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SAN FRANCISCO BAR PILOTS

AND

SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION

CONSOLIDATING FINANCIAL STATEMENTS

Year Ended December 31, 2019
(With Comparative Consolidated Amounts for 2018)

SHEA LABAGH DOBBERSTEIN
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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, 2019, 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 consolidating 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, 2018, and related consolidated statements of income and comprehensive income, equity and cash flows for the year then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 audits 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 consolidating financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating 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 2019 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, 2019, 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 2018 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, 2018, 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.

Shea Labagh Dobberstein

San Francisco, California
February 28, 2020

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

CONSOLIDATING BALANCE SHEET

December 31, 2019
(With Comparative Consolidated Amounts for 2018)

ASSETS

	2019				2018
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated	Consolidated
CURRENT ASSETS					
Cash	$ 1,902,514	$ 674,943	$ -	$ 2,577,457	$ 2,244,094
Accounts Receivable:					
Trade, Net of Allowance for Doubtful Accounts	4,749,354	-	-	4,749,354	5,279,715
Navigation Technology Surcharges	-	58,680	(58,680)	-	-
Other Receivables	6,783	-	-	6,783	14,327
Prepaid Expenses	33,105	104,498	-	137,603	170,508
TOTAL CURRENT ASSETS	6,691,756	838,121	(58,680)	7,471,197	7,708,644
PROPERTY AND EQUIPMENT, NET	-	1,423,062	-	1,423,062	2,610,085
DEFERRED INCOME TAX ASSET	-	149,400	-	149,400	-
RESTRICTED CASH	-	105,289	-	105,289	94,122
TOTAL ASSETS	$ 6,691,756	$ 2,515,872	$ (58,680)	$ 9,148,948	$ 10,412,851

See accompanying notes to consolidating financial statements.

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

CONSOLIDATING BALANCE SHEET (Continued)

December 31, 2019
(With Comparative Consolidated Amounts for 2018)

LIABILITIES AND EQUITY

	2019				2018
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated	Consolidated
CURRENT LIABILITIES					
Line of Credit	$ -	$ 417,349	$ -	$ 417,349	$ 1,423,197
Accounts Payable:					
Trade	463,628	-	-	463,628	553,143
Board of Pilot Commissioners	373,621	-	-	373,621	216,162
Navigation Technology Surcharges	58,680	-	(58,680)	-	-
Pension	903,205	-	-	903,205	906,552
Other	80,063	-	-	80,063	242,129
Accrued Expenses:					
Property Taxes	-	174,969	-	174,969	150,000
Vacation Pay	399,119	-	-	399,119	323,425
Other	76,593	-	-	76,593	100,482
Current Portion of Long-Term Debt	-	264,694	-	264,694	290,484
TOTAL CURRENT LIABILITIES	2,354,909	857,012	(58,680)	3,153,241	4,205,574
LONG-TERM LIABILITIES					
Deferred Income Tax Liability	-	-	-	-	148,000
Deferred Rent	-	135,442	-	135,442	-
Accrued Pension Benefit Obligation	644,797	-	-	644,797	562,516
Long-Term Debt, Net of Current Portion	-	-	-	-	240,490
TOTAL LONG-TERM LIABILITIES	644,797	135,442	-	780,239	951,006
TOTAL LIABILITIES	2,999,706	992,454	(58,680)	3,933,480	5,156,580
EQUITY					
Pilots' and Members' Equity	5,555,618	1,523,418	-	7,079,036	6,809,752
Accumulated Other Comprehensive Loss	(1,863,568)	-	-	(1,863,568)	(1,553,481)
TOTAL EQUITY	3,692,050	1,523,418	-	5,215,468	5,256,271
TOTAL LIABILITIES AND EQUITY	$ 6,691,756	$ 2,515,872	$ (58,680)	$ 9,148,948	$ 10,412,851

See accompanying notes to consolidating financial statements.

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

CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME

Year Ended December 31, 2019
(With Comparative Consolidated Amounts for 2018)

	2019				2018
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated	Consolidated
REVENUES					
Pilotage Fees Earned	$ 43,419,067	$ -	$ -	$ 43,419,067	$ 44,017,412
Navigation Technology Surcharge	-	345,160	-	345,160	343,120
Office and Terminal Rent	-	1,157,891	(1,157,891)	-	-
Charter Hire	-	510,000	(510,000)	-	-
TOTAL REVENUES	43,419,067	2,013,051	(1,667,891)	43,764,227	44,360,532
OPERATING EXPENSES					
Pilot Boat and Charter Hire	9,079,684	-	(510,000)	8,569,684	6,532,048
Terminal	691,620	-	(289,473)	402,147	429,933
Pilot Office and Dispatch	3,373,057	-	(868,418)	2,504,639	2,438,432
General	2,676,610	1,899,522	-	4,576,132	4,282,701
Depreciation and Amortization	-	1,229,568	-	1,229,568	1,410,020
TOTAL OPERATING EXPENSES	15,820,971	3,129,090	(1,667,891)	17,282,170	15,093,134
OPERATING INCOME (LOSS)	27,598,096	(1,116,039)	-	26,482,057	29,267,398
OTHER INCOME (EXPENSE)					
Other Income	239,146	49,930	-	289,076	180,984
Interest Expense	-	(70,144)	-	(70,144)	(61,053)
Other Expense	-	-	-	-	(46,671)
TOTAL OTHER INCOME (EXPENSE)	239,146	(20,214)	-	218,932	73,260
INCOME (LOSS) BEFORE BENEFIT FROM INCOME TAXES	27,837,242	(1,136,253)	-	26,700,989	29,340,658
BENEFIT FROM INCOME TAXES	-	(296,600)	-	(296,600)	(122,391)
NET INCOME (LOSS)	27,837,242	(839,653)	-	26,997,589	29,463,049
OTHER COMPREHENSIVE GAIN (LOSS)					
Defined Benefit Pension Plan, Net	(310,087)	-	-	(310,087)	(355,521)
COMPREHENSIVE INCOME (LOSS)	$ 27,527,155	$ (839,653)	$ -	$ 26,687,502	$ 29,107,528
AVERAGE NET INCOME PER PILOT	$ 499,415				$ 520,250

See accompanying notes to consolidating financial statements.

SAN FRANCISCO BAR PILOTS

AND

SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION

CONSOLIDATING STATEMENT OF EQUITY

Year Ended December 31, 2019
(With Comparative Consolidated Amounts for 2018)

	Bar Pilots					
	Bar Pilots' Equity	Accumulated Other Comprehensive Loss	Total	Benevolent Members' Equity	Eliminating Entries	Consolidated
BALANCE, JANUARY 1, 2018	$ 5,425,550	$ (1,197,960)	$ 4,227,590	$ 3,894,427	$ -	$ 8,122,017
Net Income (Loss)	29,628,258	-	29,628,258	(165,209)	-	29,463,049
Actuarial Loss on Pension Plan	-	(355,521)	(355,521)	-	-	(355,521)
Contributions from New Members	-	-	-	474,399	-	474,399
Distributions to Pilots	(29,601,279)	-	(29,601,279)	-	-	(29,601,279)
Payments to Retired Members	-	-	-	(2,846,394)	-	(2,846,394)
BALANCE, DECEMBER 31, 2018	5,452,529	(1,553,481)	3,899,048	1,357,223	-	5,256,271
Net Income (Loss)	27,837,242	-	27,837,242	(839,653)	-	26,997,589
Actuarial Loss on Pension Plan	-	(310,087)	(310,087)	-	-	(310,087)
Contributions from New Members	-	-	-	2,514,620	-	2,514,620
Distributions to Pilots	(27,734,153)	-	(27,734,153)	-	-	(27,734,153)
Payments to Retired Members	-	-	-	(1,508,772)	-	(1,508,772)
BALANCE, DECEMBER 31, 2019	$ 5,555,618	$ (1,863,568)	$ 3,692,050	$ 1,523,418	$ -	$ 5,215,468

See accompanying notes to consolidating financial statements.

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

CONSOLIDATING STATEMENT OF CASH FLOWS

INCREASE (DECREASE) IN CASH AND RESTRICTED CASH

Year Ended December 31, 2019
(With Comparative Consolidated Amounts for 2018)

	2019				2018
	Bar Pilots	Benevolent	Eliminating Entries	Consolidated	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net Income (Loss)	$ 27,837,242	$ (839,653)	$ -	$ 26,997,589	$ 29,463,049
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:					
Recovery for Bad Debts	-	-	-	-	(62,125)
Depreciation and Amortization	-	1,229,568	-	1,229,568	1,410,020
Pension Plan Costs, Net of Contributions	(227,806)	-	-	(227,806)	(237,076)
Deferred Income Taxes	-	(297,400)	-	(297,400)	(140,900)
Changes in Operating Assets and Liabilities:					
Accounts Receivable	537,905	61,380	(61,380)	537,905	(193,142)
Prepaid Expenses	16,030	16,875	-	32,905	(63,596)
Accounts Payable	(131,336)	(27,513)	61,380	(97,469)	(7,112)
Accrued Expenses	51,805	24,969	-	76,774	27,488
Deferred Rent	-	135,442	-	135,442	(23,627)
NET CASH PROVIDED BY OPERATING ACTIVITIES	28,083,840	303,668	-	28,387,508	30,172,979
CASH FLOWS USED IN INVESTING ACTIVITIES					
Purchase of Property and Equipment	-	(42,545)	-	(42,545)	(434,530)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from Lines of Credit	-	-		-	1,423,197
Principal Payments on Line of Credit	-	(1,005,848)	-	(1,005,848)	-
Principal Payments on Long-Term Debt	-	(266,280)	-	(266,280)	(295,244)
Contributions from New Members	-	2,514,620	-	2,514,620	474,399
Distributions to Pilots and Retired Members	(27,734,153)	(1,508,772)	-	(29,242,925)	(32,447,673)
NET CASH USED IN FINANCING ACTIVITIES	(27,734,153)	(266,280)	-	(28,000,433)	(30,845,321)
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	349,687	(5,157)	-	344,530	(1,106,872)
CASH AND RESTRICTED CASH, BEGINNING OF YEAR	1,552,827	785,389	-	2,338,216	3,445,088
CASH AND RESTRICTED CASH, END OF YEAR	$ 1,902,514	$ 780,232	$ -	$ 2,682,746	$ 2,338,216
SUPPLEMENTAL CASH FLOW INFORMATION					
Interest Paid During the Year	$ -	$ 70,144	$ -	$ 70,144	$ 64,180
Income Taxes Paid During the Year	$ -	$ -	$ -	$ -	$ 34,979
NON-CASH FINANCING ACTIVITIES					
Line of Credit Converted into Notes Payable	$ -	$ -	$ -	$ -	$ 726,218

NOTE 1 – NATURE OF OPERATIONS

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 California 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"), which is organized under California general nonprofit corporation's law as a nonprofit mutual benefit corporation.

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 Benevolent. The bylaws of 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, 2019 and 2018, the redemption price was approximately $503,000 and $474,000, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting –Bar Pilots and 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 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 VIE. 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 consolidating 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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adopted Accounting Pronouncements – In May 2014, the FASB issued guidance (Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*), which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. ASC 606 is effective for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Companies adopted ASC 606 with a date of the initial application of January 1, 2019. The Companies applied ASC 606 using the cumulative effective method.

As part of the adoption of ASC 606, the Company elected to use the following transition practical expedients: (1) all contract modifications that occurred prior to the date of initial application when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price have been reflected in the aggregate; and (2) ASC 606 is applied only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients.

The Company applied ASC 606 using the cumulative effect method, which did not have a significant impact on the Companies' financial position, results of operations, or cash flows; therefore, the comparative information has not been adjusted and continues to be reported under extant revenue guidance. The majority of the Companies' revenue arrangements generally consist of a single performance obligation to transfer promised services. Based on the Company's evaluation of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. The Companies does not expect the adoption of the new revenue standard to have a material impact on its net income on an ongoing basis.

In March 2017, the FASB issued Accounting Standards Update ("ASU") 2017-07, *Compensation-Retirement Benefits (Topic 715)*, which requires employers to disaggregate the service cost component from other components of net periodic benefit costs and to disclose the amounts of net periodic benefit costs that are included in each income statement line item. The standard requires employers to report the service cost component in the same line item as other compensation costs and to report the other components of net periodic benefit costs (which include interest costs, expected return on plan assets, amortization of prior service cost or credits and actuarial gains and losses) separately and outside a subtotal of operating income. Bar Pilots adopted this standard effective January 1, 2019 on a retrospective basis to each prior period presented and has recognized its net periodic benefit costs, excluding service costs, in benefit plan income, net on its consolidating statements of income. As part of the adoption of ASU 2017-07, certain 2018 operating expenses were reclassified to other expenses on the consolidating statements of income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Restricted Cash – The cash of the Companies includes cash on hand and held in banks. Amounts included in restricted cash represent amounts collected from the navigation technology surcharge which are designated to repay the navigation technology financing arrangement (Note 5).

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 management's expectations. The allowance reflects management's 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, 2019 and 2018, the allowance for doubtful accounts for each year 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, 2019 and 2018.

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.

Benevolent is a California nonprofit mutual benefit corporation which is treated as a taxable corporation for federal and California state income tax purposes. 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.

Accounting principles generally accepted in the United States of America provide accounting and disclosure guidance about positions taken by the Companies in their 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues – Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Companies recognize revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

For performance obligations related to Bar Pilots' revenue from pilotage fees earned from services piloting vessels, control transfers to the customer at a point in time. Bar Pilots recognize revenue upon completion of a pilotage. For performance obligations related Benevolent's revenue from surcharges billed for the use of navigation technology, which are collected by Bar Pilots on the behalf of Benevolent, control transfers to the customer at a point in time. Benevolent recognize revenue upon completion of a pilotage. In addition, the majority of the Company's contracts do not contain variable consideration and contract modifications are generally minimal.

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, which are excluded from revenue. 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, for the purchase and licensing of navigation equipment and software, 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, paid to the Board of Pilot Commissioners for its operations, the trainee training program and the pilot continuing education program, or retained by the Companies in accordance with applicable law and regulations.

The Company does not have any significant financing components as payment is received at or shortly after the point of sale.

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

Average net income per pilot is computed by dividing 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 2019 and 2018 was 56 and 57, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements – In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires, among other things, lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained the current dual model whereby leases are classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. This is similar to the current income statement treatment for leases. ASU 2016-02 is effective for the Companies for annual reporting periods beginning after December 15, 2020, with early adoption permitted. The new standard must be adopted using a modified-retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. In July 2018, the FASB issued ASU 2018-11, *Lease (Topic 842): Targeted Improvements*, to provide entities with relief from the cost of implementing certain aspects of the new leasing standard ASU 2016-02. ASU 2018-11 provides an additional transition method, and a lessor practical expedient to not separate lease and non-lease components if specific criteria are met. ASU 2018-11 effective date coincides with the effective date of ASU 2016-02 for companies that have not early adopted. Management is currently evaluating the impact of adopting this guidance on the Companies' consolidating financial statements.

Subsequent Events – The Companies have evaluated the impact of subsequent events on these consolidating financial statements, including disclosures, through February 28, 2020, the date the consolidating financial statements were available to be issued.

NOTE 3 – CASH AND RESTRICTED CASH

The following table provides a reconciliation of cash and restricted cash reported within the balance sheets that sums to the totals of the same such amounts presented in the consolidating statement of cash flows.

	2019	2018
Cash	$ 2,577,457	$ 2,244,094
Restricted Cash	105,289	94,122
Total Cash and Restricted Cash Presented in the Accompanying Consolidated Statement of Cash Flow	$ 2,682,746	$ 2,338,216

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of the following:

	2019	2018
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"	275,478	275,478
Leasehold and Dock Improvements	4,724,516	4,724,516
Office Furniture and Equipment	1,839,691	1,797,148
Pilot Boat Equipment	681,088	681,088
Automobile	94,324	94,324
	28,957,130	28,914,587
Less: Accumulated Depreciation and Amortization	(27,534,068)	(26,304,502)
Property and Equipment, Net	$ 1,423,062	$ 2,610,085

Depreciation and amortization expense for the years ended December 31, 2019 and 2018 was $1,229,568 and $1,410,020, respectively.

NOTE 5 – LINES OF CREDIT

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, but no less than 3.75% (effective rate at December 31, 2019 and 2018 was 4.75% and 5.25%, respectively), expiring on June 21, 2020. The line is collateralized by all business assets of Bar Pilots. This line of credit is subject to certain financial covenants. As of December 31, 2019 and 2018, Bar Pilots is unaware of any covenant violations.

At December 31, 2019 and 2018, the Companies had no borrowings against the above line of credit.

NOTE 5 – LINES OF CREDIT (Continued)

Benevolent has a revolving line of credit with a bank with a maximum borrowing limit of $2,000,000, bearing interest at the bank's reference rate, but no less than 3.75% (effective rate at December 31, 2019 and 2018 was 4.75% and 5.50%, respectively), and expiring on June 21, 2020. The line is collateralized by certain assets of Benevolent. At December 31, 2019 and 2018, Benevolent had borrowings against this line of credit for $417,349 and $1,423,197, respectively. Total interest incurred was $49,742 and $24,992 for the years ended December 31, 2019 and 2018, respectively.

Letter of credits totaling $208,085 have also been made available for Benevolent. At December 31, 2019 and 2018, the Companies had no borrowings against the letter of credits.

The Benevolent had a non-revolving line of credit with a bank (with a maximum borrowing limit of $1,100,000 and an outstanding balance of $726,218), which was converted into a term note, with a maturity date of January 1, 2021 (see Note 6) on July 1, 2018. The non-revolving line of credit bore interest at the bank's reference rate. At December 31, 2018, total interest incurred for the line non-revolving line of credit $20,216.

NOTE 6 – LONG-TERM DEBT

Benevolent has outstanding long-term debt of $264,694 and $530,974 as of December 31, 2019 and 2018, respectively, associated with the navigation equipment purchases and software license and with interest at the bank's reference rate (effective rate at December 31, 2019 and 2018 was 4.75% and 5.50%, respectively), with a maturity date of January 1, 2021. Principal payments are due in monthly installments of $24,207. This note is subject to certain financial covenants which include, among other things, a debt service ratio. As of December 31, 2019, Benevolent is unaware of any covenant violations. Future minimum payments for the year ending December 31, 2020 is $264,694. At December 31, 2019 and 2018, total interest incurred was $20,402 and $15,845, respectively.

NOTE 7 – INCOME TAXES

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

	2019	2018
Current:		
Federal	$ -	$ 8,576
State	800	9,933
Total Current	800	18,509
Deferred:		
Federal	(209,400)	(108,000)
State	(88,000)	(32,900)
Total Deferred	(297,400)	(140,900)
	$ (296,600)	$ (122,391)

As of December 31, the deferred tax liability consists of the following:

	2019	2018
Deferred Tax Asset	$ 149,400	$ -
Deferred Tax Liability	-	(148,000)
Less: Valuation Allowance	-	-
Net Deferred Tax Liability	$ 149,400	$ (148,000)

Deferred taxes represent timing differences in depreciation.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Leases – 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 Bar Pilots during the term of the principal lease, which eliminate upon consolidation. The charter rentals for the pilot boats are established annually. Additionally, Bar Pilots leased certain office equipment which expired in December 2019. Total rent expense for the years ended December 31, 2019 and 2018 was $1,163,966 and $1,132,753, respectively.

Total future minimum lease payments at December 31, 2019 are as follows:

Years Ending December 31,	
2020	$ 1,431,168
2021	1,474,103
2022	1,518,326
2023	1,563,876
2024	1,610,782
Thereafter	3,368,005
	$ 10,966,260

Guaranty – The Benevolent acts as guarantor with respect to buy-in notes held by fourteen pilots. The terms of the guarantee are for five or seven year periods and expire at various dates through July 2026. The total outstanding balance guaranteed on these buy-in notes, at December 31, 2019, was approximately $3,526,000.

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' consolidating financial statements.

NOTE 9 – 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 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.

NOTE 9 – RETIREMENT PLANS (Continued)

Defined Benefit Pension Plan (Continued) – On November 22, 1978, 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.

For the year ended December 31, 2019 and 2018, services costs of $193,892 and $200,915, respectively are included in operating expenses on the consolidating statements of income.

The following tables set forth the information about the pension plan as of and for the years ended December 31:

	2019	2018
Projected Benefit Obligation	$ 5,450,606	$ 4,265,090
Fair Value of Plan Assets	4,805,809	3,702,574
Unfunded Status	$ (644,797)	$ (562,516)

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 benefic cost at December 31 are as follows:

	2019	2018
Unrecognized Transition Obligation	$ 93,474	$ 116,843
Prior Service Cost	485,429	551,626
Net Loss	1,284,665	885,012
	$ 1,863,568	$ 1,553,481

The estimated net transition obligation, prior service cost, and net loss that was amortized from the accumulated other comprehensive loss into net periodic benefit cost during the year ended December 31, 2019 are $23,369, $66,197 and $37,036, respectively.

NOTE 9 – RETIREMENT PLANS (Continued)

Defined Benefit Pension Plan (Continued) – The changes in benefit obligations recognized in other comprehensive loss during the years ended December 31 are as follows:

	2019	2018
Net Loss Arising During the Year	$ (436,689)	$ (124,192)
Prior Service Cost	-	(323,861)
Amortization of Transition Obligation	23,369	23,369
Amortization of Prior Service Costs	66,197	40,037
Amortization of Net Gain	37,036	29,126
Other Comprehensive Loss	$ (310,087)	$ (355,521)

Amounts recorded for the years ended December 31 are as follows:

	2019	2018
Net Periodic Benefit Cost	$ 228,194	$ 170,924
Employer Contributions	$ 456,000	$ 408,000
Benefits Paid	$ 173,202	$ 155,177

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

	2019	2018
Discount Rate – Net Periodic Benefit Cost	4.11%	3.48%
Discount Rate – Accumulated Benefit Obligation	3.07%	4.11%
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, 2019 and 2018. 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.

NOTE 9 – RETIREMENT PLANS (Continued)

Defined Benefit Pension Plan (Continued) – 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 Bar Pilots during 2020.

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,		
2020	$	212,826
2021		211,023
2022		222,983
2023		238,980
2024		232,367
2025 to 2029		1,325,880
	$	2,444,059

Bar Pilots expect to make employer contributions to the pension plan totaling approximately $450,000 during the year ending December 31, 2020.

Marine Employees Retirement Savings Plan – 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, 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 – 12.00% of the aggregate compensation of all participants, as defined.

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

NOTE 9 – RETIREMENT PLANS (Continued)

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

	2019	2018
Defined Benefit Pension Plan	$ 456,000	$ 408,000
Marine Employees Retirement Savings Plan	423,293	403,808
San Francisco Bar Pilots Retirement Plan	165,169	176,839
	$ 1,044,462	$ 988,647

NOTE 10 – RELATED PARTY TRANSACTIONS

Bar Pilots lease pilot boats (classified as Charter Hire) and facilities (classified as Rent) from Benevolent. Bar Pilots collect Navigation Technologies Surcharges on behalf of Benevolent. At December 31, 2019 and 2018, Bar Pilots owed Navigation Technologies Surcharges collected, but not remitted to Benevolent, of $58,680 and $55,280, respectively. In addition, at December 31, 2018, Bar Pilots owed $64,780 to the Benevolent related to certain expenses the Benevolent paid on behalf of the Companies.

SUPPLEMENTARY INFORMATION

SHEA LABAGH DOBBERSTEIN
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

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 ended December 31, 2019 and 2018, respectively, and our report thereon dated February 28, 2020, which expressed an unmodified opinion on those consolidating 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.

Shea Labagh Dobberstein

San Francisco, California
February 28, 2020

EXHIBIT 1

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

UNCONSOLIDATED STATEMENT OF BAR PILOTS' PILOT BOAT AND CHARTER HIRE EXPENSES

Year Ended December 31, 2019

	Amount	%
Maintenance and Repair	$ 2,829,964	31.2
Salaries and Wages	2,794,582	30.8
Fuel	1,188,762	13.1
Retirement Benefits	640,044	7.0
Charter Rental to San Francisco Bar Pilots Benevolent and Protective Association	510,000	5.6
Health and Welfare	499,087	5.5
Payroll Taxes	222,910	2.5
Food Supplies	186,728	2.1
Insurance	125,843	1.4
Other	77,837	0.8
Equipment Rental	3,927	-
	$ 9,079,684	100.0

EXHIBIT 2

SAN FRANCISCO BAR PILOTS

AND

SAN FRANCISCO BAR PILOTS BENEVOLENT AND PROTECTIVE ASSOCIATION

UNCONSOLIDATED STATEMENT OF BAR PILOTS' TERMINAL EXPENSES

Year Ended December 31, 2019

	Amount	%
Rent to San Francisco Bar Pilots Benevolent and Protective Association	$ 289,473	41.9
Salaries and Wages	261,775	37.8
Retirement Benefits	40,624	5.9
Health and Welfare	36,008	5.2
Other	29,930	4.3
Payroll Taxes	20,457	3.0
Workers' Compensation Insurance	13,353	1.9
	$ 691,620	100.0

EXHIBIT 3

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

UNCONSOLIDATED STATEMENT OF BAR PILOTS' PILOTS OFFICE AND DISPATCH EXPENSES

Year Ended December 31, 2019

	Amount	%
Salaries and Wages of Office Staff and Dispatchers	$ 1,717,674	50.9
Rent to San Francisco Bar Pilots Benevolent and Protective Association	868,418	25.7
Medical Insurance	236,130	7.0
Employees' Retirement Plan	201,220	6.0
Payroll Taxes	117,376	3.5
Utilities	103,518	3.1
Maintenance and Repair	75,757	2.2
Food Supplies	23,432	0.7
Other	16,078	0.5
Workers' Compensation Insurance	13,454	0.4
	$ 3,373,057	100.0

EXHIBIT 4

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

UNCONSOLIDATED STATEMENT OF BAR PILOTS' GENERAL EXPENSES

Year Ended December 31, 2019

	Amount	%
Taxi and Launch Service	$ 845,652	31.6
Insurance	627,952	23.5
Dues and Subscriptions	243,312	9.1
Lobbying Expenses	239,464	8.9
Professional Services	203,816	7.6
Public Relations	171,092	6.4
Legal and Accounting	83,757	3.1
Business Taxes	60,298	2.3
Other	52,714	2.0
Travel	50,022	1.9
Donations	30,690	1.1
Communications	24,826	0.9
Bank Services	17,485	0.7
Continued Education	17,430	0.7
Political Contributions	8,100	0.2
	$ 2,676,610	100.0