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

Consolidated Financial Statements

December 31, 2018

CONTENTS

Langley, Williams & Company, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 4690
LAKE CHARLES, LOUISIANA 70606-4690
205 W. COLLEGE STREET
LAKE CHARLES, LOUISIANA 70605-1625
(337) 477-2827
1(800) 713-8432
FAX (337) 478-8418

LESTER LANGLEY, JR.
DANNY L. WILLIAMS
PHILLIP D. ABSHIRE, JR.
DAPHNE BORDELON BERKEN
PHILLIP D. ABSHIRE, III
NICHOLAS J. LANGLEY
ALEXIS H. O'NEAL

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of the Lake Charles Pilots, Inc. and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2018, and the related consolidated statements of operations, change in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Lake Charles Pilots, Inc. and subsidiaries as of December 31, 2018, and the results of their operations change in stockholders' equity and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of operating expenses on page 25 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Lake Charles, Louisiana
June 19, 2019

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

Consolidated Balance Sheet

December 31, 2018

Assets

Current assets:	
Cash and cash equivalents	$ 704,655
Receivables, net of allowance for doubtful accounts of $-0-	
Trade accounts	989,347
Ad valorem tax refunds	62,931
Prepaid income taxes	5,367
Prepaid expenses and other assets	168,135
Total current assets	1,930,435
Property, plant and equipment, at cost	14,005,240
Less accumulated depreciation	(5,989,174)
Total property, plant and equipment	8,016,066
Total assets	$ 9,946,501

See the accompanying notes to the consolidated financial statements.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

Consolidated Balance Sheet (Continued)

December 31, 2018

Liabilities and Stockholders' Equity

Current liabilities:		
Line of credit	$	1,920,960
Short-term note payable		5,152
Current portion of long-term debt		240,945
Notes payable to related party		93,281
Accounts payable		504,656
Accrued pilot compensation		789,296
Accrued expenses and other		73,256
Total current liabilities		3,627,546
Long-term debt		1,659,358
Deferred income taxes		222,083
Commitments and contingencies		-
Stockholders' equity:		
Common stock		998,400
Discount on common stock		(820,400)
Paid-in capital		641,181
Retained earnings		3,618,333
		4,437,514
Total liabilities and stockholders' equity	$	9,946,501

See the accompanying notes to the consolidated financial statements.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

Consolidated Statement of Operations

For the Year Ended December 31, 2018

Revenues:	
Pilotage services	$ 13,326,584
Special services	31,500
Total revenues	**13,358,084**
Operating expenses	13,368,168
Operating loss	**(10,084)**
Other income (loss):	
Ad valorem tax refund	62,931
Rent income	35,130
Interest and dividend income	4,780
Loss on sale of fixed assets	(1,511)
Interest expense	(92,167)
Miscellaneous income	51,177
	60,340
Income before income taxes	**50,256**
Provision for income taxes:	
Current expense	66,462
Deferred benefit	28,344
	94,806
Net loss	**$ (44,550)**

See the accompanying notes to the consolidated financial statements.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

Consolidated Stockholders' Equity

For the Year Ended December 31, 2018

Common stock:		
Balance at beginning and end of year	$	998,400
Discount on common stock:		
Balance at beginning and end of year	$	(820,400)
Paid-in-capital:		
Balance at beginning and end of year	$	641,181
Retained earnings:		
Balance at beginning of year	$	3,901,950
Net loss		(44,550)
Distributions		(239,067)
Balance at end of the year	$	3,618,333
Total stockholders' equity	$	4,437,514

See the accompanying notes to the consolidated financial statements.

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Year Ended December 31, 2018

Cash flows from operating activities:	
Net loss	$ (44,550)
Adjustments to reconcile net loss	
to net cash provided by operating activities:	
Depreciation and amortization	487,599
Provision for deferred income taxes	28,344
Loss on disposition of fixed assets	1,511
(Increase) decrease in:	
Trade accounts	1,646
Ad valorem tax refunds	4,162
Prepaid income taxes	26,621
Prepaid expenses and other assets	(57,834)
Increase (decrease) in:	
Accounts payable	32,598
Accrued expense and other	(2,010)
Accrued pilot compensation	(277,678)
Net cash provided by operating activities	200,409
Cash flows from investing activities:	
Additions to fixed assets	(1,444,688)
Net cash used by investing activities	(1,444,688)
Cash flows from financing activities:	
Borrowings on line of credit	1,320,660
Borrowings on short-term notes payables	20,610
Principal payments on short-term notes payables	(15,458)
Borrowings on note payables related party	175,237
Principal payments on note payables related party	(480,233)
Borrowings on long-term debt	315,869
Principal payments on long-term debt	(237,157)
Distributions to stockholders	(239,067)
Net cash provided by financing activities	860,461
Net change in cash and cash equivalents	(383,818)
Cash and cash equivalents at beginning of year	1,088,473
Cash and cash equivalents at end of year	$ 704,655

See the accompanying notes to the consolidated financial statements.

1. *NATURE OF BUSINESS*

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

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

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

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

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

1. *NATURE OF BUSINESS (Continued)*

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

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

2. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

Principles of Consolidation

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

The four special purpose entities described in Note 1 operate for the sole benefit of the Company which has the power to direct the activities that most significantly impact the economic performance of each entity. The Company is obligated to absorb losses of each entity pursuant to the blanket time charter with Pilot #2. Accordingly, the four special purpose entities are each considered a VIE subject to consolidation. The accompanying consolidated financial statements have been prepared by consolidating the assets, liabilities, and equity of all five entities as of December 31, 2018 and accumulating revenue and expenses for the twelve months then ended. All intercompany transactions and balances have been eliminated. Stockholders' personal guarantee of the indebtedness of the variable interest entities provides creditors with indirect recourse against the assets of the Company for those obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company records revenues for pilotage services provided to vessels to, from, and within the Calcasieu Ship Channel. These revenues are earned as pilotage services are rendered.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of receivables and demand deposits. The Company maintains cash at one financial institution, which are insured by the Federal Deposit Insurance Corporation up to $250,000. At various times during the year, the Company's cash in bank balances exceeded the federally insured limits. At December 31, 2018, the Company's uninsured cash balances totaled $331,436.

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

Cash and Cash Equivalents

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

Accounts Receivable

Trade accounts receivable are stated net of an allowance for doubtful accounts. Allowances are established based on an analysis of specific customers, taking into consideration the age of past due accounts and an assessment of the customer's ability to repay. Uncollected accounts older than 60 days are considered past due. The Company writes off receivables as a charge to the allowance for doubtful accounts when, in their estimation, it is probable that the receivable is worthless. The allowance for doubtful accounts at December 31, 2018 was $-0-. No interest is charged on past due accounts.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed primarily using the double declining balance method for financial reporting purposes over the estimated useful lives of the assets.

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

Property, Plant and Equipment (Continued)

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

When long-lived asset impairment indicators are present, the Company evaluates impairment of long-lived assets by projecting undiscounted cash flows of the related assets over the remaining estimated useful lives of such assets. If undiscounted cash flow projections are insufficient to recover the carrying value of the long-lived assets under review; impairment is recorded, if any, for the amount by which the carrying value of such assets exceeds their fair values. No triggering events occurred during the year ended December 31, 2018.

Income Taxes

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

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

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

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

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

Use of Estimates

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

Fair Value of Financial Instruments

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

Advertising

The Company expenses all advertising costs when incurred.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 is a comprehensive new revenue recognition model, which requires a company to recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. 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 to fiscal periods beginning after December 15, 2018. The FASB has also issued additional updates that further clarify the requirements of Topic 606 and provide implementation guidance. Early adoption is permitted for fiscal periods beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our financial statements and related disclosures. We have not yet selected a transition method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards (Continued)

In March 2016, the FASB issued ASU No. 2016-08, "*Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*" ("ASU 2016-08"). ASU No. 2016-08 maintains the core principles of Topic 606 on revenue recognition but clarifies whether an entity is a principal or an agent in a contract and the appropriate revenue recognition principles under each of these circumstances. The amendments in ASU 2016-08 affect the guidance of ASU 2014-09 which is not yet effective. The Company will evaluate the effects, if any, that adoption of this guidance will have on its financial statements.

In April 2016, the FASB issued ASU No. 2016-10, "*Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing.*" ASU No. 2016-10 maintains the core principles of Topic 606 on revenue recognition but clarifies identification of performance obligations and licensing implementation guidance. The amendments in ASU 2016-10 affect the guidance of ASU 2014-09 which is not yet effective. The Company will evaluate the effects, if any, that adoption of this guidance will have on its financial statements.

In May 2016, the FASB issued ASU No. 2016-12, *"Revenue from Contracts with Customers (Topic 606) - Narrow- Scope Improvements and Practical Expedients."* ASU No. 2016-12 maintains the core principles of Topic 606 on revenue recognition, but addresses collectability, sales tax presentation, noncash consideration, contract modifications at transition and completed contracts at transition. The amendments in ASU 2016-12 affect the guidance of ASU 2014-09 which is not yet effective. The Company will evaluate the effects, if any, that adoption of this guidance will have on its financial statements.

In December 2016, the FASB issued ASU No. 2016-20, "*Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers."* ASU No. 2016-20 amends certain aspects of ASU No. 2014-09 and clarifies, rather than changes, the core revenue recognition principles in ASU No. 2014-09. It is effective for annual reporting periods beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact on the Company's financial position and results of operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Standards (Continued)

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"), which requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets. ASU 2016-01 provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. It also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Certain provisions of ASU 2016-01 are eligible for early adoption. We are evaluating the impact that ASU 2016-01 will have on our financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are evaluating the impact that ASU 2016-02 will have on our financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230): Classification of Certain Cash Receipts and Cash Payments - a consensus of the Emerging Issues Task Force ("ASU 2016-15"). The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Certain issues addressed in this guidance include - Debt payments or debt extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, distributions received from equity method investments and beneficial interests in securitization transactions. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We are evaluating the impact that ASU 2016-15 will have on our financial statements and related disclosures.

3. *PROPERTY, PLANT AND EQUIPMENT*

Property, plant and equipment are summarized as follows:

	Estimated Useful Lives	December 31, 2018
Land		$ 111,300
Buildings and improvements	5-40 years	3,300,147
Marine vessels and accessories	5-30 years	6,476,203
Automobiles and trucks	5 years	293,606
Communication equipment	3-15 years	479,963
Furniture, fixtures and equipment	3-10 years	350,158
Leasehold improvements	5-40 years	158,135
Total property plant and equipment		11,169,512
Less accumulated depreciation		(5,989,174)
Net property plant and equipment in service		5,180,338
Construction in progress		2,426,160
Plant and equipment not in service		409,568
Property, plant and equipment, net		$ 8,016,066

Depreciation expense for the year ending December 31, 2018 was $487,599.

4. *LINE OF CREDIT*

The Company has a construction line of credit in the amount of $4,000,000 for the purpose of constructing a new boat. The line has an interest rate of 4.5%, collateralized by a marine vessel being constructed, has security interest in all deposit accounts, and matures in January 2019. The Company pays monthly interest payments until the line of credit matures. At December 31, 2018, the Company had an outstanding balance of $1,920,960. In January 2019 this line of credit was extended until September 2019.

Total interest cost on the line of credit was $63,145 in 2018, of which $63,145 was capitalized as part of construction in progress on the boat.

5. SHORT-TERM NOTE PAYABLE

Short-term notes payable as of December 31, 2018 consist of the following:

LWCC Insurance, matures March 2019, 0.0% interest rate, due in monthly installments of $800, uncollateralized	$	2,400
LWCC Insurance, matures March 2019, 0.0% interest rate, due in quarterly installments of $2,751, uncollateralized		2,751
Total short-term notes payables	$	5,151

6. LONG-TERM DEBT

Long-term debt as of December 31, 2018are as follows:

Note payable to bank, secured by real estate, bearing interest rate at 5.0%; payable in 47 principal and interest installments of $3,581, with one irregular payment of $365,291 in September 2022.	$	445,709
Note payable to auto finance company, secured by a vehicle, bearing interest rate at 0.0%; payable in 60 principal and interest installments of $905, maturing in September 2022.		40,704
Note payable to bank, secured by vehicle, bearing interest rate at 4.8%; payable in 36 principal and interest installments of $2,222, maturing in May 2021.		60,662
Note payable to bank, secured by marine vessels, bearing interest rate at 4.5%; payable in 52 principal and interest installments of $20,307, with one irregular payment of $1,106,670 in May 2020.		1,353,228
		1,900,303
Less: Current maturities		(240,945)
	$	1,659,358

6. *LONG-TERM DEBT (Continued)*

Long-term debt at December 31, 2018 matures as follows:

Year Ending		Amount
2019	$	240,945
2020		252,385
2021		248,146
2022		599,885
2023		222,479
Thereafter		336,463
	$	1,900,303

Based on market rates for similar loans, at December 31, 2018, the fair value of these notes approximates their carrying amount. All stockholders provide personal guarantees for amounts owed to financial institutions.

7. *NOTES PAYABLE TO RELATED PARTY*

Notes payable related party as of December 31, 2018 are as follows:

Note payable to stockholder, unsecured, bearing interest at 5.0%; monthly interest payaments; principal due on demand	$	63,000
Note payable to stockholder, unsecured, bearing interest at 4.5%; payable in monthly installments of principal and interest of $6,124, maturing May 2019		30,281
	$	93,281

8. *INCOME TAXES*

Income tax expense (benefit) consists of the following:

Current income tax expense	$	66,462
Deferred income tax (benefit) expense		28,344
Total income tax provision	$	94,806

8. INCOME TAXES – (Continued)

Reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

Tax at statutory rate	$	10,554
Tax effects of the following		
Subchapter S losses		13,977
Political donations		2,783
Lobby expenses		9,089
State income taxes		13,273
Prior year changes		46,866
Others, net		(1,735)
Total income tax provision	$	94,806

Deferred income taxes result from timing differences in the recognition of revenue and expenses for tax and financial statement purposes. The effect of these timing differences at December 31, 2018 is as follows:

Long-term deferred tax liabilities (net of assets):		
Fixed assets	$	(222,083)

9. STOCKHOLDERS' EQUITY

Common stock consisted of the following as of December 31, 2018:

Lake Charles Pilots, Inc - C Corporation		
Common stock, $100 par value, 11,000 shares authorized, 8,500 shares issued and outstanding	$	850,000
Calcasieu Pilots No. 1, Inc - Subchapter S Corporation		
Common stock, $100 par value, 1,000 shares authorized, 289 shares issued and outstanding		28,900
Calcasieu Pilots No. 2, Inc - Subchapter S Corporation		
Common stock, $-0- par value, 10,000 shares authorized, 1,700 shares issued and outstanding		51,000

9. STOCKHOLDERS' EQUITY – (Continued)

Calcasieu Pilots No. 3, Inc - Subchapter S Corporation	
Common stock, $-0- par value, 1,000 shares authorized, 850 shares issued and outstanding	66,800
Calcasieu Pilots No. 4, Inc - Subchapter S Corporation	
Common stock, $10 par value, 1,000 shares authorized, 170 shares issued and outstanding	1,700
Total common stock	$ 998,400

10. COMPENSATED ABSENCES

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

11. PILOT CONTRACT SERVICES

Total pilot compensation consists of the following for the year ended December 31, 2018:

Base compensation	$ 6,954,680
Retirement	924,208
Health insurance	384,043
Disability, long-term care and life insurance	242,965
License insurance	61,455
Continuing education	63,819
Dues	45,780
Pilot expense	39,732
	$ 8,716,682

12. EMPLOYEE BENEFIT PLANS

All eligible employees participate in the Lake Charles Pilots, Inc. 401(K) Profit Sharing Plan and Trust. Employer contributions are 25%, which includes a 3% safe harbor match, of eligible compensation subject to annual limitations under current regulations. Retirement expense for the year ended December 31, 2018 is $254,331 of which $24,301 was payable at December 31, 2018. Individual pilots are allowed to adopt this plan through their limited liability company. Contributions to or for the benefit of each pilot are included as a component of total pilot compensation.

13. OPERATING LEASE

The Company leases various equipment and radio towers throughout the year for its operations. These leases are classified as operating leases and their terms vary from month-to-month to 5-year leases. Total lease payments made for the year ended December 31, 2018 was $61,284. Future minimum lease payments as of December 31, 2018 are as follows:

Year Ending December 31,		
2019	$	53,220
2020		52,998
2021		50,786
2022		48,000
2023		48,000
	$	253,005

14. RELATED PARTY

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

At the December 31, 2018, the Company had note payables to various pilots of $93,281, see Note 6 for details, and had accrued pilot compensation and retirement in the amount of $789,296.

For the year ending December 31, 2018, the Company paid $8,716,682 in pilot contract services, see note 11 for details.

15. CONCENTRATION OF CREDIT RISK

The Company had three customers who accounted for 65.53% of the trade receivables and 65.99% of total revenue as of December 31, 2018.

16. COMMITMENT AND CONTINGENCIES

On January 12, 2017 the Company executed a contract for the construction of a seventy-foot pilot boat in the amount of $4,002,000. As of December 31, 2018, the Company had incurred cost of $2,426,160 which has been recognized as construction in progress.

On September 27, 2018 the Company executed a contract to purchase an engine for one of its marine vessels in the amount of $166,119. As of December 31, 2018, the Company had incurred cost of $54,819 which has been recognized as prepaid expense.

17. CASH FLOW INFORMATION

Supplemental cash flow disclosures for the year ended December 31, 2018 are as follows:

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

Non-cash purchase and financing of property, plant and equipment	$	74,218
Accrued purchase of property, plant and equipment	$	400,200
Cash paid for interest	$	92,167
Cash paid for income taxes	$	40,000

18. SUBSEQUENT EVENTS

The Management of the Company has evaluated its December 31, 2018 financial statements for subsequent events through the date of the independent auditors' report, the date the financial statements were available to be issued. Management is not aware of any subsequent event which would require recognition or disclosure in the financial statements.

SUPPLEMENTAL INFORMATION

LAKE CHARLES PILOTS, INC. AND SUBSIDIARIES

Consolidated Schedule of Operating Expenses

For the Year Ended December 31, 2018

Accounting	47,825
Automobile Expenses	41,779
Bank Service Charge	637
Boat Maintenance and Supplies	529,483
Pilot Contract Services	8,716,682
Continuing Education	2,336
Depreciation and Amortization	487,599
Fuel and Oil	451,671
Insurance-Boat and Liability	68,162
Insurance-Health	393,061
Insurance-Disability	38,704
Insurance-Long Term Care	10,613
Insurance-Auto	19,558
Insurance-Workers Compensation	13,078
Insurance-Office	14,790
Insurance-Station	49,471
Insurance-Umbrella	24,570
Legal Fees	76,037
Medical Expense	4,098
Miscellaneous Expense	6,835
NOAA Ports System Charge	147,090
Office Expense	79,748
Professional Dues	2,143
Professional Publications	13,862
Professional services	12,632
Public Relations	81,635
Repairs and Maintenance	59,221
Rent	48,000
Retirement Plan-Employees	254,331
Salaries	1,137,650
Station Expenses	106,385
Tarrif Expense-Legal	128,574
Taxes and Licenses	96,156
Payroll Tax Expense	86,838
Telephone	24,876
Travel	58,495
Utilities	33,543
Total operating expenses	$ 13,368,168

See the accompanying notes to the consolidated financial statements.