## Proposal to Pipeline Safety Trust

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March 19, 2010

Mr. Carl Weimer  
Pipeline Safety Trust  
1155 N. State St., Ste. 609  
Bellingham, WA 98225

Dear Carl:

It is our pleasure to present this proposal for audit and 990 preparation services. We appreciate the working relationship we have developed with you, your Board and the organization as a whole over the past five years, and we welcome the opportunity to continue to serve you.

As requested, this proposal provides information about our firm, our experience working with nonprofit organizations, the services we expect to provide, our estimated fees and timeline associated with the proposed services.

As you no doubt know, the accounting and tax environment has changed dramatically in the last few years in response to many national events. These events have trickled down to nonprofit organizations. Donors ask for more accountability from management, and Board members are asked to provide better oversight of management. In the midst of the added scrutiny and increased regulation, Larson Gross has established itself as an accurate and trustworthy provider of assurance and tax preparation services.

More than that, our steadfast commitment to client service has remained the backbone of our firm and has served to maintain our reputation as trusted advisors and partners in our clients’ success. Our service commitment includes an understanding and sensitivity to the specific mission of each of our 120-plus nonprofit clients. Our desire is not only to perform services that meet the independent assurance and tax preparation needs you require but also to be seen as a resource you can use in your operations and fulfillment of your mission.

We believe we have much to offer the Pipeline Safety Trust and stand committed to exceeding your expectations of a professional service firm. We look forward to working with your organization as a supporting team member in your contribution to communities like ours across the country.

If you have any questions regarding this proposal, please call us at your convenience. We look forward to hearing from you.

Sincerely,

Ken Ver Burg  
Partner  
Larson Gross PLLC

Josh Turrell, CPA  
Manager  
Larson Gross PLLC
Firm Qualifications

What Sets Us Apart
For more than 60 years, Larson Gross has provided the highest quality tax, audit & attest, and consulting services to individual, business and nonprofit clients across Northwest Washington. We are proud of the consistent quality of our work, marked by timeliness, accuracy and thorough analysis. However, it is our commitment to excellent service and long-term relationships with our clients that truly sets us apart. It is in our role as trusted advisors that we excel — anticipating our clients’ needs, identifying opportunities and working proactively to develop solutions.

Today, Larson Gross is the largest locally owned CPA firm in Northwest Washington. We have more than 60 team members working from offices in Bellingham, Blaine, Burlington and Lynden.

In addition, we are a member of the RSM McGladrey Network, a national cooperative of more than 90 leading accounting firms. This affiliation provides us, and in turn you, access to the resources, experience and knowledge base of one of the largest professional service firms in the world with the personal service and attention only a local firm like Larson Gross can offer. This is an advantage no other firm in our area can provide.

Our Quality Service Program
We recognize that exceeding your expectations requires us to deliver both quality work as well as a positive overall experience. To achieve this, we place great importance on the methodologies and quality control procedures employed when performing our engagements as well as the quality of communication between our staff and yours. To ensure that our people are providing the most up-to-date and accurate information and services available, we focus on the continuous development of our staff and provide substantial resources and funding for continuing education aimed at ensuring compliance with accounting and auditing standards.

At Larson Gross, you have a team of certified professionals working on your behalf. This collaborative approach leverages the varied experience and expertise of our staff to ensure that you receive the most current, exhaustive advice available. It also allows us to provide you greater responsiveness and availability by making sure that there is more than one point of contact on which you can call. We strive to maintain continuity of staff on engagements.

In addition, Larson Gross periodically monitors client satisfaction through the use of client surveys. This process provides us with the feedback necessary to measure and continuously refine our service delivery.

Most important is the time we spend listening and confirming our complete understanding of your needs and objectives. This is what allows us to provide unique, customized solutions that truly fit your organization. We do not believe that one size fits all, nor do we believe that one solution fits every organization.
Industry Experience

Larson Gross has a long and successful track record serving the unique needs of nonprofit organizations. These services include but are not limited to:

- Annual financial statement engagements (audits, reviews, compilations);
- Audits performed in accordance with Government Auditing Standards and Single Audit requirements of Circular A-133;
- Consultation on applying new rules in preparing Form 990;
- Preparation of monthly financial statements;
- Answers to payroll questions unique to nonprofits;
- State and local tax issues;
- Fraud investigations;
- Fixed assets/depreciation calculations;
- Internal accounting control system reviews; and
- Proper accounting for unique transactions.

Our work with nonprofit organizations and ongoing attention to the issues you face enable us to quickly spot changing laws and regulatory issues that may affect your organization, and we work proactively to keep you informed. Our experience with nonprofit accounting allows us to smoothly integrate with existing processes and provide additional services to assist with accounting challenges as they arise. Our team of professionals and their collective experiences provide us with the ability to lend business, process and financial recommendations to our clients on an ongoing and continuous basis.

In addition to our awareness of general issues impacting nonprofit organizations, we bring a keen recognition of our need to understand the unique aspects of your particular organization. The dynamics between key employees, the involvement of the board of directors in decision making and the long-term goals of the organization all have a significant impact on how you may choose to operate and the challenges you will face. Whatever your specific goals, we stand committed and able to work collaboratively both within our firm as well as with our network of resources and other local professionals to ensure you receive the comprehensive services and resources you need.
Industry References

Who better to speak to our effectiveness than our previous and existing clients? The following references are included, with the permission of the client, to provide additional sources of input regarding our services. We encourage you to contact these organizations to learn more about their experience working with us.

Whatcom Counseling & Psychiatric Clinic
Bellingham, WA
Contact: Jessica Staten, Finance Director
ph: 360.676.2220

Bellingham Food Bank – Alternatives to Hunger
Bellingham, WA
Contact: Mike Cohen, Executive Director
ph: 360.676.0392

Lake Whatcom Residential & Treatment Center
Bellingham, WA
Contact: Jennifer Billings, Finance Director
ph: 360.676.7530

ReSources
Bellingham, WA
Contact: Robyn Du Pré, Executive Director
ph: 360.733.8307

Brigid Collins Family Support Center
Bellingham, WA
Contact: Byron Manering, Executive Director
ph: 360.734.4616
Confidentiality and Independence

Confidentiality, and the trust it facilitates, is fundamental to the success of our industry and our firm. We take the security of your financial information and protection of your privacy very seriously and have implemented protocols to ensure both. Our firm does not share client information with any third party except as required in the delivery of our services or in such cases as we are ethically or lawfully required to do so by the professional standards and/or regulatory bodies governing our industry. Larson Gross employs both physical and electronic security measures to safeguard the information entrusted to our care. At your request, we would be happy to provide additional information on either of these issues.

Our quality control procedures allow us to document our compliance with independence standards annually and as engagements are performed. Based on our current knowledge of your organization, we are independent with respect to the Pipeline Safety Trust.
Services to Be Provided

As requested, our proposal includes a scope of work for an audit engagement for the year ending March 31, 2010, as well as for the preparation of the Form 990 for that year.

We also want to emphasize that as a readily accessible local firm, our service to Pipeline Safety Trust (the Organization) will not stop with the completion of the audit or tax return preparation.

We will be available to consult with you regarding the application of generally accepted accounting principles as you see the need. We will be proactive in communicating to you changes in accounting principles that may have an impact on your financial statements. Our desire is to be a complete resource for your accounting department — a sounding board for ideas and someone to ask for opinions and clarification on the application of accounting standards.

Annual Audit

Upon receiving your approval, we will audit the financial statements of the Organization for the year ending March 31, 2010.

To ensure that the audit process is as streamlined and non-intrusive as possible for your accounting staff, we will provide a clear request list of schedules and work papers needed for the engagement, will work closely with accounting staff and will maintain flexibility in our requests and support used in the audit.

We will focus on respecting the work flow of the executive director and accounting staff through scheduling of meetings at times convenient to them, accumulating questions and requests to minimize disruption, and gathering feedback from staff as to how we can improve in our delivery of services.

Our audit will include tests of your accounting records and other procedures we consider necessary to enable us to express such an opinion.

The emphasis of our audit procedures will be directed to those areas that represent the most significant portions of the financial position and operations of the organization or that are considered to have risk. These risk factors are based on our understanding of both internal and external factors and are influenced by the results of previous audits, industry knowledge and our discussions with you. Historically, our audits have focused on the Organization’s investments and the corresponding gains and losses resulting from these investments.

Our approach to auditing involves continuous communication with management so that we fully understand the issues of concern to you and the processes you employ to address these risks. We will issue a letter at the beginning of the engagement detailing our responsibilities and will seek and provide feedback to management throughout the process.

We will communicate our results through management letters and draft financial statements to the executive director, finance committee and board. We also encourage and welcome ongoing communication throughout the year, not just during the term of the engagement.

Technology plays a key role in how we serve our clients. Larson Gross has moved to a paperless methodology, preferring to receive as much information as possible from clients in electronic format. Client information that is not already in digital format is converted, and all information is stored in secure electronic binders.
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We offer a secure online portal that allows us to provide information to clients electronically as well as to receive information electronically from clients. Our audit staff travels with wireless-capable laptops and has the ability if required to scan client documents on site. We also encourage e-mail communication and use it extensively when appropriate.

An audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. An audit also does not entail a detailed examination of all transactions. Therefore, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us. In addition, an audit is not designed to detect immaterial errors or fraud, or illegal acts that do not have a direct effect on the financial statements. However, we will inform you of any material errors or fraud that we discover. We will also inform you of any other illegal acts that come to our attention, unless clearly inconsequential. If we identify deficiencies in your accounting control system, we will prepare a written report of these areas in the form of a management letter, which we will present in addition to the financial statements.

The fair presentation of financial statements is management’s responsibility. Management is responsible for the development, implementation and maintenance of an adequate system of internal controls and for the substantial accuracy of the financial statements. We are responsible for conducting the audit in accordance with generally accepted auditing standards, and we will plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

We understand you will provide us with the basic information required for our audit and that you are responsible for the accuracy and completeness of that information.

We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, but the responsibility for the financial statements remains with the Organization.

Our audit procedures will provide you with comments and suggestions for improvements regarding internal controls, and existing financial policies and accounting procedures. This will be presented with the financial statements.

The services we will perform are not designed and cannot be relied upon to disclose errors, fraudulent financial reporting and misappropriation of assets or illegal acts should any exist. However, we will inform the appropriate level of management of any material errors and any evidence of fraudulent financial reporting or misappropriation of assets that come to our attention.

**Preparation of Form 990**
Upon receiving your approval, we will prepare the annual Form 990 for the Organization, based on the information provided through the annual audit. We will work with your personnel to complete the additional detailed information required to be disclosed by the Internal Revenue Service.

We have extensive experience in preparing the revised Form 990 for nonprofit organizations and are fully equipped to implement the revisions, additions and clarifications made to the 2009 form.

**Public Support Facts and Circumstances Test**
While providing the services to the Organization in prior years, we began discussions with board representatives about the public support presentation issues that would arise when the initial contribution to the Organization would no longer be included within the years being tested for public support compliance. The board members had been aware of this challenge from the outset of the Organization and were preparing to address this issue.
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Larson Gross personnel had previously worked in conjunction with a large Seattle law firm for another nonprofit in determining the type of disclosures to provide with the Form 990 to support the facts and circumstances test and also to assess the activities the nonprofit should be engaged in to enhance the public support representations.

There is no one-size-fits-all solution to meeting the public support facts and circumstances test. In our experience in serving the Organization over the past five years, we have worked with board personnel to review the Organization’s capital gains distributions and nature of in-kind contributions in order to adequately complete the public support information.
Fees For Services and Timeline

It is our goal to exceed your expectations of service, expertise and quality during each and every step of the process. We also believe that the value we deliver through the course of our relationship should clearly surpass the cost of our service. The price estimates included in this proposal were prepared with these considerations in mind.

Our proposed price for the following services is based on an estimate of the time required to perform the proposed service at our standard hourly rates, plus out-of-pocket costs if required.

Our standard hourly rates vary according to the degree of responsibility involved, the experience level of the personnel assigned to the engagement and the timing of the procedures. The fee estimates assume the full cooperation of the Organization, its employees and agents in all aspects necessary for the completion of these services. Accordingly, we propose the following prices:

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<th>Service</th>
<th>Price</th>
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<tr>
<td>Audit Engagement</td>
<td>$7,500</td>
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<tr>
<td>Preparation of Form 990</td>
<td>$1,500</td>
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We will commit to maintaining the same pricing if selected for the March 31, 2011 engagement.

Our proposed timeline is as follows:

- **May 1**: Provide engagement letter and list of information needed for engagement
- **May 10**: Begin preliminary risk assessment procedures
- **May 10**: Deadline to receive information needed for engagement
- **May 17**: Fieldwork to begin
- **May 31**: Draft financial statements available for review
- **TBD**: Final financial statements and draft Form 990 presented at Board meeting
- **TBD**: Completion of Form 990
Biographies

We assign team members specific to each project. In order to facilitate long-term relationships between clients and our team, it is our intent to maintain the same team members from year to year. We have identified the following specialists appropriate to the work proposed for your Organization.

**Ken Ver Burg, CPA**  
*Partner, Audit and Assurance Services*

Ken Ver Burg has been providing audit, accounting, tax and consulting services for more than 35 years. Ken joined Larson Gross in 1977 after spending several years with a large, national firm. Through his career, he has amassed significant experience working with a broad range of personal and corporate clients representing many different industries. His expertise is as diverse as his experience but has been particularly focused on the varied and unique aspects of construction, manufacturing and nonprofit organizations. He has been active on numerous community and nonprofit boards.

**Josh Turrell, CPA**  
*Manager, Team Leader, Audit and Assurance Services*

Josh Turrell is an experienced CPA who joined Larson Gross in 2005 after spending several years with a Seattle-area accounting firm. He quickly proved himself as an astute auditor and outstanding client services provider, moving him into the Manager and Team Leader role for the Audit and Assurance Services group.

**Sam Pauley**  
*Staff Accountant, Audit and Assurance Services*

After graduating from Western Washington University, Sam joined Larson Gross in 2007. Sam has been a member of our nonprofit team since 2009 and has worked on a wide variety of nonprofit audits.