

**St. Lawrence Seaway Pilots' Association
Contract # GS-23F-0124M**

**Independent Accountant's Report on
Applying Agreed-Upon Procedures**

December 31, 2014

St. Lawrence Seaway Pilots' Association

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Independent Accountant's Report on Applying Agreed-Upon Procedures

United States Coast Guard
Great Lakes Pilotage Division

We have performed the procedures enumerated in the accompanying Summary of Agreed-upon Procedures and Results, which were agreed to by the United States Coast Guard solely to assist you in evaluating certain aspects of the expenses incurred by the St. Lawrence Seaway Pilots' Association and Seaway Pilot Inc. (collectively known as "District 1" or the "Association") for the year ended December 31, 2014, as explained in Section I of the report. The United States Coast Guard is responsible for evaluating such expenses incurred. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are included in the accompanying Summary of Agreed-Upon Procedures and Results and in the accompanying Summary of Findings and Recommendations, respectively.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the United States Coast Guard and the St. Lawrence Seaway Pilots' Association, and is not intended to be and should not be used by anyone other than those specified parties.



Bethesda, Maryland
October 16, 2015

St. Lawrence Seaway Pilots' Association

Summary of Agreed-Upon Procedures and Results

I. OVERVIEW

The Great Lakes Pilotage Division is responsible for oversight of the St. Lawrence Seaway Pilots' Association, as well as two other pilot associations, which provide piloting services in the Great Lakes region. Included in this oversight function is the responsibility to set pilotage rates based on eligible operating expenses. The agreed-upon procedures listed below are designed to assist the Great Lakes Pilotage Division in determining which expenses meet the eligibility requirements to be included in such rates. Procedures are performed on expenses submitted by the pilot association which they consider to be eligible for ratemaking purposes.

II. EVALUATION OF REPORTED EXPENSES

Procedure:

Obtain a listing of the expenses incurred by District 1 for the year ended December 31, 2014, and perform the following procedures:

1. For each transaction selected for testing, determine if amounts are: a) necessary and reasonable for the provision of pilotage service; b) to be included in pilot compensation or; c) excluded from these categories, using the following information:
 - A. Title 46: Shipping, Part 404-Great Lakes Pilotage Ratemaking, Section 5 Guidelines for the recognition of expenses;
 - B. Federal Register final and interim rulings;
 - C. Previously issued Independent Accountant's Reports on Applying Agreed-Upon Procedures; and
 - D. Discussions with the Director of the United States Coast Guard, Great Lakes Pilotage Division.
2. Segregate each account into 1) general or 2) specific classes.
3. General account classes - a sample of transactions within these accounts will be selected for testing.
 - A. General account classes include:
 - i. Travel expenses
 - ii. Member expenses
 - iii. Repair and maintenance expenses
 - iv. Insurance expenses
 - v. Other operating expenses

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Summary of Agreed-Upon Procedures and Results

- B. A sample of general account class transactions will be selected and tested as follows:
 - i. Calculate planning materiality and performance materiality (“PeM” or “75% of planning materiality”), based on total submitted expenses and pilot compensation using industry guidelines.
 - ii. Select all individually significant items in each general account class for testing. Individually transactions greater than 1/3 of PeM are considered individually significant.
 - iii. Using an accounting industry standard sampling form and assessing the risk of material misstatement at high, determine the method of testing to be utilized in order to achieve, at a minimum, a 95% confidence level with respect to the population of transactions remaining after procedure Bii above.
 - iv. Obtain supporting documentation from the Association for each transaction selected for testing.

- 4. Specific accounts class transactions will be tested as follows:
 - A. Pilot compensation and payroll taxes
 - i. Review schedule provided by the District for appropriate classification
 - ii. Agree pilot compensation to the audited financial statements of the District as of December 31, 2014

 - B. Depreciation/Auto Leasing/Other
 - iii. Review schedule provided by the District for items that may not be eligible
 - iv. Select material fixed asset additions that are greater than 1/3 of PeM
 - v. Recalculate depreciation expense for each fixed asset addition selected for testing

 - C. Payroll (other than pilot compensation) and related expenses
 - i. Review payroll schedule provided by the District for the items that may not be eligible
 - ii. Agree to annual payroll summary register or manually select three employees at random and agree to employee W-2 or other supporting documentation
 - iii. Recalculate estimated tax calculation and verify appropriate rates are being used

 - D. Legal expense
 - i. Review itemized detail for all invoices from the attorney shared by the three Districts
 - ii. Review itemized detail for all invoices from every other attorney identified in the general ledger

 - E. Real estate taxes
 - i. Review tax bill for amount, location and tax period
 - ii. Recalculate tax expense based on taxable year

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Summary of Agreed-Upon Procedures and Results

- F. Utility expense
 - i. Review general ledger and verify there are no more than 12 monthly transactions during the year
 - ii. Review any transactions in excess of the 12 monthly expected transactions and determine if the expense is appropriate
 - G. Interest expense
 - i. Obtain loan agreement or other documents that provide loan terms, including interest rate
 - ii. Recalculate interest expense based on the principal, interest rate and loan terms
 - H. Pilot subsistence/travel
 - i. Determine that per diem does not exceed 200 days per pilot
 - ii. Where per diem support can be obtained, manually select 5 per diem transactions at random and agree to supporting expense reimbursement detail
 - I. For all other accounts not tested above
 - i. Review general ledger activity and select any items that appear unusual
 - ii. Select all transactions over 1/3 PeM and obtain supporting documentation
5. Evaluate the results of our test work performed and identify exceptions, if any. Exceptions will be extrapolated to groups, accounts, or by using other measures as deemed appropriate and will result in adjustments to operating expenses. Adjustments will only be recorded for identified misstatements, within a given group, exceeding 3% of planning materiality.

Results:

The "Total amount reported" column in the following table represents amounts provided by District 1 from their general ledger for the year ended December 31, 2014. The breakdown of amounts by area was provided by District 1 for information purposes only and was not subject to the procedures above. Exceptions are shown in the "Total adjustments" column below. The breakdown of adjustments by area was calculated using the same percentage allocation that was provided by District 1. Each adjustment references the finding number located in the accompanying Summary of Findings and Recommendations, which describes the reasoning for such adjustment.

St. Lawrence Seaway Pilots' Association
Summary of Agreed-Upon Procedures and Results

The following are the results of performing such procedures for the year ended December 31, 2014:

	District 1								
	Area 1	Area 2	Total amount reported	Area 1 adjustments	Area 2 adjustments	Total adjustments	Area 1 adjusted	Area 2 adjusted	Adjusted total amount reported
Pilot compensation									
Salaries (D1-14-01), (D1-14-03)	\$ 2,084,701	\$ 1,485,979	\$ 3,570,680	\$ 6,352	\$ 5,013	\$ 11,365	\$ 2,091,053	\$ 1,490,992	\$ 3,582,045
Applicant pilot salaries (D1-14-01)	-	14,000	14,000	-	(2,347)	(2,347)	-	11,653	11,653
Employee benefits	64,183	38,185	102,368	-	-	-	64,183	38,185	102,368
Applicant pilot employee benefits	-	-	-	-	-	-	-	-	-
Dues	2,100	2,000	4,100	-	-	-	2,100	2,000	4,100
Total pilot compensation	\$ 2,150,984	\$ 1,540,164	\$ 3,691,148	\$ 6,352	\$ 2,666	\$ 9,018	\$ 2,157,336	\$ 1,542,830	\$ 3,700,166
Operating expenses									
Other pilotage costs									
Pilot subsistence/Travel (D1-14-02), (D1-14-03)	\$ 302,547	\$ 228,222	\$ 530,769	\$ (15,712)	\$ (12,401)	\$ (28,113)	\$ 286,835	\$ 215,821	\$ 502,656
Applicant pilot subsistence/Travel	-	12,996	12,996	-	-	-	-	12,996	12,996
License insurance	20,231	22,480	42,711	-	-	-	20,231	22,480	42,711
Applicant pilot license insurance	-	1,760	1,760	-	-	-	-	1,760	1,760
Payroll taxes (D1-14-01)	78,067	64,130	142,197	(87)	(68)	(155)	77,980	64,062	142,042
Applicant pilot payroll taxes (D1-14-01)	-	-	-	-	2,347	2,347	-	2,347	2,347
Other	479	378	857	-	-	-	479	378	857
Total other pilotage costs	401,324	329,966	731,290	(15,799)	(10,122)	(25,921)	385,525	319,844	705,369
Pilot boat and dispatch costs									
Pilot boat expense	130,741	103,173	233,914	-	-	-	130,741	103,173	233,914
Dispatch expense	-	-	-	-	-	-	-	-	-
Payroll taxes	9,797	7,732	17,529	-	-	-	9,797	7,732	17,529
Total pilot boat and dispatch costs	140,538	110,905	251,443	-	-	-	140,538	110,905	251,443

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Summary of Agreed-Upon Procedures and Results

	District 1					Total adjustments	Total amount reported	Area 1 adjustments	Area 2 adjustments	Area 1 adjusted	Area 2 adjusted	Adjusted total amount reported
	Area 1	Area 2	-	-	-							
Administrative expenses												
Legal - general counsel	2,173	1,505	-	-	-	3,678	-	-	2,173	1,505	3,678	
Legal - shared counsel (K&L Gates)	8,783	6,932	-	-	-	15,715	-	-	8,783	6,932	15,715	
Legal - USCG litigation	12,794	10,098	-	-	-	22,892	-	-	12,794	10,098	22,892	
Insurance	21,829	17,226	-	-	-	39,055	-	-	21,829	17,226	39,055	
Employee benefits	7,570	5,974	-	-	-	13,544	-	-	7,570	5,974	13,544	
Payroll taxes	5,281	4,167	-	-	-	9,448	-	-	5,281	4,167	9,448	
Other taxes	7,262	5,731	-	-	-	12,993	-	-	7,262	5,731	12,993	
Travel	648	512	-	-	-	1,160	-	-	648	512	1,160	
Depreciation/Auto leasing/Other	48,094	31,820	-	-	-	79,914	-	-	48,094	31,820	79,914	
Interest	13,713	10,821	-	-	-	24,534	-	-	13,713	10,821	24,534	
APA dues	12,444	11,996	-	-	-	24,440	-	-	12,444	11,996	24,440	
Utilities	8,916	418	-	-	-	9,334	-	-	8,916	418	9,334	
Salaries	52,121	41,130	-	-	-	93,251	-	-	52,121	41,130	93,251	
Accounting/Professional fees	5,142	4,058	-	-	-	9,200	-	-	5,142	4,058	9,200	
Pilot training	6,427	5,074	-	-	-	11,501	-	-	6,427	5,074	11,501	
Applicant pilot training	-	-	-	-	-	-	-	-	-	-	-	
Other	8,866	6,546	-	-	-	15,412	-	-	8,866	6,546	15,412	
Total administrative expenses	222,063	164,008	-	-	-	386,071	-	-	222,063	164,008	386,071	
Total operating expenses	\$ 763,925	\$ 604,879	\$ (15,799)	\$ (10,122)	\$ (25,921)	\$ 1,368,804	\$ (15,799)	\$ (10,122)	\$ 748,126	\$ 594,757	\$ 1,342,883	
Total pilot compensation and operating expenses	\$ 2,914,909	\$ 2,145,043	\$ (9,447)	\$ (7,456)	\$ (16,903)	\$ 5,059,952	\$ (9,447)	\$ (7,456)	\$ 2,905,462	\$ 2,137,587	\$ 5,043,049	

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Summary of Agreed-Upon Procedures and Results

III. VARIANCE ANALYSIS

Procedure:

Obtain a listing of the expenses incurred by District 1 for the years ended December 31, 2010, through December 31, 2014, and perform the following procedures:

1. Segregate accounts into groups based on account description.
2. Compute average of the accounts and groups from 2010 to 2014.
3. Compute difference between the actual balance for each year and the average for each account and group.
4. Compute percentage difference between the actual balance for each year and the average for each account and group.
5. Using the results of procedure number 3 above, identify differences that are greater than 1/3 of PeM. Using the results of procedure number 4 above, identify differences that are greater than 10%. Review remaining account and group analytics and judgmentally determine if any should be selected for additional review.
6. Obtain explanation and supporting documentation from pilot association personnel, if deemed necessary, to support identified variances and determine if reasonable.
7. Review the account and group analysis and perform the following procedures:
 - A. Compute pilot compensation as a percentage of revenue;
 - B. Compute pilot boat expense as a percentage of revenue;
 - C. Compute health insurance per pilot;
 - D. Compute travel expense per pilot; and
 - E. Compute training expense per pilot.

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Summary of Agreed-Upon Procedures and Results

Results:

The following are the results of performing procedures 1 through 6 for the years ended December 31, 2010, through December 31, 2014:

Account	Account Description	2014 Reported amount	Five year average	District 1 Explanation
5431100	Travel Expense-River	\$ 287,388	\$ 236,651	Increase in Traffic (20%) resulted in significantly higher travel expenses. Additionally, beginning of year over carriage resulted in increased travel expenses . Additional traffic significantly changes pilots travel modalities-i.e. utilizing commercial carriers vs. driving themselves. Also, some increase attributable to change in "per Diem" travel reimbursement policy changes.
5431200	Travel Expense-Lake	213,090	152,613	See above
5431300	Travel Expense-Special	12,497	10,374	2014 Amounts are travel expenses for two (2) training pilots.
5471100	Legal Exp.-River	23,488	11,767	2014 Litigation expenses-\$12,795.00
5471200	Legal Exp.-Lake	18,535	8,881	2014 Litigation expenses-\$10,097.02

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Summary of Agreed-Upon Procedures and Results

The following are the results of performing procedure 7 for the years ended December 31, 2010, through December 31, 2014:

Ratio	2014 Reported amount		Five year average	
	Area 1	Area 2	Area 1	Area 2
Pilot compensation as a percentage of revenue	72%	69%	61%	60%
Pilot boat expense as a percentage of revenue	5%	5%	5%	6%

Ratio	2014 Reported amount	Five year average
Health insurance per pilot	\$ 7,874	\$ 9,424
Travel expense per pilot	41,828	36,232
Training expense per pilot	951	1,548

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IV. INVESTMENT BASE CALCULATION

Procedure:

Prepare the Investment Base Calculation using information obtained from the audited financial statements of St. Lawrence Seaway Pilots' Association and Seaway Pilot Inc., for the year ended December 31, 2014.

Results:

The following table reflects the Investment Base Calculation for the year ended December 31, 2014:

	Area 1	Area 2	District 1
Recognized assets			
Total current assets	\$ 894,257	\$ 705,774	\$ 1,600,031
Less: Total current liabilities	(109,428)	(86,364)	(195,792)
Current notes payable	27,270	21,523	48,793
Total property and equipment (NET)	413,361	326,236	739,597
Less: Land	(12,315)	(9,720)	(22,035)
Total recognized assets	1,213,145	957,449	2,170,594
Non-recognized assets			
Total investments and special funds	-	-	-
Total non-recognized assets	-	-	-
Total assets	\$ 1,213,145	\$ 957,449	\$ 2,170,594
Recognized sources of funds			
Total stockholders' equity	\$ 975,385	\$ 769,802	\$ 1,745,187
Long-term debt	222,804	175,844	398,648
Current notes payable	27,270	21,523	48,793
Total recognized sources	\$ 1,225,459	\$ 967,169	\$ 2,192,628
Non-recognized sources of funds			
Pension liability	\$ 9,428	\$ 7,440	\$ 16,868
Deferred federal income taxes	7,651	6,038	13,689
Total non-recognized sources	\$ 17,079	\$ 13,478	\$ 30,557
Total sources of funds			
Total recognized sources	\$ 1,225,460	\$ 967,168	\$ 2,192,628
Total non-recognized sources	17,078	13,479	30,557
Total sources of funds	\$ 1,242,538	\$ 980,647	\$ 2,223,185

St. Lawrence Seaway Pilots' Association

Summary of Agreed-Upon Procedures and Results

V. COMPARISON OF PILOT ASSOCIATION ACTIVITIES

Procedure:

Obtain a listing of the expenses incurred by St. Lawrence Seaway Pilots' Association and Seaway Pilot Inc. (collectively known as "District 1"), Lakes Pilots Association, Inc. ("District 2") and Western Great Lakes Pilots Association, LLP ("District 3") for the year ended December 31, 2014, and perform the following procedures:

1. Segregate accounts for each District into four categories: a) Pilot Compensation; b) Other Pilotage Cost; c) Pilot Boat and Dispatch Cost; and d) Administrative Expenses.
2. For each district, compare 2014 expenses and the percentage of each expense, to total district revenue.
3. Perform an analysis of the significant cost categories incurred by the Districts and provide a summary of the composition of the following categories:
 - A. Pilot compensation and payroll taxes,
 - B. Pilot subsistence/travel,
 - C. Pilot boat and dispatch costs,
 - D. Cost associated with affiliated entities, and
 - E. Administrative expenses,
 - i. Legal, accounting and professional fees,
 - ii. Office rent, and
 - iii. Depreciation/auto leasing/other.

St. Lawrence Seaway Pilots' Association
Summary of Agreed-Upon Procedures and Results

Results:

The following are the results of performing such procedures for the year ended December 31, 2014:

	District 1		District 2		District 3		Total	
	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue
Total revenue	\$ 5,033,103		\$ 6,180,441		\$ 6,888,281		\$ 18,101,825	
Pilot compensation								
Salaries	\$ 3,582,045	71.17%	\$ 2,876,809	46.55%	\$ 3,457,993	50.20%	\$ 9,916,847	54.78%
Applicant pilot salaries	11,653	0.23%	281,588	4.56%	290,817	4.22%	584,058	3.23%
Employee benefits	102,368	2.03%	890,424	14.41%	341,799	4.96%	1,334,591	7.37%
Applicant pilot employee benefits	-	0.00%	96,613	1.56%	61,454	0.89%	158,067	0.87%
Dues and Subscriptions	4,100	0.08%	3,480	0.06%	5,300	0.08%	12,880	0.07%
Total pilot compensation	\$ 3,700,166	73.52%	\$ 4,148,914	67.13%	\$ 4,157,363	60.35%	\$ 12,006,443	66.33%
Operating expenses								
Other pilotage costs								
Pilot subsistence/Travel	\$ 502,656	9.99%	\$ 371,059	6.00%	\$ 545,787	7.92%	\$ 1,419,502	7.84%
Applicant pilot subsistence/Travel	12,996	0.26%	23,600	0.38%	32,810	0.48%	69,406	0.38%
License insurance	42,711	0.85%	132,221	2.14%	19,072	0.28%	194,004	1.07%
Applicant pilot license insurance	1,760	0.03%	14,346	0.23%	-	0.00%	16,106	0.09%
Payroll taxes	142,042	2.82%	192,257	3.11%	154,683	2.25%	488,982	2.70%
Applicant pilot payroll taxes	2,347	0.07%	20,860	0.73%	12,109	0.18%	35,316	0.20%
Other	857	0.02%	2,632	0.04%	16,358	0.24%	19,847	0.11%
Total other pilotage costs	705,369	13.99%	756,975	12.24%	781,490	11.34%	2,243,834	12.39%
Pilot boat and dispatching costs								
Pilot boat costs	233,914	4.65%	432,863	7.00%	707,483	10.27%	1,374,260	7.59%
Dispatching costs	-	0.00%	25,200	0.41%	178,383	2.59%	203,583	1.12%
Employee benefits	-	0.00%	181,654	2.94%	-	0.00%	181,654	1.00%
Payroll taxes	17,529	0.35%	21,179	0.34%	41,909	0.61%	80,617	0.45%
Total pilot boat and dispatch costs	251,443	5.00%	660,896	10.68%	927,775	13.47%	1,840,114	10.17%

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Summary of Agreed-Upon Procedures and Results

	District 1		District 2		District 3		Total	
	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue
Total revenue	\$ 5,033,103		\$ 6,180,441		\$ 6,888,281		\$ 18,101,825	
Administrative expenses								
Legal - general counsel	3,678	0.07%	6,700	0.11%	18,395	0.27%	28,773	0.16%
Legal - shared counsel (K&L Gates)	15,715	0.31%	12,461	0.20%	21,201	0.31%	49,377	0.27%
Legal - USCG litigation	22,892	0.45%	20,928	0.34%	31,229	0.00%	75,049	0.41%
Office rent	-	0.00%	65,688	1.06%	9,900	0.14%	75,588	0.42%
Insurance	39,055	0.78%	24,772	0.40%	14,733	0.21%	78,560	0.43%
Employee benefits	13,544	0.27%	57,506	0.93%	151,854	2.20%	222,904	1.23%
Payroll taxes	9,448	0.19%	12,502	0.20%	-	0.00%	21,950	0.12%
Other taxes	12,993	0.26%	52,948	0.86%	173	0.00%	66,114	0.37%
Travel	1,160	0.02%	-	0.00%	-	0.00%	1,160	0.01%
Depreciation/Auto leasing/Other	79,914	1.59%	52,765	0.85%	38,403	0.56%	171,082	0.95%
Interest	24,534	0.49%	8,246	0.13%	3,811	0.06%	36,591	0.20%
APA Dues	24,440	0.49%	21,660	0.35%	26,980	0.39%	73,080	0.40%
Dues and subscriptions	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Utilities	9,334	0.19%	38,573	0.62%	44,111	0.64%	92,018	0.51%
Salaries	93,251	1.85%	115,021	1.86%	127,437	1.85%	335,709	1.85%
Accounting/Professional fees	9,200	0.18%	23,525	0.38%	36,656	0.53%	69,381	0.38%
Pilot training	11,501	0.23%	-	0.00%	-	0.00%	11,501	0.06%
Applicant pilot training	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Other	15,412	0.31%	28,355	0.46%	11,924	0.17%	55,691	0.31%
Total administrative expenses	386,071	7.68%	541,650	8.75%	536,807	7.79%	1,464,528	8.09%
Total operating expenses	\$ 1,342,883	26.68%	\$ 1,959,521	31.70%	\$ 2,246,072	32.61%	\$ 5,548,476	30.65%
Total pilot compensation and operating expenses	\$ 5,043,049	100.20%	\$ 6,108,435	98.83%	\$ 6,403,435	92.96%	\$ 17,554,919	96.98%

St. Lawrence Seaway Pilots' Association

Summary of Agreed-Upon Procedures and Results

Pilot Compensation and Payroll Taxes

- District 1: Pilots were compensated through capital draws based on available funds. Therefore, pilot salary expenses are not recorded in the audited financial statements. All capital drawings have been allocated to pilot compensation or other expenses as deemed appropriate. The pilots were responsible for paying payroll taxes within their personal tax filing. The district did not record a 'self-employment tax equivalent' in the Statement of Pilots' Capital, in its audited financial statements for the year ended December 31, 2014; however, a pilot payroll tax expense was reported by the district. This amount was computed by multiplying total pilot advances by the IRS standard self-employment tax rate of 15.3%, consisting of 12.4% for social security and 2.9% for Medicare, up to \$117,000. Compensation in excess of \$117,000 is subject to the 2.9% Medicare tax only. An adjustment was made to reclassify the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.
- District 2: Pilots were compensated on a 'per available day' basis at \$225 per day. Pilots also received other special compensation payments as determined during the year. Payroll taxes were computed and recorded by the association based on IRS guidelines.
- District 3: Pilots were compensated on a 'per available day' basis at an agreed-upon daily rate. The pilots also receive distributions, which are included in pilot compensation for the purposes of this report. The pilots were responsible for paying payroll taxes within their personal tax filing. Therefore, payroll taxes on pilot compensation were not recorded by the Association. An adjustment was made to reclassify the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.

Pilot Subsistence/Travel

- District 1: All travel expenses incurred, such as hotel or taxi charges, were generally reimbursed at actual costs and require a receipt to be submitted. Per diem reimbursements were calculated at a rate of \$59 per day based on approximately 200 days per year which is considered the length of time of the normal operating season of the pilots starting in April and ending in December.
- District 2: All travel expenses incurred, such as hotel or taxi charges, were generally reimbursed at actual costs and require a receipt to be submitted. Per diem reimbursements were calculated at a rate of \$59 per day based on approximately 200 days per year which is considered the length of time of the normal operating season of the pilots starting in April and ending in December.
- District 3: All travel expenses incurred, such as hotel or taxi charges, were generally reimbursed at actual costs and require a receipt to be submitted. Per diem reimbursements were calculated at a rate of \$59 per day based on approximately

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200 days per year which is considered the length of time of the normal operating season of the pilots starting in April and ending in December.

Pilot Boat and Dispatch Costs

- District 1: This District owns pilot boats and incurred costs to operate these boats, such as salaries, fuel and maintenance. District 1 did not incur dispatch charges, as dispatching was provided by the Canadian Great Lakes Pilotage Authority in exchange for pilot boat services.
- District 2: This District owns pilot boats and incurred costs to operate these boats, such as salaries, fuel and maintenance. This District provided pilot boat services to its own pilots, as well as pilots from District 3 and Canada. Total expenses incurred were reduced by the revenue incurred from these services. This District also incurred dispatch expenses.
- District 3: This District received pilot boat services from several entities at its various ports, including District 2. This District employed dispatchers to handle its dispatch needs.

Costs Associated with Affiliated Entities

- District 1: Seaway Pilot Inc. is an affiliate of St. Lawrence Seaway Pilots' Association and provides services such as pilot boat operations, bookkeeping and administration services, and equipment rental. Expenses incurred by St. Lawrence Seaway Pilots' Association related to these services were eliminated for these agreed-upon procedures.
- District 2: This District leased property from an affiliated entity at a monthly rate of \$5,474, or \$65,688 annually. In addition to the required monthly lease payments, the lease agreement requires payments of utilities, maintenance and property taxes.
- District 3: This District did not enter into transactions with or make payments to affiliated entities.

Administrative Expense

Legal, Accounting and Professional Fees:

- District 1: This District incurred legal expenses for its operations and in conjunction with the other districts, with a shared attorney used for common issues affecting the pilot associations and the ratemaking process. During 2014, the District incurred legal expenses related to ongoing litigation with the United States Coast Guard. The District also incurred accounting fees for preparation of audited financial statements and tax returns.
- District 2: This District incurred legal expenses for its operations and in conjunction with the other districts, with a shared attorney used for common issues affecting the pilot

St. Lawrence Seaway Pilots' Association

Summary of Agreed-Upon Procedures and Results

associations and the ratemaking process. During 2014, the District incurred legal expenses related to ongoing litigation with the United States Coast Guard. The District also incurred accounting fees for preparation of audited financial statements and tax returns.

District 3: This District incurred legal expenses for its operations and in conjunction with the other districts, with a shared attorney used for common issues affecting the pilot associations and the ratemaking process. During 2014, the District incurred legal expenses related to ongoing litigation with the United States Coast Guard. The District also incurred accounting fees for preparation of audited financial statements and tax returns.

Office Rent:

District 1: This District did not incur office rent expense. It operated in a building owned by Seaway Pilot Inc.

District 2: This district leased property from an affiliated entity at a monthly rate of \$5,474, or \$65,688 annually.

District 3: This District leased office space from an unrelated party on a month-to-month basis at an amount equal to \$9,900 annually.

Depreciation/Auto Leasing/Other:

District 1: This District incurred depreciation on an office building, pilot boats and various pieces of equipment.

District 2: This District incurred depreciation on pilot boats, a housing location at one port, and various pieces of equipment. The district also entered into automobile lease agreements.

District 3: This District incurred depreciation on equipment and vehicles.

Administrative Expenses-Other:

District 1: The Other expense grouping consists of the following expenses: office supplies, postage, bank charges, advertising, freight, miscellaneous expenses, outside services, storage and computer supplies.

District 2: The Other expense grouping consists of the following expenses: bank service charges, office supply, Main-Port Colborne, office building, postage and miscellaneous expenses.

District 3: The Other expense grouping consists of the following expenses: postage, service charge, miscellaneous expenses, donations/ memoriams and office expenses.

St. Lawrence Seaway Pilots' Association

Summary of Agreed-Upon Procedures and Results

VI. RECOMMENDED GENERAL LEDGER ACCOUNTS

Procedure:

Recommend a list of general ledger accounts for use by each Association.

Results:

As a result of performing the aforementioned agreed-upon procedures, we recommend the Districts incorporate the account groupings listed in Procedures I and III into the financial data provided to the Great Lakes Pilotage Division for analysis, understanding that more detailed subaccounts would be necessary to accurately classify expenses incurred.

VII. BANK STATEMENT AND RECONCILIATION COMPARISON

Procedure:

Obtain bank statements and bank reconciliations for all cash accounts as of December 31, 2014 and perform the following:

1. Verify the bank statement agrees to the bank reconciliation with differences below 3% of planning materiality based on unadjusted total expenses;
2. Verify the bank reconciliation agrees to the trial balance with differences below 3% of planning materiality based on adjusted total expenses; and
3. Conclude if any instances were identified that would suggest that cash is not properly reconciled and recorded.

Results:

No exceptions were noted as a result of performing such procedures.

St. Lawrence Seaway Pilots' Association

Summary of Findings and Recommendations

The following findings detail adjustments necessary for ratemaking purposes, as identified in section II of the previous report.

Finding Number: D1-14-01

Finding Title: Pilot Salaries and Payroll Taxes

Condition:

The Association recorded \$142,196 in payroll taxes for pilot compensation, which was insufficient by \$2,192.

Criteria:

Federal Register, Vol. 70, No. 46, section 12091 dated March 10, 2005 allows for estimated Social Security and Medicare taxes to be recorded on behalf of the Association when these taxes are incurred by the pilots on their individual tax returns. Note: these estimates are based on taxes that would be incurred by the Association, not what the pilots incur on their own tax returns as a self-employed individual.

Effect:

Operating expenses are understated and pilot compensation is overstated by \$2,192.

Cause:

The Association used the incorrect income limit while calculating the estimated Social Security and Medicare taxes to be recorded on behalf of the Association.

Recommendation:

Expenses submitted for ratemaking should be in a standard format approved by the U.S. Coast Guard, detailing adjustments necessary to comply with ratemaking standards. Estimates should be based on taxes that would be incurred by the Association and not based on individual self-employment rates.

Finding Number: D1-14-02

Finding Title: Pilot subsistence/Travel

Condition:

Revenue in the amount of \$16,903 was received for certain taxi expenses, therefore these specific charges are not considered necessary for ratemaking purposes.

Criteria:

Regulation 46 CFR 404.5(a)(8)(v) states that expenses not directly related to pilotage are not recognized as reasonable for ratemaking purposes.

St. Lawrence Seaway Pilots' Association
Summary of Findings and Recommendations

Effect:

Operating expenses are overstated by \$16,903.

Cause:

Revenue was received for certain taxi expenses.

Recommendation:

Expenses submitted for ratemaking should be in a standard format approved by the U.S. Coast Guard, detailing adjustments necessary to comply with ratemaking standards.

Finding Number: D1-14-03

Finding Title: Pilot Salaries and Pilot subsistence/Travel

Condition:

The Association incurred excess per diem charges in the amount of \$11,210.

Criteria:

Federal Register, Vol. 70, No. 46, section 12806 dated March 10, 2005 states that "Using Federal Travel Regulations" established allowances for Transportation workers daily meals and expenses in CFR part 301-11, the per diem allowance was recalculated allowing per diem for each pilot for 200 travel days, which included days engaged in pilotage, travel between assignments, and down time at remote locations awaiting dispatch."

Effect:

Operating expenses are overstated and pilot compensation is understated by \$11,210.

Cause:

Per diem charges were incurred in excess of 200 days per pilot.

Recommendation:

Expenses submitted for ratemaking should be in a standard format approved by the U.S. Coast Guard, detailing adjustments necessary to comply with ratemaking standards.

**Lakes Pilots Association, Inc.
Contract # GS-23F-0124M**

**Independent Accountant's Report on
Applying Agreed-Upon Procedures**

December 31, 2014

Lakes Pilots Association, Inc.

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Independent Accountant's Report on Applying Agreed-Upon Procedures

United States Coast Guard
Great Lakes Pilotage Division

We have performed the procedures enumerated in the accompanying Summary of Agreed-upon Procedures and Results, which were agreed to by the United States Coast Guard solely to assist you in evaluating certain aspects of the expenses incurred by the Lakes Pilots Association, Inc. ("District 2" or the "Association") for the year ended December 31, 2014, as explained in Section I of the report. The United States Coast Guard is responsible for evaluating such expenses incurred. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are included in the accompanying Summary of Agreed-Upon Procedures and Results and in the accompanying Summary of Findings and Recommendations, respectively.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the United States Coast Guard and the Lakes Pilots Association, Inc., and is not intended to be and should not be used by anyone other than those specified parties.



Bethesda, Maryland
October 16, 2015

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

I. OVERVIEW

The Great Lakes Pilotage Division is responsible for oversight of the Lakes Pilots Association, Inc., as well as two other pilot associations, which provide piloting services in the Great Lakes region. Included in this oversight function is the responsibility to set pilotage rates based on eligible operating expenses. The agreed-upon procedures listed below are designed to assist the Great Lakes Pilotage Division in determining which expenses meet the eligibility requirements to be included in such rates. Procedures are performed on expenses submitted by the pilot association which they consider to be eligible for ratemaking purposes.

II. EVALUATION OF REPORTED EXPENSES

Procedure:

Obtain a listing of the expenses submitted by District 2 for the year ended December 31, 2014, and perform the following procedures:

1. For each transaction selected for testing, determine if amounts are a) necessary and reasonable for the provision of pilotage service; b) to be included in pilot compensation or; c) excluded from these categories, using the following information:
 - A. Title 46: Shipping, Part 404-Great Lakes Pilotage Ratemaking, Section 5 Guidelines for the recognition of expenses;
 - B. Federal Register final and interim rulings;
 - C. Previously issued Independent Accountant's Reports on Applying Agreed-Upon Procedures; and
 - D. Discussions with the Director of the United States Coast Guard, Great Lakes Pilotage Division.
2. Segregate each account into 1) general or 2) specific classes.
3. General account classes - a sample of transactions within these accounts will be selected for testing.
 - A. General account classes include:
 - i. Travel expenses
 - ii. Pilot boat and dispatch cost
 - iii. Insurance expenses
 - iv. Other operating expenses

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

- B. A sample of general account class transactions will be selected and tested as follows:
 - i. Calculate planning materiality and performance materiality (“PeM” or “75% of planning materiality”), based on total submitted expenses and pilot compensation using industry guidelines.
 - ii. Select all individually significant items in each general account class for testing. Individually transactions greater than 1/3 of PeM are considered individually significant.
 - iii. Using an accounting industry standard sampling form and assessing the risk of material misstatement at high, determine the method of testing to be utilized in order to achieve, at a minimum, a 95% confidence level with respect to the population of transactions remaining after procedure Bii above.
 - iv. Obtain supporting documentation from the Association for each transaction selected for testing.

- 4. Specific accounts class transactions will be tested as follows:
 - A. Pilot compensation and payroll taxes
 - i. Review schedule provided by the District for appropriate classification
 - ii. Agree pilot compensation to the audited financial statements of the District as of December 31, 2014

 - B. Depreciation expense
 - i. Review schedule provided by the District for items that may not be eligible
 - ii. Select material fixed asset additions that are greater than 1/3 of PeM
 - iii. Recalculate depreciation expense for each fixed asset addition selected for testing

 - C. Payroll (other than pilot compensation) and related expenses
 - i. Review payroll schedule provided by the District for the items that may not be eligible
 - ii. Agree to annual payroll summary register or select three employees and agree to employee W-2
 - iii. Recalculate estimated tax calculation and verify appropriate rates are being used

 - D. Legal expense
 - i. Review itemized detail for all invoices from the attorney shared by the three Districts
 - ii. Review itemized detail for all invoices from every other attorney identified in the general ledger

 - E. Real estate taxes
 - i. Review tax bill for amount, location and tax period
 - ii. Recalculate tax expense based on taxable year

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

- F. Pilot subsistence/travel
 - i. Determine that per diem does not exceed 200 days per pilot
 - ii. Where per diem support can be obtained, manually select 5 per diem transactions at random and agree to supporting expense reimbursement detail
 - G. Utility expense
 - i. Review general ledger and verify there are no more than 12 monthly transactions during the year
 - ii. Review any transactions in excess of the 12 monthly expected transactions and determine if the expense is appropriate
 - H. Office rent expense
 - i. Obtain signed lease agreement and recalculate the expense based on the terms of the lease
 - ii. For lease agreements with affiliated entities, CFR Part 404.5 (3) will be applied, stating that “in the absence of a comparable market, lease costs are recognized for ratemaking purposes to the extent that they conform to depreciation plus an allowance for return on investment.” In lieu of depreciation, actual annual expenses incurred in conjunction with purchase and maintenance of the land will be determined. Return on investment will be determined using the Moody's Corporate Bond AAA index as of December 31, 2014, or 4.16%
 - I. Interest expense
 - i. Obtain loan agreement or other documents that provide loan terms, including interest rate
 - ii. Recalculate interest expense based on the principal, interest rate and loan terms
 - J. For all other accounts not tested above
 - i. Review general ledger activity and select any items that appear unusual
 - ii. Select all transactions over 1/3 PeM and obtain supporting documentation
5. Evaluate the results of our test work performed and identify exceptions, if any. Exceptions will be extrapolated to groups, accounts, or by using other measures as deemed appropriate and will result in adjustments to operating expenses. Adjustments will only be recorded for identified misstatements, within a given group, exceeding 3% of planning materiality.

Results:

The “Total amount reported” column in the following table represents amounts provided by District 2 from their general ledger for the year ended December 31, 2014. The breakdown of amounts by area was provided by District 2 for information purposes only and was not subject to the procedures above. Exceptions are shown in the “Total adjustments” column below. The breakdown of adjustments by area was calculated using the same percentage allocation that was provided by District 2. Each adjustment references the finding number located in the

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

accompanying Summary of Findings and Recommendations, which describes the reasoning for such adjustment.

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

The following are the results of performing such procedures for the year ended December 31, 2014:

	District 2								
	Area 4	Area 5	Total amount reported	Area 4 adjustments	Area 5 adjustments	Total adjustments	Area 4 adjusted	Area 5 adjusted	Adjusted total amount reported
Pilot compensation									
Salaries	\$ 1,150,724	\$ 1,726,085	\$ 2,876,809 *	\$ -	\$ -	\$ -	\$ 1,150,724	\$ 1,726,085	\$ 2,876,809
Applicant pilot salaries	112,635	168,953	281,588	-	-	-	112,635	168,953	281,588
Employee benefits	356,170	534,254	890,424	-	-	-	356,170	534,254	890,424
Applicant pilot employee benefits	38,645	57,968	96,613	-	-	-	38,645	57,968	96,613
Dues and subscriptions	1,392	2,088	3,480	-	-	-	1,392	2,088	3,480
Total pilot compensation	\$ 1,659,566	\$ 2,489,348	\$ 4,148,914	\$ -	\$ -	\$ -	\$ 1,659,566	\$ 2,489,348	\$ 4,148,914
Operating expenses									
Other pilotage costs									
Pilot subsistence/Travel	\$ 148,424	\$ 222,635	\$ 371,059	\$ -	\$ -	\$ -	\$ 148,424	\$ 222,635	\$ 371,059
Applicant pilot subsistence/Travel	9,440	14,160	23,600	-	-	-	9,440	14,160	23,600
License insurance	52,888	79,333	132,221	-	-	-	52,888	79,333	132,221
Applicant pilot license insurance	5,738	8,608	14,346	-	-	-	5,738	8,608	14,346
Payroll taxes	76,903	115,354	192,257	-	-	-	76,903	115,354	192,257
Applicant pilot payroll taxes	8,344	12,516	20,860	-	-	-	8,344	12,516	20,860
Other	1,053	1,579	2,632	-	-	-	1,053	1,579	2,632
Total other pilotage costs	302,790	454,185	756,975	\$ -	\$ -	\$ -	302,790	454,185	756,975
Pilot boat and dispatch costs									
Pilot boat costs	\$ 173,145	\$ 259,718	\$ 432,863	\$ -	\$ -	\$ -	\$ 173,145	\$ 259,718	\$ 432,863
Dispatch costs	10,080	15,120	25,200	-	-	-	10,080	15,120	25,200
Employee benefits	72,662	108,992	181,654	-	-	-	72,662	108,992	181,654
Payroll taxes	8,472	12,707	21,179	-	-	-	8,472	12,707	21,179
Total pilot boat and dispatch costs	264,358	396,538	660,896	\$ -	\$ -	\$ -	264,358	396,538	660,896

Includes \$52,500 of dividends that were not subject to the agreed-upon procedures in Section II

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

	District 2								
	Area 4	Area 5	Total amount reported	Area 4 adjustments	Area 5 adjustments	Total adjustments	Area 4 adjusted	Area 5 adjusted	Adjusted total amount reported
Administrative expenses									
Legal - general counsel	2,680	4,020	6,700	-	-	-	2,680	4,020	6,700
Legal - shared counsel (K&L Gates)	4,984	7,476	12,461	-	-	-	4,984	7,476	12,461
Legal - USCG litigation	8,371	12,557	20,928	-	-	-	8,371	12,557	20,928
Office rent	26,275	39,413	65,688	-	-	-	26,275	39,413	65,688
Insurance	9,909	14,863	24,772	-	-	-	9,909	14,863	24,772
Employee benefits	23,002	34,504	57,506	-	-	-	23,002	34,504	57,506
Payroll taxes	5,001	7,501	12,502	-	-	-	5,001	7,501	12,502
Other taxes	21,179	31,769	52,948	-	-	-	21,179	31,769	52,948
Depreciation/Auto leasing/Other (D2-14-01)	17,784	26,677	44,461	3,322	4,982	8,304	21,106	31,659	52,765
Interest	3,298	4,948	8,246	-	-	-	3,298	4,948	8,246
APA Dues	8,664	12,996	21,660	-	-	-	8,664	12,996	21,660
Utilities	15,429	23,144	38,573	-	-	-	15,429	23,144	38,573
Salaries	46,008	69,013	115,021	-	-	-	46,008	69,013	115,021
Accounting/Professional fees	9,410	14,115	23,525	-	-	-	9,410	14,115	23,525
Pilot training	-	-	-	-	-	-	-	-	-
Other	11,343	17,012	28,355	-	-	-	11,343	17,012	28,355
Total administrative expenses	213,339	320,007	533,346	3,322	4,982	8,304	216,661	324,989	541,650
Total operating expenses	\$ 780,488	\$ 1,170,729	\$ 1,951,217	\$ 3,322	\$ 4,982	\$ 8,304	\$ 783,809	\$ 1,175,712	\$ 1,959,521
Total pilot compensation and operating expenses	\$ 2,440,053	\$ 3,660,078	\$ 6,100,131	\$ 3,322	\$ 4,982	\$ 8,304	\$ 2,443,375	\$ 3,665,060	\$ 6,108,435

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

III. VARIANCE ANALYSIS

Procedure:

Obtain a listing of the expenses incurred by District 2 for the years ended December 31, 2010, through December 31, 2014, and perform the following procedures:

1. Segregate accounts into groups based on account description.
2. Compute average of the accounts and groups from 2010 to 2014.
3. Compute difference between the actual balance for each year and the average for each account and group.
4. Compute percentage difference between the actual balance for each year and the average for each account and group.
5. Using the results of procedure number 3 above, identify differences that are greater than 1/3 of PeM. Using the results of procedure number 4 above, identify differences that are greater than 10%. Review remaining account and group analytics and judgmentally determine if any should be selected for additional review.
6. Obtain explanation and supporting documentation from pilot association personnel, if deemed necessary, to support identified variances and determine if reasonable.
7. Review the account and group analysis and perform the following procedures:
 - A. Compute pilot compensation as a percentage of revenue;
 - B. Compute pilot boat expense as a percentage of revenue;
 - C. Compute health insurance per pilot;
 - D. Compute travel expense per pilot; and
 - E. Compute training expense per pilot.

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

Results:

The following are the results of performing procedures 1 through 6 for the years ended December 31, 2010, through December 31, 2014:

Ratio	2014 Reported amount		Five year average	
	Area 4	Area 5	Area 4	Area 5
Pilot compensation as a percentage of revenue	50%	50%	45%	45%
Pilot boat expense as a percentage of revenue	7%	7%	10%	10%
Health insurance per pilot	\$ 22,298	\$ 23,890	\$ 23,766	\$ 24,084
Travel expense per pilot	32,688	35,023	23,471	23,938
Training expense per pilot	-	-	-	-

The following are the results of performing procedure 7 for the years ended December 31, 2010, through December 31, 2014:

Account	Account Description	2014 Reported amount	Five year average	District 2 Explanation
51400	Drivers	\$ 44,421	\$ 26,986	more revenue/needed more drivers transport pilots
51410	In District Travel	28,196	9,444	more revenue/pilots had more traveling and hotel stays
5141A	Pilot Subsistence	139,195	125,839	more revenue/pilots had more traveling and hotel stays
5141B	Housing Allowance	106,190	21,238	did not receive housing allowance last year/more pilots hired
54600	Administrative Travel	36,506	18,205	more revenue/pilots had more traveling and hotel stays
54920	Meeting Expense	7,864	12,694	to busy to go to meetings
54940	Meals And Entertainment	9,120	5,605	more revenue/more pilot meals
	Total travel	\$ 371,492	\$ 220,012	very busy year/more revenue/more travel between jobs
51100	Pilots Payroll	\$ 3,105,897	\$ 1,756,279	more revenue/ also hired 2 additional pilots
51160	Canadian Dispatch	25,200	18,825	Canadians also had more revenue/they also very busy
51480	Disability Ins.	2,597	2,485	
51490	Pilots Health Ins BCBS Of MI	278,720	248,807	2 new pilots hired
51500	FICA Taxes	219,409	137,038	more revenue more taxes paid/2new pilots hired
51510	Life Insurance	7,776	7,605	2 new pilots hired
51520	Federal Unemployment Tax	988	1,402	
51530	State Unemployment Tax	26,401	21,256	
51550	Pension Expense	311,248	193,531	more revenue more pension/full 10% and 15% paid out
51560	Profit Sharing Expense	462,399	92,480	
51600	Workman's Compensation	176,306	101,968	more revenue/more workmen's compensation charged
5161A	APA Due	21,660	19,356	
55000	Dues And Subscriptions	3,480	3,218	
	Total pilots salaries costs	\$ 4,642,081	\$ 2,604,249	pilots had a very busy year in 2014/more revenue and expenses
5415A	Pilot Boat Salaries	\$ 196,176	\$ 165,290	
54180	Health Insurance Boat Crew	120,796	88,654	
		\$ 316,972	\$ 253,945	busy year 2 new pilots
51430	Auto Fuel	\$ 30,939	\$ 24,268	
51440	M/R Auto Maintenance Repair	6,166	6,773	
51470	Mulholland	15,420	15,420	
52300	Pilot Boat Charges	58,230	41,701	
5230B	Port Colborne Pilot Boat Expen:	52,785	38,364	
53400	Utilities	7,562	8,454	
54160	Pilot Boat Fuel	38,936	30,558	
54500	Main - Port Colborne	6,158	9,583	
54510	M/R Office Building	1,604	2,348	
54520	M/R Pilot Boat	31,286	14,653	
5470A	Pilot Boat Insurance	10,087	9,099	
	Pilot boat expenses	\$ 259,171	\$ 201,221	hired

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

IV. INVESTMENT BASE CALCULATION

Procedure:

Prepare the Investment Base Calculation using information obtained from the audited financial statements of Lakes Pilots Association, Inc. for the year ended December 31, 2014.

Results:

The following table reflects the Investment Base Calculation for the year ended December 31, 2014:

	Area 4	Area 5	District 2
Recognized assets			
Total current assets	\$ 1,243,004	\$ 1,864,506	\$ 3,107,510
Less: Total current liabilities	(1,258,941)	(1,888,412)	(3,147,353)
Current notes payable	42,456	63,685	106,141
Total property and equipment (NET)	404,066	606,099	1,010,165
Total other assets	60,681	91,022	151,703
	<u>491,266</u>	<u>736,900</u>	<u>1,228,166</u>
Total recognized assets			
Non-recognized assets			
Total investments and special funds	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total non-recognized assets			
Total assets	<u>\$ 491,266</u>	<u>\$ 736,900</u>	<u>\$ 1,228,166</u>
Recognized sources of funds			
Total stockholders' equity	\$ 98,226	\$ 147,338	\$ 245,564
Long-term debt	348,184	522,277	870,461
Current notes payable	42,456	63,685	106,141
	<u>\$ 488,866</u>	<u>\$ 733,300</u>	<u>\$ 1,222,166</u>
Total recognized sources			
Non-recognized sources of funds			
Deferred federal income taxes	\$ 2,400	\$ 3,600	\$ 6,000
	<u>\$ 2,400</u>	<u>\$ 3,600</u>	<u>\$ 6,000</u>
Total non-recognized sources			
Total sources of funds			
Total recognized sources	\$ 488,866	\$ 733,300	\$ 1,222,166
Total non-recognized sources	<u>2,400</u>	<u>3,600</u>	<u>6,000</u>
Total sources of funds	<u>\$ 491,266</u>	<u>\$ 736,900</u>	<u>\$ 1,228,166</u>

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

V. COMPARISON OF PILOT ASSOCIATION ACTIVITIES

Procedure:

Obtain a listing of the expenses incurred by St. Lawrence Seaway Pilots' Association and Seaway Pilot Inc. (collectively known as District 1), District 2 and Western Great Lakes Pilots Association, LLP ("District 3") for the year ended December 31, 2014 and perform the following procedures:

1. Segregate accounts for each District into four categories: a) Pilot Compensation, b) Other Pilotage Cost, c) Pilot Boat and Dispatch Cost and d) Administrative Expenses.
2. For each district, compare 2014 expenses and the percentage of each expense, to total district revenue.
3. Perform an analysis of the significant cost categories incurred by the Districts and provide a summary of the composition of the following categories:
 - A. Pilot compensation and payroll taxes,
 - B. Pilot subsistence/travel,
 - C. Pilot boat and dispatch costs,
 - D. Cost associated with affiliated entities, and
 - E. Administrative expenses,
 - i. Legal, accounting and professional fees,
 - ii. Office rent, and
 - iii. Depreciation/auto leasing/other.

Lakes Pilots Association, Inc.
Summary of Agreed-Upon Procedures and Results

Results:

The following are the results of performing such procedures December 31, 2014:

	District 1		District 2		District 3		Total	
	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue
Total revenue	\$ 5,033,103		\$ 6,180,441		\$ 6,888,281		\$ 18,101,825	
Pilot compensation								
Salaries	\$ 3,582,045	71.17%	\$ 2,876,809	46.55%	\$ 3,457,993	50.20%	\$ 9,916,847	54.78%
Applicant pilot salaries	11,653	0.23%	281,588	4.56%	290,817	4.22%	584,058	3.23%
Employee benefits	102,368	2.03%	890,424	14.41%	341,799	4.96%	1,334,591	7.37%
Applicant pilot employee benefits	-	0.00%	96,613	1.56%	61,454	0.89%	158,067	0.87%
Dues and Subscriptions	4,100	0.08%	3,480	0.06%	5,300	0.08%	12,880	0.07%
Total pilot compensation	\$ 3,700,166	73.52%	\$ 4,148,914	67.13%	\$ 4,157,363	60.35%	\$ 12,006,443	66.33%
Operating expenses								
Other pilotage costs								
Pilot subsistence/Travel	\$ 502,656	9.99%	\$ 371,059	6.00%	\$ 545,787	7.92%	\$ 1,419,502	7.84%
Applicant pilot subsistence/Travel	12,996	0.26%	23,600	0.38%	32,810	0.48%	69,406	0.38%
License insurance	42,711	0.85%	132,221	2.14%	19,072	0.28%	194,004	1.07%
Applicant pilot license insurance	1,760	0.03%	14,346	0.23%	-	0.00%	16,106	0.09%
Payroll taxes	142,042	2.82%	192,257	3.11%	154,683	2.25%	488,982	2.70%
Applicant pilot payroll taxes	2,347	0.07%	20,860	0.73%	12,109	0.18%	35,316	0.20%
Other	857	0.02%	2,632	0.04%	16,358	0.24%	19,847	0.11%
Total other pilotage costs	705,369	13.99%	756,975	12.24%	781,490	11.34%	2,243,834	12.39%
Pilot boat and dispatching costs								
Pilot boat costs	233,914	4.65%	432,863	7.00%	707,483	10.27%	1,374,260	7.59%
Dispatching costs	-	0.00%	25,200	0.41%	178,383	2.59%	203,583	1.12%
Employee benefits	-	0.00%	181,654	2.94%	-	0.00%	181,654	1.00%
Payroll taxes	17,529	0.35%	21,179	0.34%	41,909	0.61%	80,617	0.45%
Total pilot boat and dispatch costs	251,443	5.00%	660,896	10.68%	927,775	13.47%	1,840,114	10.17%

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

	District 1		District 2		District 3		Total	
	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue
Total revenue	\$ 5,033,103		\$ 6,180,441		\$ 6,888,281		\$ 18,101,825	
Administrative expenses								
Legal - general counsel	3,678	0.07%	6,700	0.11%	18,395	0.27%	28,773	0.16%
Legal - shared counsel (K&L Gates)	15,715	0.31%	12,461	0.20%	21,201	0.31%	49,377	0.27%
Legal - USCG litigation	22,892	0.45%	20,928	0.34%	31,229	0.00%	75,049	0.41%
Office rent	-	0.00%	65,688	1.06%	9,900	0.14%	75,588	0.42%
Insurance	39,055	0.78%	24,772	0.40%	14,733	0.21%	78,560	0.43%
Employee benefits	13,544	0.27%	57,506	0.93%	151,854	2.20%	222,904	1.23%
Payroll taxes	9,448	0.19%	12,502	0.20%	-	0.00%	21,950	0.12%
Other taxes	12,993	0.26%	52,948	0.86%	173	0.00%	66,114	0.37%
Travel	1,160	0.02%	-	0.00%	-	0.00%	1,160	0.01%
Depreciation/Auto leasing/Other	79,914	1.59%	52,765	0.85%	38,403	0.56%	171,082	0.95%
Interest	24,534	0.49%	8,246	0.13%	3,811	0.06%	36,591	0.20%
APA Dues	24,440	0.49%	21,660	0.35%	26,980	0.39%	73,080	0.40%
Dues and subscriptions	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Utilities	9,334	0.19%	38,573	0.62%	44,111	0.64%	92,018	0.51%
Salaries	93,251	1.85%	115,021	1.86%	127,437	1.85%	335,709	1.85%
Accounting/Professional fees	9,200	0.18%	23,525	0.38%	36,656	0.53%	69,381	0.38%
Pilot training	11,501	0.23%	-	0.00%	-	0.00%	11,501	0.06%
Applicant pilot training	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Other	15,412	0.31%	28,355	0.46%	11,924	0.17%	55,691	0.31%
Total administrative expenses	386,071	7.68%	541,650	8.75%	536,807	7.79%	1,464,528	8.09%
Total operating expenses	\$ 1,342,883	26.68%	\$ 1,959,521	31.70%	\$ 2,246,072	32.61%	\$ 5,548,476	30.65%
Total pilot compensation and operating expenses	\$ 5,043,049	100.20%	\$ 6,108,435	98.83%	\$ 6,403,435	92.96%	\$ 17,554,919	96.98%

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

Pilot Compensation and Payroll Taxes

- District 1: Pilots were compensated through capital draws based on available funds. Therefore, pilot salary expenses are not recorded in the audited financial statements. All capital drawings have been allocated to pilot compensation or other expenses as deemed appropriate. The pilots were responsible for paying payroll taxes within their personal tax filing. The district did not record a 'self-employment tax equivalent' in the Statement of Pilots' Capital, in its audited financial statements for the year ended December 31, 2014; however, a pilot payroll tax expense was reported by the district. This amount was computed by multiplying total pilot advances by the IRS standard self-employment tax rate of 15.3%, consisting of 12.4% for social security and 2.9% for Medicare, up to \$117,000. Compensation in excess of \$117,000 is subject to the 2.9% Medicare tax only. An adjustment was made to reclassify the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.
- District 2: Pilots were compensated on a 'per available day' basis at \$225 per day. Pilots also received other special compensation payments as determined during the year. Payroll taxes were computed and recorded by the association based on IRS guidelines.
- District 3: Pilots were compensated on a 'per available day' basis at an agreed-upon daily rate. The pilots also receive distributions, which are included in pilot compensation for the purposes of this report. The pilots were responsible for paying payroll taxes within their personal tax filing. Therefore, payroll taxes on pilot compensation were not recorded by the Association. An adjustment was made to reclassify the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.

Pilot Subsistence/Travel

- District 1: All travel expenses incurred, such as hotel or taxi charges, were generally reimbursed at actual costs and require a receipt to be submitted. Per diem reimbursements were calculated at a rate of \$59 per day based on approximately 200 days per year which is considered the length of time of the normal operating season of the pilots starting in April and ending in December.
- District 2: All travel expenses incurred, such as hotel or taxi charges, were generally reimbursed at actual costs and require a receipt to be submitted. Per diem reimbursements were calculated at a rate of \$59 per day based on approximately 200 days per year which is considered the length of time of the normal operating season of the pilots starting in April and ending in December.
- District 3: All travel expenses incurred, such as hotel or taxi charges, were generally reimbursed at actual costs and require a receipt to be submitted. Per diem reimbursements were calculated at a rate of \$59 per day based on approximately

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

200 days per year which is considered the length of time of the normal operating season of the pilots starting in April and ending in December.

Pilot Boat and Dispatch Costs

- District 1: This District owns pilot boats and incurred costs to operate these boats, such as salaries, fuel and maintenance. District 1 did not incur dispatch charges, as dispatching was provided by the Canadian Great Lakes Pilotage Authority in exchange for pilot boat services.
- District 2: This District owns pilot boats and incurred costs to operate these boats, such as salaries, fuel and maintenance. This District provided pilot boat services to its own pilots, as well as pilots from District 3 and Canada. Total expenses incurred were reduced by the revenue incurred from these services. This District also incurred dispatch expenses.
- District 3: This District received pilot boat services from several entities at its various ports, including District 2. This District employed dispatchers to handle its dispatch needs.

Costs Associated with Affiliated Entities

- District 1: Seaway Pilot Inc. is an affiliate of St. Lawrence Seaway Pilots' Association and provides services such as pilot boat operations, bookkeeping and administration services, and equipment rental. Expenses incurred by St. Lawrence Seaway Pilots' Association related to these services were eliminated for these agreed-upon procedures.
- District 2: This District leased property from an affiliated entity at a monthly rate of \$5,474, or \$65,688 annually. In addition to the required monthly lease payments, the lease agreement requires payments of utilities, maintenance and property taxes.
- District 3: This District did not enter into transactions with or make payments to affiliated entities.

Administrative Expense

Legal, Accounting and Professional Fees:

- District 1: This District incurred legal expenses for its operations and in conjunction with the other districts, with a shared attorney used for common issues affecting the pilot associations and the ratemaking process. During 2014, the District incurred legal expenses related to ongoing litigation with the United States Coast Guard. The District also incurred accounting fees for preparation of audited financial statements and tax returns.
- District 2: This District incurred legal expenses for its operations and in conjunction with the other districts, with a shared attorney used for common issues affecting the pilot

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

associations and the ratemaking process. During 2014, the District incurred legal expenses related to ongoing litigation with the United States Coast Guard. The District also incurred accounting fees for preparation of audited financial statements and tax returns.

District 3: This District incurred legal expenses for its operations and in conjunction with the other districts, with a shared attorney used for common issues affecting the pilot associations and the ratemaking process. During 2014, the District incurred legal expenses related to ongoing litigation with the United States Coast Guard. The District also incurred accounting fees for preparation of audited financial statements and tax returns.

Office Rent:

District 1: This District did not incur office rent expense. It operated in a building owned by Seaway Pilot Inc.

District 2: This district leased property from an affiliated entity at a monthly rate of \$5,474, or \$65,688 annually.

District 3: This District leased office space from an unrelated party on a month-to-month basis at an amount equal to \$9,900 annually.

Depreciation/Auto Leasing/Other:

District 1: This District incurred depreciation on an office building, pilot boats and various pieces of equipment.

District 2: This District incurred depreciation on pilot boats, a housing location at one port, and various pieces of equipment. The District also entered into automobile lease agreements.

District 3: This District incurred depreciation on equipment and vehicles.

Administrative Expenses-Other:

District 1: The Other expense grouping consists of the following expenses: office supplies, postage, bank charges, advertising, freight, miscellaneous expenses, outside services, storage and computer supplies.

District 2: The Other expense grouping consists of the following expenses: bank service charges, office supply, Main-Port Colborne, office building, postage and miscellaneous expenses.

District 3: The Other expense grouping consists of the following expenses: postage, service charge, miscellaneous expenses, donations/ memoriams and office expenses.

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

VI. RECOMMENDED GENERAL LEDGER ACCOUNTS

Procedure:

Recommend a list of general ledger accounts for use by each Association.

Results:

As a result of performing the aforementioned agreed-upon procedures, we recommend the Districts incorporate the account groupings listed in Procedures I and III into the financial data provided to the Great Lakes Pilotage Division for analysis, understanding that more detailed subaccounts would be necessary to accurately classify expenses incurred.

VII. BANK STATEMENT AND RECONCILIATION COMPARISON

Procedure:

Obtain bank statements and bank reconciliations for all cash accounts as of December 31, 2014 and perform the following:

1. Verify the bank statement agrees to the bank reconciliation with differences below 3% of planning materiality based on unadjusted total expenses;
2. Verify the bank reconciliation agrees to the trial balance with differences below 3% of planning materiality based on adjusted total expenses; and
3. Conclude if any instances were identified that would suggest that cash is not properly reconciled and recorded.

Results:

No exceptions were noted as a result of performing such procedures.

Lakes Pilots Association, Inc.

Summary of Findings and Recommendations

The following findings detail adjustments necessary for ratemaking purposes, as identified in section II of the previous report.

Finding Number: D2-14-01

Finding Title: Depreciation/Auto leasing/Other

Condition:

The Association previously recorded depreciation expense using an accelerated method of depreciation that is not conformity with generally accepted accounting principles.

Criteria:

The scope of this report is that only 2014 expenses are allowable for ratemaking purposes.

Effect:

Operating expenses are understated by \$8,304.

Cause:

The scope of this report is that only 2014 expenses are allowable for ratemaking purposes.

Recommendation:

Expenses submitted for ratemaking should be in a standard format approved by the U.S. Coast Guard, detailing adjustments necessary to comply with ratemaking standards.

**Western Great Lakes Pilots
Association, LLP
Contract # GS-23F-0124M**

**Independent Accountant's Report on
Applying Agreed-Upon Procedures**

December 31, 2014

Western Great Lakes Pilots Association, LLP

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Independent Accountant's Report on Applying Agreed-Upon Procedures

United States Coast Guard
Great Lakes Pilotage Division

We have performed the procedures enumerated in the accompanying Summary of Agreed-upon Procedures and Results, which were agreed to by the United States Coast Guard solely to assist you in evaluating certain aspects of the expenses incurred by the Western Great Lakes Pilots Association, LLP (District 3 or the Association) for the year ended December 31, 2014, as explained in Section I of the report. The United States Coast Guard is responsible for evaluating such expenses incurred. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are included in the accompanying Summary of Agreed-Upon Procedures and Results and in the accompanying Summary of Findings and Recommendations, respectively.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the United States Coast Guard and the Western Great Lakes Pilots Association, LLP, and is not intended to be and should not be used by anyone other than those specified parties.



Bethesda, Maryland
October 16, 2015

Western Great Lakes Pilots Association, LLP

Summary of Agreed-Upon Procedures and Results

I. OVERVIEW

The Great Lakes Pilotage Division is responsible for oversight of the Western Great Lakes Pilots Association, LLP, as well as two other pilot associations, which provide piloting services in the Great Lakes region. Included in this oversight function is the responsibility to set pilotage rates based on eligible operating expenses. The agreed-upon procedures listed below are designed to assist the Great Lakes Pilotage Division in determining which expenses meet the eligibility requirements to be included in such rates. Procedures are performed on expenses submitted by the pilot association which they consider to be eligible for ratemaking purposes.

II. EVALUATION OF REPORTED EXPENSES

Procedure:

Obtain a listing of the expenses submitted by District 3 for the year ended December 31, 2014, and perform the following procedures:

1. For each transaction selected for testing, determine if amounts are a) necessary and reasonable for the provision of pilotage service; b) to be included in pilot compensation or; c) excluded from these categories, using the following information:
 - A. Title 46: Shipping, Part 404-Great Lakes Pilotage Ratemaking, Section 5 Guidelines for the recognition of expenses;
 - B. Federal Register final and interim rulings;
 - C. Previously issued Independent Accountant's Reports on Applying Agreed-Upon Procedures; and
 - D. Discussions with the Director of the United States Coast Guard, Great Lakes Pilotage Division.
2. Segregate each account into 1) general or 2) specific classes.
3. General account classes - a sample of transactions within these accounts will be selected for testing.
 - A. General account classes include:
 - i. Travel expenses
 - ii. Pilot boat and dispatch cost
 - iii. Insurance expenses
 - iv. Other operating expenses

Western Great Lakes Pilots Association, LLP

Summary of Agreed-Upon Procedures and Results

- B. A sample of general account class transactions will be selected and tested as follows:
 - i. Calculate planning materiality and performance materiality (“PeM” or “75% of planning materiality”), based on total submitted expenses and pilot compensation using industry guidelines.
 - ii. Select all individually significant items in each general account class for testing. Individually transactions greater than 1/3 of PeM are considered individually significant.
 - iii. Using an accounting industry standard sampling form and assessing the risk of material misstatement at high, determine the method of testing to be utilized in order to achieve, at a minimum, a 95% confidence level with respect to the population of transactions remaining after procedure Bii above.
 - iv. Obtain supporting documentation from the Association for each transaction selected for testing.

- 4. Specific accounts class transactions will be tested as follows:
 - A. Pilot compensation and payroll taxes
 - i. Review schedule provided by the District for appropriate classification
 - ii. Agree pilot compensation to the audited financial statements of the District as of December 31, 2014

 - B. Depreciation expense
 - i. Review schedule provided by the District for items that may not be eligible
 - ii. Select material fixed asset additions that are greater than 1/3 of PeM
 - iii. Recalculate depreciation expense for each fixed asset addition selected for testing

 - C. Payroll (other than pilot compensation) and related expenses
 - i. Review payroll schedule provided by the District for the items that may not be eligible
 - ii. Agree to annual payroll summary register or manually select three employees at random and agree to employee W-2
 - iii. Recalculate estimated tax calculation and verify appropriate rates are being used

 - D. Legal expense
 - i. Review itemized detail for all invoices from the attorney shared by the three Districts
 - ii. Review itemized detail for all invoices from every other attorney identified in the general ledger

 - E. Real estate taxes
 - i. Review tax bill for amount, location and tax period
 - ii. Recalculate tax expense based on taxable year

Western Great Lakes Pilots Association, LLP

Summary of Agreed-Upon Procedures and Results

- F. Utility expense
 - i. Review general ledger and verify there are no more than 12 monthly transactions during the year
 - ii. Review any transactions in excess of the 12 monthly expected transactions and determine if the expense is appropriate
 - G. Office rent expense
 - i. Obtain signed lease agreement and recalculate the expense based on the terms of the lease
 - H. Interest expense
 - i. Obtain loan agreement or other documents that provide loan terms, including interest rate
 - ii. Recalculate interest expense based on the principal, interest rate and loan terms
 - I. Pilot subsistence/travel
 - i. Determine that per diem does not exceed 200 days per pilot
 - ii. Where per diem support can be obtained, manually select 5 per diem transactions at random and agree to supporting expense reimbursement detail
 - J. For all other accounts not tested above
 - i. Review general ledger activity and select any items that appear unusual
 - ii. Select all transactions over 1/3 PeM and obtain supporting documentation
5. Evaluate the results of our test work performed and identify exceptions, if any. Exceptions will be extrapolated to groups, accounts, or by using other measures as deemed appropriate and will result in adjustments to operating expenses. Adjustments will only be recorded for identified misstatements, within a given group, exceeding 3% of planning materiality.

Results:

The "Total amount reported" column in the following table represents amounts provided by District 3 from their general ledger for the year ended December 31, 2014. The breakdown of amounts by area was provided by District 3 for information purposes only and was not subject to the procedures above. Exceptions are shown in the "Total adjustments" column below. The breakdown of adjustments by area was calculated using the same percentage allocation that was provided by District 3. Each adjustment references the finding number located in the accompanying Summary of Findings and Recommendations, which describes the reasoning for such adjustment.

Western Great Lakes Pilots Association, LLP

Summary of Agreed-Upon Procedures and Results

III. VARIANCE ANALYSIS

Procedure:

Obtain a listing of the expenses incurred by District 3 for the years ended December 31, 2010, through December 31, 2014, and perform the following procedures:

1. Segregate accounts into groups based on account description.
2. Compute average of the accounts and groups from 2010 to 2014.
3. Compute difference between the actual balance for each year and the average for each account and group.
4. Compute percentage difference between the actual balance for each year and the average for each account and group.
5. Using the results of procedure number 3 above, identify differences that are greater than 1/3 of PeM. Using the results of procedure number 4 above, identify differences that are greater than 10%. Review remaining account and group analytics and judgmentally determine if any should be selected for additional review.
6. Obtain explanation and supporting documentation from pilot association personnel, if deemed necessary, to support identified variances and determine if reasonable.
7. Review the account and group analysis and perform the following procedures:
 - A. Compute pilot compensation as a percentage of revenue;
 - B. Compute pilot boat expense as a percentage of revenue;
 - C. Compute health insurance per pilot;
 - D. Compute travel expense per pilot; and
 - E. Compute training expense per pilot.

Western Great Lakes Pilots Association, LLP

Summary of Agreed-Upon Procedures and Results

Results:

The following are the results of performing procedures 1 through 6 for the years ended December 31, 2010, through December 31, 2014:

Account	Account Description	2014 Reported amount	Five year average	District 3 Explanation
5000	Combined Partner Distribution	\$ 905,500	\$ 810,895	Large increase in traffic, more days worked
5005	Pre/Postseason Pay-Partners	60,625	64,925	
5010	Applicant Pilot Salaries	<u>291,488</u>	<u>92,550</u>	
	Partner TOTAL	<u>\$ 1,257,613</u>	<u>\$ 968,370</u>	Large increase in traffic more days worked
5200	Insurance-Applicants	\$ 61,454	\$ 22,280	Hired new applicant pilots
5205	Insurance-Partner-Health	<u>262,620</u>	<u>320,132</u>	Less partners, better plan due to Affordable Health Care Act
		<u>\$ 324,074</u>	<u>\$ 342,412</u>	
5415	Pilot Boat-Port Huron	\$ 424,204	\$ 259,013	Charge per run. Large traffic increase
5420	Pilot Boats-St. Mary's River	264,338	236,299	Change in area prorating
5425	Pilot Boat-Thunder Bay	<u>66,975</u>	<u>26,425</u>	Charge per run. Large traffic increase
	Pilot Boat TOTAL	<u>\$ 755,517</u>	<u>\$ 521,737</u>	Charge per run. Large traffic increase
5315	Meals-Pilot	\$ 201,451	\$ 154,842	More days meals paid due to large traffic increase
5320	Motel-Hotel Expense	202,501	145,377	More days in hotels paid due to large traffic increase
6055	Meals	638	546	
5330	Pre-Post Meeting Expense	33,343	31,497	
5335	Travel-Airline	24,494	6,219	More flights due to large traffic increase
5340	Travel-Shared	21,654	10,540	
5345	Travel-Nonshared	45,811	27,801	More travel due to large traffic increase
6060	Meeting Travel-Admin	<u>547</u>	<u>294</u>	
	Travel TOTAL	<u>\$ 530,439</u>	<u>\$ 377,116</u>	More travel due to large traffic increase
6560	Payroll Expenses	<u>\$ 54,017</u>	<u>\$ 35,794</u>	Newly hired applicant pilots
5050	Contract Driver/Labor Expense	<u>\$ 29,602</u>	<u>\$ 13,864</u>	Used more contract drivers due to increased traffic
6047	Legal Fees	<u>\$ 72,945</u>	<u>\$ 38,801</u>	More legal fees, rate lawsuit

Western Great Lakes Pilots Association, LLP

Summary of Agreed-Upon Procedures and Results

The following are the results of performing procedure 7 for the years ended December 31, 2010, through December 31, 2014:

Ratio	2014 Reported amount			Five year average		
	Area 6	Area 7	Area 8	Area 6	Area 7	Area 8
Pilot compensation as a percentage of revenue	50%	50%	50%	53%	53%	53%
Pilot boat expense as a percentage of revenue	11%	11%	11%	12%	12%	12%

Ratio	2014 Reported amount	Five year average
Health insurance per pilot	\$ 26,880	\$ 28,107
Travel expense per pilot	39,831	30,260
Training expense per pilot	-	31

Western Great Lakes Pilots Association, LLP

Summary of Agreed-Upon Procedures and Results

IV. INVESTMENT BASE CALCULATION

Procedure:

Prepare the Investment Base Calculation using information obtained from the audited financial statements of Western Great Lakes Pilots Association, LLP for the year ended December 31, 2014.

Results:

The following table reflects the Investment Base Calculation for the year ended December 31, 2014:

	Area 6	Area 7	Area 8	District 3
Recognized assets				
Total current assets	\$ 1,214,489	\$ 646,005	\$ 723,525	\$ 2,584,019
Less: Total current liabilities	(235,407)	(125,217)	(140,243)	(500,867)
Current notes payable	15,549	8,271	9,264	33,084
Total property and equipment (NET)	44,613	23,730	26,578	94,921
Total other assets	470	250	280	1,000
Total recognized assets	<u>1,039,714</u>	<u>553,039</u>	<u>619,404</u>	<u>2,212,157</u>
Non-recognized assets				
Total investments and special funds	-	-	-	-
Total non-recognized assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 1,039,714</u>	<u>\$ 553,039</u>	<u>\$ 619,404</u>	<u>\$ 2,212,157</u>
Recognized sources of funds				
Total stockholders' equity	\$ 1,006,640	\$ 535,447	\$ 599,701	\$ 2,141,788
Long-term debt	17,524	9,321	10,440	37,285
Current notes payable	15,550	8,272	9,263	33,084
Total recognized sources	<u>\$ 1,039,714</u>	<u>\$ 553,040</u>	<u>\$ 619,404</u>	<u>\$ 2,212,157</u>
Total sources of funds				
Total recognized sources	<u>\$ 1,039,714</u>	<u>\$ 553,040</u>	<u>\$ 619,404</u>	<u>\$ 2,212,157</u>
Total sources of funds	<u>\$ 1,039,714</u>	<u>\$ 553,040</u>	<u>\$ 619,404</u>	<u>\$ 2,212,157</u>

Western Great Lakes Pilots Association, LLP

Summary of Agreed-Upon Procedures and Results

V. COMPARISON OF PILOT ASSOCIATION ACTIVITIES

Procedure:

Obtain a listing of the expenses incurred by St. Lawrence Seaway Pilots' Association and Seaway Pilot Inc. (collectively known as District 1), Lakes Pilots Association, Inc. (District 2) and District 3 for the year ended December 31, 2014 and perform the following procedures:

1. Segregate accounts for each District into four categories: a) Pilotage Compensation (which includes pilot distributions and dividends), b) Other Pilotage Costs, c) Pilot Boat and Dispatch Costs, and d) Administrative Expenses.
2. For each District, compare 2014 expenses and the percentage of each expense, to total district revenue.
3. Perform an analysis of the significant cost categories incurred by the Districts and provide a summary of the composition of the following categories:
 - A. Pilot compensation and payroll taxes,
 - B. Pilot subsistence/travel,
 - C. Pilot boat and dispatch costs,
 - D. Cost associated with affiliated entities, and
 - E. Administrative expenses,
 - i. Legal, accounting and professional fees,
 - ii. Office rent, and
 - iii. Depreciation/auto leasing/other.

Western Great Lakes Pilots Association, LLP

Summary of Agreed-Upon Procedures and Results

	District 1		District 2		District 3		Total	
	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue
Total revenue	\$ 5,033,103		\$ 6,180,441		\$ 6,888,281		\$ 18,101,825	
Administrative expenses								
Legal - general counsel	3,678	0.07%	6,700	0.11%	18,395	0.27%	28,773	0.16%
Legal - shared counsel (K&L Gates)	15,715	0.31%	12,461	0.20%	21,201	0.31%	49,377	0.27%
Legal - USCG litigation	22,892	0.45%	20,928	0.34%	31,229	0.00%	75,049	0.41%
Office rent	-	0.00%	65,688	1.06%	9,900	0.14%	75,588	0.42%
Insurance	39,055	0.78%	24,772	0.40%	14,733	0.21%	78,560	0.43%
Employee benefits	13,544	0.27%	57,506	0.93%	151,854	2.20%	222,904	1.23%
Payroll taxes	9,448	0.19%	12,502	0.20%	-	0.00%	21,950	0.12%
Other taxes	12,993	0.26%	52,948	0.86%	173	0.00%	66,114	0.37%
Travel	1,160	0.02%	-	0.00%	-	0.00%	1,160	0.01%
Depreciation/Auto leasing/Other	79,914	1.59%	52,765	0.85%	38,403	0.56%	171,082	0.95%
Interest	24,534	0.49%	8,246	0.13%	3,811	0.06%	36,591	0.20%
APA Dues	24,440	0.49%	21,660	0.35%	26,980	0.39%	73,080	0.40%
Dues and subscriptions	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Utilities	9,334	0.19%	38,573	0.62%	44,111	0.64%	92,018	0.51%
Salaries	93,251	1.85%	115,021	1.86%	127,437	1.85%	335,709	1.85%
Accounting/Professional fees	9,200	0.18%	23,525	0.38%	36,656	0.53%	69,381	0.38%
Pilot training	11,501	0.23%	-	0.00%	-	0.00%	11,501	0.06%
Applicant pilot training	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Other	15,412	0.31%	28,355	0.46%	11,924	0.17%	55,691	0.31%
Total administrative expenses	386,071	7.68%	541,650	8.75%	536,807	7.79%	1,464,528	8.09%
Total operating expenses	\$ 1,342,883	26.68%	\$ 1,959,521	31.70%	\$ 2,246,072	32.61%	\$ 5,548,476	30.65%
Total pilot compensation and operating expenses	\$ 5,043,049	100.20%	\$ 6,108,435	98.83%	\$ 6,403,435	92.96%	\$ 17,554,919	96.98%

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Summary of Agreed-Upon Procedures and Results

Pilot Compensation and Payroll Taxes

- District 1: Pilots were compensated through capital draws based on available funds. Therefore, pilot salary expenses are not recorded in the audited financial statements. All capital drawings have been allocated to pilot compensation or other expenses as deemed appropriate. The pilots were responsible for paying payroll taxes within their personal tax filing. The district did not record a 'self-employment tax equivalent' in the Statement of Pilots' Capital, in its audited financial statements for the year ended December 31, 2014; however, a pilot payroll tax expense was reported by the district. This amount was computed by multiplying total pilot advances by the IRS standard self-employment tax rate of 15.3%, consisting of 12.4% for social security and 2.9% for Medicare, up to \$117,000. Compensation in excess of \$117,000 is subject to the 2.9% Medicare tax only. An adjustment was made to reclassify the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.
- District 2: Pilots were compensated on a 'per available day' basis at \$225 per day. Pilots also received other special compensation payments as determined during the year. Payroll taxes were computed and recorded by the association based on IRS guidelines.
- District 3: Pilots were compensated on a 'per available day' basis at an agreed-upon daily rate. The pilots also receive distributions, which are included in pilot compensation for the purposes of this report. The pilots were responsible for paying payroll taxes within their personal tax filing. Therefore, payroll taxes on pilot compensation were not recorded by the Association. An adjustment was made to reclassify the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.

Pilot Subsistence/Travel

- District 1: All travel expenses incurred, such as hotel or taxi charges, were generally reimbursed at actual costs and require a receipt to be submitted. Per diem reimbursements were calculated at a rate of \$59 per day based on approximately 200 days per year which is considered the length of time of the normal operating season of the pilots starting in April and ending in December.
- District 2: All travel expenses incurred, such as hotel or taxi charges, were generally reimbursed at actual costs and require a receipt to be submitted. Per diem reimbursements were calculated at a rate of \$59 per day based on approximately 200 days per year which is considered the length of time of the normal operating season of the pilots starting in April and ending in December.
- District 3: All travel expenses incurred, such as hotel or taxi charges, were generally reimbursed at actual costs and require a receipt to be submitted. Per diem reimbursements were calculated at a rate of \$59 per day based on approximately

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Summary of Agreed-Upon Procedures and Results

200 days per year which is considered the length of time of the normal operating season of the pilots starting in April and ending in December.

Pilot Boat and Dispatch Costs

- District 1: This District owns pilot boats and incurred costs to operate these boats, such as salaries, fuel and maintenance. District 1 did not incur dispatch charges, as dispatching was provided by the Canadian Great Lakes Pilotage Authority in exchange for pilot boat services.
- District 2: This District owns pilot boats and incurred costs to operate these boats, such as salaries, fuel and maintenance. This District provided pilot boat services to its own pilots, as well as pilots from District 3 and Canada. Total expenses incurred were reduced by the revenue incurred from these services. This District also incurred dispatch expenses.
- District 3: This District received pilot boat services from several entities at its various ports, including District 2. This District employed dispatchers to handle its dispatch needs.

Costs Associated with Affiliated Entities

- District 1: Seaway Pilot Inc. is an affiliate of St. Lawrence Seaway Pilots' Association and provides services such as pilot boat operations, bookkeeping and administration services, and equipment rental. Expenses incurred by St. Lawrence Seaway Pilots' Association related to these services were eliminated for these agreed-upon procedures.
- District 2: This District leased property from an affiliated entity at a monthly rate of \$5,474, or \$65,688 annually. In addition to the required monthly lease payments, the lease agreement requires payments of utilities, maintenance and property taxes.
- District 3: This District did not enter into transactions with or make payments to affiliated entities.

Administrative Expense

Legal, Accounting and Professional Fees:

- District 1: This District incurred legal expenses for its operations and in conjunction with the other districts, with a shared attorney used for common issues affecting the pilot associations and the ratemaking process. During 2014, the District incurred legal expenses related to ongoing litigation with the United States Coast Guard. The District also incurred accounting fees for preparation of audited financial statements and tax returns.
- District 2: This District incurred legal expenses for its operations and in conjunction with the other districts, with a shared attorney used for common issues affecting the pilot

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Summary of Agreed-Upon Procedures and Results

associations and the ratemaking process. During 2014, the District incurred legal expenses related to ongoing litigation with the United States Coast Guard. The District also incurred accounting fees for preparation of audited financial statements and tax returns.

District 3: This District incurred legal expenses for its operations and in conjunction with the other districts, with a shared attorney used for common issues affecting the pilot associations and the ratemaking process. During 2014, the District incurred legal expenses related to ongoing litigation with the United States Coast Guard. The District also incurred accounting fees for preparation of audited financial statements and tax returns.

Office Rent:

District 1: This District did not incur office rent expense. It operated in a building owned by Seaway Pilot Inc.

District 2: This district leased property from an affiliated entity at a monthly rate of \$5,474, or \$65,688 annually.

District 3: This District leased office space from an unrelated party on a month-to-month basis at an amount equal to \$9,900 annually.

Depreciation/Auto Leasing/Other:

District 1: This District incurred depreciation on an office building, pilot boats and various pieces of equipment.

District 2: This District incurred depreciation on pilot boats, a housing location at one port, and various pieces of equipment. The District also entered into automobile lease agreements.

District 3: This District incurred depreciation on equipment and vehicles.

Administrative Expenses-Other:

District 1: The Other expense grouping consists of the following expenses: office supplies, postage, bank charges, advertising, freight, miscellaneous expenses, outside services, storage and computer supplies.

District 2: The Other expense grouping consists of the following expenses: bank service charges, office supply, Main-Port Colborne, office building, postage and miscellaneous expenses.

District 3: The Other expense grouping consists of the following expenses: postage, service charge, miscellaneous expenses, donations/ memoriams and office expenses.

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Summary of Agreed-Upon Procedures and Results

VI. RECOMMENDED GENERAL LEDGER ACCOUNTS

Procedure:

Recommend a list of general ledger accounts for use by each Association.

Results:

As a result of performing the aforementioned agreed-upon procedures, we recommend the Districts incorporate the account groupings listed in Procedures I and III into the financial data provided to the Great Lakes Pilotage Division for analysis, understanding that more detailed subaccounts would be necessary to accurately classify expenses incurred.

VII. BANK STATEMENT AND RECONCILIATION COMPARISON

Procedure:

Obtain bank statements and bank reconciliations for all cash accounts as of December 31, 2014 and perform the following:

1. Verify the bank statement agrees to the bank reconciliation with differences below 3% of planning materiality based on unadjusted total expenses;
2. Verify the bank reconciliation agrees to the trial balance with differences below 3% of planning materiality based on adjusted total expenses; and
3. Conclude if any instances were identified that would suggest that cash is not properly reconciled and recorded.

Results:

No exceptions were noted as a result of performing such procedures.

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Summary of Findings and Recommendations

The following findings detail adjustments necessary for ratemaking purposes, as identified in section II of the previous report.

Finding Number: D3-14-01

Finding Title: Pilot Salaries and Payroll Taxes

Condition:

The Association recorded \$147,423 in payroll taxes for pilot compensation, which was insufficient by \$7,931.

Criteria:

Federal Register, Vol. 70, No. 46, section 12091 dated March 10, 2005 allows for estimated Social Security and Medicare taxes to be recorded on behalf of the Association when these taxes are incurred by the pilots on their individual tax returns. Note: these estimates are based on taxes that would be incurred by the Association, not what the pilots incur on their own tax returns as a self-employed individual.

Effect:

Operating expenses are understated and pilot compensation is overstated by \$7,931.

Cause:

The pilots of the Association are self-employed, therefore they incur these payroll costs on their individual tax returns.

Recommendation:

Expenses submitted for ratemaking should be in a standard format approved by the U.S. Coast Guard, detailing adjustments necessary to comply with ratemaking standards.

Finding Number: D3-14-02

Finding Title: Dues and Subscriptions

Condition:

The Association incurred costs for dues and subscriptions, totaling \$5,300, that were classified as operating expenses.

Criteria:

Regulation 46 CFR 404.5(a)(8)(v) states that expenses not directly related to pilotage are not recognized as reasonable for ratemaking purposes.

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Summary of Findings and Recommendations

Effect:

Pilot compensation is understated and expenses are overstated by \$5,300.

Cause:

The classifications of expenses in the Association's audited financial statements and trial balance are not tailored for ratemaking submission purposes.

Recommendation:

Expenses submitted for ratemaking should be in a standard format approved by the U.S. Coast Guard, detailing adjustments necessary to comply with ratemaking standards.

Finding Number: D3-14-03

Finding Title: Pilot Salaries and Pilot subsistence/Travel

Condition:

The Association incurred excess per diem charges in the amount of \$20,793.

Criteria:

Federal Register, Vol. 70, No. 46, section 12806 dated March 10, 2005 states that "Using Federal Travel Regulations" established allowances for Transportation workers daily meals and expenses in CFR part 301-11, the per diem allowance was recalculated allowing per diem for each pilot for 200 travel days, which included days engaged in pilotage, travel between assignments, and down time at remote locations awaiting dispatch."

Effect:

Operating expenses are overstated by \$20,793.

Cause:

Per diem charges were incurred in excess of 200 days per pilot.

Recommendation:

Expenses submitted for ratemaking should be in a standard format approved by the U.S. Coast Guard, detailing adjustments necessary to comply with ratemaking standards.

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Summary of Findings and Recommendations

Finding Number: D3-14-04

Finding Title: Pilot boat costs

Condition:

The Association incurred costs related to Canadian pilot transportation, totaling \$83,664.

Criteria:

Regulation 46 CFR 404.5(9) states where revenues and expenses from Canadian pilots are commingled with revenues and expenses from U.S. pilots, Canadian revenues and expenses are not included in the U.S. calculations for setting pilotage rates.

Effect:

Operating expenses are overstated by \$83,644.

Cause:

Canadian expenses that were commingled with U.S. pilots' expenses were not extracted from the amounts reported.

Recommendation:

Expenses submitted for ratemaking should be in a standard format approved by the U.S. Coast Guard, detailing adjustments necessary to comply with ratemaking standards.

Finding Number: D3-14-05

Finding Title: Legal expenses

Condition:

The Association incurred legal costs that were associated with lobbying expenses, totaling \$2,120.

Criteria:

Regulation 46 CFR 404.5(a)(8)(ii) states that lobbying expenses are not recognized as reasonable for ratemaking purposes.

Effect:

Operating expenses are overstated by \$2,120.

Cause:

The classifications of expenses in the Association's audited financial statements and trial balance are not tailored for ratemaking submission purposes.

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Summary of Findings and Recommendations

Recommendation:

Expenses submitted for ratemaking should be in a standard format approved by the U.S. Coast Guard, detailing adjustments necessary to comply with ratemaking standards.

Finding Number: D3-14-06

Finding Title: Other expenses

Condition:

The Association incurred costs for donations, totaling \$500.

Criteria:

Regulation 46 CFR 404.5(a)(8)(v) states that expenses not directly related to pilotage are not recognized as reasonable for ratemaking purposes.

Effect:

Operating expenses are overstated by \$500.

Cause:

The classifications of expenses in the Association's audited financial statements and trial balance are not tailored for ratemaking submission purposes.

Recommendation:

Expenses submitted for ratemaking should be in a standard format approved by the U.S. Coast Guard, detailing adjustments necessary to comply with ratemaking standards.