

INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES

**ST. LAWRENCE SEAWAY PILOTS' ASSOCIATION  
CONTRACT # GS-23F-0124M**

DECEMBER 31, 2010

St. Lawrence Seaway Pilots' Association

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INDEPENDENT ACCOUNTANTS' 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 was agreed to by the United States Coast Guard (USCG), solely to assist you in evaluating certain aspects of the expenses incurred by the St. Lawrence Seaway Pilots' Association and Seaway Pilot Inc. (collectively known as "District 1" or the "Association") for the year ended December 31, 2010. The United States Coast Guard is responsible for evaluating such expenses incurred. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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

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

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

*Reznick Group, P.C.*

Bethesda, Maryland  
January 16, 2012

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS

I. OVERVIEW

The Great Lakes Pilotage Division is responsible for oversight of the St. Lawrence Seaway Pilots' Association, as well as two other pilot associations, which provide piloting services in the Great Lakes region. Included in this oversight function is the responsibility to set pilotage rates, which encompass pilot compensation, other piloting costs, and other expenses. The 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.

II. EVALUATION OF REPORTED EXPENSES

Procedure:

Obtain a listing of the expenses incurred by District 1 for the year ended December 31, 2010 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) 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 Accountants' 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 groups of 1) specific or 2) general classes, and determine the methods of testing to be utilized.
3. Identify accounts to be selected for sampling.
  - A. These accounts will include:
    - i. Travel expense
    - ii. Member expenses
    - iii. Repair and maintenance expenses
    - iv. Other operating expenses

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

- B. For accounts to be sampled, calculate planning materiality and tolerable misstatement (TM 75% of planning materiality) based on total submitted expenses and pilot compensation using industry guidelines.
  - i. Select all individually significant items in each group for testing. Items that are greater than 1/3 of TM are considered individually significant.
  - ii. Using an accounting industry standard sampling form and assessing risk at high, determine remaining sample size to be selected from each group.
  - iii. Obtain supporting documentation for each transaction selected for testing.
- 4. For accounts not selected for sampling, perform the following procedures:
  - A. Depreciation expense
    - i. Review schedule provided by the District for items that may not be eligible.
    - ii. Select material fixed asset additions that are greater than 1/3 of TM.
    - iii. Recalculate depreciation expense for each fixed asset addition selected for testing.
  - B. Insurance expense
    - i. Review schedule provided by the District for items that may not be eligible
    - ii. Agree premiums on schedule to insurance policies
    - iii. Recalculate insurance expense based on coverage periods
  - C. Payroll and other 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 haphazardly select 5 employees and agree to employee W-2 or other supporting documentation
    - iii. Recalculate estimated tax calculation and verify appropriate rates are being used
  - D. Legal expense
    - i. Review all invoices from the attorney shared by the three Districts
    - ii. Review one invoice from every other attorney identified in the general ledger
  - E. Real estate taxes
    - i. Review tax bill for amount, location and tax period
    - ii. Recalculate tax expense based on taxable year
  - F. Utility expense
    - i. Review general ledger and verify there are no more than 12 monthly transactions during the year.
    - ii. Review any transactions in excess of the 12 monthly expected transactions and determine if the expense is appropriate

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

- G. Interest expense
    - i. Obtain loan agreement or other documents that provide loan terms, including interest rate
    - ii. Recalculate interest expense based on the principal and interest rate provided
  - H. All other accounts not already tested
    - 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 pilot compensation, other piloting costs, or both. Adjustments will only be recorded for identified misstatements, within a given group, exceeding 3% of planning materiality.

Results:

The "Total amount reported" column in the following table represents amounts provided by District 1 from their general ledger as of December 31, 2010. The breakdown of amounts by area was provided by District 1 for information purposes only and was not subject to the procedures above. Exceptions are shown in the "Adjustments" column below. The breakdown of adjustments by area was calculated using the same percentage allocation that was provided by District 1. Each adjustment references the finding number located in the Summary of Findings and Recommendations, which describes the reasoning for such adjustment.

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

The following are the results of performing such procedures:

			District 1						Adjusted total amount reported
	Area 1	Area 2	Total amount reported	Area 1 adjustments	Area 2 adjustments	Total adjustments	Area 1 adjusted	Area 2 adjusted	
<b>Pilot compensation</b>									
Salaries (01), (02)	\$ 1,125,150	\$ 888,001	\$ 2,013,151	\$ (85,574)	\$ (67,538)	\$ (153,112)	\$ 1,039,576	\$ 820,463	\$ 1,860,039
Employee benefits	38,176	30,129	68,305	-	-	-	38,176	30,129	68,305
Dues and subscriptions (03), (02)	-	-	-	11,348	8,956	20,304	11,348	8,956	20,304
<b>Total pilot compensation</b>	<b>\$ 1,163,326</b>	<b>\$ 918,130</b>	<b>\$ 2,081,456</b>	<b>\$ (74,226)</b>	<b>\$ (58,582)</b>	<b>\$ (132,808)</b>	<b>\$ 1,089,100</b>	<b>\$ 859,548</b>	<b>\$ 1,948,648</b>
<b>Operating expenses</b>									
Other pilotage costs									
Pilot subsistence/Travel (04)	\$ 212,715	\$ 167,880	\$ 380,595	\$ (7,747)	\$ (6,114)	\$ (13,861)	\$ 204,968	\$ 161,766	\$ 366,734
License insurance	23,880	18,847	42,727	-	-	-	23,880	18,847	42,727
Payroll taxes (01)	-	-	-	64,563	50,955	115,518	64,563	50,955	115,518
Other	1,432	1,130	2,562	-	-	-	1,432	1,130	2,562
<b>Total other pilotage costs</b>	<b>238,027</b>	<b>187,857</b>	<b>425,884</b>	<b>56,816</b>	<b>44,841</b>	<b>101,657</b>	<b>294,843</b>	<b>232,698</b>	<b>527,541</b>
<b>Pilot boat and dispatch costs</b>									
Pilot boat expense	95,254	75,178	170,432	-	-	-	95,254	75,178	170,432
Dispatch expense	-	-	-	-	-	-	-	-	-
Payroll taxes	7,962	6,283	14,245	-	-	-	7,962	6,283	14,245
<b>Total pilot boat and dispatch costs</b>	<b>103,216</b>	<b>81,461</b>	<b>184,677</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>103,216</b>	<b>81,461</b>	<b>184,677</b>

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

	District 1								
	Area 1	Area 2	Total amount reported	Area 1 adjustments	Area 2 adjustments	Total adjustments	Area 1 adjusted	Area 2 adjusted	Adjusted total amount reported
Administrative expenses									
Legal (06)	7,959	6,282	14,241	799	631	1,430	8,758	6,913	15,671
Insurance	13,971	11,026	24,997	-	-	-	13,971	11,026	24,997
Employee benefits (05)	19,454	15,354	34,808	(1,537)	(1,213)	(2,750)	17,917	14,141	32,058
Payroll taxes	4,816	3,801	8,617	-	-	-	4,816	3,801	8,617
Other taxes	4,504	3,554	8,058	-	-	-	4,504	3,554	8,058
Travel	215	169	384	-	-	-	215	169	384
Depreciation/Auto leasing/Other	17,440	13,765	31,205	-	-	-	17,440	13,765	31,205
Interest	12,576	9,926	22,502	-	-	-	12,576	9,926	22,502
Dues and subscriptions (03)	13,075	10,319	23,394	(13,075)	(10,319)	(23,394)	-	-	-
Utilities	5,130	4,049	9,179	-	-	-	5,130	4,049	9,179
Salaries	49,840	39,336	89,176	-	-	-	49,840	39,336	89,176
Accounting/Professional fees	4,997	3,943	8,940	-	-	-	4,997	3,943	8,940
Other	9,408	7,425	16,833	-	-	-	9,408	7,425	16,833
Total administrative dxpenses	163,385	128,949	292,334	(13,813)	(10,901)	(24,714)	149,572	118,048	267,620
Total operating expenses	\$ 504,628	\$ 398,267	\$ 902,895	\$ 43,003	\$ 33,940	\$ 76,943	\$ 547,631	\$ 432,207	\$ 979,838
Total pilot compensation and operating expenses	\$ 1,667,954	\$ 1,316,397	\$ 2,984,351	\$ (31,223)	\$ (24,642)	\$ (55,865)	\$ 1,636,731	\$ 1,291,755	\$ 2,928,486

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

III. VARIANCE ANALYSIS

Procedure:

Obtain a listing of the expenses incurred by District 1 for the years ended December 31, 2006 through 2010 and perform the following procedures:

1. Segregate accounts into groups based on account description.
2. Compute average of the accounts and groups from 2006 to 2010.
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 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; and
  - D. Compute travel expense per pilot.
7. Obtain explanation and supporting documentation from pilot association personnel, if deemed necessary, to support identified variances and determine if reasonable.
8. Conclude if any instances were identified that led us to believe 2010 expenses were overstated for ratemaking purposes.

Results:

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

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

IV. INVESTMENT BASE CALCULATION

Procedure:

Prepare the Investment Base Calculation using information obtained from the audited financial statements of St. Lawrence Seaway Pilots' Association and Seaway Pilot Inc., for the year ended December 31, 2010:

	Area 1	Area 2	District 1
<b>Recognized assets</b>			
Total current assets	\$ 681,485	\$ 537,847	\$ 1,219,332
Total current liabilities	78,005	61,564	139,569
Current notes payable	22,168	17,496	39,664
Total property and equipment (NET)	374,021	295,189	669,210
Land	12,315	9,720	22,035
Total other assets	-	-	-
	<u>987,354</u>	<u>779,248</u>	<u>1,766,602</u>
<b>Total recognized assets</b>			
<b>Non-recognized assets</b>			
Total investments and special funds	6,103	4,817	10,920
	<u>6,103</u>	<u>4,817</u>	<u>10,920</u>
<b>Total non-recognized assets</b>			
<b>Total assets</b>			
Total recognized assets	987,354	779,248	1,766,602
Total non-recognized assets	6,103	4,817	10,920
	<u>993,457</u>	<u>784,065</u>	<u>1,777,522</u>
<b>Total assets</b>			
<b>Recognized sources of funds</b>			
Total stockholders' equity	\$ 659,702	\$ 520,656	\$ 1,180,358
Long-term debt	323,902	255,633	579,535
Current notes payable	22,168	17,496	39,664
Advances from affiliated companies	-	-	-
Long-term obligations - capital leases	-	-	-
	<u>1,005,772</u>	<u>793,785</u>	<u>1,799,557</u>
<b>Total recognized sources</b>			
<b>Non-recognized sources of funds</b>			
Pension liability	-	-	-
Other non-current liabilities	-	-	-
Deferred federal income taxes	-	-	-
Other deferred credits	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total non-recognized sources</b>			
<b>Total sources of funds</b>			
Total recognized sources	1,005,772	793,785	1,799,557
Total non-recognized sources	-	-	-
	<u>1,005,772</u>	<u>793,785</u>	<u>1,799,557</u>
<b>Total sources of funds</b>			

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

Results:

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

V. COMPARISON OF PILOT ASSOCIATION ACTIVITIES

Procedure:

Obtain a listing of the expenses incurred by St. Lawrence Seaway Pilots' Association and Seaway Pilot Inc. (collectively known as District 1), Lakes Pilots Association, Inc. (District 2) and Western Great Lakes Pilots Association, LLP (District 3) for the year ended December 31, 2010 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 2010 expenses and the percentage of each expense, to total district revenue.
3. Perform an analysis of the significant cost categories incurred by the Districts and provide a summary of the composition of the following categories:
  - A. Pilot compensation and payroll taxes,
  - B. Travel expense/pilot subsistence,
  - C. Pilot boat and dispatch costs,
  - D. Cost associated with affiliated entities, and
  - E. Administrative expenses,
    - i. Legal, accounting and professional fees,
    - ii. Office rent, and
    - iii. Depreciation/auto leasing/other.

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

Results:

The following are the results of performing such procedures:

	<u>District 1</u>		<u>District 2</u>		<u>District 3</u>		<u>Total</u>	
Total revenue	<u>\$ 3,663,769</u>		<u>\$ 3,621,492</u>		<u>\$ 4,644,844</u>		<u>\$ 11,930,105</u>	
	<u>Adjusted amount</u>	<u>% of district revenue</u>						
Pilot compensation								
Salaries	\$ 1,860,039	50.77%	\$ 1,692,600	46.74%	\$ 1,628,173	35.05%	\$ 5,180,812	43.43%
Employee benefits	68,305	1.86%	604,230	16.68%	395,912	8.52%	1,068,448	8.96%
Dues and subscriptions	20,304	0.55%	15,500	0.43%	28,974	0.62%	64,778	0.54%
Total pilot compensation	<u>\$ 1,948,648</u>	<u>53.19%</u>	<u>\$ 2,312,330</u>	<u>63.85%</u>	<u>\$ 2,053,059</u>	<u>44.20%</u>	<u>\$ 6,314,037</u>	<u>52.93%</u>
Operating expenses								
Other pilotage costs								
Pilot subsistence/travel	\$ 366,734	10.01%	\$ 188,759	5.21%	\$ 360,512	7.76%	\$ 916,005	7.68%
License insurance	42,727	1.17%	15,420	0.43%	19,499	0.42%	77,646	0.65%
Payroll taxes	115,518	3.15%	133,643	3.69%	114,379	2.46%	363,540	3.05%
Other	2,562	0.07%	105,325	2.91%	1,335	0.03%	109,222	0.92%
Total other pilotage costs	<u>527,541</u>	<u>14.38%</u>	<u>443,147</u>	<u>12.23%</u>	<u>495,725</u>	<u>10.66%</u>	<u>1,466,413</u>	<u>12.28%</u>
Pilot boat and dispatching costs								
Pilot boat costs	170,432	4.65%	361,219	9.97%	417,890	9.00%	949,541	7.96%
Dispatching costs	-	0.00%	19,575	0.54%	149,109	3.21%	168,684	1.41%
Payroll taxes	14,245	0.39%	10,140	0.28%	17,093	0.37%	41,478	0.35%
Total pilot boat and dispatch costs	<u>184,677</u>	<u>5.04%</u>	<u>390,934</u>	<u>10.78%</u>	<u>584,092</u>	<u>12.58%</u>	<u>1,159,702</u>	<u>9.72%</u>

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

	District 1		District 2		District 3		Total	
	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue
Administrative expenses								
Legal	15,671	0.43%	19,777	0.55%	56,431	1.21%	91,878	0.77%
Office rent	-	0.00%	63,666	1.76%	9,900	0.21%	73,566	0.62%
Insurance	24,997	0.68%	33,524	0.93%	13,943	0.30%	72,464	0.61%
Employee benefits	32,058	0.87%	61,051	1.69%	122,758	2.64%	215,866	1.81%
Payroll taxes	8,617	0.24%	7,451	0.21%	12,096	0.26%	28,164	0.24%
Other taxes	8,058	0.22%	47,751	1.32%	32,586	0.70%	88,395	0.74%
Travel	384	0.01%	-	0.00%	-	0.00%	384	0.00%
Depreciation/Auto leasing/Other	31,205	0.85%	57,385	1.58%	49,777	1.07%	138,367	1.16%
Interest	22,502	0.61%	8,805	0.24%	3,256	0.07%	34,562	0.29%
Dues and subscriptions	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Bad debt expense	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Utilities	9,179	0.25%	30,346	0.84%	28,014	0.60%	67,539	0.57%
Salaries	89,176	2.43%	116,528	3.22%	105,512	2.27%	311,216	2.61%
Accounting/Professional fees	8,940	0.24%	35,167	0.97%	25,199	0.54%	69,306	0.58%
Bookkeeping fees	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Other	16,833	0.46%	40,392	1.12%	9,152	0.20%	66,377	0.56%
Total administrative expenses	<u>267,620</u>	<u>7.31%</u>	<u>521,843</u>	<u>14.40%</u>	<u>468,624</u>	<u>10.09%</u>	<u>1,258,088</u>	<u>10.55%</u>
Total operating expenses	<u>\$ 979,838</u>	<u>26.74%</u>	<u>\$ 1,355,924</u>	<u>37.43%</u>	<u>\$ 1,548,441</u>	<u>33.34%</u>	<u>\$ 3,884,203</u>	<u>32.56%</u>
Total pilot compensation and operating expenses	<u>\$ 2,928,486</u>	<u>79.93%</u>	<u>\$ 3,668,254</u>	<u>101.28%</u>	<u>\$ 3,601,500</u>	<u>77.54%</u>	<u>\$ 10,198,240</u>	<u>85.48%</u>

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

Pilot Compensation and Payroll Taxes

- District 1: Pilots were compensated through capital drawings based on available funds. Therefore, pilot salary expenses are not recorded. All capital drawings were included in the procedures performed and have been allocated to pilot compensation or other expenses as deemed appropriate. The pilots were responsible for paying payroll taxes within their personal tax filing. The district recorded a 'self-employment tax equivalent' in the Statement of Pilots' Capital, in its audited financial statements for the year ended December 31, 2010. This amount was computed by multiplying total capital drawings by the IRS standard self-employment tax rate of 15.3%, consisting of 12.4% for social security and 2.9% for Medicare, up to \$106,800. Compensation in excess of \$106,800 is subject to the 2.9% Medicare tax only. An adjustment was made to reclass the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.
- District 2: Pilots were compensated on a 'per available day' basis at either \$200 or \$150 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 either \$250 or \$175 per day. Applicant pilots were paid at a rate of 70%, 80% or 90% of the standard pilot rate. The pilots also receive distributions. These distributions were not included in pilot compensation, for the purposes of this report except for the recalculation of payroll taxes. The pilots were responsible for paying payroll taxes within their personal tax filing. Therefore, payroll taxes on pilot compensation were not recorded by the Association. An adjustment was made to reclass the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.

Travel Expense/Pilot Subsistence

- District 1: All travel expenses incurred, such as fuel or taxi charges, are generally reimbursed at actual costs and require a receipt to be submitted. Mileage was computed using standard rates and per diem is calculated at \$59 per day based on submitted expense reports.
- 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

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

reimbursements were calculated at a rate of \$52 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: Pilots were provided a per diem of \$52 'per available working day', or non-rest days. In addition, pilots were provided a hotel allowance of either \$100 or \$70 for each night's stay as documented on their expense report. Also, pilots were provided an allowance for transportation costs, such as taxi charges, for travel days as documented on their expense reports. The allowance was based on typical transportation costs incurred in each respective port area. Mileage was computed using standard rates. All other travel expenses incurred, such as fuel or tolls, were generally reimbursed at actual costs and require a receipt to be submitted.

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 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.

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

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 in the normal course of business 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: This District incurred legal expenses in the normal course of business 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 3: This District incurred legal expenses in the normal course of business 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.

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.

St. Lawrence Seaway Pilots' Association

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

- District 2: This District incurred depreciation on pilot boats, a housing location at one port, and various pieces of equipment. The district also entered into automobile lease agreements.
- District 3: This District incurred depreciation on equipment and vehicles. The expense for navigation equipment purchased during 2010 is included in this administrative account.

VI. RECOMMENDED GENERAL LEDGER ACCOUNTS

Procedure:

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

Results:

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

St. Lawrence Seaway Pilots' Association

SUMMARY OF FINDINGS AND RECOMMENDATIONS

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

Finding Number: D1-10-01

Finding Title: Payroll Taxes - Pilots

Condition:

The Association did not incur payroll taxes for pilot compensation as the pilots are responsible for these on their individual tax returns. The Association incurred compensation costs related to an internally calculated self-employed equivalent tax amount, using IRS self-employment standard tax rate.

Criteria:

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

Effect:

Operating expenses are understated.

Cause:

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

Recommendation:

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

St. Lawrence Seaway Pilots' Association

SUMMARY OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Finding Number: D1-10-02

Finding Title: Pilot Compensation

Condition:

The Association incurred costs for pilot compensation that did not relate to 2010.

Criteria:

Procedures performed are for expenses incurred during the year ended December 31, 2010 only.

Effect:

Pilot compensation is overstated.

Cause:

Expenses incurred for 2009 were received and paid during 2010.

Recommendation:

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

Finding Number: D1-10-03

Finding Title: Dues and Subscriptions

Condition:

The Association incurred costs for dues and subscriptions that were classified as operating expenses.

Criteria:

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

St. Lawrence Seaway Pilots' Association

SUMMARY OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Effect:

Pilot compensation is understated and expenses are overstated.

Cause:

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

Recommendation:

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

Finding Number: D1-10-04

Finding Title: Travel Expenses

Condition:

The Association incurred costs for travel expenses that did not relate to 2010. Revenue was received for certain taxi expenses, therefore these specific charges are not considered necessary for ratemaking purposes.

Criteria:

Procedures performed are for expenses incurred during the year ended December 31, 2010 only. Regulation 46 CFR 404.5(a)(8)(v) states that expenses not directly related to pilotage are not recognized as reasonable for ratemaking purposes. Supporting documentation for certain expenses was not retained.

Effect:

Operating expenses are overstated.

Cause:

Expenses incurred in 2009 were received and paid during 2010. Revenue was received for certain taxi expenses.

St. Lawrence Seaway Pilots' Association

SUMMARY OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Recommendation:

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

Finding Number: D1-10-05

Finding Title: Employee Benefits

Condition:

The Association incurred costs for employee benefits that did not relate to 2010.

Criteria:

Procedures performed are for expenses incurred during the year ended December 31, 2010 only.

Effect:

Employee benefits are overstated.

Cause:

Expenses pertaining to 2011 were received and paid during 2010.

Recommendation:

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

Finding Number: D1-10-06

Finding Title: Legal Expenses

Condition:

The Association incurred legal costs that were associated with lobbying expenses and reduced these costs for an amount that exceeded their allocation of lobbying expenses.

St. Lawrence Seaway Pilots' Association

SUMMARY OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Criteria:

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

Effect:

Operating expenses are understated.

Cause:

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

Recommendation:

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

INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES

**LAKES PILOTS ASSOCIATION, INC.**  
**CONTRACT # GS-23F-0124M**

DECEMBER 31, 2010

Lakes Pilots Association, Inc.

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INDEPENDENT ACCOUNTANTS' 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 was agreed to by the United States Coast Guard (USCG), solely to assist you in evaluating certain aspects of the expenses incurred by the Lakes Pilots Association, Inc. (District 2 or the Association) for the year ended December 31, 2010. The United States Coast Guard is responsible for evaluating such expenses incurred. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are included in the accompanying Summary of Agreed-upon Procedures and Results and 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 being reissued to correct the allocation of total pilot compensation and operating expenses between Area 4 and Area 5, as presented in the table on pages 8 and 9 of this report. The allocation of total pilot compensation and operating expenses between Area 4 and Area 5 was reversed in the original report. There is no change to total pilot compensation and operating expenses.

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.

*Reznick Group, P.C.*

Bethesda, Maryland  
January 16, 2012

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS

I. OVERVIEW

The Great Lakes Pilotage Division is responsible for oversight of the Lakes Pilots Association, Inc., as well as two other pilot associations, which provide piloting services in the Great Lakes region. Included in this oversight function is the responsibility to set pilotage rates, which encompass pilot compensation, other piloting costs, and other expenses. The 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.

II. EVALUATION OF REPORTED EXPENSES

Procedure:

Obtain a listing of the expenses submitted by District 2 for the year ended December 31, 2010 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) 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 Accountants' 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 groups of 1) specific or 2) general classes, and determine the methods of testing to be utilized.
3. Identify accounts to be selected for sampling.
  - A. These accounts will include:
    - i. Travel expense
    - ii. Pilot boat and dispatch cost/repair and maintenance expenses
    - iii. Other operating expenses

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

- B. For accounts to be sampled, calculate planning materiality and tolerable misstatement (TM or 75% of planning materiality) based on total submitted expenses and pilot compensation using industry guidelines.
  - i. Select all individually significant items in each group for testing. Items that are greater than 1/3 of TM are considered individually significant.
  - ii. Using an accounting industry standard sampling form and assessing risk at high, determine remaining sample size to be selected from each group.
  - iii. Obtain supporting documentation for each transaction selected for testing.
- 4. For accounts not selected for sampling, perform the following procedures:
  - A. Depreciation expense
    - i. Review schedule provided by the District for items that may not be eligible.
    - ii. Select material fixed asset additions that are greater than 1/3 of TM.
    - iii. Recalculate depreciation expense for each fixed asset addition selected for testing.
  - B. Insurance expense
    - i. Review schedule provided by the District for items that may not be eligible
    - ii. Agree premiums on schedule to insurance policies
    - iii. Recalculate insurance expense based on coverage periods
  - C. Payroll and other related expenses
    - i. Review payroll schedule provided by the District for the items that may not be eligible
    - ii. Agree to annual payroll summary register or select five employees and agree to employee W-2
    - iii. Recalculate estimated tax calculation and verify appropriate rates are being used
  - D. Legal expense
    - i. Review all invoices from the attorney shared by the three Districts
    - ii. Review one invoice from every other attorney identified in the general ledger
  - E. Real estate taxes
    - i. Review tax bill for amount, location and tax period
    - ii. Recalculate tax expense based on taxable year
  - F. Pilot subsistence
    - i. Determine that per diem does not exceed 200 days per pilot
    - ii. Where per diem support can be obtained, haphazardly select 5 per diem transactions and agree to supporting expense reimbursement detail

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

- G. Utility expense
    - i. Review general ledger and verify there are no more than 12 monthly transactions during the year
    - ii. Review any transactions in excess of the 12 monthly expected transactions and determine if the expense is appropriate
  - H. Rent expense
    - i. Obtain signed lease agreement and recalculate the expense based on the terms of the lease
    - ii. For lease agreements with affiliated entities, CFR Part 404.5 (3) will be applied, stating that “in the absence of a comparable market, lease costs are recognized for ratemaking purposes to the extent that they conform to depreciation plus an allowance for return on investment.” In lieu of depreciation, actual annual expenses incurred in conjunction with purchase and maintenance of the land will be determined. Return on investment will be determined using the Moody’s Corporate Bond AAA index as of December 31, 2010, or 4.88%
  - I. Interest expense
    - i. Obtain loan agreement or other documents that provide loan terms, including interest rate
    - ii. Recalculate interest expense based on the principal and interest rate provided
  - J. All other accounts not already tested
    - 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 pilot compensation, other piloting costs, or both. Adjustments will only be recorded for identified misstatements, within a given group, exceeding 3% of planning materiality.

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

Results:

The "Total amount reported" column in the following table represents amounts provided by District 2 from their general ledger as of December 31, 2010. 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 "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 Summary of Findings and Recommendations, which describes the reasoning for such adjustment.

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

The following are the results of performing such procedures:

	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
<b>Pilot compensation</b>									
Salaries	\$ 677,040	\$ 1,015,560	\$ 1,692,600	* \$ -	\$ -	\$ -	\$ 677,040	\$ 1,015,560	\$ 1,692,600
Employee benefits (03)	265,876	398,814	664,690	(24,184)	(36,276)	(60,460)	241,692	362,538	604,230
Dues and subscriptions (01)	-	-	-	6,200	9,300	15,500	6,200	9,300	15,500
<b>Total pilot compensation</b>	<b>\$ 942,916</b>	<b>\$ 1,414,374</b>	<b>\$ 2,357,290</b>	<b>\$ (17,984)</b>	<b>\$ (26,976)</b>	<b>\$ (44,960)</b>	<b>\$ 924,932</b>	<b>\$ 1,387,398</b>	<b>\$ 2,312,330</b>
<b>Operating expenses</b>									
Other pilotage costs									
Pilot subsistence/Travel (07)	\$ 79,503	\$ 119,254	\$ 198,757	\$ (3,999)	\$ (5,999)	\$ (9,998)	\$ 75,504	\$ 113,255	\$ 188,759
License insurance	6,168	9,252	15,420	-	-	-	6,168	9,252	15,420
Payroll taxes	53,457	80,186	133,643	-	-	-	53,457	80,186	133,643
Other	42,130	63,195	105,325	-	-	-	42,130	63,195	105,325
<b>Total other pilotage costs</b>	<b>181,258</b>	<b>271,887</b>	<b>453,145</b>	<b>(3,999)</b>	<b>(5,999)</b>	<b>(9,998)</b>	<b>177,259</b>	<b>265,888</b>	<b>443,147</b>
<b>Pilot boat and dispatch costs</b>									
Pilot boat expense (05)	145,254	217,882	363,136	(767)	(1,150)	(1,917)	144,487	216,731	361,219
Dispatch expense	7,830	11,745	19,575	-	-	-	7,830	11,745	19,575
Payroll taxes	4,056	6,084	10,140	-	-	-	4,056	6,084	10,140
<b>Total pilot boat and dispatch costs</b>	<b>157,140</b>	<b>235,711</b>	<b>392,851</b>	<b>(767)</b>	<b>(1,150)</b>	<b>(1,917)</b>	<b>156,373</b>	<b>234,560</b>	<b>390,934</b>

\* Includes \$40,000 of dividends that were not subject to the agreed-upon procedures in Section II

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

			District 2						Adjusted total amount reported
	Area 4	Area 5	Total amount reported	Area 4 adjustments	Area 5 adjustments	Total adjustments	Area 4 adjusted	Area 5 adjusted	
Administrative expenses									
Legal (02)	8,120	12,180	20,300	(209)	(314)	(523)	7,911	11,866	19,777
Office rent (06)	26,275	39,413	65,688	(809)	(1,213)	(2,022)	25,466	38,200	63,666
Insurance	13,410	20,114	33,524	-	-	-	13,410	20,114	33,524
Employee benefits	24,420	36,631	61,051	-	-	-	24,420	36,631	61,051
Payroll taxes	2,980	4,471	7,451	-	-	-	2,980	4,471	7,451
Other taxes	19,100	28,651	47,751	-	-	-	19,100	28,651	47,751
Depreciation/Auto leasing/Other	22,954	34,431	57,385	-	-	-	22,954	34,431	57,385
Interest (04)	14,790	22,185	36,975	(11,268)	(16,902)	(28,170)	3,522	5,283	8,805
Dues and subscriptions (01)	6,200	9,300	15,500	(6,200)	(9,300)	(15,500)	-	-	-
Utilities	12,138	18,208	30,346	-	-	-	12,138	18,208	30,346
Salaries	46,611	69,917	116,528	-	-	-	46,611	69,917	116,528
Accounting/Professional fees	14,067	21,100	35,167	-	-	-	14,067	21,100	35,167
Other	16,157	24,235	40,392	-	-	-	16,157	24,235	40,392
Total administrative expenses	<u>227,223</u>	<u>340,835</u>	<u>568,058</u>	<u>(18,486)</u>	<u>(27,729)</u>	<u>(46,215)</u>	<u>208,737</u>	<u>313,106</u>	<u>521,843</u>
Total operating expenses	<u>\$ 565,622</u>	<u>\$ 848,432</u>	<u>\$ 1,414,054</u>	<u>\$ (23,252)</u>	<u>\$ (34,878)</u>	<u>\$ (58,130)</u>	<u>\$ 542,369</u>	<u>\$ 813,554</u>	<u>\$ 1,355,924</u>
Total pilot compensation and operating expenses	<u>\$ 1,508,538</u>	<u>\$ 2,262,806</u>	<u>\$ 3,771,344</u>	<u>\$ (41,236)</u>	<u>\$ (61,854)</u>	<u>\$ (103,090)</u>	<u>\$ 1,467,301</u>	<u>\$ 2,200,952</u>	<u>\$ 3,668,254</u>

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

III. VARIANCE ANALYSIS

Procedure:

Obtain a listing of the expenses incurred by District 2 for the years ended December 31, 2006 through 2010 and perform the following procedures:

1. Segregate accounts into groups based on account description.
2. Compute average of the accounts and groups from 2006 to 2010.
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 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; and
  - D. Compute travel expense per pilot.
7. Obtain explanation and supporting documentation from pilot association personnel, if deemed necessary, to support identified variances and determine if reasonable.
8. Conclude if any instances were identified that led us to believe 2010 expenses were overstated for ratemaking purposes.

Results:

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

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

IV. INVESTMENT BASE CALCULATION

Procedure:

Prepare the Investment Base Calculation using information obtained from the audited financial statements of Lakes Pilots Association, Inc. for the year ended December 31, 2010:

	Area 4	Area 5	District 2
<b>Recognized assets</b>			
Total current assets	\$ 454,842	\$ 1,026,731	\$ 1,481,573
Total current liabilities	449,157	1,013,899	1,463,056
Current notes payable	-	-	-
Total property and equipment (NET)	312,858	706,224	1,019,082
Land	-	-	-
Total other assets	-	-	-
	<u>318,542</u>	<u>719,057</u>	<u>1,037,599</u>
<b>Non-recognized assets</b>			
Total investments and special funds	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total non-recognized assets	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>			
Total recognized assets	318,542	719,057	1,037,599
Total non-recognized assets	-	-	-
	<u>318,542</u>	<u>719,057</u>	<u>1,037,599</u>
<b>Recognized sources of funds</b>			
Total stockholders' equity	\$ 60,920	\$ 137,517	\$ 198,437
Long-term debt	257,622	581,540	839,162
Current notes payable	-	-	-
Advances from affiliated companies	-	-	-
Long-term obligations - capital leases	-	-	-
	<u>318,542</u>	<u>719,057</u>	<u>1,037,599</u>
<b>Non-recognized sources of funds</b>			
Pension liability	-	-	-
Other non-current liabilities	-	-	-
Deferred federal income taxes	-	-	-
Other deferred credits	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total non-recognized sources	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total sources of funds</b>			
Total recognized sources	318,542	719,057	1,037,599
Total non-recognized sources	-	-	-
	<u>318,542</u>	<u>719,057</u>	<u>1,037,599</u>

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

Results:

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

V. COMPARISON OF PILOT ASSOCIATION ACTIVITIES

Procedure:

Obtain a listing of the expenses incurred by St. Lawrence Seaway Pilots' Association and Seaway Pilot Inc. (collectively known as District 1), District 2 and Western Great Lakes Pilots Association, LLP (District 3) for the year ended December 31, 2010 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 2010 expenses and the percentage of each expense, to total district revenue.
3. Perform an analysis of the significant cost categories incurred by the Districts and provide a summary of the composition of the following categories:
  - A. Pilot compensation and payroll taxes,
  - B. Travel expense/pilot subsistence,
  - C. Pilot boat and dispatch costs,
  - D. Cost associated with affiliated entities, and
  - E. Administrative expenses,
    - i. Legal, accounting and professional fees,
    - ii. Office rent, and
    - iii. Depreciation/auto leasing/other.

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

Results:

The following are the results of performing such procedures:

	<u>District 1</u>		<u>District 2</u>		<u>District 3</u>		<u>Total</u>	
Total revenue	<u>\$ 3,663,769</u>		<u>\$ 3,621,492</u>		<u>\$ 4,644,844</u>		<u>\$ 11,930,105</u>	
	<u>Adjusted amount</u>	<u>% of district revenue</u>						
Pilot compensation								
Salaries	\$ 1,860,039	50.77%	\$ 1,692,600	46.74%	\$ 1,628,173	35.05%	\$ 5,180,812	43.43%
Employee benefits	68,305	1.86%	604,230	16.68%	395,912	8.52%	1,068,448	8.96%
Dues and subscriptions	20,304	0.55%	15,500	0.43%	28,974	0.62%	64,778	0.54%
Total pilot compensation	<u>\$ 1,948,648</u>	<u>53.19%</u>	<u>\$ 2,312,330</u>	<u>63.85%</u>	<u>\$ 2,053,059</u>	<u>44.20%</u>	<u>\$ 6,314,037</u>	<u>52.93%</u>
Operating expenses								
Other pilotage costs								
Pilot subsistence/travel	\$ 366,734	10.01%	\$ 188,759	5.21%	\$ 360,512	7.76%	\$ 916,005	7.68%
License insurance	42,727	1.17%	15,420	0.43%	19,499	0.42%	77,646	0.65%
Payroll taxes	115,518	3.15%	133,643	3.69%	114,379	2.46%	363,540	3.05%
Other	2,562	0.07%	105,325	2.91%	1,335	0.03%	109,222	0.92%
Total other pilotage costs	<u>527,541</u>	<u>14.38%</u>	<u>443,147</u>	<u>12.23%</u>	<u>495,725</u>	<u>10.66%</u>	<u>1,466,413</u>	<u>12.28%</u>
Pilot boat and dispatching costs								
Pilot boat costs	170,432	4.65%	361,219	9.97%	417,890	9.00%	949,541	7.96%
Dispatching costs	-	0.00%	19,575	0.54%	149,109	3.21%	168,684	1.41%
Payroll taxes	14,245	0.39%	10,140	0.28%	17,093	0.37%	41,478	0.35%
Total pilot boat and dispatch costs	<u>184,677</u>	<u>5.04%</u>	<u>390,934</u>	<u>10.78%</u>	<u>584,092</u>	<u>12.58%</u>	<u>1,159,702</u>	<u>9.72%</u>

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

	District 1		District 2		District 3		Total	
	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue	Adjusted amount	% of district revenue
Administrative expenses								
Legal	15,671	0.43%	19,777	0.55%	56,431	1.21%	91,878	0.77%
Office rent	-	0.00%	63,666	1.76%	9,900	0.21%	73,566	0.62%
Insurance	24,997	0.68%	33,524	0.93%	13,943	0.30%	72,464	0.61%
Employee benefits	32,058	0.87%	61,051	1.69%	122,758	2.64%	215,866	1.81%
Payroll taxes	8,617	0.24%	7,451	0.21%	12,096	0.26%	28,164	0.24%
Other taxes	8,058	0.22%	47,751	1.32%	32,586	0.70%	88,395	0.74%
Travel	384	0.01%	-	0.00%	-	0.00%	384	0.00%
Depreciation/Auto leasing/Other	31,205	0.85%	57,385	1.58%	49,777	1.07%	138,367	1.16%
Interest	22,502	0.61%	8,805	0.24%	3,256	0.07%	34,562	0.29%
Dues and subscriptions	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Bad debt expense	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Utilities	9,179	0.25%	30,346	0.84%	28,014	0.60%	67,539	0.57%
Salaries	89,176	2.43%	116,528	3.22%	105,512	2.27%	311,216	2.61%
Accounting/Professional fees	8,940	0.24%	35,167	0.97%	25,199	0.54%	69,306	0.58%
Bookkeeping fees	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Other	16,833	0.46%	40,392	1.12%	9,152	0.20%	66,377	0.56%
Total administrative expenses	<u>267,620</u>	<u>7.31%</u>	<u>521,843</u>	<u>14.40%</u>	<u>468,624</u>	<u>10.09%</u>	<u>1,258,088</u>	<u>10.55%</u>
Total operating expenses	<u>\$ 979,838</u>	<u>26.74%</u>	<u>\$ 1,355,924</u>	<u>37.43%</u>	<u>\$ 1,548,441</u>	<u>33.34%</u>	<u>\$ 3,884,203</u>	<u>32.56%</u>
Total pilot compensation and operating expenses	<u>\$ 2,928,486</u>	<u>79.93%</u>	<u>\$ 3,668,254</u>	<u>101.28%</u>	<u>\$ 3,601,500</u>	<u>77.54%</u>	<u>\$ 10,198,240</u>	<u>85.48%</u>

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

Pilot Compensation and Payroll Taxes

- District 1: Pilots were compensated through capital drawings based on available funds. Therefore, pilot salary expenses are not recorded. All capital drawings were included in the procedures performed and have been allocated to pilot compensation or other expenses as deemed appropriate. The pilots were responsible for paying payroll taxes within their personal tax filing. The district recorded a 'self-employment tax equivalent' in the Statement of Pilots' Capital, in its audited financial statements for the year ended December 31, 2010. This amount was computed by multiplying total capital drawings by the IRS standard self-employment tax rate of 15.3%, consisting of 12.4% for social security and 2.9% for Medicare, up to \$106,800. Compensation in excess of \$106,800 is subject to the 2.9% Medicare tax only. An adjustment was made to reclass the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.
- District 2: Pilots were compensated on a 'per available day' basis at either \$200 or \$150 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 either \$250 or \$175 per day. Applicant pilots were paid at a rate of 70%, 80% or 90% of the standard pilot rate. The pilots also receive distributions. These distributions were not included in pilot compensation, for the purposes of this report except for the recalculation of payroll taxes. The pilots were responsible for paying payroll taxes within their personal tax filing. Therefore, payroll taxes on pilot compensation were not recorded by the Association. An adjustment was made to reclass the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.

Travel Expense/Pilot Subsistence

- District 1: All travel expenses incurred, such as fuel or taxi charges, are generally reimbursed at actual costs and require a receipt to be submitted. Mileage was computed using standard rates and per diem is calculated at \$59 per day based on submitted expense reports.
- 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

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

reimbursements were calculated at a rate of \$52 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: Pilots were provided a per diem of \$52 ‘per available working day’, or non-rest days. In addition, pilots were provided a hotel allowance of either \$100 or \$70 for each night’s stay as documented on their expense report. Also, pilots were provided an allowance for transportation costs, such as taxi charges, for travel days as documented on their expense reports. The allowance was based on typical transportation costs incurred in each respective port area. Mileage was computed using standard rates. All other travel expenses incurred, such as fuel or tolls, were generally reimbursed at actual costs and require a receipt to be submitted.

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 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.

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

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 in the normal course of business 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: This District incurred legal expenses in the normal course of business 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 3: This District incurred legal expenses in the normal course of business 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.

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.

Lakes Pilots Association, Inc.

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

- District 2: This District incurred depreciation on pilot boats, a housing location at one port, and various pieces of equipment. The district also entered into automobile lease agreements.
- District 3: This District incurred depreciation on equipment and vehicles. The expense for navigation equipment purchased during 2010 is included in this administrative account.

VI. RECOMMENDED GENERAL LEDGER ACCOUNTS

Procedure:

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

Results:

As a result of performing the aforementioned agreed-upon procedures, we have recommended the account groupings listed in Procedures I and III, for each pilot association, understanding that more detailed subaccounts would be necessary to accurately classify expenses incurred.

Lakes Pilots Association, Inc.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

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

Finding Number: D2-10-01

Finding Title: Dues and Subscriptions

Condition:

The Association incurred costs for dues and subscriptions that were classified as operating expenses.

Criteria:

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

Effect:

Pilot compensation is understated and expenses are overstated.

Cause:

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

Recommendation:

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

Finding Number: D2-10-02

Finding Title: Legal Expenses

Condition:

The Association incurred legal costs that were associated with lobbying expenses.

Lakes Pilots Association, Inc.

SUMMARY OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Criteria:

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

Effect:

Operating expenses are overstated.

Cause:

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

Recommendation:

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

Finding Number: D2-10-03

Finding Title: Employee Benefits

Condition:

The American Recovery and Reinvestment Act of 2009 provided for a temporary premium subsidy for COBRA continuation coverage. The Association received this subsidy and health insurance expense for the year ended December 31, 2010 was not reduced.

Criteria:

Procedures performed are for expenses incurred during the year ended December 31, 2010.

Effect:

Operating expenses are overstated.

Cause:

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

Lakes Pilots Association, Inc.

SUMMARY OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Recommendation:

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

Finding Number: D2-10-04

Finding Title: Interest Expense

Condition:

The Association incurred costs for interest expense for stock redemption notes payable to the pilots.

Criteria:

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

Effect:

Operating expenses are overstated.

Cause:

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

Recommendation:

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

Finding Number: D2-10-05

Finding Title: Pilot Boat Expenses

Condition:

The Association incurred costs for other expenses that did not relate to 2010.

Lakes Pilots Association, Inc.

SUMMARY OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Criteria:

Procedures performed are for expenses incurred during the year ended December 31, 2010 only.

Effect:

Operating expenses are overstated.

Cause:

Expenses incurred in 2009 were received and paid during 2010.

Recommendation:

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

Finding Number: D2-10-06

Finding Title: Rent Expense

Condition:

Rent expense reported for the year ended December 31, 2010 was in excess of allowable rent based on the regulations established for lease agreements with affiliated entities.

Criteria:

For lease agreements with affiliated entities, regulation 46 CFR Part 404.5 (3) states that “in the absence of a comparable market, lease costs are recognized for ratemaking purposes to the extent that they conform to depreciation plus an allowance for return on investment.”

Effect:

Operating expenses are overstated.

Cause:

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

Lakes Pilots Association, Inc.

SUMMARY OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Recommendation:

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

Finding Number: D2-10-07

Finding Title: Travel Expenses

Condition:

The Association incurred excess per diem charges.

Criteria:

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

Effect:

Operating expenses are overstated.

Cause:

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

Recommendation:

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

INDEPENDENT ACCOUNTANTS' REPORT ON  
APPLYING AGREED-UPON PROCEDURES

**WESTERN GREAT LAKES PILOTS  
ASSOCIATION, LLP  
CONTRACT # GS-23F-0124M**

DECEMBER 31, 2010

Western Great Lakes Pilots Association, LLP

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INDEPENDENT ACCOUNTANTS' 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 was agreed to by the United States Coast Guard (USCG), solely to assist you in evaluating certain aspects of the expenses incurred by the Western Great Lakes Pilots Association, LLP ("District 3" or the "Association") for the year ended December 31, 2010. The United States Coast Guard is responsible for evaluating such expenses incurred. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

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

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

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

*Reznick Group, P.C.*

Bethesda, Maryland  
January 16, 2012

Western Great Lakes Pilots Association, LLP

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS

I. OVERVIEW

The Great Lakes Pilotage Division is responsible for oversight of the Western Great Lakes Pilots Association, LLP, as well as two other pilot associations, which provide piloting services in the Great Lakes region. Included in this oversight function is the responsibility to set pilotage rates, which encompass pilot compensation, other piloting costs, and other expenses. The 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.

II. EVALUATION OF REPORTED EXPENSES

Procedure:

Obtain a listing of the expenses submitted by District 3 for the year ended December 31, 2010 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) 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 Accountants' 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 groups of 1) specific or 2) general classes, and determine the methods of testing to be utilized.
3. Identify accounts to be selected for sampling.
  - A. These accounts will include:
    - i. Travel expense
    - ii. Pilot boat and dispatch cost/repair and maintenance expenses
    - iii. Other operating expenses

Western Great Lakes Pilots Association, LLP

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

- B. For accounts to be sampled, calculate planning materiality and tolerable misstatement (TM or 75% of planning materiality) based on total submitted expenses and pilot compensation using industry guidelines.
  - i. Select all individually significant items in each group for testing. Items that are greater than 1/3 of TM are considered individually significant.
  - ii. Using an accounting industry standard sampling form and assessing risk at high, determine remaining sample size to be selected from each group.
  - iii. Obtain supporting documentation for each transaction selected for testing.
  
- 4. For accounts not selected for sampling, perform the following procedures:
  - A. Depreciation expense
    - i. Review schedule provided by the District for items that may not be eligible.
    - ii. Select material fixed asset additions that are greater than 1/3 of TM.
    - iii. Recalculate depreciation expense for each fixed asset addition selected for testing.
  
  - B. Insurance expense
    - i. Review schedule provided by the District for items that may not be eligible
    - ii. Agree premiums on schedule to insurance policies
    - iii. Recalculate insurance expense based on coverage periods
  
  - C. Payroll and other 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 haphazardly select five employees and agree to employee W-2
    - iii. Recalculate estimated tax calculation and verify appropriate rates are being used
  
  - D. Legal expense
    - i. Review all invoices from the attorney shared by the three Districts
    - ii. Review one invoice from every other attorney identified in the general ledger
  
  - E. Real estate taxes
    - i. Review tax bill for amount, location and tax period
    - ii. Recalculate tax expense based on taxable year
  
  - F. Utility expense
    - i. Review general ledger and verify there are no more than 12 monthly transactions during the year.

Western Great Lakes Pilots Association, LLP

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

- ii. Review any transactions in excess of the 12 monthly expected transactions and determine if the expense is appropriate
- G. Rent expense
  - i. Obtain signed lease agreement and recalculate the expense based on the terms of the lease
- H. Interest expense
  - i. Obtain loan statement and review for amount of interest expense incurred
- I. All other accounts not already tested
  - 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 pilot compensation, other piloting costs, or both. Adjustments will only be recorded for identified misstatements, within a given group, exceeding 3% of planning materiality.

Results:

The "Total amount reported" column in the following table represents amounts provided by District 3 from their general ledger as of December 31, 2010. The breakdown of amounts by area was provided by District 3 for information purposes only and was not subject to the procedures above. Exceptions are shown in the "Adjustments" column below. The breakdown of adjustments by area was calculated using the same percentage allocation that was provided by District 3. Each adjustment references the finding number located in the Summary of Findings and Recommendations, which describes the reasoning for such adjustment.

Western Great Lakes Pilots Association, LLP

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

The following are the results of performing such procedures:

	District 3											
	Area 6	Area 7	Area 8	Total amount reported	Area 6 adjustments	Area 7 adjustments	Area 8 adjustments	Total adjustments	Area 6 adjusted	Area 7 adjusted	Area 8 adjusted	Adjusted total amount reported
Pilot compensation												
Salaries (01), (03)	\$ 814,246	\$ 391,597	\$ 519,254	\$ 1,725,097 *	\$ (45,748)	\$ (22,002)	\$ (29,174)	\$ (96,924)	\$ 768,498	\$ 369,595	\$ 490,080	\$ 1,628,173
Employee benefits	186,870	89,872	119,170	395,912	-	-	-	-	186,870	89,872	119,170	395,912
Dues and subscriptions (02)	-	-	-	-	13,676	6,577	8,721	28,974	13,676	6,577	8,721	28,974
Total pilot compensation	\$ 1,001,116	\$ 481,469	\$ 638,424	\$ 2,121,009	\$ (32,072)	\$ (15,425)	\$ (20,453)	\$ (67,950)	\$ 969,044	\$ 466,044	\$ 617,971	\$ 2,053,059
Operating expenses												
Other pilotage costs												
Pilot subsistence/Travel	\$ 170,162	\$ 81,836	\$ 108,514	\$ 360,512	\$ -	\$ -	\$ -	\$ -	\$ 170,162	\$ 81,836	\$ 108,514	\$ 360,512
License insurance	9,204	4,426	5,869	19,499	-	-	-	-	9,204	4,426	5,869	19,499
Payroll taxes (03)	27,774	13,358	17,712	58,844	26,213	12,606	16,716	55,535	53,987	25,964	34,428	114,379
Other	630	303	402	1,335	-	-	-	-	630	303	402	1,335
Total other pilotage costs	207,770	99,923	132,497	440,190	26,213	12,606	16,716	55,535	233,983	112,529	149,213	495,725
Pilot boat and dispatch costs												
Pilot boat costs	197,244	94,861	125,785	417,890	-	-	-	-	197,244	94,861	125,785	417,890
Dispatch costs (01)	72,550	34,891	46,266	153,707	(2,170)	(1,044)	(1,384)	(4,598)	70,380	33,847	44,882	149,109
Payroll taxes	8,068	3,880	5,145	17,093	-	-	-	-	8,068	3,880	5,145	17,093
Total pilot boat and dispatch costs	277,862	133,632	177,196	588,690	(2,170)	(1,044)	(1,384)	(4,598)	275,692	132,588	175,812	584,092
Administrative expenses												
Legal (04)	28,089	13,509	17,913	59,511	(1,454)	(699)	(927)	(3,080)	26,635	12,810	16,986	56,431
Office rent	4,673	2,247	2,980	9,900	-	-	-	-	4,673	2,247	2,980	9,900
Insurance	6,581	3,165	4,197	13,943	-	-	-	-	6,581	3,165	4,197	13,943
Employee benefits	57,942	27,866	36,950	122,758	-	-	-	-	57,942	27,866	36,950	122,758
Payroll taxes	5,709	2,746	3,641	12,096	-	-	-	-	5,709	2,746	3,641	12,096
Other taxes	15,381	7,397	9,808	32,586	-	-	-	-	15,381	7,397	9,808	32,586
Depreciation/Auto leasing	23,495	11,299	14,983	49,777	-	-	-	-	23,495	11,299	14,983	49,777
Interest	1,537	739	980	3,256	-	-	-	-	1,537	739	980	3,256
Dues and subscriptions (02)	13,676	6,577	8,721	28,974	(13,676)	(6,577)	(8,721)	(28,974)	-	-	-	-
Utilities	13,223	6,359	8,432	28,014	-	-	-	-	13,223	6,359	8,432	28,014
Salaries	49,802	23,951	31,759	105,512	-	-	-	-	49,802	23,951	31,759	105,512
Accounting/Professional fees	11,894	5,720	7,585	25,199	-	-	-	-	11,894	5,720	7,585	25,199
Other (05)	5,574	2,681	3,555	11,810	(1,255)	(603)	(800)	(2,658)	4,319	2,078	2,755	9,152
Total administrative expenses	237,576	114,256	151,504	503,336	(16,385)	(7,879)	(10,448)	(34,712)	221,191	106,377	141,056	468,624
Total operating expenses	\$ 723,208	\$ 347,811	\$ 461,197	\$ 1,532,216	\$ 7,658	\$ 3,683	\$ 4,884	\$ 16,225	\$ 730,866	\$ 351,494	\$ 466,081	\$ 1,548,441
Total pilot compensation and operating expenses	\$ 1,724,324	\$ 829,280	\$ 1,099,621	\$ 3,653,225	\$ (24,414)	\$ (11,742)	\$ (15,569)	\$ (51,725)	\$ 1,699,910	\$ 817,538	\$ 1,084,052	\$ 3,601,500

\* Includes \$908,510 of 2010 distributions that were not subject to the agreed-upon procedures in Section II

Western Great Lakes Pilots Association, LLP

SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

III. VARIANCE ANALYSIS

Procedure:

Obtain a listing of the expenses incurred by District 3 for the years ended December 31, 2006 through 2010 and perform the following procedures:

1. Segregate accounts into groups based on account description.
2. Compute average of the accounts and groups from 2006 to 2010.
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 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; and
  - D. Compute travel expense per pilot.
7. Obtain explanation and supporting documentation from pilot association personnel, if deemed necessary, to support identified variances and determine if reasonable.
8. Conclude if any instances were identified that led us to believe 2010 expenses were overstated for ratemaking purposes.

Results:

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

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SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

IV. INVESTMENT BASE CALCULATION

Procedure:

Prepare the Investment Base Calculation using information obtained from the audited financial statements of Lakes Pilots Association, Inc. for the year ended December 31, 2010:

	Area 6	Area 7	Area 8	District 3
<b>Recognized assets</b>				
Total current assets	\$ 1,009,619	\$ 485,558	\$ 643,846	\$ 2,139,024
Total current liabilities	123,906	59,590	79,016	262,513
Current notes payable	-	-	-	-
Total property and equipment (NET)	35,709	17,174	22,772	75,655
Land	-	-	-	-
Total other assets	354	170	226	750
<b>Total recognized assets</b>	<b>921,776</b>	<b>443,312</b>	<b>587,828</b>	<b>1,952,916</b>
<b>Non-recognized assets</b>				
Total investments and special funds	-	-	-	-
<b>Total non-recognized assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets</b>				
Total recognized assets	921,776	443,312	587,828	1,952,916
Total non-recognized assets	-	-	-	-
<b>Total assets</b>	<b>\$ 921,776</b>	<b>\$ 443,312</b>	<b>\$ 587,828</b>	<b>\$ 1,952,916</b>
<b>Recognized sources of funds</b>				
Total stockholders' equity	\$ 921,776	\$ 443,312	\$ 587,828	\$ 1,952,916
Long-term debt	-	-	-	-
Current notes payable	-	-	-	-
Advances from affiliated companies	-	-	-	-
Long-term obligations - capital leases	-	-	-	-
<b>Total recognized sources</b>	<b>921,776</b>	<b>443,312</b>	<b>587,828</b>	<b>1,952,916</b>
<b>Non-recognized sources of funds</b>				
Pension liability	-	-	-	-
Other non-current liabilities	-	-	-	-
Deferred federal income taxes	-	-	-	-
Other deferred credits	-	-	-	-
<b>Total non-recognized sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total sources of funds</b>				
Total recognized sources	921,776	443,312	587,828	1,952,916
Total non-recognized sources	-	-	-	-
<b>Total sources of funds</b>	<b>\$ 921,776</b>	<b>\$ 443,312</b>	<b>\$ 587,828</b>	<b>\$ 1,952,916</b>

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SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

Results:

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

V. COMPARISON OF PILOT ASSOCIATION ACTIVITIES

Procedure:

Obtain a listing of the expenses incurred by St. Lawrence Seaway Pilots' Association and Seaway Pilot Inc. (collectively known as District 1), Lakes Pilots Association, Inc. (District 2) and District 3 for the year ended December 31, 2010 and perform the following procedures:

1. Segregate accounts for each District into four categories: a) Pilotage Compensation (which includes pilot distributions and dividends), b) Other Pilotage Costs, c) Pilot Boat and Dispatch Costs, and d) Administrative Costs.
2. For each District, compare 2010 expenses and the percentage of each expense, to total district revenue.
3. Perform an analysis of the significant cost categories incurred by the Districts and provide a summary of the composition of the following categories:
  - A. Pilot compensation and payroll taxes,
  - B. Travel expense/pilot subsistence,
  - C. Pilot boat and dispatch costs,
  - D. Cost associated with affiliated entities, and
  - E. Administrative expenses,
    - i. Legal, accounting and professional fees,
    - ii. Office rent, and
    - iii. Depreciation/auto leasing/other.

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SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

Results:

The following are the results of performing such procedures:

	District 1		District 2		District 3		Total	
	Adjusted amount	% of district revenue						
Total revenue	\$ 3,663,769		\$ 3,621,492		\$ 4,644,844		\$ 11,930,105	
Pilot compensation								
Salaries	\$ 1,860,039	50.77%	\$ 1,692,600	46.74%	\$ 1,628,173	35.05%	\$ 5,180,812	43.43%
Employee benefits	68,305	1.86%	604,230	16.68%	395,912	8.52%	1,068,448	8.96%
Dues and subscriptions	20,304	0.55%	15,500	0.43%	28,974	0.62%	64,778	0.54%
Total pilot compensation	\$ 1,948,648	53.19%	\$ 2,312,330	63.85%	\$ 2,053,059	44.20%	\$ 6,314,037	52.93%
Operating expenses								
Other pilotage costs								
Pilot subsistence/travel	\$ 366,734	10.01%	\$ 188,759	5.21%	\$ 360,512	7.76%	\$ 916,005	7.68%
License insurance	42,727	1.17%	15,420	0.43%	19,499	0.42%	77,646	0.65%
Payroll taxes	115,518	3.15%	133,643	3.69%	114,379	2.46%	363,540	3.05%
Other	2,562	0.07%	105,325	2.91%	1,335	0.03%	109,222	0.92%
Total other pilotage costs	527,541	14.38%	443,147	12.23%	495,725	10.66%	1,466,413	12.28%
Pilot boat and dispatching costs								
Pilot boat costs	170,432	4.65%	361,219	9.97%	417,890	9.00%	949,541	7.96%
Dispatching costs	-	0.00%	19,575	0.54%	149,109	3.21%	168,684	1.41%
Payroll taxes	14,245	0.39%	10,140	0.28%	17,093	0.37%	41,478	0.35%
Total pilot boat and dispatch costs	184,677	5.04%	390,934	10.78%	584,092	12.58%	1,159,702	9.72%

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SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

	District 1		District 2		District 3		Total	
	Adjusted amount	% of district revenue						
Administrative expenses								
Legal	15,671	0.43%	19,777	0.55%	56,431	1.21%	91,878	0.77%
Office rent	-	0.00%	63,666	1.76%	9,900	0.21%	73,566	0.62%
Insurance	24,997	0.68%	33,524	0.93%	13,943	0.30%	72,464	0.61%
Employee benefits	32,058	0.87%	61,051	1.69%	122,758	2.64%	215,866	1.81%
Payroll taxes	8,617	0.24%	7,451	0.21%	12,096	0.26%	28,164	0.24%
Other taxes	8,058	0.22%	47,751	1.32%	32,586	0.70%	88,395	0.74%
Travel	384	0.01%	-	0.00%	-	0.00%	384	0.00%
Depreciation/Auto leasing/Other	31,205	0.85%	57,385	1.58%	49,777	1.07%	138,367	1.16%
Interest	22,502	0.61%	8,805	0.24%	3,256	0.07%	34,562	0.29%
Dues and subscriptions	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Bad debt expense	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Utilities	9,179	0.25%	30,346	0.84%	28,014	0.60%	67,539	0.57%
Salaries	89,176	2.43%	116,528	3.22%	105,512	2.27%	311,216	2.61%
Accounting/Professional fees	8,940	0.24%	35,167	0.97%	25,199	0.54%	69,306	0.58%
Bookkeeping fees	-	0.00%	-	0.00%	-	0.00%	-	0.00%
Other	16,833	0.46%	40,392	1.12%	9,152	0.20%	66,377	0.56%
Total administrative expenses	267,620	7.31%	521,843	14.40%	468,624	10.09%	1,258,088	10.55%
Total operating expenses	\$ 979,838	26.74%	\$ 1,355,924	37.43%	\$ 1,548,441	33.34%	\$ 3,884,203	32.56%
Total pilot compensation and operating expenses	\$ 2,928,486	79.93%	\$ 3,668,254	101.28%	\$ 3,601,500	77.54%	\$ 10,198,240	85.48%

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SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

Pilot Compensation and Payroll Taxes

District 1: Pilots were compensated through capital drawings based on available funds. Therefore, pilot salary expenses are not recorded. All capital drawings were included in the procedures performed and have been allocated to pilot compensation or other expenses as deemed appropriate. The pilots were responsible for paying payroll taxes within their personal tax filing. The district recorded a 'self-employment tax equivalent' in the Statement of Pilots' Capital, in its audited financial statements for the year ended December 31, 2010. This amount was computed by multiplying total capital drawings by the IRS standard self-employment tax rate of 15.3%, consisting of 12.4% for social security and 2.9% for Medicare, up to \$106,800. Compensation in excess of \$106,800 is subject to the 2.9% Medicare tax only. An adjustment was made to reclass the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.

District 2: Pilots were compensated on a 'per available day' basis at either \$200 or \$150 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 either \$250 or \$175 per day. Applicant pilots were paid at a rate of 70%, 80% or 90% of the standard pilot rate. The pilots also receive distributions. These distributions were not included in pilot compensation, for the purposes of this report except for the recalculation of payroll taxes. The pilots were responsible for paying payroll taxes within their personal tax filing. Therefore, payroll taxes on pilot compensation were not recorded by the Association. An adjustment was made to reclass the expected employer portion of the payroll taxes, using IRS standard tax rates of 6.2% for Social Security and 1.45% for Medicare.

Travel Expense/Pilot Subsistence

District 1: All travel expenses incurred, such as fuel or taxi charges, are generally reimbursed at actual costs and require a receipt to be submitted. Mileage was computed using standard rates and per diem is calculated at \$59 per day based on submitted expense reports.

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 \$52 per day based on approximately

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SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

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: Pilots were provided a per diem of \$52 ‘per available working day’, or non-rest days. In addition, pilots were provided a hotel allowance of either \$100 or \$70 for each night’s stay as documented on their expense report. Also, pilots were provided an allowance for transportation costs, such as taxi charges, for travel days as documented on their expense reports. The allowance was based on typical transportation costs incurred in each respective port area. Mileage was computed using standard rates. All other travel expenses incurred, such as fuel or tolls, were generally reimbursed at actual costs and require a receipt to be submitted.

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 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.

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SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

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 in the normal course of business 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: This District incurred legal expenses in the normal course of business 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 3: This District incurred legal expenses in the normal course of business 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.

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.

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SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

- District 2: This District incurred depreciation on pilot boats, a housing location at one port, and various pieces of equipment. The District also entered into automobile lease agreements.
- District 3: This District incurred depreciation on equipment and vehicles. The expense for navigation equipment purchased during 2010 is included in this administrative account.

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SUMMARY OF AGREED-UPON PROCEDURES AND RESULTS - CONTINUED

VI. RECOMMENDED GENERAL LEDGER ACCOUNTS

Procedure:

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

Results:

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

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SUMMARY OF FINDINGS AND RECOMMENDATIONS

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

Finding Number: D3-10-01

Finding Title: Winter Navigation Salaries

Condition:

The Association incurred revenue and expenses for winter navigation piloting and dispatching services performed on a contract basis and are not part of the normal pilot shipping season.

Criteria:

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

Effect:

Pilot compensation and dispatching expenses are overstated.

Cause:

The Association's audited financial statements and trial balance do not exclude revenue and expenses associated with winter navigation piloting and dispatching, as these are not tailored for ratemaking submission purposes.

Recommendation:

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

Finding Number: D3-10-02

Finding Title: Dues and Subscriptions

Condition:

The Association incurred costs for dues and subscriptions that were classified as operating expenses.

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SUMMARY OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Criteria:

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

Effect:

Pilot compensation is understated and expenses are overstated.

Cause:

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

Recommendation:

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

Finding Number: D3-10-03

Finding Title: Payroll Taxes - Pilots

Condition:

The Association did not incur payroll taxes for pilot compensation as the pilots are responsible for these on their individual tax returns.

Criteria:

Federal Register, Vol. 70, No. 46, section 12091 dated March 10, 2005 allows for estimated Social Security and Medicare taxes to be recorded on behalf of the Association when these taxes are incurred by the pilots on their individual tax returns.

Effect:

Operating expenses are understated.

Cause:

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

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SUMMARY OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Recommendation:

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

Finding Number: D3-10-04

Finding Title: Legal Expenses

Condition:

The Association incurred legal costs that did not relate to 2010. The Association incurred legal costs that were associated with lobbying expenses.

Criteria:

Procedures performed are for expenses incurred during the year ended December 31, 2010 only. Regulation 46 CFR 404.5(a)(8)(ii) states that lobbying expenses are not recognized as reasonable for ratemaking purposes.

Effect:

Operating expenses are overstated.

Cause:

Expenses incurred in 2009 were received and paid during 2010. The classifications of expenses in the Association's audited financial statements and trial balance are not tailored for ratemaking submission purposes.

Recommendation:

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

Finding Number: D3-10-05

Finding Title: Other Expenses

Condition:

The Association incurred costs for logo clothing expenses and donations/memoriums.

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SUMMARY OF FINDINGS AND RECOMMENDATIONS - CONTINUED

Criteria:

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

Effect:

Operating expenses are overstated.

Cause:

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

Recommendation:

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