

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

CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2013
(With Comparative Consolidated Amounts for 2012)

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

December 31, 2013
(With Comparative Consolidated Amounts for 2012)

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SHEA LABAGH DOBBERSTEIN

Certified Public Accountants, Inc.

INDEPENDENT AUDITORS' REPORT

MEMBERS OF THE SAN FRANCISCO BAR PILOTS

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

We have audited the accompanying consolidating financial statements of SAN FRANCISCO BAR PILOTS and SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION, (collectively, the "Companies"), which comprise the consolidating balance sheet as of December 31, 2013, and the related consolidating statements of income and comprehensive income, equity and cash flows for the year then ended, and the related notes to the financial statements. We have also audited the accompanying consolidated financial statements of SAN FRANCISCO BAR PILOTS and SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION, which comprise the consolidated balance sheet as of December 31, 2012, and related consolidated statements of income and comprehensive income, equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the 2013 consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidated financial positions of SAN FRANCISCO BAR PILOTS and SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION as of December 31, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2012 consolidated financial statements present fairly, in all material respects, the consolidated financial position of SAN FRANCISCO BAR PILOTS and SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

SHEA LABAGH DOBBERSTEIN
Certified Public Accountants, Inc.

San Francisco, California
March 13, 2014

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

CONSOLIDATING BALANCE SHEET

December 31, 2013
(With Comparative Consolidated Amounts for 2012)

ASSETS

	2013				2012
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated	Consolidated
<u>CURRENT ASSETS</u>					
Cash	\$ 2,221,605	\$ 749,744	\$ -	\$ 2,971,349	\$ 2,432,422
Restricted Cash	-	218,715	-	218,715	63,530
Accounts Receivable:					
Trade, Net of Allowance for Doubtful Accounts	3,791,190	-	-	3,791,190	3,665,299
Pilot Boat Surcharge	-	201,836	(201,836)	-	-
Other Receivables	27,297	-	(8,268)	19,029	31,704
Prepaid Expenses	198,269	7,372	-	205,641	72,647
Deferred Income Tax Asset	-	52,500	-	52,500	56,400
<u>TOTAL CURRENT ASSETS</u>	6,238,361	1,230,167	(210,104)	7,258,424	6,322,002
<u>PROPERTY AND EQUIPMENT, NET</u>	-	6,954,886	-	6,954,886	8,107,957
<u>TOTAL ASSETS</u>	<u>\$ 6,238,361</u>	<u>\$ 8,185,053</u>	<u>\$ (210,104)</u>	<u>\$ 14,213,310</u>	<u>\$ 14,429,959</u>

SAN FRANCISCO BAR PILOTS
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CONSOLIDATING BALANCE SHEET (Continued)

December 31, 2013
(With Comparative Consolidated Amounts for 2012)

LIABILITIES AND EQUITY

	2013			2012
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated
				Consolidated
<u>CURRENT LIABILITIES</u>				
Accounts Payable:				
Trade	\$ 166,826	\$ 6,062	\$ -	\$ 172,888
Board of Pilot Commissioners	258,485	-	-	258,485
Pilot Boat Surcharge	201,836	-	(201,836)	-
Other	878,048	-	-	878,048
Accrued Expenses:				
Property Taxes	-	150,000	-	150,000
Vacation Pay	269,976	-	-	269,976
Other	77,351	8,268	(8,268)	77,351
Current Portion of Long-Term Debt	-	828,760	-	828,760
<u>TOTAL CURRENT LIABILITIES</u>	<u>1,852,522</u>	<u>993,090</u>	<u>(210,104)</u>	<u>2,635,508</u>
				<u>2,722,670</u>
<u>LONG-TERM LIABILITIES</u>				
Deferred Income Tax Liability	-	1,340,300	-	1,340,300
Deferred Rent	-	244,234	-	244,234
Accrued Pension Benefit Obligation	25,147	-	-	25,147
Long-Term Debt, Net of Current Portion	-	2,948,933	-	2,948,933
<u>TOTAL LONG-TERM LIABILITIES</u>	<u>25,147</u>	<u>4,533,467</u>	<u>-</u>	<u>4,558,614</u>
				<u>6,106,776</u>
<u>TOTAL LIABILITIES</u>	<u>1,877,669</u>	<u>5,526,557</u>	<u>(210,104)</u>	<u>7,194,122</u>
				<u>8,829,446</u>
<u>EQUITY</u>				
Pilots' and Members' Equity	4,684,786	2,658,496	-	7,343,282
Accumulated Other Comprehensive Loss	(324,094)	-	-	(324,094)
<u>TOTAL EQUITY</u>	<u>4,360,692</u>	<u>2,658,496</u>	<u>-</u>	<u>7,019,188</u>
				<u>5,600,513</u>
<u>TOTAL LIABILITIES AND EQUITY</u>	<u>\$ 6,238,361</u>	<u>\$ 8,185,053</u>	<u>\$ (210,104)</u>	<u>\$ 14,213,310</u>
				<u>\$ 14,429,959</u>

SAN FRANCISCO BAR PILOTS
AND
SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION
CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Year Ended December 31, 2013
(With Comparative Consolidated Amounts for 2012)

	2013			2012
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated
<u>REVENUES</u>				
Pilotage Fees Earned	\$ 38,276,060	\$ -	\$ -	\$ 38,276,060
Pilot Vessel Surcharge	-	1,124,408	-	1,124,408
Office and Terminal Rent	-	1,274,991	(1,274,991)	-
Sea Marshals	50,960	-	-	50,960
Charter Hire	-	804,000	(804,000)	-
<u>TOTAL REVENUES</u>	<u>38,327,020</u>	<u>3,203,399</u>	<u>(2,078,991)</u>	<u>39,451,428</u>
<u>OPERATING EXPENSES</u>				
Pilot Boat and Charter Hire	7,145,753	-	(804,000)	6,341,753
Terminal	753,807	-	(318,748)	435,059
Pilot Office and Dispatch	2,941,786	-	(956,243)	1,985,543
General	2,571,822	1,764,468	-	4,336,290
Depreciation and Amortization	-	1,166,458	-	1,166,458
<u>TOTAL OPERATING EXPENSES</u>	<u>13,413,168</u>	<u>2,930,926</u>	<u>(2,078,991)</u>	<u>14,265,103</u>
<u>OPERATING INCOME</u>	<u>24,913,852</u>	<u>272,473</u>	<u>-</u>	<u>25,186,325</u>
<u>OTHER INCOME (EXPENSE)</u>				
Other Income	74,946	4,160	-	79,106
Interest Expense	-	(252,580)	-	(252,580)
Other Expense	(20,547)	-	-	(20,547)
<u>TOTAL OTHER INCOME (EXPENSE)</u>	<u>54,399</u>	<u>(248,420)</u>	<u>-</u>	<u>(194,021)</u>
<u>INCOME BEFORE INCOME TAXES</u>	<u>24,968,251</u>	<u>24,053</u>	<u>-</u>	<u>24,992,304</u>
<u>PROVISION FOR (BENEFIT FROM) INCOME TAXES</u>	<u>-</u>	<u>8,070</u>	<u>-</u>	<u>8,070</u>
<u>NET INCOME</u>	<u>24,968,251</u>	<u>15,983</u>	<u>-</u>	<u>24,984,234</u>
<u>OTHER COMPREHENSIVE INCOME</u>				
Defined Benefit Pension Plan, Net	234,952	-	-	234,952
<u>COMPREHENSIVE INCOME</u>	<u>\$ 25,203,203</u>	<u>\$ 15,983</u>	<u>\$ -</u>	<u>\$ 25,219,186</u>
<u>AVERAGE NET INCOME PER PILOT</u>	<u>\$ 429,155</u>			<u>\$ 405,266</u>

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CONSOLIDATING STATEMENT OF EQUITY

Year Ended December 31, 2013
(With Comparative Consolidated Amounts for 2012)

	Bar Pilots					
	Bar Pilots' Equity	Accumulated Other Comprehensive Income (Loss)	Total	Benevolent Members' Equity	Eliminating Entries	Consolidated
<u>BALANCE, JANUARY 1, 2012</u>	\$ 2,637,202	\$ (614,670)	\$ 2,022,532	\$ 1,907,414	\$ -	\$ 3,929,946
Net Income (Loss)	23,108,259	-	23,108,259	(119,995)	-	22,988,264
Actuarial Gain on Pension Plan	-	55,624	55,624	-	-	55,624
Contributions from New Members	-	-	-	1,695,596	-	1,695,596
Distributions to Pilots	(22,645,018)	-	(22,645,018)	-	-	(22,645,018)
Payments to Retired Members	-	-	-	(423,899)	-	(423,899)
<u>BALANCE, DECEMBER 31, 2012</u>	3,100,443	(559,046)	2,541,397	3,059,116	-	5,600,513
Net Income	24,968,251	-	24,968,251	15,983	-	24,984,234
Actuarial Gain on Pension Plan	-	234,952	234,952	-	-	234,952
Contributions from New Members	-	-	-	833,206	-	833,206
Distributions to Pilots	(23,383,908)	-	(23,383,908)	-	-	(23,383,908)
Payments to Retired Members	-	-	-	(1,249,809)	-	(1,249,809)
<u>BALANCE, DECEMBER 31, 2013</u>	\$ 4,684,786	\$ (324,094)	\$ 4,360,692	\$ 2,658,496	\$ -	\$ 7,019,188

SAN FRANCISCO BAR PILOTS
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CONSOLIDATING STATEMENT OF CASH FLOWS

INCREASE (DECREASE) IN CASH

Year Ended December 31, 2013
(With Comparative Consolidated Amounts for 2012)

	2013				2012
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated	Consolidated
<u>CASH FLOWS FROM OPERATING</u>					
<u>ACTIVITIES</u>					
Net Income	\$ 24,968,251	\$ 15,983	\$ -	\$ 24,984,234	\$ 22,988,264
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	-	1,166,458	-	1,166,458	1,196,501
Pension Plan Costs, Net of Contributions	(102,797)	-	-	(102,797)	(67,821)
Deferred Income Taxes	-	(158,900)	-	(158,900)	(36,750)
Changes in Operating Assets and Liabilities:					
Restricted Cash	-	(155,185)	-	(155,185)	(178)
Accounts Receivable	(133,450)	(30,401)	50,635	(113,216)	(42,402)
Prepaid Expenses	(166,264)	33,270	-	(132,994)	(7,094)
Accounts Payable	(75,402)	278	(43,457)	(118,581)	81,400
Accrued Expenses	(42,453)	7,178	(7,178)	(42,453)	90,823
Income Taxes Payable	-	-	-	-	(68,516)
Deferred Rent	-	(22,204)	-	(22,204)	(22,203)
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>24,447,885</u>	<u>856,477</u>	<u>-</u>	<u>25,304,362</u>	<u>24,112,024</u>
<u>CASH FLOWS USED IN INVESTING ACTIVITIES</u>					
Purchase of Property and Equipment	-	(13,387)	-	(13,387)	(75,990)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>					
Principal Payments on Line of Credit	-	-	-	-	(847,874)
Principal Payments on Long-Term Debt	-	(951,537)	-	(951,537)	(802,019)
Contributions from New Members	-	833,206	-	833,206	1,695,596
Distributions to Pilots and Retired Members	(23,383,908)	(1,249,809)	-	(24,633,717)	(23,068,917)
<u>NET CASH USED IN FINANCING ACTIVITIES</u>	<u>(23,383,908)</u>	<u>(1,368,140)</u>	<u>-</u>	<u>(24,752,048)</u>	<u>(23,023,214)</u>
<u>NET INCREASE (DECREASE) IN CASH</u>	<u>1,063,977</u>	<u>(525,050)</u>	<u>-</u>	<u>538,927</u>	<u>1,012,820</u>
<u>CASH, BEGINNING OF YEAR</u>	<u>1,157,628</u>	<u>1,274,794</u>	<u>-</u>	<u>2,432,422</u>	<u>1,419,602</u>
<u>CASH, END OF YEAR</u>	<u>\$ 2,221,605</u>	<u>\$ 749,744</u>	<u>\$ -</u>	<u>\$ 2,971,349</u>	<u>\$ 2,432,422</u>
<u>SUPPLEMENTAL CASH FLOW INFORMATION</u>					
Interest Paid During the Year	\$ -	\$ 252,580	\$ -	\$ 252,580	\$ 319,898
Income Taxes Paid During the Year	\$ -	\$ 133,000	\$ -	\$ 133,000	\$ 157,868

SAN FRANCISCO BAR PILOTS
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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2013
(With Comparative Amounts for the Year Ended December 31, 2012)

NOTE 1 – NATURE OF OPERATIONS

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

The Benevolent is a membership association incorporated under the laws of the State of California. The individual members are licensed pilots with each member having equal interest in the property of the Benevolent. The bylaws of the Benevolent require the redemption of any member’s certificate within sixty days of the member’s resignation, death or expulsion at a price equal to the average of the prior three years’ average net income per Pilot. As of December 31, 2013 and 2012, the redemption price was approximately \$416,000 and \$424,000, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SAN FRANCISCO BAR PILOTS
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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2013
(With Comparative Amounts for the Year Ended December 31, 2012)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Accounts Receivable – Accounts receivable are stated at the amount the Companies expect to collect. The Companies extend credit to its customers in the normal course of business and perform ongoing credit evaluations of its customers. Provisions for losses on accounts receivable are made to maintain an adequate allowance for potential credit losses, which historically have been within managements' expectations. The allowance reflects managements' analysis of receivables and the probability of collecting those accounts. Trade accounts receivable are charged against the allowance when it is determined that a payment will not be received. As of December 31, 2013 and 2012, the allowance for doubtful accounts is \$10,000.

Property and Equipment – Property and equipment are stated at cost, net of accumulated depreciation and amortization. Maintenance and repairs, including expenses incurred related to dry docking, are charged to expense as incurred; major renewals and betterments are capitalized. Depreciation is provided using accelerated methods over the estimated useful life of the related asset, ranging from three to forty years. Leasehold improvements are amortized over the shorter of the lease term, including expected renewal periods, or the estimated useful lives of the assets.

The Companies regularly evaluate their long-lived assets for indicators of possible impairment. Should impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's fair value. The Companies have not identified any such impairment losses as of December 31, 2013 and 2012.

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

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

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2013
(With Comparative Amounts for the Year Ended December 31, 2012)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued) – Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by a Company in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Companies in the federal and state tax returns are more likely than not to be sustained upon examination. The Company is subject to examination for the 2009, 2010, 2011 and 2012 tax years by federal and state taxing authorities. If such examination results in changes to the Company's reported income or loss, the tax liability could be changed accordingly.

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

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

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

Average net income per pilot is computed by dividing the Bar Pilot's net income by the average number of active pilots during the year. This amount does not purport to represent the actual net income of any specific pilot. It has been computed only to show this information on a comparative basis. The average number of active pilots for 2013 and 2012 was 58.18 and 57.02, respectively.

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2013
(With Comparative Amounts for the Year Ended December 31, 2012)

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at December 31 consist of the following:

	<u>2013</u>	<u>2012</u>
Pilot Boats and Improvements:		
“Drake”	\$ 8,483,383	\$ 8,483,383
“San Francisco”	5,335,880	5,335,880
“California”	4,902,025	4,902,025
“Golden Gate”	2,620,745	2,620,745
“Pittsburg”	158,675	158,675
Leasehold and Dock Improvements	4,409,176	4,400,416
Office Furniture and Equipment	892,848	888,221
Pilot Boat Equipment	358,992	358,992
Automobile	<u>31,906</u>	<u>31,906</u>
	27,193,630	27,180,243
Less: Accumulated Depreciation and Amortization	<u>(20,238,744)</u>	<u>(19,072,286)</u>
Property and Equipment, Net	<u>\$ 6,954,886</u>	<u>\$ 8,107,957</u>

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 was \$1,166,458 and \$1,196,501, respectively.

NOTE 4 – LINES OF CREDIT

The Bar Pilots have a revolving line of credit with a bank with a maximum borrowing limit of \$500,000, bearing interest at the bank’s reference rate plus 0.00% with a floor of 0.00% (effective rate at December 31, 2013 and 2012 was 3.25%), expiring on June 21, 2014. The line is collateralized by all business assets of Bar Pilots.

The Benevolent has a revolving line of credit with a bank with a maximum borrowing limit of \$1,500,000, bearing interest at the bank’s reference rate plus 0.00% with a floor of 0.00% (effective rate at December 31, 2013 and 2012 was 3.25%), expiring on May 31, 2014. The line is collateralized by certain assets of the Benevolent. A \$100,000 stand-by letter of credit has also been made available for the Benevolent.

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2013
(With Comparative Amounts for the Year Ended December 31, 2012)

NOTE 4 – LINES OF CREDIT (Continued)

At December 31, 2013 and 2012, there were no outstanding borrowings against the lines of credit. There was no interest expense relating to the lines of credit for year ended December 31, 2013. Total interest expense relating to the lines of credit for the year ended December 31, 2012 was \$17,799.

NOTE 5 – LONG-TERM DEBT

Long-term debt at December 31 consists of the following:

	<u>2013</u>	<u>2012</u>
Note payable to a financial institution, with interest rate equal to the bank's index rate plus 1.9% (effectively 5.75% at both December 31, 2013 and 2012); principal and interest payments due in monthly installments of \$92,010 through November 12, 2017; secured by the pilot boat "Drake".	\$ 3,777,693	\$ 4,729,230
Less: Current Portion	<u>828,760</u>	<u>754,888</u>
Long-Term Debt, Net of Current Portion	<u>\$ 2,948,933</u>	<u>\$ 3,974,342</u>

The Benevolent is subject to certain financial covenants which include, among other things, a debt service ratio. As of December 31, 2013 and 2012, the Benevolent is unaware of any covenant violations.

Total interest for the above long-term debt for the years ended December 31, 2013 and 2012 was \$252,580 and \$302,099, respectively.

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

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NOTE 5 – LONG-TERM DEBT (Continued)

Future estimated minimum principal payments on long-term debt are as follows:

Years Ending December 31,

2014	\$ 828,760
2015	957,553
2016	1,014,589
2017	<u>976,791</u>
	<u>\$ 3,777,693</u>

NOTE 6 – INCOME TAXES

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

	<u>2013</u>	<u>2012</u>
Current:		
Federal	\$ 166,170	\$ 35,857
State	<u>800</u>	<u>800</u>
Total Current	<u>166,970</u>	<u>36,657</u>
Deferred:		
Federal	(162,800)	(27,750)
State	<u>3,900</u>	<u>(9,000)</u>
Total Deferred	<u>(158,900)</u>	<u>(36,750)</u>
	<u>\$ 8,070</u>	<u>\$ (93)</u>

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NOTE 6 – INCOME TAXES (Continued)

As of December 31, the deferred tax asset and liability consist of the following:

	<u>2013</u>	<u>2012</u>
Current:		
Deferred Tax Asset	\$ 52,500	\$ 56,400
Deferred Tax Liability	-	-
Less: Valuation Allowance	<u>-</u>	<u>-</u>
Net Current Deferred Tax Asset	<u>52,500</u>	<u>56,400</u>
Noncurrent:		
Deferred Tax Asset	-	-
Deferred Tax Liability	(1,340,300)	(1,503,100)
Less: Valuation Allowance	<u>-</u>	<u>-</u>
Net Noncurrent Deferred Tax Liability	<u>(1,340,300)</u>	<u>(1,503,100)</u>
	<u>\$ (1,288,700)</u>	<u>\$ (1,446,700)</u>

Deferred taxes represent timing differences in depreciation and net operating loss carryover.

Approximate net operating loss carryover for California income tax purposes are as follows:

	<u>2013</u>	<u>2012</u>
California Net Operating Loss Carryover	<u>\$ 577,000</u>	<u>\$ 640,000</u>

The California net operating loss carryover will begin expiring in 2026.

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NOTE 7 – COMMITMENTS

The Benevolent entered into a sixteen-year lease agreement effective January 1, 2010 with the City and County of San Francisco, California, through the San Francisco Port Commission, for the facilities at Pier 9, which expires in December 2026. These facilities are subleased to the Bar Pilots during the term of the principal lease, which eliminate upon consolidation. The charter rentals for the pilot boats are established annually. Additionally, the Bar Pilots lease certain office equipment which will expire in August 2014. Total rent expense for the years ended December 31, 2013 and 2012 was \$1,255,952 and \$1,218,615, respectively.

Total future minimum lease payments at December 31, 2013 are as follows:

Years Ending December 31,

2014	\$ 1,314,992
2015	1,081,366
2016	1,113,807
2017	1,147,222
2018	1,181,638
Thereafter	<u>13,224,165</u>
	<u>\$ 19,063,190</u>

NOTE 8 – RETIREMENT PLANS

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

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

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2013
(With Comparative Amounts for the Year Ended December 31, 2012)

NOTE 8 – RETIREMENT PLANS (Continued)

Defined Benefit Pension Plan (Continued) – The following tables set forth the information about the pension plan as of and for the years ended December 31:

	<u>2013</u>	<u>2012</u>
Projected Benefit Obligation	\$ 2,292,748	\$ 2,189,886
Fair Value of Plan Assets	<u>2,267,601</u>	<u>1,826,990</u>
Unfunded Status	<u>\$ (25,147)</u>	<u>\$ (362,896)</u>

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

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

	<u>2013</u>	<u>2012</u>
Unrecognized Transition Obligation	\$ 233,688	\$ 257,057
Prior Service Cost	289,787	75,720
Net Loss (Gain)	<u>(199,381)</u>	<u>226,269</u>
	<u>\$ 324,094</u>	<u>\$ 559,046</u>

The estimated net loss, prior service cost and net translation obligation that will be amortized from the accumulated other comprehensive loss into net periodic benefit cost during the year ended December 31, 2014 are \$0, \$29,424, and \$23,369, respectively.

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

	<u>2013</u>	<u>2012</u>
Prior Service Costs	\$ (222,644)	\$ -
Net Gain Arising During the Year	424,994	18,795
Amortization of Net Gain	23,369	4,883
Amortization of Prior Service Costs	8,577	8,577
Amortization of Transition Obligation	<u>656</u>	<u>23,369</u>
Other Comprehensive Income	<u>\$ 234,952</u>	<u>\$ 55,624</u>

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2013
(With Comparative Amounts for the Year Ended December 31, 2012)

NOTE 8 – RETIREMENT PLANS (Continued)

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

	<u>2013</u>	<u>2012</u>
Net Periodic Benefit Cost	\$ 92,203	\$ 106,179
Employer Contributions	\$ 195,000	\$ 174,000
Benefits Paid	\$ 55,599	\$ 42,512

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

	<u>2013</u>	<u>2012</u>
Discount Rate – Net Periodic Benefit Cost	3.76%	4.23%
Discount Rate – Accumulated Benefit Obligation	4.67%	3.76%
Expected Return on Assets	6.50%	6.50%
Rate of Salary Increases	N/A	N/A

The expected long-term return on plan assets was based on a review of anticipated future performance of mutual funds, which considers recent fund performance and historical returns to determine the prospective rate of return of 6.50%. The plan had 100% of its assets in a balanced mutual fund at December 31, 2013 and 2012. The mutual fund is valued on quoted market prices, which represent the net asset value of shares held by the pension plan at year-end, and is classified as Level 1 under the fair value hierarchy defined by the *Fair Value Measurements and Disclosure* topic of the FASB ASC.

The plan's strategy to invest in mutual funds is based on the historical returns of these investments and the plan's objective to provide a level of risk relatively lower than that obtainable from direct investments in equity securities while still achieving long-term returns. No plan assets are expected to be returned to the Company during 2014.

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2013
(With Comparative Amounts for the Year Ended December 31, 2012)

NOTE 8 – RETIREMENT PLANS (Continued)

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

Years Ending December 31,

2014	\$ 86,597
2015	111,121
2016	108,266
2017	105,805
2018	122,632
2019 to 2023	<u>593,430</u>
	<u>\$ 1,127,851</u>

The Bar Pilots expects to make employer contributions to the pension plan totaling approximately \$150,000 during the year ended December 31, 2014.

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

- a. For employees represented by the Union – 5.00% of the aggregate compensation of all participants, as defined, plus an additional amount based on days worked.
- b. For employees not represented by the Union – 4.50% of the aggregate compensation of all participants, as defined, plus an additional fixed monthly amount.

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

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NOTES TO CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2013
(With Comparative Amounts for the Year Ended December 31, 2012)

NOTE 8 – RETIREMENT PLANS (Continued)

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

	<u>2013</u>	<u>2012</u>
Defined Benefit Pension Plan	\$ 195,000	\$ 174,000
Marine Employees Retirement Savings Plan	391,941	391,361
San Francisco Bar Pilots Retirement Plan	<u>141,158</u>	<u>137,087</u>
	<u>\$ 728,099</u>	<u>\$ 702,448</u>

NOTE 9 – RELATED PARTY TRANSACTIONS

During the years ended December 31, 2013 and 2012, Bar Pilots purchased tide books from a company associated with a pilot for a total amount of \$13,637 and \$12,695, respectively. The Bar Pilots leases pilot boats (classified as Charter Hire) and facilities (classified as Rent) from Benevolent. The Bar Pilots collect surcharges (Pilot Vessel Surcharge) on behalf of the Benevolent. At December 31, 2013 and 2012, the Bar Pilots owed accumulated Pilot Vessel Surcharges collected but not remitted to the Benevolent of \$190,366 and \$159,469, respectively.

NOTE 10 – CONTINGENCIES

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

NOTE 11 – SUBSEQUENT EVENTS

The Companies have evaluated the impact of subsequent events on these consolidating financial statements, including disclosures, through March 13, 2014, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION



SHEA LABAGH DOBBERSTEIN

Certified Public Accountants, Inc.

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the consolidating and consolidated financial statements of SAN FRANCISCO BAR PILOTS and SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION, as of and for the years ending December 31, 2013 and 2012, respectively, and our report thereon dated March 13, 2014, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidating and consolidated financial statements as a whole. The accompanying information presented in Exhibits 1 through 5 is presented for the purpose of additional analysis and is not a required part of the consolidating financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidating financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidating financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidating financial statements or to the consolidating financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidating financial statements as a whole.

SHEA LABAGH DOBBERSTEIN
Certified Public Accountants, Inc.

San Francisco, California
March 13, 2014

EXHIBIT 1

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

Year Ended December 31, 2013

	<u>Amount</u>	<u>%</u>
Salaries and Wages	\$ 2,532,939	35.4
Maintenance and Repair	1,332,698	18.7
Fuel	1,055,543	14.8
Charter Rental to San Francisco Bar Pilots		
Benevolent and Protective Association	804,000	11.3
Retirement Benefits	450,405	6.3
Health and Welfare	445,200	6.2
Payroll Taxes	208,454	2.9
Food Supplies	146,792	2.1
Insurance	139,200	1.9
Other	23,456	0.3
Laundry	7,066	0.1
	<u>\$ 7,145,753</u>	<u>100.0</u>

EXHIBIT 2

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

UNCONSOLIDATED STATEMENT OF BAR PILOTS' TERMINAL EXPENSES

Year Ended December 31, 2013

	<u>Amount</u>	<u>%</u>
Rent to the San Francisco Bar Pilots		
Benevolent and Protective Association	\$ 318,748	42.3
Salaries and Wages	260,297	34.5
Workers' Compensation Insurance	52,743	7.0
Health and Welfare	47,779	6.3
Retirement Benefits	33,738	4.5
Other	22,174	2.9
Payroll Taxes	18,328	2.5
	<u>\$ 753,807</u>	<u>100.0</u>

EXHIBIT 3

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

Year Ended December 31, 2013

	<u>Amount</u>	<u>%</u>
Salaries and Wages of Office Staff and Dispatchers	\$ 1,267,822	43.1
Rent to San Francisco Bar Pilots Benevolent and Protective Association	956,243	32.5
Medical Insurance	190,837	6.5
Employees' Retirement Plan	146,933	5.0
Payroll Taxes	99,227	3.4
Utilities	88,927	3.0
Maintenance and Repair	66,909	2.3
Communications	38,842	1.3
Workers' Compensation Insurance	38,741	1.3
Office Supplies	19,091	0.7
Food Supplies	18,338	0.6
Charts	5,588	0.2
Postage	3,788	0.1
Other	500	0.0
	<u>\$ 2,941,786</u>	<u>100.0</u>

EXHIBIT 4

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

Year Ended December 31, 2013

	<u>Amount</u>	<u>%</u>
Taxi and Launch Service	\$ 726,131	28.2
Insurance	669,604	26.1
Lobbying Expenses	222,197	8.6
Professional Services	216,917	8.4
Dues and Subscriptions	183,658	7.1
Public Relations	142,225	5.5
Legal and Accounting	132,892	5.2
Donations	90,691	3.5
Political Contributions	76,500	3.0
Business Taxes	37,200	1.5
Other	28,637	1.1
Travel and Meals	25,673	1.0
Bank Services	15,402	0.6
Equipment Rental and Maintenance	4,095	0.2
	<u>\$ 2,571,822</u>	<u>100.0</u>