciation and amortization	<u>9,122,378</u>	<u>11,000,246</u>
	<u>\$ 1,036,629</u>	<u>\$ 1,198,830</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 3.--FUNDS HELD IN TRUST – PILOT TRAINEE SURCHARGE, SELF-INSURANCE LIABILITY PREMIUM AND GRAYS HARBOR PENSION**

Funds held in trust at December 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Pilotage Commission Trust - trainee surcharge	\$ 134,420	\$ 52,280
Pilotage Commission self-insurance premium	16,352	17,760
Grays Harbor pensions payable	<u>-</u>	<u>8,035</u>
	<u>\$ 150,772</u>	<u>\$ 78,075</u>

Pilotage Commission Trust – Pilot Trainee Surcharge

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 trainee and per-assignment basis. The funds are scheduled to be transmitted by PSP to the Commission on a monthly basis.

Pilot Trainee surcharge detail for years ended December 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Pilot Trainee surcharge billed to customers (excluded from Pilotage Revenue on Page 7)	\$ 777,105	\$ 499,455
Pilot Trainee surcharge collected from customers	732,285	505,365
Collected and due to Pilotage Commission at December 31, 2018 and 2017	70,380	33,015
Billed and uncollected amounts due to Pilotage Commission at December 31, 2018 and 2017	68,085	23,265

Pilotage Commission Trust – Self-insurance Liability Premium (SILA)

PSP acts as a fiduciary agent for the Washington State Board of Pilotage Commissioners (Commission) and collects a self-insurance liability account surcharge on behalf of the Commission. This fee was established as a result of the Washington legislative action in 2017.

In order to promptly comply with the provisions described in the Engrossed Senate bill 5096 Sec. 108, effective May 18, 2017, the Commission filed a new rule under emergency provisions. A public hearing was held at a future date in order to permanently adopt the rule, WAC 363-116-301 New Revenue Collection: Effective May 18, 2017 through June 30, 2019, Engrossed Senate Bill No. 5096 Section 108, the board of pilotage commissioners is appropriated \$1,100,000 from the multimodal transportation account solely for self-insurance liability premium expenditures.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 3.--FUNDS HELD IN TRUST - TRAINING SURCHARGE, SELF-INSURANCE LIABILITY PREMIUM AND GRAYS HARBOR PENSION (Continued)**

This appropriation requires three stipulated conditions: 1) The Puget Sound Pilots shall pay to the board, from its tariffs, \$150,000 annually on July 1, 2017 and July 1, 2018. 2) The board shall maintain the Puget Sound pilotage tariff at the rate which became effective on January 1, 2017. 3) A self-insurance premium surcharge of \$16 shall be added to each Puget Sound pilotage assignment on all vessels requiring pilotage. The Puget Sound Pilots shall remit the total amount of such surcharge generated to the board by the 10<sup>th</sup> of each month. The surcharge is in effect from July 1, 2017 through June 30, 2019.

Self-insurance premium surcharge payable detail for years ended December 31, 2018 and 2017, consisted of the following:

	2018	2017
Self-insurance premium surcharge billed to customers (excluded from Pilotage Revenue on Page 7)	\$ 117,168	\$ 58,880
Self-insurance premium surcharge collected from customers	117,520	50,688
Collected and due to Pilotage Commission at December 31, 2018 and 2017	8,512	9,568
Billed and uncollected amounts due to Pilotage Commission at December 31, 2018 and 2017	7,840	8,192

**Grays Harbor Pension**

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 Grays 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.” On March 15, 2018, Washington Senate Bill SB6519 passed and amended RCW 53.08.390, Sec 2, 5(b) mandating that the Grays Harbor port district must include a charge in its pilotage tariff for Grays Harbor to cover costs associated with the pilot retirement agreement expenses for Grays Harbor pilots employed prior to October 1, 2001. This charge will be collected and accounted for by Port of Grays Harbor solely for the Grays Harbor pilot retirement agreement expenses. As a result, effective April 2018, an agreement was reached in which the Puget Sound Pilots would no longer pay the pension on behalf of Grays Harbor.



**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 3.--FUNDS HELD IN TRUST - TRAINING SURCHARGE, SELF-INSURANCE  
LIABILITY PREMIUM AND GRAYS HARBOR PENSION (Continued)**

- |  |                  |
|--|------------------|
| 1. Grays Harbor Pilotage District Pension expense<br>(included in Seattle Office Operating Expense and<br>Administrative Overhead, Page 7) | <u>\$ 16,070</u> |
|--|------------------|

Detail of Grays Harbor Pension Expense

- |                     |    |       |
|---------------------|----|-------|
| a. Capt. J.M. Hoyne | \$ | 6,502 |
| b. Capt. B. Watson  |    | 9,568 |

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

Long-term liabilities at December 31, 2018 and 2017, consisted of the following:

	2018	2017
Dispatch software note payable to bank secured by PSP assets bearing interest at 1.50% plus the lender's cost of funds (total rate of 3.16% at December 31, 2018 and 2017), monthly payments of \$6,022 began May 1, 2016, maturing April 1, 2021.	\$ 206,997	\$ 298,997
Less current portion	( 92,000)	( 92,000)
Total long-term liabilities	<u>\$ 114,997</u>	<u>\$ 206,997</u>

Total interest expense on all borrowings was \$8,203 and \$13,763 for the years ended December 31, 2018 and 2017.

Estimated future maturities of notes payable are as follows:

<u>Years ending December 31,</u>	
2019	\$ 92,000
2020	92,000
2021	22,997
2022	-
Thereafter	-
	<u>\$ 206,997</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

PSP has a line of credit with a bank in the amount of \$500,000 due September 30, 2019. There was no balance outstanding at December 31, 2018 and 2017. 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.

**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 retired pilot and a former executive director 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 was paying retirement benefits for the retirees of the Grays Harbor Bar Pilots. The cost was partially offset by a one-time tariff increase of \$8.00 in the LOA rate in 2001 as well as a Grays Harbor pension charge of \$0 per assignment (effective January 1, 2018) and \$528 per assignment (effective January 1, 2017), respectively, paid by the Port of Grays Harbor to PSP. This agreement was terminated in 2018, see also Note 3.

Retirement payments are made from currently earned PSP income. There is no fund for satisfaction of future retirement income; and at December 31, 2018 and 2017, 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, 2018 and 2017, has not been determined. See Note 10 for further discussion of unrecorded liabilities.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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**NOTE 7.--RETIREMENT PLANS - EMPLOYEES**

Eligible employees are members of the Inland boatmen'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 Union's 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. The plan allows for elective deferrals and provides a safe harbor match and discretionary profit sharing contribution. PSP contributions to the Plan for 2018 and 2017 were \$29,535 and \$30,980, respectively.

**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 2018 and 2017 was \$4,362 and \$4,310, respectively.

Seattle Office

The dispatching and management headquarters is leased for seven years ending October 31, 2019, and has a five-year extension option (see Note 12). 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 2018 and 2017 was \$106,633 and \$103,940, respectively.

PSP obtained an operating lease for PPU's in 2018. The lease is for 53 units for a period of 36 months effective July 1, 2018. Rent expense related to this lease for 2018 was \$198,826.

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, 2018:

<u>Years ending December 31,</u>	
2019	\$ 415,887
2020	342,639
2021	144,838
2022	-
2023	-
Thereafter	-
	<u>\$ 903,364</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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**NOTE 8.--LEASES (Continued)**Total Leases

Total rent expense for all leases including parking, which is on a month-to-month agreement, was \$331,086 and \$125,516 for 2018 and 2017.

**NOTE 9.--CONCENTRATIONS**

PSP maintains cash balances in certain financial institutions that may, at times, exceed limits insured by the FDIC. PSP 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 PSP has not experienced any losses in such accounts.

One customer accounted for approximately 13% and 11% of accounts receivable at December 31, 2018 and 2017, respectively.

PSP derives its income from services performed within Puget Sound waters. 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 26, page 6).

The following are unrecorded liabilities at December 31, 2018 and 2017:

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 be called back to perform assignments during their off duty (respite) period and be credited with a comp day.

Comp day value at December 31, 2018, was approximately \$6,927,172 and approximately \$5,583,894 at December 31, 2017.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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**NOTE 10.-UNRECORDED LIABILITIES (Continued)**

Annual unpaid vacation value at December 31, 2018, was approximately \$982,764 and approximately \$935,990 at December 31, 2017.

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.

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 adjust up or down, the value of the comp day - and the amount of the unrecorded liability associated with it - adjusts up or 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 2018 and 2017, 15.4 and .9 monthly payments, respectively, were made to different pilots under this operating rule. An estimate of the liability for major medical as of December 31, 2018 and 2017, has not been determined.

As pilots retire, PSP buys them out over a period of time. As of December 31, 2018, and 2017, the amount due to retired pilots under the buyout is approximately \$3,736,439 and \$3,083,739, respectively.

Redemption of pilot ownership interest for pilots being paid out as of December 31, 2018, due for each of the next five years and in the aggregate, are as follows:

<u>Years ended December 31,</u>	
2019	\$1,135,887
2020	986,154
2021	680,660
2022	448,286
2023	408,218
Thereafter	<u>77,234</u>
	<u>\$3,736,439</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 90 days.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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**NOTE 10.-UNRECORDED LIABILITIES (Continued)**

The Executive Director earns vacation and sick leave in accordance with their contract. 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, 2018 and 2017, has not been determined.

**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. The contract was extended through November 30, 2017 and effective January 1, 2018 a collective bargaining agreement between the Puget Sound Pilots (PSP) and the Inlandboatmen's Union of the Pacific was contracted effective January 1, 2018 through June 30, 2021.

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 \$258,150 and \$281,072 for the years ended December 31, 2018 and 2017, 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 \$121,026 and \$112,393 for the years ended December 31, 2018 and 2017, 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 not to exceed 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 April 30, 2019, the date which the financial statements were available to be issued.

The current Seattle office lease expires October 31, 2019. A new office lease and office location (2003 Western Ave, Suite 200, Seattle, WA 98121) will commence November 1, 2019. Related incremental costs associated with tenant improvements and relocation are anticipated in 2019.



## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors  
Puget Sound Pilots  
Seattle, Washington

We have audited the special-purpose consolidated financial statements of Puget Sound Pilots (a voluntary association of sole proprietors and incorporated individuals) and Subsidiary as of and for the years ended December 31, 2018 and 2017, and our report thereon dated April 30, 2019 which expressed an unmodified opinion on those financial statements, appears on pages 3- 4. Our audit was conducted for the purpose of forming an opinion on those financial statements as a whole. The Schedule of Days of Service and Distribution of Pilotage Revenue and Expense, Schedule of Retirement Income for Inactive Pilots and Other Eligible Participants, Schedule of Seattle Office Operating Expense and Administrative Overhead, Schedule of Boat Operating Expense, Schedule of Port Angeles Station Operating Expense and the Schedule of Employees are presented for purposes of additional analysis and are not a required part of the special-purpose 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 special-purpose consolidated 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.

### Restriction on Use

This report is intended solely for the information and use of Puget Sound Pilots and the Puget Sound Pilotage Commission and is not intended and should not be used by anyone other than those specified parties.

*Shannon & Associates, LLP*

Kent, Washington  
April 30, 2019

**S U P P L E M E N T A R Y**

**I N F O R M A T I O N**



PUGET SOUND PILOTS AND SUBSIDIARY  
COMMENTS ON 2018 OPERATIONS

A. FEATURES OF INDIVIDUAL DISTRIBUTIONS

	<u>2018</u>
1. Total annual duty days	18,372
2. Working Pilot roster (duty days divided by days in year, rounded to nearest tenth)	50.3 *
3. Piloting engagements	7,325
4. Total pilotage revenue per day per pilot	\$ 1,850
5. Expense per day per pilot	\$ 748
6. Balance of revenue pool per day per pilot	\$ 1,102
7. Transportation fees per day per pilot	\$ 56

B. OPERATING RESULTS, 2018

		<u>2018</u>
1. Total Pilotage Revenue		\$ 33,996,799
2. Seattle	\$ 10,252,297	
3. Boats	1,679,687	
4. Port Angeles	<u>538,388</u>	
5. Operating expense - pooled		(12,470,372)
6. Individual Business Expense @ \$4,865	\$ 244,896	
7. Transportation fees paid directly to pilots	<u>1,036,161</u>	
8. Expense - other		<u>(1,281,057)</u>
9. Balance of Pilotage Revenue Pooled		<u>\$ 20,245,370</u>
10. Working Pilot Roster		50.3
11. Balance of Pilotage Revenue Pooled Per Pilot		<u>\$ 402,219</u>

\* The active roster was 49 and 52 pilots for December 31, 2018 and 2017, respectively. Based upon days of duty, the 2018 working pilot roster averaged 50.3 pilots as compared with 52.4 pilots in 2017.

PUGET SOUND PILOTS AND SUBSIDIARY

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

Year Ended December 31, 2018

Pilot Handle	(1) Days of Service	(2) Credit for Pilotage Revenue	(3) Charge for Operating Expense	(4) Charge for Other Expense	(5)*** Annual earnings after deductions
1. ANA .....	365	\$ 675,421	\$ 247,751	\$ 25,451	\$ 402,219
2. ANT .....	365	675,421	247,751	25,451	402,219
3. ARN .....	365	675,421	247,751	25,451	402,219
4. BEN**.....	102	188,740	69,246	7,113	112,381
5. BOU .....	365	675,421	247,751	25,451	402,219
6. BRU .....	365	675,421	247,751	25,451	402,219
7. BRO .....	365	675,421	247,751	25,451	402,219
8. BUJ .....	365	675,421	247,751	25,451	402,219
9. CAI .....	365	675,421	247,751	25,451	402,219
10. CAW .....	365	675,421	247,751	25,451	402,219
11. CAJ .....	365	675,421	247,751	25,451	402,219
12. COE* .....	120	222,056	81,452	8,367	132,237
13. COL .....	365	675,421	247,751	25,451	402,219
14. COR .....	365	675,421	247,751	25,451	402,219
15. EME .....	365	675,421	247,751	25,451	402,219
16. ENF .....	365	675,421	247,751	25,451	402,219
17. GAL .....	365	675,421	247,751	25,451	402,219
18. GRD .....	365	675,421	247,751	25,451	402,219
19. HAJ .....	365	675,421	247,751	25,451	402,219
20. HAR .....	<u>365</u>	<u>675,421</u>	<u>247,751</u>	<u>25,451</u>	<u>402,219</u>
Subtotal Forward.....	6,792	\$ 12,568,374	\$ 4,610,216	\$ 473,598	\$ 7,484,560

\* Pilot is retired as of December 31, 2018

\*\* Pilot started in 2018

\*\*\* Amount does not include individual income and social security taxes and does not include Port Angeles transportation payments

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

See notes on page 26

PUGET SOUND PILOTS AND SUBSIDIARY  
SCHEDULE OF DAYS OF SERVICE AND DISTRIBUTION OF  
PILOTAGE REVENUE AND EXPENSE  
Year Ended December 31, 2018

Pilot Name	(1) Days of Service	(2) Credit for Pilotage Revenue	(3) Charge for Operating Expense	(4) Charge for Other Expense	(5)** Annual earnings after deductions
Subtotal Forward.....	6,792	\$ 12,568,374	\$ 4,610,216	\$ 473,598	\$ 7,484,560
21. HED .....	365	675,421	247,751	25,451	402,219
22. HEN .....	365	675,421	247,751	25,451	402,219
23. HUP .....	365	675,421	247,751	25,451	402,219
24. JEN .....	365	675,421	247,751	25,451	402,219
25. KAL .....	365	675,421	247,751	25,451	402,219
26. KEA .....	365	675,421	247,751	25,451	402,219
27. KEN .....	365	675,421	247,751	25,451	402,219
28. KEP .....	365	675,421	247,751	25,451	402,219
29. KLA .....	365	675,421	247,751	25,451	402,219
30. LIC .....	365	675,421	247,751	25,451	402,219
31. LOB .....	365	675,421	247,751	25,451	402,219
32. LOW .....	365	675,421	247,751	25,451	402,219
33. MAR* .....	271	501,477	183,947	18,896	298,634
34. MAY .....	365	675,421	247,751	25,451	402,219
35. MOT .....	365	675,421	247,751	25,451	402,219
36. MYE .....	365	675,421	247,751	25,451	402,219
37. NEW .....	365	675,421	247,751	25,451	402,219
38. ROU .....	365	675,421	247,751	25,451	402,219
49. SAN .....	365	675,421	247,751	25,451	402,219
40. SCO .....	365	675,421	247,751	25,451	402,219
Subtotal Forward.....	13,998	\$ 25,902,850	\$ 9,501,432	\$ 976,063	\$ 15,425,355

\* Pilot is retired as of December 31, 2018

\*\* Pilot started in 2018

\*\*\* Amount does not include individual income and social security taxes and does not include Port Angeles transportation payments

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

See notes on page 26

PUGET SOUND PILOTS AND SUBSIDIARY

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

Year Ended December 31, 2018

<u>Pilot Name</u>	(1) Days of Service	(2) Credit for Pilotage Revenue	(3) Charge for Operating Expense	(4) Charge for Other Expense	(5)*** Annual earnings after deductions
Subtotal Forward.....	13,998	\$ 25,902,850	\$ 9,501,432	\$ 976,063	\$ 15,425,355
41. SCR .....	365	675,421	247,751	25,451	402,219
42. SEM .....	365	675,421	247,751	25,451	402,219
43. SES .....	365	675,421	247,751	25,451	402,219
44. SEY .....	365	675,421	247,751	25,451	402,219
45. SHA .....	365	675,421	247,751	25,451	402,219
46. SHJ .....	365	675,421	247,751	25,451	402,219
47. SHU* .....	359	664,318	243,679	25,033	395,606
48. SLI .....	365	675,421	247,751	25,451	402,219
49. SOR .....	365	675,421	247,751	25,451	402,219
50. THG .....	365	675,421	247,751	25,451	402,219
51. VON .....	365	675,421	247,751	25,451	402,219
52. WIG .....	<u>365</u>	<u>675,421</u>	<u>247,751</u>	<u>25,451</u>	<u>402,219</u>
Total.....	<u>18,372</u>	<u>\$ 33,996,799</u>	<u>\$ 12,470,372</u>	<u>\$ 1,281,057</u>	<u>\$ 20,245,370</u>

\* Pilot is retired as of December 31, 2018

\*\* Pilot started in 2018

\*\*\* Amount does not include individual income and social security taxes and does not include Port Angeles transportation payments.

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

See notes on page 26

## PUGET SOUND PILOTS AND SUBSIDIARY

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

Year Ended December 31, 2018

- 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).
- a. Column (1): Days of Service is the total number of days the pilot was an active pilot on pilot roster.
  - b. Column (2): Credit for Pilotage Revenue is the total gross tariff revenue which represents the annual earnings of individual pilots before deductions for expenses of pilot organization [Ref: RCW 88.16.035 (1)(f)]. Column (2) includes transportation expense charges (TEC) and excludes SILA and Trainee surcharge revenue.
  - c. Column (3): Charge for Operating Expense is the deduction from pilotage revenue for operating expenses of the Puget Sound Pilots shared evenly among all pilots based on days of service. Column (3) does not include transportation expense charges (TEC).
  - d. Column (4): Charge for Other Expense includes the transportation expense charges (TEC) paid directly to pilots (included in column (2)) as well as the individual out of pocket allowance of \$4,865 per pilot for disability insurance.
  - e. Column (5): Annual earnings after deductions represents the annual earnings of individual pilots after deductions for expenses of pilot organization. [Ref: RCW 88.16.035 (1)(f)].
- 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.

## PUGET SOUND PILOTS AND SUBSIDIARY

SCHEDULE OF RETIREMENT INCOME FOR INACTIVE  
PILOTS AND OTHER ELIGIBLE PARTICIPANTS

Year Ended December 31, 2018

1. AWN	\$ 19,223	31. LAR	69,672
2. AND	36,739	32. LIN	7,200
3. BLA	60,718	33. LOF	13,442
4. BOW	95,535	34. MAC	144,363
5. BUN	124,983	35. MAR	15,342
6. CAA	17,273	36. MAT	126,912
7. CAR	12,213	37. MCC	120,303
8. COE	96,699	38. MEN	176,616
9. CRA	9,694	39. MIB	133,670
10. ENM	94,908	40. MIC	25,365
11. ENG	125,198	41. MOR	88,317
12. ENV	69,340	42. MOS	17,395
13. FLA	171,696	43. MUR	67,709
14. FOS	95,535	44. NIE	111,012
15. GAV	64,587	45. OST	53,105
16. GIE	138,679	46. PEA	35,698
17. GOO	50,641	47. PET	98,544
18. HAN	162,491	48. POO	45,314
19. HOLLS	28,791	49. ROB	54,173
20. HUN	124,416	50. SAC	20,558
21. HUR	91,528	51. SNY	62,964
22. JAC	125,198	52. STE	107,808
23. JOC	54,173	53. THJ	48,557
24. JOM	52,872	54. THL	39,980
25. JOB	30,651	55. THW	110,204
26. JUS	148,218	56. WAR	63,945
27. KJE	29,611	57. WAJ	45,295
28. KNO	96,242	58. WER	74,766
29. KRO	149,304	59. WIL	39,460
30. LAC	96,242	60. WOO	135,884
TOTAL			<u>\$ 4,626,971</u>

## 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, 2018

1. Attorney fees	\$ 246,770	0.7%
2. Bad debts	1,480	0.0%
3. Commisison - senate bill 5096	150,000	0.4%
4. Computer maintenance	177,744	0.5%
5. Computer programming	36,674	0.1%
6. Conferences	5,541	0.0%
7. Consulting services	41,625	0.1%
8. CPA fees	81,698	0.2%
9. Depreciation and amortization	116,211	0.3%
10. Drug testing	2,085	0.0%
11. Dues	160,732	0.5%
12. Employee benefits	174,809	0.5%
13. Employee salaries	849,672	2.5%
14. Equipment leases	198,826	0.6%
15. Former director retirement	69,502	0.2%
16. Gifts	5,572	0.0%
17. Grays Harbor retirement	16,070	0.0%
18. Insurance	162,213	0.5%
19. Interest	8,203	0.0%
20. License fees - commission	326,000	1.0%
21. Lobbyist	76,334	0.2%
22. Medical insurance - pilots	1,560,772	4.6%
23. Office maintenance and repair	24,340	0.1%
24. Office supplies	56,551	0.2%
25. Pilot training	197,979	0.6%
26. Printing and publications	25,703	0.1%
27. Puget Sound retirement	4,626,971	13.6%
28. Rent and parking	127,898	0.4%
29. Taxes on payroll	54,193	0.2%
30. Taxes, other	3,124	0.0%
31. Taxes on revenue	516,929	1.5%
32. Travel, entertainment and promotion	124,502	0.4%
33. Telephone and communications	<u>25,574</u>	<u>0.1%</u>
 TOTAL	 <u>\$ 10,252,297</u>	 <u>30.2%</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, 2018

1. Depreciation	\$ 28	0.0%
2. Employee benefits	233,902	0.7%
3. Employee salaries	801,684	2.4%
4. Fuel of "Juan de Fuca"	186,889	0.5%
5. Fuel of "Puget Sound"	177,694	0.5%
6. Insurance	96,940	0.3%
7. Maintenance and operation of "Juan de Fuca"	63,448	0.2%
8. Maintenance and operation of "Puget Sound"	56,662	0.2%
9. Taxes on payroll	<u>62,440</u>	<u>0.2%</u>
 TOTAL	 <u>\$ 1,679,687</u>	 <u>5.0%</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, 2018

1.	Depreciation	\$ 46,190	0.1%
2.	Education	1,525	0.0%
3.	Food	80,648	0.2%
4.	Insurance	34,583	0.1%
5.	Lodging	377	0.0%
6.	Maintenance and repairs	30,765	0.1%
7.	Rent, tideland lease	4,362	0.0%
8.	Reposition pilots	252,161	0.7%
9.	Supplies	23,876	0.1%
10.	Taxes on property	12,916	0.0%
11.	Telephone and communications	25,986	0.1%
12.	Utilities	<u>24,999</u>	<u>0.1%</u>
	TOTAL	<u>\$ 538,388</u>	<u>1.5%</u>

## PUGET SOUND PILOTS AND SUBSIDIARY

## SCHEDULE OF EMPLOYEES

December 31, 2018

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

**PUGET SOUND PILOTS AND SUBSIDIARY**

**SPECIAL-PURPOSE CONSOLIDATED  
FINANCIAL STATEMENTS  
(MODIFIED ACCRUAL BASIS)**

**FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017**

**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, 2018 and 2017, 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 as described in Note 1; this includes determining that the modified accrual basis of accounting is an acceptable basis for preparation of the special-purpose consolidated 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 special-purpose 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 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 special-purpose consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the special-purpose consolidated 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 special-purpose 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 special-purpose consolidated 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, 2018 and 2017, and its revenues, expenses and changes in pilots' equity, and cash flows for the years then ended, in accordance with the modified accrual 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.

**Restriction on Use**

This report is intended solely for the information and use of Puget Sound Pilots, the Puget Sound Pilotage Commission, and the Utilities and Transportation Commission and is not intended and should not be used by anyone other than these specified parties.

*Shannon ? Associates, LLP*

Kent, Washington

April 30, 2019

**PUGET SOUND PILOTS AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ASSETS, LIABILITIES  
AND PILOTS' EQUITY - MODIFIED ACCRUAL BASIS  
DECEMBER 31, 2018 AND 2017**

		<u>ASSETS</u>		
		<u>2018</u>	<u>2017</u>	Increase (Decrease)
1.	<b>CURRENT ASSETS</b>			
2.	Cash in banks	\$ 1,495,202	\$ 1,674,869	\$ (179,667)
3.	Accounts receivable, net of allowance for doubtful accounts of \$5,500 at each year end	2,542,397	2,471,361	71,036
4.	Prepaid expenses	<u>75,641</u>	<u>80,639</u>	<u>(4,998)</u>
5.	<b>TOTAL CURRENT ASSETS</b>	4,113,240	4,226,869	(113,629)
6.	<b>PROPERTY, BOATS AND EQUIPMENT</b>			
7.	Total building, boats, furnishings, and equipment	10,159,007	12,199,076	(2,040,069)
8.	Less accumulated depreciation and amortization	<u>9,122,378</u>	<u>11,000,246</u>	<u>(1,877,868)</u>
9.	<b>NET PROPERTY, BOATS AND EQUIPMENT</b>	1,036,629	1,198,830	(162,201)
10.	<b>OTHER ASSETS</b>			
11.	Loan fees, net of accumulated amortization of \$690 and \$460 as of 2018 and 2017	<u>460</u>	<u>690</u>	<u>(230)</u>
12.	<b>TOTAL ASSETS</b>	<u>\$ 5,150,329</u>	<u>\$ 5,426,389</u>	<u>\$ (276,060)</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, 2018 AND 2017**

**LIABILITIES AND PILOTS' EQUITY**

	2018	2017	Increase (Decrease)
<b>13. CURRENT LIABILITIES</b>			
14. Funds held in trust (See Note 3)	\$ 150,772	\$ 78,075	\$ 72,697
15. Accrued taxes	38,163	38,675	(512)
16. Retirement expense payable	393,599	377,505	16,094
17. Current portion of long-term liabilities	92,000	92,000	-
<b>18. TOTAL CURRENT LIABILITIES</b>	674,534	586,255	88,279
<b>19. LONG-TERM LIABILITIES, net of current portion</b>	114,997	206,997	(92,000)
<b>20. TOTAL LIABILITIES</b>	789,531	793,252	(3,721)
<b>21. PILOTS' EQUITY</b>			
22. December distributions payable to pilots	1,481,341	1,441,694	39,647
23. Reserved for operations	750,000	750,000	-
24. Reserved for working capital account	356,444	602,807	(246,363)
25. Remainder of pilots' equity	1,773,013	1,838,636	(65,623)
<b>26. TOTAL PILOTS' EQUITY</b>	4,360,798	4,633,137	(272,339)
<b>27. TOTAL LIABILITIES AND PILOTS' EQUITY</b>	\$ 5,150,329	\$ 5,426,389	\$ (276,060)

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, 2018 AND 2017**

	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
1. <b>PILOTAGE REVENUE</b>	\$ 33,996,799	100.0 %	\$ 32,841,659	100.0 %
2. <b>OPERATING EXPENSES</b>				
3. Seattle office operating expense and administrative overhead	10,252,297	30.2	9,956,847	30.3
4. Boat operating expense	1,679,687	5.0	1,605,694	4.9
5. Port Angeles station operating expense	<u>538,388</u>	<u>1.5</u>	<u>730,114</u>	<u>2.2</u>
6. <b>TOTAL OPERATING EXPENSES</b>	12,470,372	36.7	12,292,655	37.4
7. <b>TRANSPORTATION FEES PAID DIRECTLY TO PILOTS</b>	<u>1,036,161</u>	<u>3.0</u>	<u>1,029,520</u>	<u>3.1</u>
8. <b>NET INCOME FROM POOLED OPERATIONS</b>	20,490,266	60.3	19,519,484	59.4
9. <b>OTHER INCOME (EXPENSE)</b>				
10. Interest income and finance charges	(6,355)	(0.0)	91,604	0.3
11. <b>BALANCE OF REVENUE POOL BEFORE DEDUCTIONS OF INDIVIDUAL PILOTS' BUSINESS EXPENSES</b>	20,483,911	<u>60.3 %</u>	19,611,088	<u>59.7 %</u>
12. <b>LESS PER DETAIL BELOW</b>				
13. Buy-ins and buy-outs, net	(246,363)		(90,653)	
14. All other payments to pilots	<u>(20,509,887)</u>		<u>(19,665,745)</u>	
15. <b>TOTAL DETAIL</b>	<u>(20,756,250)</u>		<u>(19,756,398)</u>	
16. <b>NET DECREASE IN PILOTS' EQUITY</b>	(272,339)		(145,310)	
17. <b>BEGINNING PILOTS' EQUITY</b>	<u>4,633,137</u>		<u>4,778,447</u>	
18. <b>ENDING PILOTS' EQUITY</b>	<u>\$ 4,360,798</u>		<u>\$ 4,633,137</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
1. Balance of revenue pool before deductions of individual pilots' business expenses	\$ 20,483,911	\$ 19,611,088
Adjustments to reconcile balance of revenue pool to cash provided by operating activities:		
2. Depreciation and amortization	162,429	402,210
3. Increase in net accounts receivable	(71,036)	(50,319)
4. Decrease in prepaid expenses	5,000	32,847
5. Increase in funds held in trust (see Note 3)	72,697	3,637
6. Increase (decrease) in accrued taxes	(512)	201
7. Increase in retirement expense payable	<u>16,094</u>	<u>24,733</u>
8. NET CASH PROVIDED BY OPERATING ACTIVITIES	20,668,583	20,024,397
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
9. Principal payments on notes payable	(92,000)	(334,986)
10. Payments from buy-in and buy-outs, net	(246,363)	(90,653)
11. Payments to members	<u>(20,509,887)</u>	<u>(19,665,745)</u>
12. NET CASH USED IN FINANCING ACTIVITIES	<u>(20,848,250)</u>	<u>(20,091,384)</u>
13. NET DECREASE IN CASH	(179,667)	(66,987)
14. Cash at beginning of year	<u>1,674,869</u>	<u>1,741,856</u>
15. Cash at end of year	<u>\$ 1,495,202</u>	<u>\$ 1,674,869</u>
<b>Supplemental disclosure of cash flow information</b>		
16. Interest paid	\$ 8,203	\$ 13,763

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**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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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 ensure against the loss of lives, loss of or damage to property and vessels, and to protect the marine environment by maintaining efficient and competent pilotage service on our State's inland waters within the Puget Sound Pilotage District. 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. The Washington State legislature passed a bill (SB 6519) revising the establishment of marine pilotage tariffs that was signed into law on March 15, 2018. The law transfers the function of marine pilotage rate-setting from the Board of Pilotage Commissioners to the Utilities and Transportation Commission, beginning July 1, 2019. Customers are international and domestic companies that pay established rates to utilize pilotage services within Puget Sound.

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 (dissolved in 2018). 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 had an agreement with PTS under which PTS, having expertise in the area of technological assistance and education to marine pilots, provided equipment, educational, and related services to pilots licensed in the State of Washington. Under the terms of the agreement, PSP paid PTS for providing equipment (PPUs) and related services to the pilots. Further, under a second agreement, PTS paid PSP for the cost of certain administrative services. PTS was closed and all assets disposed of in 2018. PSP obtained an operating lease for PPU's in 2018. All future PPU operating expenses will be paid by PSP.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

The total expenses related to the PPU's recorded under PTS for the years ended December 31, 2018 and 2017, were:

	<u>2018</u>	<u>2017</u>
Depreciation and amortization	\$ -	\$ 233,792
Interest expense	-	2,604
Taxes - B&O	867	5,317
Taxes - Property	-	1,195
Administrative	-	96
Computer maintenance	-	57,918
	<u>\$ 867</u>	<u>\$ 300,922</u>

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 accounting principles generally accepted in the United States of America 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 to their commercial customers in accordance with the tariff regulated by the Washington State Board of Pilotage Commissioners (WAC 363-116-300) see above. The tariff is evaluated annually. The tariff is designed to cover current operating costs and liabilities and to provide competitive compensation for pilots.

Cash and Cash Equivalents

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

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

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 \$68,008 and \$202,288 at December 31, 2018 and 2017, respectively.

PSP 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.

Effective January 1, 2014, PSP 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, 2018 and 2017, was \$162,429 and \$402,210, 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.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

Income Taxes (Continued)

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.

PSP 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. PSP 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, 2018 and 2017. PSP is no longer subject to federal, state or local income tax examinations by tax authorities for years prior to 2015. If assessed, PSP 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.

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

Property, boats and equipment are summarized as follows:

	<u>2018</u>	<u>2017</u>
Port Angeles station building	\$ 2,104,532	\$ 2,104,532
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	857,513	1,756,011
Portable pilot units	-	1,141,571
Portable radio equipment	<u>95,659</u>	<u>95,659</u>
	10,159,007	12,199,076
Less accumulated depreciation and amortization	<u>9,122,378</u>	<u>11,000,246</u>
	<u>\$ 1,036,629</u>	<u>\$ 1,198,830</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 3.--FUNDS HELD IN TRUST – PILOT TRAINEE SURCHARGE, SELF-INSURANCE LIABILITY PREMIUM AND GRAYS HARBOR PENSION**

Funds held in trust at December 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Pilotage Commission Trust - trainee surcharge	\$ 134,420	\$ 52,280
Pilotage Commission self-insurance premium	16,352	17,760
Grays Harbor pensions payable	<u>-</u>	<u>8,035</u>
	<u>\$ 150,772</u>	<u>\$ 78,075</u>

Pilotage Commission Trust – Pilot Trainee Surcharge

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 trainee and per-assignment basis. The funds are scheduled to be transmitted by PSP to the Commission on a monthly basis.

Pilot Trainee surcharge detail for years ended December 31, 2018 and 2017, consisted of the following:

	<u>2018</u>	<u>2017</u>
Pilot Trainee surcharge billed to customers (excluded from Pilotage Revenue on Page 7)	\$ 777,105	\$ 499,455
Pilot Trainee surcharge collected from customers	732,285	505,365
Collected and due to Pilotage Commission at December 31, 2018 and 2017	70,380	33,015
Billed and uncollected amounts due to Pilotage Commission at December 31, 2018 and 2017	68,085	23,265

Pilotage Commission Trust – Self-insurance Liability Premium (SILA)

PSP acts as a fiduciary agent for the Washington State Board of Pilotage Commissioners (Commission) and collects a self-insurance liability account surcharge on behalf of the Commission. This fee was established as a result of the Washington legislative action in 2017.

In order to promptly comply with the provisions described in the Engrossed Senate bill 5096 Sec. 108, effective May 18, 2017, the Commission filed a new rule under emergency provisions. A public hearing was held at a future date in order to permanently adopt the rule, WAC 363-116-301 New Revenue Collection: Effective May 18, 2017 through June 30, 2019, Engrossed Senate Bill No. 5096 Section 108, the board of pilotage commissioners is appropriated \$1,100,000 from the multimodal transportation account solely for self-insurance liability premium expenditures.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 3.--FUNDS HELD IN TRUST - TRAINING SURCHARGE, SELF-INSURANCE LIABILITY PREMIUM AND GRAYS HARBOR PENSION (Continued)**

This appropriation requires three stipulated conditions: 1) The Puget Sound Pilots shall pay to the board, from its tariffs, \$150,000 annually on July 1, 2017 and July 1, 2018. 2) The board shall maintain the Puget Sound pilotage tariff at the rate which became effective on January 1, 2017. 3) A self-insurance premium surcharge of \$16 shall be added to each Puget Sound pilotage assignment on all vessels requiring pilotage. The Puget Sound Pilots shall remit the total amount of such surcharge generated to the board by the 10<sup>th</sup> of each month. The surcharge is in effect from July 1, 2017 through June 30, 2019.

Self-insurance premium surcharge payable detail for years ended December 31, 2018 and 2017, consisted of the following:

	2018	2017
Self-insurance premium surcharge billed to customers (excluded from Pilotage Revenue on Page 7)	\$ 117,168	\$ 58,880
Self-insurance premium surcharge collected from customers	117,520	50,688
Collected and due to Pilotage Commission at December 31, 2018 and 2017	8,512	9,568
Billed and uncollected amounts due to Pilotage Commission at December 31, 2018 and 2017	7,840	8,192

Grays Harbor Pension

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 Grays 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.” On March 15, 2018, Washington Senate Bill SB6519 passed and amended RCW 53.08.390, Sec 2, 5(b) mandating that the Grays Harbor port district must include a charge in its pilotage tariff for Grays Harbor to cover costs associated with the pilot retirement agreement expenses for Grays Harbor pilots employed prior to October 1, 2001. This charge will be collected and accounted for by Port of Grays Harbor solely for the Grays Harbor pilot retirement agreement expenses. As a result, effective April 2018, an agreement was reached in which the Puget Sound Pilots would no longer pay the pension on behalf of Grays Harbor.



**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

**NOTE 3.--FUNDS HELD IN TRUST - TRAINING SURCHARGE, SELF-INSURANCE  
LIABILITY PREMIUM AND GRAYS HARBOR PENSION (Continued)**

- |  |                  |
|--|------------------|
| 1. Grays Harbor Pilotage District Pension expense<br>(included in Seattle Office Operating Expense and<br>Administrative Overhead, Page 7) | <u>\$ 16,070</u> |
|--|------------------|

Detail of Grays Harbor Pension Expense

- |                     |    |       |
|---------------------|----|-------|
| a. Capt. J.M. Hoyne | \$ | 6,502 |
| b. Capt. B. Watson  |    | 9,568 |

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

Long-term liabilities at December 31, 2018 and 2017, consisted of the following:

	2018	2017
Dispatch software note payable to bank secured by PSP assets bearing interest at 1.50% plus the lender's cost of funds (total rate of 3.16% at December 31, 2018 and 2017), monthly payments of \$6,022 began May 1, 2016, maturing April 1, 2021.	\$ 206,997	\$ 298,997
Less current portion	( 92,000)	( 92,000)
Total long-term liabilities	<u>\$ 114,997</u>	<u>\$ 206,997</u>

Total interest expense on all borrowings was \$8,203 and \$13,763 for the years ended December 31, 2018 and 2017.

Estimated future maturities of notes payable are as follows:

<u>Years ending December 31,</u>	
2019	\$ 92,000
2020	92,000
2021	22,997
2022	-
Thereafter	-
	<u>\$ 206,997</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

PSP has a line of credit with a bank in the amount of \$500,000 due September 30, 2019. There was no balance outstanding at December 31, 2018 and 2017. 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.

**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 retired pilot and a former executive director 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 was paying retirement benefits for the retirees of the Grays Harbor Bar Pilots. The cost was partially offset by a one-time tariff increase of \$8.00 in the LOA rate in 2001 as well as a Grays Harbor pension charge of \$0 per assignment (effective January 1, 2018) and \$528 per assignment (effective January 1, 2017), respectively, paid by the Port of Grays Harbor to PSP. This agreement was terminated in 2018, see also Note 3.

Retirement payments are made from currently earned PSP income. There is no fund for satisfaction of future retirement income; and at December 31, 2018 and 2017, 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, 2018 and 2017, has not been determined. See Note 10 for further discussion of unrecorded liabilities.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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**NOTE 7.--RETIREMENT PLANS - EMPLOYEES**

Eligible employees are members of the Inland boatmen'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 Union's 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. The plan allows for elective deferrals and provides a safe harbor match and discretionary profit sharing contribution. PSP contributions to the Plan for 2018 and 2017 were \$29,535 and \$30,980, respectively.

**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 2018 and 2017 was \$4,362 and \$4,310, respectively.

Seattle Office

The dispatching and management headquarters is leased for seven years ending October 31, 2019, and has a five-year extension option (see Note 12). 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 2018 and 2017 was \$106,633 and \$103,940, respectively.

PSP obtained an operating lease for PPU's in 2018. The lease is for 53 units for a period of 36 months effective July 1, 2018. Rent expense related to this lease for 2018 was \$198,826.

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, 2018:

<u>Years ending December 31,</u>	
2019	\$ 415,887
2020	342,639
2021	144,838
2022	-
2023	-
Thereafter	-
	<u>\$ 903,364</u>

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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**NOTE 8.--LEASES (Continued)**Total Leases

Total rent expense for all leases including parking, which is on a month-to-month agreement, was \$331,086 and \$125,516 for 2018 and 2017.

**NOTE 9.--CONCENTRATIONS**

PSP maintains cash balances in certain financial institutions that may, at times, exceed limits insured by the FDIC. PSP 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 PSP has not experienced any losses in such accounts.

One customer accounted for approximately 13% and 11% of accounts receivable at December 31, 2018 and 2017, respectively.

PSP derives its income from services performed within Puget Sound waters. 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 26, page 6).

The following are unrecorded liabilities at December 31, 2018 and 2017:

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 be called back to perform assignments during their off duty (respite) period and be credited with a comp day.

Comp day value at December 31, 2018, was approximately \$6,927,172 and approximately \$5,583,894 at December 31, 2017.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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**NOTE 10.-UNRECORDED LIABILITIES (Continued)**

Annual unpaid vacation value at December 31, 2018, was approximately \$982,764 and approximately \$935,990 at December 31, 2017.

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.

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 adjust up or down, the value of the comp day - and the amount of the unrecorded liability associated with it - adjusts up or 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 2018 and 2017, 15.4 and .9 monthly payments, respectively, were made to different pilots under this operating rule. An estimate of the liability for major medical as of December 31, 2018 and 2017, has not been determined.

As pilots retire, PSP buys them out over a period of time. As of December 31, 2018, and 2017, the amount due to retired pilots under the buyout is approximately \$3,736,439 and \$3,083,739, respectively.

Redemption of pilot ownership interest for pilots being paid out as of December 31, 2018, due for each of the next five years and in the aggregate, are as follows:

<u>Years ended December 31,</u>	
2019	\$1,135,887
2020	986,154
2021	680,660
2022	448,286
2023	408,218
Thereafter	<u>77,234</u>
	<u>\$3,736,439</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 90 days.

**PUGET SOUND PILOTS AND SUBSIDIARY**  
**NOTES TO SPECIAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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**NOTE 10.-UNRECORDED LIABILITIES (Continued)**

The Executive Director earns vacation and sick leave in accordance with their contract. 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, 2018 and 2017, has not been determined.

**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. The contract was extended through November 30, 2017 and effective January 1, 2018 a collective bargaining agreement between the Puget Sound Pilots (PSP) and the Inlandboatmen's Union of the Pacific was contracted effective January 1, 2018 through June 30, 2021.

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 \$258,150 and \$281,072 for the years ended December 31, 2018 and 2017, 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 \$121,026 and \$112,393 for the years ended December 31, 2018 and 2017, 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 not to exceed 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 April 30, 2019, the date which the financial statements were available to be issued.

The current Seattle office lease expires October 31, 2019. A new office lease and office location (2003 Western Ave, Suite 200, Seattle, WA 98121) will commence November 1, 2019. Related incremental costs associated with tenant improvements and relocation are anticipated in 2019.

## PUGET SOUND PILOTS AND SUBSIDIARY

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

Year Ended December 31, 2016

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
1. Capt. D.S. Anaker .....	366	\$ 658,201	\$ 233,304	\$ 31,118	\$ 393,779
2. Capt. M. Anthony .....	366	658,201	233,304	31,118	393,779
3. Capt. J.E. Arnold .....	366	658,201	233,304	31,118	393,779
4. Capt. M.E. Blake .....	366	658,201	233,304	31,118	393,779
5. Capt. B. Bouma .....	366	658,201	233,304	31,118	393,779
6. Capt. D. Brouillard .....	366	658,201	233,304	31,118	393,779
7. Capt. D. Brusco .....	366	658,201	233,304	31,118	393,779
8. Capt. J. Bujacich .....	366	658,201	233,304	31,118	393,779
9. Capt. I. Carlson .....	366	658,201	233,304	31,118	393,779
10. Capt. W.M. Carley .....	366	658,201	233,304	31,118	393,779
11. Capt. J. Carstensen .....	366	658,183	233,302	31,118	393,763
12. Capt. F.A. Coe .....	366	658,201	233,304	31,118	393,779
13. Capt. S.T. Coleman .....	366	658,201	233,304	31,118	393,779
14. Capt. T. Coryell .....	366	658,201	233,304	31,118	393,779
15. Capt. L.P. Emerson.....	366	658,201	233,304	31,118	393,779
16. Capt. F. Engstrom.....	366	658,201	233,304	31,118	393,779
17. Capt. V. Engstrom.....	366	658,201	233,304	31,118	393,779
18. Capt. J.T. Galvin.....	366	658,201	233,304	31,118	393,779
19. Capt. P.A. Giese.....	366	658,201	233,304	31,118	393,779
20. Capt. D. Groschmit.....	<u>366</u>	<u>658,201</u>	<u>233,304</u>	<u>31,118</u>	<u>393,779</u>
Subtotal Forward.....	7,320	\$ 13,164,002	\$ 4,666,078	\$ 622,360	\$ 7,875,564

\* Pilot is retired as of December 31, 2016

\*\* Pilot started in 2016

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

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

## PUGET SOUND PILOTS AND SUBSIDIARY

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

Year Ended December 31, 2016

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.....	7,320	\$ 13,164,002	\$ 4,666,078	\$ 622,360	\$ 7,875,564
21. Capt. J. Hannuksela .....	366	658,201	233,304	31,118	393,779
22. Capt. J.B. Harris.....	366	658,201	233,304	31,118	393,779
23. Capt. B.F. Henshaw.....	366	658,201	233,304	31,118	393,779
24. Capt. G. D. Hurt.....	366	658,201	233,304	31,118	393,779
25. Capt. B. R. Jensen.....	366	658,201	233,304	31,118	393,779
26. Capt. V.K. Justice*.....	91	163,658	57,970	7,757	97,931
27. Capt. J. Kalvoy.....	366	658,201	233,304	31,118	393,779
28. Capt. J. Kearns.....	366	658,201	233,304	31,118	393,779
29. Capt. N.T. Kelleher** .....	251	451,403	160,022	21,340	270,041
30. Capt. P.S. Kelly.....	366	658,201	233,304	31,118	393,779
31. Capt. E.C. Klapperich .....	366	658,201	233,304	31,118	393,779
32. Capt. E.C. Lichty.....	366	658,201	233,304	31,118	393,779
33. Capt. B. Lowe.....	366	658,201	233,304	31,118	393,779
34. Capt. W. Lowery .....	366	658,201	233,304	31,118	393,779
35. Capt. E. Marmol.....	366	658,201	233,304	31,118	393,779
36. Capt. D. W. Mayer.....	366	658,201	233,304	31,118	393,779
37. Capt. S.E. Moreno.....	366	658,201	233,304	31,118	393,779
38. Capt. S. Mork.....	366	658,201	233,304	31,118	393,779
39. Capt. A. J. Newman.....	366	658,201	233,304	31,118	393,779
40. Capt. D.A. Sanders.....	366	658,201	233,304	31,118	393,779
Subtotal Forward.....	14,250	\$ 25,626,681	\$ 9,083,542	\$ 1,211,581	\$ 15,331,558

\* Pilot is retired as of December 31, 2016

\*\* Pilot started in 2016

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

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



## PUGET SOUND PILOTS AND SUBSIDIARY

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

Pilot Name	Year Ended December 31, 2016				
	(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.....	14,250	\$ 25,626,681	\$ 9,083,542	\$ 1,211,581	\$ 15,331,558
41. Capt. J. T. Scoggins.....	366	658,201	233,304	31,118	393,779
42. Capt. J.C. Scragg.....	366	658,201	233,304	31,118	393,779
43. Capt. J.R. Semler.....	366	658,201	233,304	31,118	393,779
44. Capt. S.D. Semler .....	366	658,201	233,304	31,118	393,779
45. Capt. S.A. Seymour.....	366	658,201	233,304	31,118	393,779
46. Capt. D.L. Shaffer.....	366	658,201	233,304	31,118	393,779
47. Capt. J.A. Shaffer.....	366	658,201	233,304	31,118	393,779
48. Capt. M.J. Shuler.....	366	658,201	233,304	31,118	393,779
49. Capt. W.J. Sliker.....	366	658,201	233,304	31,118	393,779
50. Capt. D. Soriano.....	366	658,201	233,304	31,118	393,779
51. Capt. G.P. Thoreson .....	366	658,201	233,304	31,118	393,779
52. Capt. E.M. vonBrandenfels.....	366	658,201	233,304	31,118	393,779
53. Capt. G.R. Wildes .....	<u>366</u>	<u>658,201</u>	<u>233,304</u>	<u>31,118</u>	<u>393,779</u>
Total.....	<u>19,008</u>	<u>\$ 34,183,294</u>	<u>\$ 12,116,494</u>	<u>\$ 1,616,115</u>	<u>\$ 20,450,685</u>

\* Pilot is retired as of December 31, 2016

\*\* Pilot started in 2016

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

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

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

Year Ended December 31, 2016

1. Mrs. Penelope Anderson	\$ 19,223	31. Mrs. Sheila Lindholm	7,200
2. Capt. W.A. Anderson	36,739	32. Capt. E.J. Lofquist	13,442
3. Capt. W.A. Bock	95,535	33. Capt. D. Mackenzie	144,363
4. Capt. W. Bundren	124,983	34. Capt. Laurance Mathisen	126,912
5. Mrs. Linda Carey	17,273	35. Capt. R. McCurdy	120,303
6. Mrs. Shirley Carlson	12,213	36. Capt M. Mendenhall	176,616
7. Mrs. Carole Cramer	9,694	37. Capt. B. L. Michelson	133,670
8. Mrs. Lenore Damon	12,834	38. Capt. F. L. Michelson	25,365
9. Capt. M. Endrody	94,908	39. Capt. R.A. Moss	17,395
10. Capt. Carl Engstrom	125,198	40. Capt. R.W. Murphy	67,709
11. Capt. M. Flavel	171,696	41. Capt. J. Niederhauser	111,012
12. Mrs. Florian	21,860	42. Capt. K.E. Ostergaard	53,105
13. Capt. A. L. Fosse	95,535	43. Capt. R.S. Peake	35,698
14. Capt. M. T. Gavin	64,587	44. Capt. L. Petke	98,544
15. Capt. T.J. Goodin	50,641	45. Capt. G.M. Poor	45,314
16. Capt P. Hannigan	162,491	46. Capt. S. A. Robichaux	54,173
17. Mrs. Rosalie Henshaw	8,566	47. Capt. L.W. Sackett	20,558
18. Mrs. Joy Holmes	28,791	48. Capt. W.H. Snyder	62,964
19. Capt. Calvin C. Hunziker	124,416	49. Capt. D. Stensager	107,808
20. Capt. Thomas Jacobs	125,198	50. Capt. J.S. Thorsen	48,557
21. Capt. C.A. Johannes	54,173	51. Capt. L.D. Thorsen	39,980
22. Capt. Marin Johnson	52,872	52. Capt. W. Thorsen	110,204
23. Capt. B.E. Joyce	30,651	53. Capt. J. Ward	45,484
24. Capt. V.K. Justice	107,480	54. Capt. Jonathon E Ward	63,999
25. Capt. D. J. Kelly	67,458	55. Capt. N.A. Werner	74,766
26. Capt. V. Kjeldtoft	29,611	56. Mrs. Kathy Wiley	39,460
27. Capt. B. Knowles	96,242	57. Capt. M. Wood	136,224
28. Capt. Robert Kromann	149,304		
29. Capt. C.N. Larson	96,242		
30. Capt. G. Larson	139,344		
		TOTAL	<u>\$ 4,206,583</u>

## 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, 2016

1. Attorney fees	\$ 74,855	0.2%
2. Computer maintenance	161,841	0.5%
3. Computer programming	40,804	0.1%
4. Conferences	72,024	0.2%
5. Consulting services	37,029	0.1%
6. CPA fees	76,104	0.2%
7. Depreciation and amortization	379,135	1.1%
8. Former Director retirement	69,502	0.2%
9. Drug testing	3,922	0.0%
10. Dues	162,884	0.5%
11. Employee benefits	190,681	0.6%
12. Employee salaries	830,582	2.4%
13. Equipment leases	3,993	0.0%
14. Gifts	7,239	0.0%
15. Grays Harbor retirement	109,739	0.3%
16. Insurance	183,676	0.5%
17. Interest	21,462	0.1%
18. License fees - commission	338,000	1.0%
19. Lobbyist	53,717	0.2%
20. Medical insurance - pilots	1,515,117	4.4%
21. Office maintenance and repair	5,353	0.0%
22. Office supplies	32,379	0.1%
23. Pilot training	303,640	0.9%
24. Printing and publications	27,217	0.1%
25. Puget Sound retirement	4,206,583	12.4%
26. Rent and parking	117,845	0.3%
27. Taxes on payroll	55,883	0.2%
28. Taxes, other	5,889	0.0%
29. Taxes on revenue	562,762	1.6%
30. Travel, entertainment and promotion	99,532	0.3%
31. Telephone and communications	<u>39,833</u>	<u>0.1%</u>
 TOTAL	 <u>\$ 9,789,222</u>	 <u>28.6%</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, 2016

1. Depreciation	\$	28	0.0%
2. Employee benefits		235,524	0.7%
3. Employee salaries		751,901	2.2%
4. Fuel of "Juan de Fuca"		129,025	0.4%
5. Fuel of "Puget Sound"		102,487	0.3%
6. Insurance		93,080	0.3%
7. Maintenance and operation of "Juan de Fuca"		59,447	0.2%
8. Maintenance and operation of "Puget Sound"		394,394	1.2%
9. Taxes on payroll		58,714	0.2%
10. Taxes on property		<u>4,044</u>	<u>0.0%</u>
TOTAL	\$	<u>1,828,644</u>	<u>5.3%</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, 2016

1. Depreciation	\$	48,609	0.1%
2. Education		405	0.0%
3. Food		84,766	0.2%
4. Insurance		36,857	0.1%
5. Maintenance and repairs		28,747	0.1%
6. Rent, tideland lease		4,001	0.0%
7. Reposition pilots		220,376	0.6%
8. Supplies		25,657	0.1%
9. Taxes on property		12,488	0.0%
10. Telephone and communications		13,581	0.0%
11. Utilities		<u>23,141</u>	<u>0.1%</u>
TOTAL	\$	<u>498,628</u>	<u>1.5%</u>

PUGET SOUND PILOTS AND SUBSIDIARY

SCHEDULE OF EMPLOYEES

December 31, 2016

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