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July 2, 2019

35120-0003

VIA ELECTRONIC MAIL

Mr. Larry E. McNutt
Administrator
Louisiana Pilotage Fee Commission
Two United Plaza, Suite 702
Baton Rouge, LA 70809

Re: Crescent River Port Pilots' Association – 2018 Audited Financial Filings

Dear Mr. McNutt:

Please find attached the 2018 Audited Financial Statements and corresponding Uniform Financial Reporting from the Crescent River Port Pilots' Association filed pursuant to the true-up methodology implemented by the Pilotage Fee Commission (the "Commission") in Order No. P07-001.

This is an informational filing only and requires no formal action on behalf of the Commission.

Sincerely,



Nathan G. Huntwork

NGH:CB:

Enclosure(s)

cc: Captain E. Michael Bopp
Mr. Mark Nelson
Mr. Walt Green

**CRESCENT RIVER PORT
PILOTS' ASSOCIATION**

FINANCIAL STATEMENTS

December 31, 2018 and 2017
(With Independent Auditors' Report Thereon)

CRESCENT RIVER PORT PILOTS' ASSOCIATION

TABLE OF CONTENTS

December 31, 2018 and 2017

	PAGE
INDEPENDENT AUDITORS' REPORT.....	1-2
BALANCE SHEETS.....	3-4
STATEMENTS OF COMPREHENSIVE INCOME	5
STATEMENTS OF PILOTS' EQUITY (DEFICIT)	6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS.....	8-18

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INDEPENDENT AUDITORS' REPORT

The President, Board of Directors, and Pilots
 Crescent River Port Pilots' Association
 Belle Chasse, Louisiana

We have audited the accompanying financial statements of Crescent River Port Pilots' Association ("the Association"), which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of comprehensive income, pilots' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 audit 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 financial statements. The procedures selected depend on the auditor's 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 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 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Crescent River Port Pilots' Association as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kushner LaGraize, L.L.C.

Metairie, Louisiana
March 13, 2019

CRESCENT RIVER PORT PILOTS' ASSOCIATION**BALANCE SHEETS**

December 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents (Notes 2 & 7)	\$ 3,430,097	\$ 3,091,274
Receivables		
Trade (Note 14)	8,727,618	9,601,992
Pilots, employees, and other	4,054	4,340
Prepaid expenses	254,948	388,094
Notes receivable – apprentices (Note 6)	<u>192,368</u>	<u>102,270</u>
Total current assets	12,609,085	13,187,970
PROPERTY AND EQUIPMENT (Note 5)	32,384,171	29,139,457
Less accumulated depreciation and amortization	<u>(8,828,893)</u>	<u>(7,079,830)</u>
Net property and equipment	23,555,278	22,059,627
OTHER ASSETS		
Notes receivable – apprentices, less current portion (Note 6)	170,859	179,910
Net benefit under interest rate swap (Notes 12 & 13)	24,067	-
Deposits	<u>29,320</u>	<u>18,650</u>
	<u>224,246</u>	<u>198,560</u>
	<u>\$ 36,388,609</u>	<u>\$ 35,446,157</u>

CRESCENT RIVER PORT PILOTS' ASSOCIATION

BALANCE SHEETS - CONTINUED

December 31, 2018 and 2017

LIABILITIES AND PILOTS' EQUITY (DEFICIT)

	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,410,163	\$ 1,375,931
Notes payable, current portion (Note 11)	1,385,789	1,375,405
Capital leases, current portion (Note 8)	536,926	18,424
Undistributed earnings due to pilots	<u>3,877,202</u>	<u>3,779,839</u>
Total current liabilities	7,210,080	6,549,599
LONG-TERM LIABILITIES		
Notes payable, long-term (Note 11)	13,323,982	14,710,258
Capital leases, long-term (Note 8)	1,486,663	-
Notes payable to pilots (Note 9)	9,560,433	9,224,979
Net obligation under interest rate swap (Notes 12 & 13)	<u>-</u>	<u>266,483</u>
Total long-term liabilities	24,371,078	24,201,720
COMMITMENTS (Note 8)		
PILOTS' EQUITY (DEFICIT)		
Capital stock	114,000	110,000
Capital improvement fund (Note 4)	201,997	227,881
Capital improvement fund – boats (Note 4)	1,731,672	1,558,141
Capital improvement fund – station (Note 4)	3,025,638	2,857,929
River port pilots' pension fund (Note 7)	(306,808)	207,370
Pilots' equity	16,885	-
Accumulated other comprehensive income (loss) (Note 12)	<u>24,067</u>	<u>(266,483)</u>
Total pilots' equity, net	<u>4,807,451</u>	<u>4,694,838</u>
	<u>\$ 36,388,609</u>	<u>\$ 35,446,157</u>

See Notes to the Financial Statements.

CRESCENT RIVER PORT PILOTS' ASSOCIATION

STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
REVENUES (Notes 1, 3, 7 and 14)	\$ 105,439,428	\$ 102,144,180
EXPENSES		
Operating, general and administrative	30,755,248	29,413,381
Station	<u>5,373,505</u>	<u>6,346,847</u>
Total expenses	<u>36,128,753</u>	<u>35,760,228</u>
Net earnings	69,310,675	66,383,952
Other comprehensive income (loss) – interest rate swaps	<u>290,550</u>	<u>(193,811)</u>
Comprehensive income	<u>\$ 69,601,225</u>	<u>\$ 66,190,141</u>

CRESCENT RIVER PORT PILOTS' ASSOCIATION
STATEMENTS OF PILOTS' EQUITY (DEFICIT)
Years Ended December 31, 2018 and 2017

	Capital Stock	Capital Improvement Fund	Capital Improvement- Boats Fund	Capital Improvement- Station Fund	River Port Pilots' Pension Fund	Pilot Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, December 31, 2016	\$ 112,000	\$ 662,003	\$ 1,305,156	\$ 2,272,195	\$ 375,340	\$ 6,105	\$ (72,672)	\$ 4,660,127
Net earnings (loss)	-	(434,122)	294,976	585,734	(167,970)	66,105,334	-	66,383,952
Sale of capital stock	3,000	-	-	-	-	-	-	3,000
Redemption of capital stock	(5,000)	-	-	-	-	-	-	(5,000)
Other comprehensive income (loss)	-	-	-	-	-	-	(193,811)	(193,811)
Net earnings distributable to pilots	-	-	(41,991)	-	-	(66,111,439)	-	(66,153,430)
Balances, December 31, 2017	110,000	227,881	1,558,141	2,857,929	207,370	-	(266,483)	4,694,838
Net earnings (loss)	-	(25,884)	305,121	501,426	(514,178)	69,044,190	-	69,310,675
Sale of capital stock	6,000	-	-	-	-	-	-	6,000
Redemption of capital stock	(2,000)	-	-	-	-	-	-	(2,000)
Other comprehensive income (loss)	-	-	-	-	-	-	290,550	290,550
Net earnings distributable to pilots	-	-	(131,590)	(333,717)	-	(69,027,305)	-	(69,492,612)
Balances, December 31, 2018	<u>\$ 114,000</u>	<u>\$ 201,997</u>	<u>\$ 1,731,672</u>	<u>\$ 3,025,638</u>	<u>\$ (306,808)</u>	<u>\$ 16,885</u>	<u>\$ 24,067</u>	<u>\$ 4,807,451</u>

See Notes to the Financial Statements.

CRESCENT RIVER PORT PILOTS' ASSOCIATION

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 69,310,675	\$ 66,383,952
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	1,749,063	2,489,422
Loss on disposition of assets	-	63,604
Loss on settlement of ARO	2,188	186,746
Net change in operating assets and liabilities		
Receivables	874,660	(567,380)
Notes receivable – apprentices	(81,047)	(81,312)
Prepaid expenses and deposits	122,476	(145,130)
Accounts payable and accrued liabilities	34,232	213,001
Asset retirement obligation	-	(834,198)
	72,012,247	67,708,705
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(958,342)	(478,029)
Net cash used in investing activities	(958,342)	(478,029)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to pilots, net of amounts distributed to capital improvement fund, capital improvement – boats fund, capital improvement – station fund, and river port pilots' pension fund	(69,395,249)	(66,059,140)
Proceeds from notes payable to pilots	503,181	254,590
Principal repayments of notes payable to pilots	(167,727)	(419,317)
Principal repayments of line of credit	-	(461,671)
Principal repayments of notes payable	(1,375,892)	(1,314,964)
Principal payments of capital leases	(283,395)	(105,567)
Redemption of capital stock	(2,000)	(5,000)
Sale of capital stock	6,000	3,000
Net cash used in financing activities	(70,715,082)	(68,108,069)
Net increase (decrease) in cash and cash equivalents	338,823	(877,393)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,091,274	3,968,667
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,430,097	\$ 3,091,274

SUPPLEMENTAL CASH FLOW INFORMATION

- Cash paid for interest during the years ended December 31, 2018 and 2017 was \$1,020,772 and \$895,296, respectively.
- During the years ended December 31, 2018 and 2017, the net obligation under the interest rate swap and the accumulated other loss was reduced (increased) by \$290,550 and \$(193,811), respectively, due to changes in market value.
- During the year ended December 31, 2018, the Association acquired \$2,288,560 in fixed assets, which were financed through capital leases.

CRESCENT RIVER PORT PILOTS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Association

Crescent River Port Pilots' Association (the Association) provides river port pilotage to, from, and within the Port of New Orleans. Charges for pilotage services have been regulated by the Louisiana Public Service Commission (LPSC) and are included in published tariffs in 2004. Effective January 1, 2005, charges for pilotage services are regulated by the Pilotage Fee Commission ("the Commission"), which was established by the Louisiana Legislature under Act 902 of 2004.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts are written off as they are deemed uncollectible based on a periodic review by management. The Association does not require collateral. Accounts are generally considered past due after 30 days. Because of the immateriality of uncollectible accounts, it is not considered necessary to establish an allowance provision.

Property and Equipment

Property and equipment are carried at cost. Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the reporting period. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments are capitalized. Deductions are made for retirements resulting from renewals or betterments.

The Association assesses impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

CRESCENT RIVER PORT PILOTS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Asset Retirement Obligations

Asset retirement obligations (ARO) are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets.

Subsequent to initial recognition, the Association records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. The Association derecognizes ARO liabilities when the related obligations are settled. The asset retirement obligations were settled during 2017. (see Note 8).

<u>Year</u>	<u>Balance at Beginning of Period</u>	<u>Liabilities Incurred</u>	<u>Liabilities Settled</u>	<u>Accretion Expense</u>	<u>Revisions to Estimates</u>	<u>Balance at End of Period</u>
2017	\$586,452	162,902	(834,198)	23,844	61,000	\$ -

Notes Payable to Pilots

Earnings of the Association are distributed to the individual pilots on a monthly basis. Undistributed earnings due to pilots represent net earnings for the year, which have not been distributed as of December 31, 2018 and 2017. In order to obtain financing, the Association enters into note payable agreements with the individual pilots (see Note 9). The amount of each note payable is determined by the members of the Association. Upon the pilot's retirement, the note payable is paid.

Capital Stock

At December 31, 2018 and 2017, there were 114 and 110 shares authorized, issued and outstanding, with a par value of \$1,000, respectively.

Income Taxes

The Association is taxed as a partnership for income tax purposes. The Association does not incur federal or state income taxes. Instead its earnings and losses are included in the individual tax returns of its partners. Therefore, no provision or liability for federal or state income taxes has been included in these financial statements.

CRESCENT RIVER PORT PILOTS' ASSOCIATION**NOTES TO FINANCIAL STATEMENTS - CONTINUED**

December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D***Income Taxes – Cont'd***

The Association recognizes the tax benefit from uncertain tax positions only if it is "more likely than not" the tax position will be sustained on examination by the taxing authorities. To the extent the Association's assessment of such tax positions change, the change will be recorded in the period in which the determination is made. No adjustments were required for the years ended December 31, 2018 and 2017.

The Association's tax returns for the fiscal years ended December 31, 2015, 2016, and 2017 remain subject to examination by taxing authorities. As of the date of our report, the Association has not filed the tax returns for the year ended December 31, 2018.

Revenue Recognition

The Association records revenues for pilotage services provided to vessels to, from, and within the Port of New Orleans, including the Industrial and Harvey Canals and the Intracoastal Canal to the turning basin at Michoud. These revenues are earned as pilotage services are rendered. In addition to pilotage services, the Association receives certain surcharges for pension benefits and capital improvements (see Notes 4 and 7).

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.

Fair Value of Financial Instruments

Fair value estimates, methods and assumptions for the Association's financial instruments of cash and cash equivalents, receivables, prepaid expenses, notes receivable, line of credit, accounts payable, accrued liabilities, notes payable, capital leases payable, asset retirement obligation, and net benefit/obligation under the interest rate swap agreement are that the carrying amounts reported in the balance sheets are a reasonable estimate of fair value at December 31, 2018 and 2017.

CRESCENT RIVER PORT PILOTS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018 and 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Derivative Financial Instruments and Hedging Activities

All derivatives are recorded on the balance sheet at fair value and are accounted for as cash flow hedges. Changes in fair value are recorded in accumulated other comprehensive income (loss) in each accounting period. The effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income or loss and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge ineffectiveness, if any, are recognized in current earnings.

NOTE 2 - OFF-BALANCE SHEET RISK

Available cash and cash equivalents are held in bank deposits and money market funds. At any point in time, funds in these accounts are with third-party financial institutions. These balances may exceed Federal Deposit Insurance Corporation insurance limits. These cash balances could be impacted if the underlying financial institutions fail or could be subject to other adverse conditions in the financial markets.

NOTE 3 - COMMUNICATION EQUIPMENT CHARGE

All vessels incurring a full pilotage fee are required to pay to the Association a communication charge of \$4.50 to fund the acquisition, maintenance, and insurance of communication equipment.

NOTE 4 - CAPITAL IMPROVEMENT SURCHARGES

In 1993, the LPSC approved a surcharge on each full pilotage to accumulate funds for capital improvements. The surcharge was effective June 1, 1993 and continued until November 1998 when the reserve generated equaled the target amount of approximately \$2,550,000. Funds collected from this surcharge can only be disbursed for purchase of capital equipment, payment of principal and interest on loans for the purchase of capital equipment, and distributions to the pilots for related income taxes. In 1999, the LPSC approved the continuation of the Capital Improvement Surcharge in the amount of \$31.13 on each full pilotage. Improvements included the construction of new employee and pilot quarters and computer equipment upgrades. The surcharge expired in March 2009.

In 2011, the Commission approved a surcharge on each to or from Pilottown pilotage to accumulate funds for the construction of a new hurricane resistant pilot station, including crew quarters, at Pilottown. The surcharge was effective October 1, 2011 and will be effective for approximately 20 years. Funds collected from this surcharge can only be disbursed for payment of principal and interest on loans, for the payment of construction costs, and for distributions to the pilots for related income taxes.

CRESCENT RIVER PORT PILOTS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018 and 2017

NOTE 4 - CAPITAL IMPROVEMENT SURCHARGES – CONT'D

Additionally, in 2011, the Commission approved a surcharge on each to or from Pilottown pilotage to accumulate funds for the construction of two purpose-built pilot boats. The surcharge was effective October 1, 2011 and will be effective for approximately 10 years. Funds collected from this surcharge can only be disbursed for payment of principal and interest on loans, for the payment of construction costs, and for distributions to the pilots for related income taxes.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	<u>2018</u>	<u>2017</u>	<u>Depreciation/ Amortization Annual Rates</u>
Boats and equipment	\$ 9,818,805	\$ 7,122,096	3 - 33%
Building and wharf	22,565,366	22,017,361	3 - 20%
	<u>\$ 32,384,171</u>	<u>\$ 29,139,457</u>	

NOTE 6 - NOTES RECEIVABLE - APPRENTICES

The Association advanced to each apprentice pilot \$2,500 a month and agreed to pay for health insurance premiums during the apprenticeship period. The amounts are to be repaid over 24 months and bear interest at 10%. At December 31, 2018 and 2017, the notes receivable from the apprentice pilots totaled \$363,227 and \$282,180, respectively.

NOTE 7 - PENSIONS AND OTHER POSTRETIREMENT BENEFITS

River Port Pilots' Pension Plan

The Association is the agent for the River Port Pilots' Pension Plan, which is an unfunded retirement plan covering retired pilots. Under the terms of this plan, pilots will receive monthly pensions based on the earnings of the Association during the previous month. Pilots retiring before March 23, 1979 will receive monthly pensions up to a maximum of \$500 per month; pilots retiring between March 24, 1979 and January 1, 1989 will receive monthly pensions varying from 15% to 20% of a working pilot's monthly pay; pilots retiring between January 1, 1989 and December 31, 1994 will receive 20% to 25% of a working pilot's monthly pay; and pilots retiring after December 31, 1994 will receive 40% to 50% of a working pilot's monthly pay.

CRESCENT RIVER PORT PILOTS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018 and 2017

NOTE 7 - PENSIONS AND OTHER POSTRETIREMENT BENEFITS – CONT'D

River Port Pilots' Pension Plan – Cont'd

The Association forwards all proceeds from the rates dedicated for pension to the rabbi trust created to pay the benefits. The pilots' pension payments are dependent on revenues derived from current rates to fund the benefits.

Beginning March 1, 1999, the LPSC approved a surcharge on each full pilotage to be utilized to pay the current amounts due to the pilots for retirement. Funds collected from this surcharge can only be disbursed for the pilots' pension benefits and payment of plan expenses. The surcharge requires all vessels incurring a full pilotage fee to pay a surcharge, which provides monies for the River Port Pilots' Pension Plan. The surcharge shall be based on the volume of shipping and subject to quarterly adjustments based on the plan's total expense for the current benefit payment period as determined by the Board of Administrators or its agent. During the years ended December 31, 2018 and 2017, surcharge revenues were \$18,637,882 and \$17,344,885, respectively. Retiree disbursements for the same periods were \$19,112,648 and \$17,462,554, respectively. Included in cash and cash equivalents at December 31, 2018 and 2017 is \$1,571,386 and \$1,563,589, respectively, restricted for such purposes.

The Association, as agent for the River Port Pilots' Pension Plan, may collect funds established by rates authorized by the LPSC through December 31, 2004 and the Commission thereafter, to recover the annual amounts necessary to fund current pension benefits. The Association is not obligated to, cannot, and is not currently funding, on an actuarial basis, any future costs.

401(k) Profit-Sharing Plan

The Association has a 401(k) profit-sharing plan covering all full-time employees and elective member pilots of the Association who have completed one year of service and are 18 years old or older. It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Employer profit-sharing contributions to the plan are 10.240% of compensation up to \$128,400 per annum, plus 16.08% of compensation in excess of \$128,400 of each employee's annual compensation, up to \$342,548. Costs of this plan amounted to \$271,827 and \$265,604 in 2018 and 2017, respectively.

The Association also made "safe-harbor" contributions, calculated to be 5.84% of annual employee compensation in 2018 and 2017, which amounted to \$133,592 and \$132,308, respectively. No contributions were made for the pilots in 2018 and 2017. Under this plan, pilots have also contributed individually to the plan, and such contributions are not an expense of the Association.

CRESCENT RIVER PORT PILOTS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE 7 - PENSIONS AND OTHER POSTRETIREMENT BENEFITS – CONT'D

Other Post-Retirement Benefits

Retiring pilots may receive disability compensation accrued up to 360 days; three-quarter pay for 180 days and half-pay for 180 days. Calculation of the total amount will use the prior 12 months of daily rate information. Retiring pilots are paid in a lump-sum amount on December 31 of the retiring year. The amount paid to retiring pilots is paid by the active pilots by reducing their current distributions and amounted to \$713,647 and \$1,771,726 in 2018 and 2017, respectively.

The Association provides healthcare coverage for all retired pilots. These benefits are funded from current revenues and amounted to \$1,128,880 and \$1,062,928 in 2018 and 2017, respectively.

NOTE 8 - COMMITMENTS

The Association leases a portion of its office space under two operating leases, which are both on a month-to-month basis. The leases are with the Pilot Investors Group, a related company whose partners are all pilots of the Association.

The Association leases land on the east bank of the Mississippi River in Plaquemines Parish, which expires on September 30, 2035. The lease was amended whereas rental payments were specified through September 30, 2022. Future payments for 2023 through 2035 were not specified, and therefore, are not included in the future minimum lease payment schedule below. Due to terms of the lease, the Association was obligated to remove a portion of its property and to restore the premises to a condition satisfactory to the lessor on or before December 31, 2017. This removal was completed during 2017. (see Note 1 – Asset Retirement Obligation).

In addition, the Association is party to several equipment leases, which expire at various dates through 2022. Certain equipment leases essentially transfer the risks of ownership and are accounted for as capital leases. Leased property under capital leases at December 31, 2018 and 2017 includes \$2,812,308 and \$523,658 of equipment with related accumulated depreciation in the amounts of \$777,583 and \$497,448, respectively. Amortization of assets held under capital leases is included with depreciation expense. Amortization of capital leases, using the straight-line method, amounted to approximately \$280,135 and \$95,703 for 2018 and 2017, respectively.

During 2018, expenses under these leases amounted to \$286,883 of which \$136,301 was paid to a related party. During 2017, expenses under these leases amounted to \$290,634 of which \$135,708 was paid to a related party.

CRESCENT RIVER PORT PILOTS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2018 and 2017

NOTE 8 - COMMITMENTS – CONT'D

As of December 31, 2018, future minimum lease payments on capital and operating leases were as follows:

<u>Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2019	\$ 641,218	\$ 12,039
2020	641,218	3,675
2021	641,218	3,675
2022	<u>320,609</u>	<u>2,756</u>
Total minimum lease payments	2,244,263	<u>\$ 22,145</u>
Imputed interest (with rates between 5.3% & 7.5%)	<u>(220,674)</u>	
Present value of minimum lease payments	2,023,589	
Less current installments	<u>(536,926)</u>	
	<u>\$ 1,486,663</u>	

NOTE 9 - NOTES PAYABLE TO PILOTS

The Association requires each pilot to enter into note agreements with the Association to provide working capital. The terms of the note agreements are for one year and mature such that automatic annual renewals are agreed to by each pilot subsequent to year-end. The note agreements bear interest at the rate of a 30-year government bond, adjusted quarterly (3.24% and 2.87% as of December 31, 2018 and 2017, respectively). Interest expense charged to earnings related to these notes was \$284,073 and \$277,751 in 2018 and 2017, respectively.

NOTE 10 - LINE OF CREDIT

The Association is party to a line of credit agreement where the bank will provide a revolving line of credit providing for available borrowings to equal 80% of eligible accounts receivable as defined by the bank, not to exceed \$5 million. This line of credit was renewed with new interest terms on September 30, 2018. The line of credit bears interest at the one-month LIBOR rate plus one hundred seventy-five basis points (4.76% and 3.13% as of December 31, 2018 and 2017, respectively). The agreement is collateralized by the accounts receivable of the Association. Monthly payments of accrued interest due are required with a balloon payment of all outstanding principal plus all accrued unpaid interest due on September 30, 2019. As of December 31, 2018 and 2017, the balance on the line of credit totaled \$0. Interest expense charged to earnings related to this line of credit was \$4,857 and \$61,202 for the years ended December 31, 2018 and 2017, respectively.

CRESCENT RIVER PORT PILOTS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018 and 2017

NOTE 11 - NOTES PAYABLE

On October 6, 2011, the Association obtained a non-revolving line of credit to borrow up to \$13 million for the construction of a concrete barge and a pilot station to be constructed and installed on the barge ("Pilot Station Barge"). On June 5, 2013, the Association executed an amendment that increased the maximum principal amount allowed under the line to \$17 million. On October 6, 2013, the line of credit converted to a permanent term loan ("Pilot Station Term Loan"). On October 1, 2017, this note was refinanced. The note now bears interest at a rate of one month LIBOR plus one hundred seventy-five basis points, 4.76% and 3.13% at December 31, 2018 and 2017, respectively, and is payable in equal monthly installments of principal in the amount of \$89,633 plus accrued interest until September 30, 2031. The note is collateralized by the Pilot Station Barge and the accounts receivable of the Association. As of December 31, 2018 and 2017, the balance on the debt totaled \$13,803,420 and \$14,880,011, respectively.

On October 6, 2011, the Association obtained a non-revolving line of credit to borrow up to \$4 million for the construction of 2 pilot vessels (collectively "Pilot Boats"). On October 6, 2012, the line of credit converted to a permanent term loan ("Pilot Boats Term Loan"). On October 1, 2017, this note was refinanced. The note now bears interest at a fixed rate of 3.41% and is payable in equal monthly installments of principal plus accrued interest in the amount of \$28,022 until September 30, 2021. The note is collateralized by the Pilot Boats and the accounts receivable of the Association. As of December 31, 2018 and 2017, the balance on the debt totaled \$906,351 and \$1,205,652, respectively.

Interest expense charged to earnings related to these notes was \$658,294 and \$552,162 for the years ended December 31, 2018 and 2017, respectively.

The aggregate principal amounts of the line of credit (see Note 10) and notes payable due in each of the five years from 2019 through 2023 and thereafter are as follows:

<u>Years Ending</u>	
2019	\$ 1,385,789
2020	1,396,532
2021	1,350,170
2022	1,075,591
2023	1,075,591
Thereafter	<u>8,426,098</u>
	<u>\$ 14,709,771</u>

CRESCENT RIVER PORT PILOTS' ASSOCIATION

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2018 and 2017

NOTE 12 - DERIVATIVE INSTRUMENTS

The Association is party to an interest rate swap contract with Whitney Bank to hedge the interest rate risk exposure on its Pilot Station Term Loan. The swap was renegotiated during 2017. Under the terms of the interest rate swap, the Association paid interest at 4.26%, as of December 31, 2018 and 2017 and received interest at the 1-month LIBOR. The swap is designed to hedge the risk of changes in interest payments on the bank debt caused by changes in LIBOR. Accordingly, the swap contract is classified as a cash flow hedge. As of December 31, 2018 and 2017, the fair value of the hedge was \$24,067 and \$(266,483), respectively.

The carrying amount of the swap was adjusted at the end of the year, which because of the shift in the U.S. interest rate yield curve, resulted in reporting an asset at December 31, 2018 for the fair value of the future net payments forecasted under the swap (see Note 13). The asset is presented on the 2018 balance sheet as Net benefit under interest rate swap.

The Association was party to a second interest rate swap contract with Whitney Bank to hedge the interest rate risk exposure on its Pilot Boats Term Loan. Under the terms of the interest rate swap, the Association paid interest at 3.59% and received interest at the 1-month LIBOR. The swap was designed to hedge the risk of changes in interest payments on the bank debt caused by changes in LIBOR. Accordingly, the swap contract was classified as a cash flow hedge. This interest rate swap contract was terminated in 2017 when the debt was refinanced (see Note 11).

NOTE 13 - FAIR VALUE MEASUREMENTS

ASC 820-10, *Fair Value Measurements and Disclosures* establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. Valuation techniques used to measure fair value under ASC 820-10 must maximize the value of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 inputs are quoted prices for similar assets and liabilities in active markets or model inputs that are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

CRESCENT RIVER PORT PILOTS' ASSOCIATION**NOTES TO FINANCIAL STATEMENTS - CONTINUED***December 31, 2018 and 2017***NOTE 13 - FAIR VALUE MEASUREMENTS – CONT'D**

Level 3 inputs are unobservable inputs based on management's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Fair values for the net benefit and obligation under the swap agreement (see Note 12) are classified in Level 2. The values are calculated using prevailing market data and are derived by the lender from proprietary models based on well recognized financial principles and estimates about relevant future market conditions. The fair values of the net obligations under the swap agreements as of December 31, 2018 and 2017 are \$24,067 and \$(266,483), respectively. There were no changes in the valuation techniques during the years ended December 31, 2018 and 2017.

NOTE 14 - MAJOR CUSTOMERS

The Association had one customer who accounted for 10% of the trade accounts receivable as of December 31, 2018. No customer accounted for at least 10% of total revenues for the year ended December 31, 2018.

The Association had no customer who accounted for at least 10% of the trade accounts receivable as of December 31, 2017, or total revenues for the year ended December 31, 2017.

NOTE 15 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through the date the financial statements were available to be issued, which corresponds with the date of the Independent Auditors' Report. No material subsequent events have occurred since December 31, 2018 that require recognition or disclosure in these financial statements.

CRESCENT RIVER PORT PILOTS' ASSOCIATION			
			2018 EOY AUDITED EXPENSES
Pilots' Association Recoverable Expenses		Sub-Category Amounts	Category Total
1.	Pilot Compensation		
2.	Employee Salaries, Wages & P/R Taxes		3,233,450
3.	Pensions & Pension Plans		417,936
a.	Pilot pension expense	-	
b.	Employee pension expense	417,936	
4.	Group Hospitalization & Benefits		4,595,696
a.	Pilot health insurance and benefits	3,040,691	
b.	Employee health insurance and benefits	411,775	
c.	Retiree health insurance and benefits	1,143,230	
5.	Pilot Stations		932,111
a.	Fuel for Generators	-	
b.	Maintenance & Repairs	325,738	
c.	Property Taxes	115,178	
d.	Services	-	
e.	Utilities	90,656	
f.	Board & Lodging	400,539	
6.	Administrative Offices		232,998
a.	Rent & Leases	136,301	
b.	Property Taxes	25,676	
c.	Services	29,654	
d.	Utilities	36,012	
e.	Other	5,356	
7.	Vessel Expenses		413,720
a.	Fuel	312,724	
b.	Maintenance & Repairs	100,996	
c.	Property Taxes	-	
d.	Operating Costs	-	
8.	Communications, Dispatch, & IT		712,039
a.	Pilot Laptops	141,062	
b.	Other	570,978	
9.	General & Administrative		507,583
10.	Continuing Education & Training		659,054
11.	Professional Services		805,723
a.	Legal	326,655	
b.	Regulatory	393,885	
c.	Accounting & Auditing	85,183	
d.	Other	-	
12.	Professional Dues		414,129
13.	Risk Management & Insurance		632,373
a.	Property Insurance	264,619	
b.	Liability Insurance (includes Pilot License)	89,301	
c.	Vessel Hull Insurance	94,077	
d.	Other	184,376	
14.	Transportation		285,812
a.	Pilot Transportation	285,812	

	b. Other	-	
15.	Boards of Commissioners & Examiners		365,000
16.	Taxes & Licenses		-
17.	Income Taxes		-
18.	Rent & Lease Expense		38,048
19.	Interest Expense		362,478
20.	Depreciation Expense		648,157
21.	Extraordinary Items		-
Total Recoverable Expenses			15,256,305