

**Lakes Pilots Association, Inc.
Contract # HSCG23-16-F-MWP172**

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

December 31, 2015

Lakes Pilots Association, Inc.

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I. 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 and revenue earned by the Lakes Pilots Association, Inc. ("District 2" or the "Association") for the year ended December 31, 2015, as explained in Section I of the report. The United States Coast Guard is responsible for evaluating the revenue earned and expenses incurred by the Association. 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.

RM ADVISORY SERVICES LLC

RM Advisory Services, LLC
Alexandria, Virginia
January 31, 2017

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

II. 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. Additional procedures performed to determine the existence and accuracy of reported pilotage's revenue.

III. EVALUATION OF REPORTED EXPENSES

Procedures:

Obtain a listing of the expenses incurred by District 2 for the year ended December 31, 2015, 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. Dispatch costs
 - iv. Repair and maintenance expenses
 - v. Insurance expenses
 - vi. 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 tolerable misstatement (TM 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 TM 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 75% 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. Depreciation/Auto Leasing/Other
 - 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 TM
 - iii. Recalculate depreciation expense for each fixed asset addition selected for testing.

 - B. Payroll 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 5 employees at random and agree to employee W-2, other supporting documentation, or select annual payroll summary register
 - iii. Recalculate estimated tax calculation and verify appropriate rates are being used.

 - C. 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.

 - D. 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

- E. 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.
 - F. 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.
 - G. Office rent expense
 - i. Obtain signed lease agreement and recalculate the expense based on the terms of the lease.
 - H. 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 TM 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, 2015. 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 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, 2015:

	District 2					Adjusted total amount reported
	Area 4	Area 5	Total amount reported	Area 4 adjustments	Area 5 adjustments	
Pilot compensation						
Salaries	\$ 1,268,111	\$ 1,902,166	\$ 3,170,277	\$ -	\$ -	\$ 3,170,277
Applicant pilot salaries	150,572	225,858	376,430	-	-	376,430
Employee benefits	356,108	534,162	890,270	-	-	890,270
Applicant pilot employee benefits	243	364	607	-	-	607
Total pilot compensation	\$ 1,775,034	\$ 2,662,550	\$ 4,437,584	\$ -	\$ -	\$ 4,437,584
Operating expenses						
Other pilotage costs						
Pilot subsistence/Travel	\$ 163,276	\$ 244,915	\$ 408,191	\$ -	\$ -	\$ 408,191
Insurance	6,798	10,196	16,994	-	-	16,994
Payroll taxes	53,242	79,863	133,105	-	-	133,105
Other	457	686	1,143	-	-	1,143
Total other pilotage costs	223,773	335,660	559,433	-	-	559,433
Pilot boat and dispatch costs						
Pilot boat costs (D2-15-01)	\$ 175,331	\$ 262,997	\$ 438,328	\$ (444)	\$ (666)	\$ 437,218
Dispatch costs	9,000	13,500	22,500	-	-	22,500
Employee benefits	74,855	112,282	187,137	-	-	187,137
Insurance	-	-	-	-	-	-
Payroll taxes	9,724	14,585	24,309	-	-	24,309
Total pilot boat and dispatch costs	268,910	403,364	672,274	(444)	(666)	671,164

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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	10,282	15,422	25,704	-	-	-	10,282	15,422	25,704
Legal - shared counsel (K&L Gates)	8,346	12,520	20,866	-	-	-	8,346	12,520	20,866
Office rent	26,275	39,413	65,688	-	-	-	26,275	39,413	65,688
Insurance	10,618	15,926	26,544	-	-	-	10,618	15,926	26,544
Employee benefits	23,930	35,896	59,826	-	-	-	23,930	35,896	59,826
Workman's compensation - pilots	47,636	71,453	119,089	-	-	-	47,636	71,453	119,089
Payroll taxes	5,428	8,141	13,569	-	-	-	5,428	8,141	13,569
Other taxes	29,220	43,830	73,050	-	-	-	29,220	43,830	73,050
Depreciation/Auto leasing/Other	19,757	29,636	49,393	-	-	-	19,757	29,636	49,393
Interest	4,159	6,238	10,397	-	-	-	4,159	6,238	10,397
APA Dues	11,827	17,741	29,568	-	-	-	11,827	17,741	29,568
Utilities	15,850	23,775	39,625	-	-	-	15,850	23,775	39,625
Salaries	51,365	77,048	128,413	-	-	-	51,365	77,048	128,413
Accounting/Professional fees	10,721	16,081	26,802	-	-	-	10,721	16,081	26,802
Other	11,775	17,662	29,437	-	-	-	11,775	17,662	29,437
Total administrative expenses	287,189	430,782	717,971	-	-	-	287,189	430,782	717,971
Total operating expenses	\$ 779,872	\$ 1,169,806	\$ 1,949,678	\$ (444)	\$ (666)	\$ (1,110)	\$ 779,428	\$ 1,169,140	\$ 1,948,568
Total pilot compensation and operating expenses	\$ 2,554,906	\$ 3,832,356	\$ 6,387,262	\$ (444)	\$ (666)	\$ (1,110)	\$ 2,554,462	\$ 3,831,690	\$ 6,386,152

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Summary of Agreed-Upon Procedures and Results

IV. VARIANCE ANALYSIS

Procedure

Obtain a listing of the expenses incurred by District 2 for the years ended December 31, 2011, through December 31, 2015, and perform the following procedures:

1. Segregate accounts into groups based on account description.
2. Compute average of the accounts and groups from 2011 to 2015.
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 TM. 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. Review the remaining account and group analytics and judgmentally determine if any expense or account should be selected for additional review.
7. Obtain explanation and supporting documentation from pilot association personnel, if deemed necessary, to support identified variances and determine if reasonable.
8. 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.
9. Conclude if any instances were identified that indicate 2015 expenses were overstated for ratemaking purposes.

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Summary of Agreed-Upon Procedures and Results

Results:

The following are the results of performing procedure 8 for the years ended December 31, 2011 through December 31, 2015:

Ratio	2015 Reported amount		Five year average	
	Area 4	Area 5	Area 4	Area 5
Pilot compensation as a percentage of revenue	59%	59%	53%	53%
Pilot boat expense as a percentage of revenue	6%	6%	8%	8%

	2015 Reported amount	Five year average
Health insurance per pilot	\$ 26,565	\$ 24,555
Travel expense per pilot	\$ 31,500	\$ 24,605
Training expense per pilot	\$ 240	\$ 54

The following are the results of performing procedures 1-7 for the year ended December 31, 2015. In general, pilotage activity has increased 37% over the last five years, resulting in higher aggregate pilot compensation and direct operating costs. Selected general ledger accounts with notable variances include:

GL Account	Account Description	2015 Reported amount	Five year average	District 2 Explanation
51400	Drivers	\$ 38,111	\$ 29,539	Higher level of operations/revenue; Driver activity has increased accordingly.
51410	In District Travel	14,969	11,510	Higher level of operations/revenue; cost has increased accordingly.
5141A	Pilot Subsistence	161,265	135,293	Higher level of operations/revenue; cost has increased accordingly.
5141B	Housing Allowance	107,070	42,652	Housing Allowance only began in 2014, so 5 year average is not accurate. Expense increased 1% over 2014.
54920	Meeting Expense	28,913	16,171	Meeting expense increased from \$7,664 in 2014 to \$28,913 in 2015 due to additional personnel, more meetings and longer meetings due to training conducted
	Travel accounts	<u>\$ 350,327</u>	<u>\$ 235,165</u>	
51100	Pilots Payroll	\$ 3,546,707	\$ 2,135,100	Higher level of operations/revenue; cost has increased accordingly.
51490	Pilots Health Ins BCBS Of MI	318,780	260,279	Higher level of operations/revenue; higher level of cost per pilot
51520	Federal Unemployment Tax	966	1,221	Additional surtax was assessed in 2011. FUTA has decreased since then.
51530	State Unemployment Tax	27,432	23,476	Higher level of operations/revenue; cost has increased accordingly.
51550	Pension Expense	257,681	207,735	Higher level of operations/revenue; cost has increased accordingly.
51600	Workmans Compensation	135,037	106,276	Higher level of operations/revenue; cost has increased accordingly.
	Pilot compensation/benefits accounts	<u>\$ 4,286,603</u>	<u>\$ 2,734,086</u>	

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Summary of Agreed-Upon Procedures and Results

GL Account	Account Description	2015 Reported amount	Five year average	District 2 Explanation
54150	Employee Salaries	\$ 128,413	\$ 108,066	Salaries increased from \$115,021 in 2014 due to paid overtime worked, and salary increases.
51560	Profit Sharing Expense	386,521	196,660	Profit sharing expense in 2014 was \$462,399. Decrease from 2014 due to new employees not fully eligible for contribution.
54180	Health Insurance Boat Crew	121,241	102,440	Health Insurance has increased for all industries over the past 5 years.
	Other salaries & benefits accounts	<u>\$ 636,175</u>	<u>\$ 407,166</u>	
5415A	Pilot Boat Salaries	\$ 219,851	\$ 183,576	Higher level of operations/revenue; cost has increased accordingly.
51160	Canadian Dispatch	22,500	19,410	Higher level of operations/revenue; cost has increased accordingly.
52300	Pilot Boat Charges	50,580	43,177	Higher level of operations/revenue; cost has increased accordingly.
5230B	Port Colborne Pilot Boat Expense	48,070	39,675	Higher level of operations/revenue; cost has increased accordingly.
54160	Pilot Boat Fuel	18,444	28,831	Higher level of operations/revenue; cost has increased accordingly.
54250	M/R Pilot Boat:M/R P/B BELLE	13,830	5,416	Pilot Boat upgrades completed in 2014 and 2015.
5470A	Pilot Boat Insurance	12,060	9,273	Pilot boat insurance has increased steadily over last 5 years.
	Pilot boat expense accounts	<u>\$ 385,334</u>	<u>\$ 329,358</u>	
51430	Auto Fuel	\$ 21,497	\$ 24,409	Gasoline prices have declined slightly over past 5 years.
51440	M/R Auto Maintenance Repair	8,695	7,715	Higher level of operations/revenue; cost has increased accordingly.
51620	Pilots License Renewal	800	2,120	Pilots licenses are not renewed annually.
53400	Utilities	5,739	7,999	New building is energy efficient.
54510	M/R Office Building	5,144	2,402	Repairs to driveway and various maintenance activities.
54550	Safety Equipment	27,235	8,580	Upgraded safety equipment for pilot boats.
54650	Phone	36,618	31,240	Phone costs have increased steadily over past 5 years.
54750	Postage	2,199	1,720	Higher level of operations/revenue; cost has increased accordingly.
55200	Pilot Boat Training Expense	2,880	576	Training for new pilot boat upgrade happened in 2015.
	Other expense accounts	<u>\$ 110,807</u>	<u>\$ 86,762</u>	

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Summary of Agreed-Upon Procedures and Results

Based on procedures performed, and except for those described further below under our Findings, we are not aware of any 2015 expenses that are overstated for ratemaking purposes.

V. EVALUATION OF REPORTED REVENUE

The procedures listed below are performed on the pilotage revenue reported in the audited financial statements of District 2 for the year ended December 31, 2015 to assist the U.S. Coast Guard assess the existence and accuracy of the pilotage revenue reported.

Procedure:

Obtain general ledger of District 2 for the year ended December 31, 2015 and perform the following procedures:

1. Select general ledger accounts in which pilotage revenue is recorded.
2. Agree the selected general ledger account balances to the pilotage revenue reported in District 2's audited financial statements as of December 31, 2015.
3. Select a sample of pilotage revenue transactions and evaluate the results of the following procedures performed and identify quantitative and/or qualitative exceptions, if any. Quantitative exceptions will be extrapolated to corresponding general ledger account balances and listed in the Summary of Findings and Recommendations if they exceed 3% of planning materiality. Qualitative exceptions, which are defined as differences in the date, vessel name, agent name or invoice number (see procedure 3.vi below), will be listed in the Summary of Findings and Recommendations.
 - i Calculate planning materiality and performance materiality (PeM or 75% of planning materiality) based on total pilotage revenue reported using industry guidelines.
 - ii Select all individually significant items in the general ledger accounts selected for testing. Individual 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 appropriate sample size with respect to the population of transactions remaining after procedure 3.ii above.
 - iv Obtain the related source form and invoice from the Association for each transaction selected for testing.
 - v Agree the amount of each revenue transaction selected to the corresponding invoice.

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Summary of Agreed-Upon Procedures and Results

vi Agree the following information from the invoice to the source form:

- Date;
- Total costs;
- Vessel name;
- Agent name; and
- Invoice number

Results of revenue procedures

The revenue generated in Lakes Pilots Association, Inc. for providing pilotage services during the year ended December 31, 2015 amounted to \$6,479,170. Pilotage revenue is recorded in the following general ledger accounts:

41000 - Pilotage
41020 - Detention
41020 - Detention: 41160 · Dispatch Service: 41163 - C2 Inter-District Dispatch
41300 - Pilot Boat Service: 41302 · Port Huron Pilot Boat Misc. Fees
41300 - Pilot Boat Service: 41304 · Transportation
41300 - Pilot Boat Service: 41305 · Subsistence
41300 - Pilot Boat Service: 41307 · Laker Fee for Pilot Boat
41300 - Pilot Boat Service: 41309 · Agent anchored vessel
41300 - Pilot Boat Service: 41310 · Inter-District P/B
41300 - Pilot Boat Service: 41314 · Carried beyond station

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

The general ledger account balances selected agree with pilotage revenue reported in District two's audited financial statements as of December 31, 2015. No exceptions were noted as a result of performing this procedure.

A sample of pilotage revenue transactions was selected. No exceptions were noted as a result of performing procedure 3.v. No quantitative exceptions were noted as a result of performing procedure 3.vi. No quantitative exceptions were noted as a result of performing procedure 3.vi.

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

VI. 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, 2015, 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 2015 expenses and the percentage of each expense, to total revenue for each area and 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. Travel expense/Pilot subsistence
 - C. Pilot boat and dispatch costs
 - D. Cost associated with affiliated entities
 - E. Administrative expenses:
 - i. Legal, accounting and professional fees,
 - ii. Office rent, and
 - iii. Depreciation/auto leasing/other

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Summary of Agreed-Upon Procedures and Results

Results - Comparison of pilot association activities. The following are the results of performing such procedures for the year ended December 31, 2015:

	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 Total Revenue
Total Revenue	\$ 5,430,522		\$ 6,479,170		\$ 6,869,134		\$ 18,778,826	
Pilot compensation	\$ 3,477,370	64.0%	\$ 3,170,277	48.9%	\$ 3,883,078	56.5%	\$ 10,530,725	56.1%
Salaries	179,966	3.3%	376,430	5.8%	473,900	6.9%	1,030,296	5.5%
Applicant pilot salaries	113,183	2.1%	890,270	13.7%	428,521	6.2%	1,431,974	7.6%
Employee benefits	-	0.0%	607	0.0%	26,482	0.4%	27,089	0.1%
Applicant pilot employee benefits	3,200	0.1%	-	0.0%	-	0.0%	3,200	0.0%
Dues and Subscriptions								
Total pilot compensation	\$ 3,773,719	69%	\$ 4,437,584	68%	\$ 4,811,982	70%	\$ 13,023,285	69%
Operating expenses								
Other pilotage costs								
Pilot subsistence/Travel	\$ 609,444	11.2%	\$ 369,463	5.7%	\$ 322,276	4.7%	\$ 1,301,183	6.9%
Applicant pilot subsistence/Travel	148,305	2.7%	38,728	0.6%	197,004	2.9%	384,037	2.0%
License insurance	53,952	1.0%	16,994	0.3%	22,404	0.3%	93,350	0.5%
Applicant pilot license insurance	2,271	0.0%	-	0.0%	-	0.0%	2,271	0.0%
Payroll taxes	159,187	2.9%	133,105	2.1%	153,283	2.2%	445,575	2.4%
Applicant pilot payroll taxes	20,783	0.4%	-	0.0%	41,828	0.6%	62,611	0.3%
Other	11,020	0.2%	1,143	0.0%	2,061	0.0%	14,224	0.1%
Total other pilotage costs	\$ 1,004,962	19%	\$ 559,433	9%	\$ 738,856	11%	\$ 2,303,251	12%
Pilot boat and dispatching costs								
Pilot Boat Cost	\$ 240,464	4.4%	\$ 437,218	6.7%	\$ 650,994	9.5%	\$ 1,328,676	7.1%
Dispatching costs	-	0.0%	22,500	0.3%	171,493	2.5%	193,993	1.0%
Employee benefits	-	0.0%	187,137	2.9%	17,310	0.3%	204,447	1.1%
Payroll taxes	17,333	0.3%	24,309	0.4%	18,935	0.3%	60,577	0.3%
Total Pilot and Dispatch Costs	\$ 257,797	5%	\$ 671,164	10%	\$ 858,732	13%	\$ 1,787,693	10%

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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 Total Revenue
Total Revenue	\$ 5,430,522		\$ 6,479,170		\$ 6,869,134		\$ 18,778,826	
Administrative expenses								
Legal - general counsel	\$ 22,121	0.4%	\$ 25,704	0.4%	\$ 22,397	0.3%	\$ 70,222	0.4%
Legal - shared counsel (K&L Gates)	1,614	0.0%	20,866	0.3%	24,015	0.3%	46,495	0.2%
Office rent	-	0.0%	65,688	1.0%	8,496	0.1%	74,184	0.4%
Insurance	29,093	0.5%	26,544	0.4%	16,303	0.2%	71,940	0.4%
Employee benefits	15,659	0.3%	59,826	0.9%	124,861	1.8%	200,346	1.1%
Workman's compensation - pilots	-	0.0%	119,089	1.8%	-	0.0%	119,089	0.6%
Payroll taxes	10,069	0.2%	13,569	0.2%	13,284	0.2%	36,922	0.2%
Other taxes	16,902	0.3%	73,050	1.1%	1,778	0.0%	91,730	0.5%
Travel	1,422	0.0%	-	0.0%	-	0.0%	1,422	0.0%
Depreciation/Auto leasing/Other	87,613	1.6%	49,393	0.8%	38,814	0.6%	175,820	0.9%
Interest	22,073	0.4%	10,397	0.2%	4,529	0.1%	36,999	0.2%
Dues and subscriptions	31,380	0.6%	29,568	0.5%	30,315	0.4%	91,263	0.5%
Utilities	10,034	0.2%	39,625	0.6%	43,622	0.6%	93,281	0.5%
Salaries	100,417	1.8%	128,413	2.0%	112,100	1.6%	340,930	1.8%
Accounting/Professional fees	9,400	0.2%	26,802	0.4%	26,261	0.4%	62,463	0.3%
Training	-	0.0%	-	0.0%	35,552	0.5%	35,552	0.2%
Other	15,564	0.3%	29,437	0.5%	28,226	0.4%	73,227	0.4%
Total administrative expenses	\$ 373,361	7%	\$ 717,971	11%	\$ 530,553	8%	\$ 1,621,885	9%
Total operating expenses	\$ 1,636,120	30%	\$ 1,948,568	30%	\$ 2,128,140	31%	\$ 5,712,829	30%
Total pilot compensation and operating expenses	\$ 5,409,839	100%	\$ 6,386,152	99%	\$ 6,940,122	101%	\$ 18,736,113	100%

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

Pilot Compensation and Payroll Taxes

- District 1: Pilots were compensated in 2015 through capital draws based on the association's earnings and available funds. Earnings were allocated to individual pilots based on available days. As a result, the audited financial statements do not reflect pilot salaries as an expense in the income statement. For the purposes of the association's submission, capital drawings are deemed to be pilot compensation or other expenses. The pilots are responsible for paying self-employment taxes in their personal tax returns and District 1 does not record payroll tax (or a 'self-employment tax equivalent') in its general ledger or audited financial statements. An adjustment was made in the District 1 submission to recognize the expected employer portion of the payroll taxes, using IRS standard tax rates.
- 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 are responsible for paying self-employment taxes in their personal tax returns and District 1 does not record payroll tax (or a 'self-employment tax equivalent') in its general ledger or audited financial statements. An adjustment was made in the District 3 submission to recognize the expected employer portion of the payroll taxes, using IRS standard tax rates.

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 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.

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

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. The District also incurred accounting fees for preparation of audited financial statements and tax returns.
- District 2: District incurred legal expenses during 2015 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 2015, 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.

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

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 2015, 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: The 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

VII. 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.

VIII. ADJUSTMENTS IDENTIFIED FOR RATEMAKING PURPOSES

The following findings detail the adjustments necessary for ratemaking purposes.

Finding Number: D2-15-01

Finding Title: 2014 expenses included in 2015 year

Condition:

Reported expenses for the 2015 year include the following expenses totaling \$1,110 incurred in 2014: Utilities and Phone for December 2014 - \$655; and pilot licensing and application fees for August and September 2014 - \$455. These amounts did not relate to pilotage operations for 2015.

Criteria:

U.S Generally Accepted Accounting Principles (GAAP) provides that expenses should be recorded when the period in which the benefit was received.

The scope of this report provides that only 2015 expenses are allowable for ratemaking purposes.

Effect:

Operating expenses are overstated by \$1,110.

Cause:

These 2015 expenses were not reported to the Association, or identified by the Association accounting staff on a timely basis, to enable recognition in the 2014 accounts.

Lakes Pilots Association, Inc.

Summary of Agreed-Upon Procedures and Results

Recommendation:

Pilots should be reminded to submit expenses to the Association on a timely basis. The financial statement close process at year-end should include inquiries and procedures to ensure all expenses are identified and accrued for.