State of California

Gavin Newsom., Governor

Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun

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CERTIFICATION

I, ALLEN GARFINKLE, declare:

1. I am the Executive Director of the Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun, which is an agency of the State of California.

2. I am the custodian of the Board's records.

3. Attached is a true and correct copy of a document in possession of the Board, entitled "SAN FRANCISCO BAR PILOTS AND SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION CONSOLIDATING FINANCIAL STATEMENTS Year Ended December 31, 2018 (With Comparative Consolidated Amounts for 2017)."

4. This document was received by the Board from the General Counsel of the San Francisco Bar Pilots on or about March 19, 2019.

I certify under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

DATED: 25 October, 2019

ALLEN GARFINKLE

RECEIVED
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BY: RCP

SAN FRANCISCO BAR PILOTS

AND

SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION

CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2018
(With Comparative Consolidated Amounts for 2017)

SAN FRANCISCO BAR PILOTS
AND
SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION

December 31, 2018
(With Comparative Consolidated Amounts for 2017)

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SHEA LABAGH DOBBERSTEIN
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE SAN FRANCISCO BAR PILOTS
AND MEMBERS OF THE SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION

We have audited the accompanying consolidating financial statements of SAN FRANCISCO BAR PILOTS and SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION, (collectively, the "Companies"), which comprise the consolidating balance sheet as of December 31, 2018, and the related consolidating statements of income and comprehensive income, equity and cash flows for the year then ended, and the related notes to the consolidating financial statements. We have also audited the accompanying consolidated financial statements of SAN FRANCISCO BAR PILOTS and SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION, which comprise the consolidated balance sheet as of December 31, 2017, and related consolidated statements of income and comprehensive income, equity and cash flows for the year then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating 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 auditor considers internal control relevant to the Companies' preparation and fair presentation of the consolidating 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 Companies' 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 consolidating 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 2018 consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidated financial positions of SAN FRANCISCO BAR PILOTS and SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2017 consolidated financial statements present fairly, in all material respects, the consolidated financial position of SAN FRANCISCO BAR PILOTS and SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

SHEA LABAGH DOBBERSTEIN
Certified Public Accountants, Inc.

Shea Labagh Dobberstein

San Francisco, California
February 26, 2019

SAN FRANCISCO BAR PILOTS
AND
SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION

CONSOLIDATING BALANCE SHEET

December 31, 2018
(With Comparative Consolidated Amounts for 2017)

ASSETS

	2018				2017
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated	Consolidated
CURRENT ASSETS					
Cash	$ 1,552,827	$ 691,267	$ -	$ 2,244,094	$ 3,320,655
Accounts Receivable:					
Trade, Net of Allowance for Doubtful Accounts	5,279,715	-	-	5,279,715	5,030,611
Navigation Technology Surcharges	-	55,280	(55,280)	-	-
Intercompany	-	64,780	(64,780)	-	-
Other Receivables	14,327	-	-	14,327	8,164
Prepaid Expenses	49,135	121,373	-	170,508	106,912
TOTAL CURRENT ASSETS	6,896,004	932,700	(120,060)	7,708,644	8,466,342
PROPERTY AND EQUIPMENT, NET	-	2,610,085	-	2,610,085	3,585,575
RESTRICTED CASH	-	94,122	-	94,122	124,433
TOTAL ASSETS	$ 6,896,004	$ 3,636,907	$ (120,060)	$ 10,412,851	$ 12,176,350

See accompanying notes to consolidating financial statements.

SAN FRANCISCO BAR PILOTS
AND
SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION

CONSOLIDATING BALANCE SHEET (Continued)

December 31, 2018
(With Comparative Consolidated Amounts for 2017)

LIABILITIES AND EQUITY

	2018				2017
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated	Consolidated
CURRENT LIABILITIES					
Line of Credit	$ -	$ 1,423,197	$ -	$ 1,423,197	$ 826,218
Accounts Payable:					
Trade	525,630	27,513	-	553,143	389,255
Board of Pilot Commissioners	216,162	-	-	216,162	372,492
Navigation Technology Surcharges	55,280	-	(55,280)	-	-
Pension	906,552	-	-	906,552	878,409
Other	242,129	-	-	242,129	284,942
Intercompany	64,780	-	(64,780)	-	-
Accrued Expenses:					
Property Taxes	-	150,000	-	150,000	150,000
Vacation Pay	323,425	-	-	323,425	342,354
Other	100,482	-	-	100,482	54,065
Current Portion of Long-Term Debt	-	290,484	-	290,484	-
TOTAL CURRENT LIABILITIES	2,434,440	1,891,194	(120,060)	4,205,574	3,297,735
LONG-TERM LIABILITIES					
Deferred Income Tax Liability	-	148,000	-	148,000	288,900
Deferred Rent	-	-	-	-	23,627
Accrued Pension Benefit Obligation	562,516	-	-	562,516	444,071
Long-Term Debt, Net of Current Portion	-	240,490	-	240,490	-
TOTAL LONG-TERM LIABILITIES	562,516	388,490	-	951,006	756,598
TOTAL LIABILITIES	2,996,956	2,279,684	(120,060)	5,156,580	4,054,333
EQUITY					
Pilots' and Members' Equity	5,452,529	1,357,223	-	6,809,752	9,319,977
Accumulated Other Comprehensive Loss	(1,553,481)	-	-	(1,553,481)	(1,197,960)
TOTAL EQUITY	3,899,048	1,357,223	-	5,256,271	8,122,017
TOTAL LIABILITIES AND EQUITY	$ 6,896,004	$ 3,636,907	$ (120,060)	$ 10,412,851	$ 12,176,350

See accompanying notes to consolidating financial statements.

SAN FRANCISCO BAR PILOTS
AND
SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION

CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Year Ended December 31, 2018
(With Comparative Consolidated Amounts for 2017)

	2018				2017
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated	Consolidated
REVENUES					
Pilotage Fees Earned	$ 44,017,412	$ -	$ -	$ 44,017,412	$ 43,073,129
Pilot Vessel Surcharge	-	-	-	-	700,932
Navigation Technology Surcharge	-	343,120	-	343,120	177,880
Office and Terminal Rent	-	1,124,166	(1,124,166)	-	-
Sea Marshals	-	-	-	-	4,660
Charter Hire	-	1,245,623	(1,245,623)	-	-
TOTAL REVENUES	44,017,412	2,712,909	(2,369,789)	44,360,532	43,956,601
OPERATING EXPENSES					
Pilot Boat and Charter Hire	7,807,662	-	(1,245,623)	6,562,039	6,433,412
Terminal	710,974	-	(281,041)	429,933	434,068
Pilot Office and Dispatch	3,281,557	-	(843,125)	2,438,432	2,287,852
General	2,720,823	1,561,878	-	4,282,701	4,216,296
Depreciation and Amortization	-	1,410,020	-	1,410,020	1,298,654
TOTAL OPERATING EXPENSES	14,521,016	2,971,898	(2,369,789)	15,123,125	14,670,282
OPERATING INCOME (LOSS)	29,496,396	(258,989)	-	29,237,407	29,286,319
OTHER INCOME (EXPENSE)					
Other Income	148,542	32,442	-	180,984	108,305
Interest Expense	-	(61,053)	-	(61,053)	(49,151)
Other Expense	(16,680)	-	-	(16,680)	(7,573)
TOTAL OTHER INCOME (EXPENSE)	131,862	(28,611)	-	103,251	51,581
INCOME (LOSS) BEFORE BENEFIT FROM INCOME TAXES	29,628,258	(287,600)	-	29,340,658	29,337,900
BENEFIT FROM INCOME TAXES	-	(122,391)	-	(122,391)	(134,800)
NET INCOME (LOSS)	29,628,258	(165,209)	-	29,463,049	29,472,700
OTHER COMPREHENSIVE GAIN (LOSS)					
Defined Benefit Pension Plan, Net	(355,521)	-	-	(355,521)	188,238
COMPREHENSIVE INCOME (LOSS)	$ 29,272,737	$ (165,209)	$ -	$ 29,107,528	$ 29,660,938
AVERAGE NET INCOME PER PILOT	$ 520,250				$ 495,726

See accompanying notes to consolidating financial statements.

Exh. IC-25a

SAN FRANCISCO BAR PILOTS
AND
SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION

CONSOLIDATING STATEMENT OF EQUITY

Year Ended December 31, 2018
(With Comparative Consolidated Amounts for 2017)

	Bar Pilots					
	Bar Pilots' Equity	Accumulated Other Comprehensive Income (Loss)	Total	Benevolent Members' Equity	Eliminating Entries	Consolidated
BALANCE, JANUARY 1, 2017	$ 5,128,775	$ (1,386,198)	$ 3,742,577	$ 3,283,539	$ -	$ 7,026,116
Net Income	29,322,212	-	29,322,212	150,488	-	29,472,700
Actuarial Gain on Pension Plan	-	188,238	188,238	-	-	188,238
Contributions from New Members	-	-	-	1,841,600	-	1,841,600
Distributions to Pilots	(29,025,437)	-	(29,025,437)	-	-	(29,025,437)
Payments to Retired Members	-	-	-	(1,381,200)	-	(1,381,200)
BALANCE, DECEMBER 31, 2017	5,425,550	(1,197,960)	4,227,590	3,894,427	-	8,122,017
Net Income (Loss)	29,628,258	-	29,628,258	(165,209)	-	29,463,049
Actuarial Loss on Pension Plan	-	(355,521)	(355,521)	-	-	(355,521)
Contributions from New Members	-	-	-	474,399	-	474,399
Distributions to Pilots	(29,601,279)	-	(29,601,279)	-	-	(29,601,279)
Payments to Retired Members	-	-	-	(2,846,394)	-	(2,846,394)
BALANCE, DECEMBER 31, 2018	$ 5,452,529	$ (1,553,481)	$ 3,899,048	$ 1,357,223	$ -	$ 5,256,271

See accompanying notes to consolidating financial statements.

SAN FRANCISCO BAR PILOTS
AND
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CONSOLIDATING STATEMENT OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND RESTRICTED CASH

Year Ended December 31, 2018
(With Comparative Consolidated Amounts for 2017)

	2018				2017
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Income (Loss)	$29,628,258	$ (165,209)	$ -	$29,463,049	$29,472,700
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:					
Recovery for Bad Debts	(62,125)	-	-	(62,125)	(62,125)
Depreciation and Amortization	-	1,410,020	-	1,410,020	1,298,654
Pension Plan Costs, Net of Contributions	(237,076)	-	-	(237,076)	(330,216)
Deferred Income Taxes	-	(140,900)	-	(140,900)	(389,300)
Changes in Operating Assets and Liabilities:					
Accounts Receivable	(193,142)	(49,482)	49,482	(193,142)	17,150
Prepaid Expenses	(31,051)	(32,545)	-	(63,596)	(59,591)
Accounts Payable	61,414	(19,044)	(49,482)	(7,112)	365,923
Accrued Expenses	27,488	-	-	27,488	42,825
Income Taxes Payable	-	-	-	-	(149,319)
Deferred Rent	-	(23,627)	-	(23,627)	(61,419)
NET CASH PROVIDED BY OPERATING ACTIVITIES	29,193,766	979,213	-	30,172,979	30,145,282
CASH FLOWS USED IN INVESTING ACTIVITIES					
Purchase of Property and Equipment	-	(434,530)	-	(434,530)	(851,566)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from Lines of Credit	-	1,423,197	-	1,423,197	826,218
Principal Payments on Long-Term Debt	-	(295,244)	-	(295,244)	(946,322)
Contributions from New Members	-	474,399	-	474,399	1,841,600
Distributions to Pilots and Retired Members	(29,601,279)	(2,846,394)	-	(32,447,673)	(30,406,637)
NET CASH USED IN FINANCING ACTIVITIES	(29,601,279)	(1,244,042)	-	(30,845,321)	(28,685,141)
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	(407,513)	(699,359)	-	(1,106,872)	608,575
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	1,960,340	1,484,748	-	3,445,088	2,836,513
CASH AND RESTRICTED CASH, END OF YEAR	$ 1,552,827	$ 785,389	$ -	$ 2,338,216	$ 3,445,088
SUPPLEMENTAL CASH FLOW INFORMATION					
Interest Paid During the Year	$ -	$ 64,180	$ -	$ 64,180	$ 46,024
Income Taxes Paid During the Year	$ -	$ 34,979	$ -	$ 34,979	$ 343,240
NON-CASH FINANCING ACTIVITIES					
Line of Credit Converted into Notes Payable	$ -	$ 726,218	$ -	$ 726,218	$ -

See accompanying notes to consolidating financial statements.

SAN FRANCISCO BAR PILOTS
AND
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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2018
(With Comparative Amounts for the Year Ended December 31, 2017)

NOTE 1 – NATURE OF OPERATIONS

San Francisco Bar Pilots ("Bar Pilots") is an affiliated group of individuals who have been licensed by the State of California Board of Pilot Commissioners to have the exclusive authority to pilot vessels from the high seas to the California bays of San Francisco, San Pablo, Suisun, and Monterey and to the tributaries, ports and harbors of those bays, and from those bays and ports to the high seas. The boats and equipment are owned or leased by the San Francisco Bar Pilots Benevolent and Protective Association ("Benevolent"), a California corporation owned by the individual pilots.

Benevolent is a membership association incorporated under the laws of the State of California. The individual members are licensed pilots with each member having equal interest in the property of Benevolent. The bylaws of Benevolent require the redemption of any member's certificate within sixty days of the member's resignation, death or expulsion at a price equal to the average of the prior three years' average net income per Pilot. As of December 31, 2018 and 2017, the redemption price was approximately $474,000 and $460,000, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – Bar Pilots and Benevolent's (collectively, the "Companies") financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidating – The *Consolidation* topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") requires Variable Interest Entities ("VIE") to be consolidated by the primary beneficiary of the entity if the primary beneficiary has a controlling financial interest in the VIE. Benevolent has been determined to be a VIE of Bar Pilots in which it has a controlling financial interest and, accordingly, has been consolidated in the accompanying consolidating financial statements. Intercompany accounts and transactions have been eliminated in consolidation. These eliminations are shown in a separate column within the basic consolidating financial statements.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk – The Companies have concentrated their credit risk for cash by maintaining deposits in one financial institution which may, at times, exceed the amounts insured by the Federal Deposit Insurance Corporation of up to $250,000. The Companies have not experienced any losses in such accounts and believe they are not exposed to any significant credit risk to cash.

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2018
(With Comparative Amounts for the Year Ended December 31, 2017)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash – The cash of the Companies includes cash on hand and held in banks.

Accounts Receivable – Accounts receivable are stated at the amount the Companies expect to collect. The Companies extend credit to its customers in the normal course of business and perform ongoing credit evaluations of its customers. Provisions for losses on accounts receivable are made to maintain an adequate allowance for potential credit losses, which historically have been within management's expectations. The allowance reflects management's analysis of receivables and the probability of collecting those accounts. Trade accounts receivable are charged against the allowance when it is determined that a payment will not be received. As of December 31, 2018 and 2017, the allowance for doubtful accounts is $10,000 and $108,414, respectively.

Property and Equipment – Property and equipment are stated at cost, net of accumulated depreciation and amortization. Maintenance and repairs, including expenses incurred related to dry docking, are charged to expense as incurred; major renewals and betterments are capitalized. Depreciation is provided using accelerated methods over the estimated useful life of the related asset, ranging from three to forty years. Leasehold improvements are amortized over the shorter of the lease term, including expected renewal periods, or the estimated useful lives of the assets. The Companies regularly evaluate their long-lived assets for indicators of possible impairment. Should impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's fair value. The Companies have not identified any such impairment losses as of December 31, 2018 and 2017.

Income Taxes – No provision has been made for taxes on income of Bar Pilots. Although not legally considered a partnership, Bar Pilots began filing partnership tax returns in 1979. The taxable income from these returns is included in the individual income tax returns of the respective pilots.

Benevolent pays both federal and state income tax on its taxable income. Income taxes are provided for the tax effect of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial and income tax reporting purposes. The deferred tax assets and liabilities represent future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by the Companies in their tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Companies in the federal and state tax returns are more likely than not to be sustained upon examination.

SAN FRANCISCO BAR PILOTS
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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2018
(With Comparative Amounts for the Year Ended December 31, 2017)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues – Bar Pilots' primary source of revenue is from pilotage fees earned from services piloting vessels. Bar Pilots recognize revenue upon completion of a pilotage. Benevolent's primary source of revenue is from surcharges billed for the use of pilot boats, which are collected by Bar Pilots on the behalf of Benevolent.

In accordance with the State of California Harbors and Navigation Code, Division 5, Bar Pilots bill and collect surcharges on behalf of the State of California for vessels piloted. These surcharges are for the operations of the State of California Board of Pilot Commissioners, as well as for pilot training, trainee stipends, statutory pension plan, for the purchase and licensing of navigation equipment and software, and for the construction and/or service life extension or modification of pilot vessels. When collected, these funds are paid directly to the State of California, disbursed to beneficiaries of the Pilot Pension Plan or to providers of administrative services to the Pilot Pension Plan, paid to the Board of Pilot Commissioners for its operations, the trainee training program and the pilot continuing education program, or retained by the Companies in accordance with applicable law and regulations.

Average Net Income Per Pilot – Net income per pilot is computed based upon the actual days eligible to participate in Bar Pilots' total earnings. Eligibility to participate in the earnings is determined in accordance with policies defined by Bar Pilots as a group.

Average net income per pilot is computed by dividing Bar Pilot's net income by the average number of active pilots during the year. This amount does not purport to represent the actual net income of any specific pilot. It has been computed only to show this information on a comparative basis. The average number of active pilots for 2018 and 2017 was 56.95 and 59.15, respectively.

Recent Accounting Pronouncements – In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers.* ASU No. 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The ASU also provides guidance on accounting for certain contract costs, and requires new disclosures. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of ASU 2014-09 for nonpublic entities to annual reporting periods beginning after December 15, 2018. The Companies may elect to apply this guidance one year earlier than the required effective date. ASU 2014-09 is required to be adopted either a) retrospectively to each prior reporting period presented or b) retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application. Management is currently evaluating the impact of adopting this guidance on the Companies' consolidating financial statements. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.* The amendments do not change the core principles of the standard, but clarify the guidance on assessing collectability, presenting sales taxes, measuring noncash consideration, and certain transition matters. ASU 2016-12 becomes effective concurrently with ASU 2014-09.

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2018
(With Comparative Amounts for the Year Ended December 31, 2017)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued) – In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires, among other things, lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained the current dual model whereby leases are classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. This is similar to the current income statement treatment for leases. ASU 2016-02 is effective for the Companies for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. In July 2018, the FASB issued ASU 2018-11, *Lease (Topic 842): Targeted Improvements*, to provide entities with relief from the cost of implementing certain aspects of the new leasing standard ASU 2016-02. ASU 2018-11 provides an additional transition method, and a lessor practical expedient to not separate lease and non-lease components if specific criteria are met. ASU 2018-11 effective date coincides with the effective date of ASU 2016-02 for companies that have not early adopted. Management is currently evaluating the impact of adopting this guidance on the Companies' consolidating financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides greater clarity to preparers on the treatment of eight specific items within an entity's statement of cash flows. ASU 2016-15 is effective for the Companies for annual reporting periods beginning after December 15, 2018, with early adoption permitted. Upon adoption, the guidance in ASU 2016-15 applies retrospectively to all periods presented. However, if retrospective application is impracticable due to cost, complexity, or lack of information, an entity may apply the guidance prospectively as of the earliest date deemed practicable. Entities that use prospective application must provide additional disclosures explaining the reasons why retrospective application was not feasible. Management is currently evaluating the impact of adopting this guidance on the Companies' consolidating financial statements.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which allows companies to reclassify to retained earnings the stranded tax effects in accumulated other comprehensive income from the newly-enacted US Tax Cuts and Jobs Act. ASU 2018-02 is effective for the Companies for annual reporting periods beginning after December 15, 2018, with early adoption permitted. Upon adoption, the guidance in ASU 2018-02 applies retrospectively to the periods in which the effect of the change in the federal corporate income tax rate due to the Tax Cuts and Jobs Act is recognized. Management is currently evaluating the impact of adopting this guidance on the Companies' consolidating financial statements.

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2018
(With Comparative Amounts for the Year Ended December 31, 2017)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification – Certain prior year financial statement amounts have been reclassified to conform to current period presentation. These reclassifications had no effect on the reported results of operations.

Subsequent Events – The Companies have evaluated the impact of subsequent events on these consolidating financial statements, including disclosures, through February 26, 2019, the date the consolidating financial statements were available to be issued.

NOTE 3 – CASH AND RESTRICTED CASH

Amounts included in restricted cash represent amounts collected from the navigation technology surcharge which are designated to repay the navigation technology financing arrangement (Note 5). The following table provides a reconciliation of cash and restricted cash reported within the balance sheets that sums to the totals of the same such amounts presented in the statement of cash flows.

	2018	2017
Cash	$ 2,244,094	$ 3,320,655
Restricted Cash	94,122	124,433
Total Cash and Restricted Cash Presented in the Accompanying Statement of Cash Flows	$ 2,338,216	$ 3,445,088

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NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of the following:

	2018	2017
Pilot Boats and Improvements:		
"Drake"	$ 8,483,383	$ 8,483,383
"San Francisco"	5,335,880	5,335,880
"California"	4,902,025	4,902,025
"Golden Gate"	2,620,745	2,620,745
"Pittsburg"	275,478	275,478
Leasehold and Dock Improvements	4,724,516	4,724,516
Office Furniture and Equipment	1,797,148	1,743,832
Pilot Boat Equipment	681,088	305,465
Automobile	94,324	63,537
Construction in Progress	-	25,197
	28,914,587	28,480,058
Less: Accumulated Depreciation and Amortization	(26,304,502)	(24,894,483)
Property and Equipment, Net	$ 2,610,085	$ 3,585,575

Depreciation and amortization expense for the years ended December 31, 2018 and 2017 was $1,410,020 and $1,298,654, respectively.

NOTE 5 – LINES OF CREDIT

Bar Pilots have a revolving line of credit with a bank with a maximum borrowing limit of $500,000, bearing interest at the bank's reference rate, but no less than 3.75% (effective rate at December 31, 2018 and 2017 was 5.25% and 4.50%, respectively), expiring on June 21, 2019. The line is collateralized by all business assets of Bar Pilots. This line of credit is subject to certain financial covenants. As of December 31, 2018 and 2017, Bar Pilots is unaware of any covenant violations.

At December 31, 2018 and 2017, the Companies had no borrowings against the above line of credit.

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NOTE 5 – LINES OF CREDIT (Continued)

Benevolent has a revolving line of credit with a bank with a maximum borrowing limit of $2,000,000, bearing interest at the bank's reference rate, but no less than 3.75% (effective rate at December 31, 2018 and 2017 was 5.50% and 4.50%, respectively), and expiring on June 21, 2019. The line is collateralized by certain assets of Benevolent. At December 31, 2018, Benevolent had borrowings against this line of credit for $1,423,197. Total interest incurred was $24,992 for the year ended December 31, 2018. There was no borrowings against this line for the year ended December 31, 2017.

Letter of credits totaling $208,085 have also been made available for Benevolent. At December 31, 2018 and 2017, the Companies had no borrowings against the letter of credits.

In January 2017, Benevolent entered into a non-revolving line of credit with a bank with a maximum borrowing limit of $1,100,000. The non-revolving line of credit bears interest at the bank's reference rate (effective rate at December 31, 2017 was 4.50%). The line is secured by the proceeds of the navigation technology surcharge as represented by restricted cash (see Note 3). Interest payments are payable monthly commencing August 1, 2017. On July 1, 2018, the line of credit balance of $726,218 was converted into a term note, with a maturity date of January 1, 2021 (see Note 6), as Benevolent had paid all costs associated with the navigation equipment purchases and software license renewal. This line was subjected to certain financial covenants which include, among other things, a debt service ratio. As of December 31, 2017, Benevolent was unaware of any covenant violations. At December 31, 2017, Benevolent had borrowings against this line of credit for $826,218. At December 31, 2018 and 2017, total interest incurred was $20,216 and $28,054, respectively.

NOTE 6 – LONG-TERM DEBT

Benevolent has long-term debt of $530,974 as of December 31, 2018 associated with the navigation equipment purchases and software license and with interest at the bank's reference rate (effective rate at December 31, 2018 was 5.50%), with a maturity date of January 1, 2021. Principal payments are due in monthly installments of $24,207. This note is subject to certain financial covenants which include, among other things, a debt service ratio. As of December 31, 2018, Benevolent is unaware of any covenant violations. Future minimum payments for the years ending December 31, 2019 and 2020 are $290,484 and $240,490, respectively. At December 31, 2018 total interest incurred was $15,845.

Benevolent had long-term debt of $946,322 at December 31, 2016, which consisted of a note payable to a financial institution, secured by the pilot boat "Drake", with interest rate equal to the bank's index rate plus 1.90%. Principal and interest payments were due in monthly installments of $88,046. The note payable was fully paid off in October 2017. Total interest incurred for the note payable for the year ended December 31, 2017 was $21,097.

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NOTE 7 – INCOME TAXES

Benevolent's provision for (benefit from) income taxes for the years ended December 31 consists of the following:

	2018	2017
Current:		
Federal	$ 8,576	$ 216,256
State	9,933	38,244
Total Current	18,509	254,500
Deferred:		
Federal	(108,000)	(223,500)
State	(32,900)	(36,800)
Benefit from Enacted Rate Reduction	-	(129,000)
Total Deferred	(140,900)	(389,300)
	$ (122,391)	$ (134,800)

Tax law enacted in 2017 lowers tax rates beginning in 2018. The deferred tax liability has been reduced to reflect the newly enacted rates.

As of December 31, the deferred tax liability consists of the following:

	2018	2017
Deferred Tax Asset	$ -	$ -
Deferred Tax Liability	(148,000)	(288,900)
Less: Valuation Allowance	-	-
Net Deferred Tax Liability	$ (148,000)	$ (288,900)

Deferred taxes represent timing differences in depreciation.

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NOTE 8 – COMMITMENTS

Benevolent entered into a sixteen-year lease agreement effective January 1, 2010 with the City and County of San Francisco, California, through the San Francisco Port Commission, for the facilities at Pier 9, which expires in December 2026. These facilities are subleased to Bar Pilots during the term of the principal lease, which eliminate upon consolidation. The charter rentals for the pilot boats are established annually. Additionally, Bar Pilots lease certain office equipment which will expire in August 2019. Total rent expense for the years ended December 31, 2018 and 2017 was $1,132,753 and $1,034,655, respectively.

Total future minimum lease payments at December 31, 2018 are as follows:

Years Ending December 31,	
2019	$ 1,157,896
2020	1,431,159
2021	1,474,094
2022	1,518,317
2023	1,563,866
Thereafter	4,978,766
	$ 12,124,098

NOTE 9 – RETIREMENT PLANS

Defined Benefit Pension Plan – Effective January 1, 1975, the California Legislature had enacted legislation establishing a defined benefit pension plan for the benefit of Bar Pilots. Funds required to pay the benefits are derived through the imposition of a special charge to ships being piloted. Under the statute, the currently active Bar Pilots act as agents for the retired pilots by collecting the funds and transmitting them to the fiduciary agent.

On November 22, 1978, Bar Pilots entered into a pension agreement covering substantially all of its eligible employees. The benefits paid to retirees are based on years of qualifying time and the rate negotiated in the collective bargaining agreement. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. The agreement provides for contributions to the plan to be actuarially determined to provide for retirement benefits.

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NOTE 9 – RETIREMENT PLANS (Continued)

The following tables set forth the information about the pension plan as of and for the years ended December 31:

	2018	2017
Projected Benefit Obligation	$ 4,265,090	$ 4,127,676
Fair Value of Plan Assets	3,702,574	3,683,605
Unfunded Status	$ (562,516)	$ (444,071)

The unfunded status is recognized in the accompanying consolidating balance sheet and is included in noncurrent liabilities as Accrued Pension Benefit Obligation.

The amount in accumulated other comprehensive loss that has not yet been recognized as components of net periodic benefic cost at December 31 are as follows:

	2018	2017
Unrecognized Transition Obligation	$ 116,843	$ 140,212
Prior Service Cost	551,626	267,802
Net Loss	885,012	789,946
	$ 1,553,481	$ 1,197,960

The estimated net transition obligation, prior service cost, and net loss that will be amortized from the accumulated other comprehensive loss into net periodic benefit cost during the year ended December 31, 2018 are $23,369, $40,037 and $29,126, respectively.

The changes in benefit obligations recognized in other comprehensive loss during the years ended December 31 are as follows:

	2018	2017
Prior Service Cost	$ (323,861)	$ -
Net Gain (Loss) Arising During the Year	(124,192)	79,314
Amortization of Transition Obligation	23,369	23,369
Amortization of Prior Service Costs	40,037	40,037
Amortization of Net Gain	29,126	45,518
Other Comprehensive Gain (Loss)	$ (355,521)	$ 188,238

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2018
(With Comparative Amounts for the Year Ended December 31, 2017)

NOTE 9 – RETIREMENT PLANS (Continued)

Defined Benefit Pension Plan (Continued) – Amounts recorded for the years ended December 31 are as follows:

	2018	2017
Net Periodic Benefit Cost	$ 170,924	$ 179,783
Employer Contributions	$ 408,000	$ 510,000
Benefits Paid	$ 155,177	$ 128,711

Weighted-average assumptions used to determine net periodic benefit cost and pension liability are as follows:

	2018	2017
Discount Rate – Net Periodic Benefit Cost	3.48%	3.97%
Discount Rate – Accumulated Benefit Obligation	4.11%	3.48%
Expected Return on Assets	6.50%	6.50%
Rate of Salary Increases	N/A	N/A

The expected long-term return on plan assets was based on a review of anticipated future performance of mutual funds, which considers recent fund performance and historical returns to determine the prospective rate of return of 6.50%. The plan had 100% of its assets in a balanced mutual fund at December 31, 2018 and 2017. The mutual fund is valued on quoted market prices, which represent the net asset value of shares held by the pension plan at year-end, and is classified as Level 1 under the fair value hierarchy defined by the *Fair Value Measurements and Disclosure* topic of the FASB ASC.

The plan's strategy to invest in mutual funds is based on the historical returns of these investments and the plan's objective to provide a level of risk relatively lower than that obtainable from direct investments in equity securities while still achieving long-term returns. No plan assets are expected to be returned to Bar Pilots during 2019.

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2018
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NOTE 9 – RETIREMENT PLANS (Continued)

Defined Benefit Pension Plan (Continued) – The estimated future benefit payments for the next 10 years, which reflect future service, are expected to be paid as follows:

Years Ending December 31,	
2019	$ 186,766
2020	183,431
2021	184,600
2022	191,947
2023	208,446
2024 to 2028	1,151,619
	$ 2,106,809

Bar Pilots expect to make employer contributions to the pension plan totaling approximately $450,000 during the year ending December 31, 2019.

Marine Employees Retirement Savings Plan – Bar Pilots and the Sailors Union of the Pacific (the "Union") agreed to establish a profit sharing plan with mandatory employer contributions and cash or deferred arrangement for the benefit of union employees. Under the terms of the agreement, Bar Pilots' contributions for each year are as follows:

a. For employees represented by the Union – 5.00% of the aggregate compensation of all participants, as defined, plus an additional amount based on days worked.

b. For employees not represented by the Union – 12.00% of the aggregate compensation of all participants, as defined.

San Francisco Bar Pilots Retirement Plan – Bar Pilots also sponsor a defined contribution and 401(k) plan covering each Bar Pilot, each non-union employee of Bar Pilots, and each employee covered by a collective bargaining agreement. For each pilot, Bar Pilots contribute a percentage of Bar Pilot's earned income for the year, as determined by Bar Pilots, plus a percentage of Bar Pilot's earned income which is excess income. For each employee, Bar Pilots contribute a percentage of the employee's compensation, as determined by Bar Pilots, plus a percentage of the employee's compensation which is excess income.

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2018
(With Comparative Amounts for the Year Ended December 31, 2017)

NOTE 9 – RETIREMENT PLANS (Continued)

Total employer contributions for the years ended December 31 to all retirement plans for eligible employees were as follows:

	2018	2017
Defined Benefit Pension Plan	$ 408,000	$ 510,000
Marine Employees Retirement Savings Plan	403,808	381,205
San Francisco Bar Pilots Retirement Plan	176,839	172,695
	$ 988,647	$ 1,063,900

NOTE 10 – RELATED PARTY TRANSACTIONS

Bar Pilots lease pilot boats (classified as Charter Hire) and facilities (classified as Rent) from Benevolent. Bar Pilots collect surcharges (Pilot Vessel and Navigation Technologies Surcharge) on behalf of Benevolent. At December 31, 2018 and 2017, Bar Pilots owed accumulated Pilot Vessel and Navigation Technologies Surcharges collected, but not remitted to Benevolent, of $55,280 and $52,434, respectively. In addition, at December 31, 2018, Bar Pilots owed $64,780 to the Benevolent related to certain expenses the Benevolent paid on behalf of the Companies.

NOTE 11 – CONTINGENCIES

From time to time, the Companies may be engaged in lawsuits, generally in the ordinary course of business. In the opinion of management, based on advice of counsel, the ultimate outcome of these lawsuits will not have a material impact on the Companies' consolidating financial statements.

SUPPLEMENTARY INFORMATION

SHEA LABAGH DOBBERSTEIN

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

MEMBERS OF THE SAN FRANCISCO BAR PILOTS
AND MEMBERS OF THE SAN FRANCISCO BAR PILOTS
BENEVOLENT AND PROTECTIVE ASSOCIATION

We have audited the consolidating and consolidated financial statements of SAN FRANCISCO BAR PILOTS and SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION, as of and for the years ended December 31, 2018 and 2017, respectively, and our report thereon dated February 26, 2019, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidating and consolidated financial statements as a whole. The accompanying information presented in Exhibits 1 through 5 is presented for the purpose of additional analysis and is not a required part of the consolidating 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 consolidating financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating 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 consolidating financial statements as a whole.

SHEA LABAGH DOBBERSTEIN
Certified Public Accountants, Inc.

Shea Labagh Dobberstein

San Francisco, California
February 26, 2019

EXHIBIT 1

SAN FRANCISCO BAR PILOTS
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UNCONSOLIDATED STATEMENT OF BAR PILOTS' PILOT BOAT AND CHARTER HIRE EXPENSES

Year Ended December 31, 2018

	Amount	%
Salaries and Wages	$ 2,665,989	34.1
Charter Rental to San Francisco Bar Pilots Benevolent and Protective Association	1,220,711	15.6
Fuel	1,196,223	15.4
Maintenance and Repair	1,111,537	14.2
Retirement Benefits	540,218	6.9
Health and Welfare	480,602	6.2
Payroll Taxes	219,533	2.8
Food Supplies	176,716	2.3
Insurance	128,728	1.6
Other	38,769	0.5
Equipment Rental	28,636	0.4
	$ 7,807,662	100.0

EXHIBIT 2

SAN FRANCISCO BAR PILOTS
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UNCONSOLIDATED STATEMENT OF BAR PILOTS' TERMINAL EXPENSES

Year Ended December 31, 2018

	Amount	%
Rent to San Francisco Bar Pilots Benevolent and Protective Association	$ 281,042	39.5
Salaries and Wages	270,276	38.0
Retirement Benefits	44,110	6.2
Health and Welfare	39,142	5.5
Other	39,005	5.5
Payroll Taxes	23,122	3.3
Workers' Compensation Insurance	14,277	2.0
	$ 710,974	100.0

EXHIBIT 3

SAN FRANCISCO BAR PILOTS
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UNCONSOLIDATED STATEMENT OF BAR PILOTS' PILOTS OFFICE AND DISPATCH EXPENSES

Year Ended December 31, 2018

	Amount	%
Salaries and Wages of Office Staff and Dispatchers	$ 1,640,662	50.0
Rent to San Francisco Bar Pilots Benevolent and Protective Association	843,125	25.7
Medical Insurance	185,671	5.7
Employees' Retirement Plan	181,690	5.5
Payroll Taxes	117,904	3.6
Utilities	115,538	3.5
Maintenance and Repair	76,396	2.3
Other	38,864	1.2
Communications	28,229	0.9
Food Supplies	24,532	0.7
Office Supplies	14,169	0.4
Workers' Compensation Insurance	14,777	0.5
	$ 3,281,557	100.0

EXHIBIT 4

SAN FRANCISCO BAR PILOTS
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UNCONSOLIDATED STATEMENT OF BAR PILOTS' GENERAL EXPENSES

Year Ended December 31, 2018

	Amount	%
Taxi and Launch Service	$ 796,133	29.3
Insurance	638,452	23.5
Lobbying Expenses	248,547	9.1
Dues and Subscriptions	242,321	8.9
Professional Services	191,458	7.0
Public Relations	164,751	6.1
Political Contributions	120,652	4.4
Legal and Accounting	153,467	5.6
Business Taxes	64,781	2.4
Continued Education	31,116	1.1
Other	26,527	1.0
Donations	24,295	0.9
Bank Services	18,323	0.7
	$ 2,720,823	100.0