

Pipeline Safety Trust

Financial Statements with
Independent Accountant's Review Report

Years Ended March 31, 2013 and 2012

Larson Gross 

Pipeline Safety Trust

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Independent Accountant's Review Report

The Board of Directors
Pipeline Safety Trust
Bellingham, Washington

We have reviewed the accompanying statements of financial position of Pipeline Safety Trust (a not-for-profit corporation) as of March 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the reviews in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Larson Gross LLC

Bellingham, Washington
May 15, 2013

Pipeline Safety Trust

Statements of Financial Position

March 31, 2013 and 2012

(See Independent Accountant's Review Report)

Assets		<u>2013</u>	<u>2012</u>
Current assets			
Cash		\$ 61,587	\$ 77,709
Interest and dividends receivable		<u>10,110</u>	<u>12,283</u>
Total current assets		71,697	89,992
Investments		4,082,646	3,975,771
Furniture and equipment, net		1,700	2,612
Other assets			
Security deposit		<u>1,025</u>	<u>1,025</u>
Total assets		<u><u>\$ 4,157,068</u></u>	<u><u>\$ 4,069,400</u></u>
Liabilities and Net Assets			
Current liabilities			
Accrued liabilities		\$ 10,543	\$ 6,913
Net assets - unrestricted		<u>4,146,525</u>	<u>4,062,487</u>
Total liabilities and net assets		<u><u>\$ 4,157,068</u></u>	<u><u>\$ 4,069,400</u></u>

Pipeline Safety Trust

Statements of Activities

Years Ended March 31, 2013 and 2012

(See Independent Accountant's Review Report)

	<u>2013</u>	<u>2012</u>
Revenue		
Investment gain (loss)	\$ 288,224	\$ (65,473)
Program service fees	48,633	48,950
Contributions	7,448	7,291
In-kind contributions	25,048	25,098
Grant revenue	100,322	38,992
Interest from savings accounts	<u>363</u>	<u>423</u>
Total revenue	470,038	55,281
Operating expenses		
Program services	338,806	285,959
Supporting services	43,326	49,617
Fundraising	<u>3,868</u>	<u>3,382</u>
Total operating expenses	<u>386,000</u>	<u>338,958</u>
Increase (decrease) in net assets	84,038	(283,677)
Net assets - beginning of year	<u>4,062,487</u>	<u>4,346,164</u>
Net assets - end of year	<u>\$ 4,146,525</u>	<u>\$ 4,062,487</u>

Pipeline Safety Trust

Statements of Cash Flows

Years Ended March 31, 2013 and 2012

(See Independent Accountant's Review Report)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 84,038	\$ (283,677)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	912	1,129
Net realized and unrealized (gain) loss on investments	(176,512)	165,603
(Increase) decrease in assets		
Interest and dividends receivable	2,173	(325)
Other assets	-	(1,025)
Increase (decrease) in current liabilities		
Accrued liabilities	<u>3,630</u>	<u>(2,847)</u>
Net cash used by operating activities	(85,759)	(121,142)
Cash flows from investing activities		
Withdrawals from investment funds	163,931	164,345
Reinvested interest and dividends, net of fees	<u>(94,294)</u>	<u>(80,134)</u>
Net cash provided by investing activities	<u>69,637</u>	<u>84,211</u>
Net decrease in cash	(16,122)	(36,931)
Cash - beginning of year	<u>77,709</u>	<u>114,640</u>
Cash - end of year	<u>\$ 61,587</u>	<u>\$ 77,709</u>

Pipeline Safety Trust

Notes to Financial Statements

March 31, 2013 and 2012

(See Independent Accountant's Review Report)

Note 1 - Summary of Significant Accounting Policies

Business - The Pipeline Safety Trust (the Trust) was incorporated in July 2003 as a not-for-profit corporation in the state of Washington. The Trust was organized to promote fuel transportation safety through education and advocacy, by increasing access to information, and by building partnerships with residents, safety advocates, government, and industry, that result in safer communities and a healthier environment.

In June 2003, as a result of the 1999 Olympic Pipe Line explosion in Bellingham, Washington, the U.S. District Court ordered that four million dollars of the criminal fines imposed as a result of the tragedy be provided to the Pipeline Safety Trust. It is the Board of Directors' intent to maintain the contributed assets as a \$4 million endowment with the income earned from the contributed assets to be used to support the mission of the Trust.

Classification of net assets - The Trust's financial statements report information regarding its financial position and activities according to three classes of net assets based on externally imposed restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. As of March 31, 2013 and 2012, the Trust did not have any temporarily or permanently restricted net assets.

Cash equivalents - The Trust considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Investments - Investments are carried at fair value as measured by Accounting Standards Codification (ASC) 820-10. See Notes 2 and 3 for further details.

Furniture and equipment - Furniture and equipment are recorded at cost or, if acquired as a donation, at fair market value at the date donated. It is the Trust's policy to capitalize expenditures for these items in excess of \$2,500. Lesser amounts are expensed. Depreciation is provided using straight-line methods based upon the estimated economic useful lives of the assets. Repair and maintenance expenditures that do not extend useful life are expensed as incurred.

Donated equipment usage and services - Equipment usage and services are donated to the Trust by an agency of the U. S. government. Such contributed amounts totaling \$25,048 and \$25,098 for the years ended March 31, 2013 and 2012, respectively, were recorded at fair market value at the date of donation, and have been included in revenue and expenses.

Federal income tax - The Trust is a non-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income tax. The Trust received a determination letter from the Internal Revenue Service on its organization status as a publicly supported organization under Section 509(a)(1), as of December 17, 2003. Tax returns for the prior three years remain subject to examination by major tax jurisdictions.

Pipeline Safety Trust

Notes to Financial Statements

March 31, 2013 and 2012

(See Independent Accountant's Review Report)

Note 1 - Summary of Significant Accounting Policies - (Continued)

Revenue recognition - Revenues for program service fees and grant revenue are recognized as income as the related program service is provided by the Trust.

Investment income recognition - Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

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

Subsequent events - In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through May 15, 2013, the date the financial statements were available to be issued.

Note 2 - Investments

Investments consist of U.S. government bonds, corporate bonds, common and preferred stocks, real estate investment trusts, mutual funds, and cash. The investments are intended to provide investment income to be used to support the mission of the Trust.

Investments, at fair value, consist of the following as of March 31:

	<u>2013</u>	<u>2012</u>
Equity investments	\$ 2,712,863	\$ 2,736,316
Mutual funds	892,357	660,391
Fixed income investments	434,362	561,165
Money market fund	43,064	17,899
Total	<u>\$ 4,082,646</u>	<u>\$ 3,975,771</u>

Investment income (loss) consists of the following for the year ending March 31:

	<u>2013</u>	<u>2012</u>
Dividends and interest	\$ 111,712	\$ 100,130
Net realized and unrealized gain (loss) on investments	176,512	(165,603)
Total	<u>\$ 288,224</u>	<u>\$ (65,473)</u>

Notes to Financial Statements

March 31, 2013 and 2012

(See Independent Accountant's Review Report)

Note 3 - Fair Value Measurements

ASC 820-10, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are described as follows:

- Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable for the asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. At March 31, 2013 and 2012, all investments are measured at quoted prices in active markets for identical assets.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Trust believes its valuation method are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used at March 31, 2013 and 2012.

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. The Trust evaluated the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the year ended March 31, 2013, there were no significant transfers in or out of Levels 1, 2, or 3.

Pipeline Safety Trust

Notes to Financial Statements

March 31, 2013 and 2012

(See Independent Accountant's Review Report)

Note 3 - Fair Value Measurements - (Continued)

The following tables set forth by level, within the fair value hierarchy, the Trust's assets at fair value as of:

	March 31, 2013			
	Level 1	Level 2	Level 3	Total
Equity Investments				
Common stocks	\$ 2,310,864	\$ -	\$ -	\$ 2,310,864
Real estate investment trusts	283,559	-	-	283,559
Preferred stock	118,440	-	-	118,440
Mutual funds				
Index fund	279,131	-	-	279,131
Short term government bond fund	99,815	-	-	99,815
Intermediate term government bond fund	260,131	-	-	260,131
Intermediate term corporate bond fund	102,207	-	-	102,207
Inflation protected securities fund	151,073	-	-	151,073
Fixed income investments				
Corporate bonds - A series credit rating	219,140	-	-	219,140
Municipal bonds -A series credit rating	114,535	-	-	114,535
Corporate bonds - B series credit rating	100,687	-	-	100,687
Money market fund	43,064	-	-	43,064
Total assets at fair value	<u>\$ 4,082,646</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,082,646</u>
	March 31, 2012			
	Level 1	Level 2	Level 3	Total
Equity Investments				
Common stocks	\$ 2,316,568	\$ -	\$ -	\$ 2,316,568
Real estate investment trusts	320,748	-	-	320,748
Preferred stock	99,000	-	-	99,000
Mutual funds				
Intermediate term government bond fund	458,873	-	-	458,873
Intermediate term corporate bond fund	101,103	-	-	101,103
Inflation protected securities fund	100,415	-	-	100,415
Fixed income investments				
Corporate bonds - A series credit rating	341,068	-	-	341,068
Municipal bonds -A series credit rating	114,585	-	-	114,585
Corporate bonds - B series credit rating	105,512	-	-	105,512
Money market fund	17,899	-	-	17,899
Total assets at fair value	<u>\$ 3,975,771</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,975,771</u>

Pipeline Safety Trust

Notes to Financial Statements

March 31, 2013 and 2012

(See Independent Accountant's Review Report)

Note 4 - Furniture and Equipment

Furniture and equipment consists of the following at March 31:

	<u>2013</u>	<u>2012</u>
Computer equipment	\$ 13,042	\$ 13,042
Office furniture	<u>750</u>	<u>750</u>
	13,792	13,792
Less accumulated depreciation	<u>(12,092)</u>	<u>(11,180)</u>
	<u>\$ 1,700</u>	<u>\$ 2,612</u>

Note 5 - Functional Classification of Expenses

Operating expenses by functional classification for the years ended March 31, 2013 and 2012 are as follows:

	Program	Supporting	Fund	<u>Total</u>	
	<u>Services</u>	<u>Services</u>	<u>Raising</u>	<u>2013</u>	<u>2012</u>
Salaries and wages	\$ 159,761	\$ 8,589	\$ 3,436	\$ 171,786	\$ 150,579
Payroll taxes	12,756	686	274	13,716	9,855
Employee benefits	7,682	404	-	8,086	7,432
Investment fees	-	21,522	-	21,522	22,016
Contract expense	53,069	-	-	53,069	15,000
Professional fees	-	6,489	-	6,489	20,046
Rent	12,202	641	-	12,843	8,745
Supplies	473	25	-	498	587
Telephone and utilities	2,592	136	-	2,728	3,175
Depreciation	867	45	-	912	1,129
Insurance	-	-	-	-	1,670
Travel and entertainment	40,639	4,515	-	45,154	46,095
Conferences & conventions	41,054	-	-	41,054	44,905
Dues and subscriptions	386	-	-	386	395
Office expenses	5,646	183	114	5,943	7,242
Fundraising fees	-	-	44	44	34
Miscellaneous	<u>1,679</u>	<u>91</u>	<u>-</u>	<u>1,770</u>	<u>53</u>
	<u>\$ 338,806</u>	<u>\$ 43,326</u>	<u>\$ 3,868</u>	<u>\$ 386,000</u>	<u>\$ 338,958</u>

Certain costs have been allocated between program and supporting services based on estimates of management.

Pipeline Safety Trust

Notes to Financial Statements

March 31, 2013 and 2012

(See Independent Accountant's Review Report)

Note 6 - Retirement Plan

The Trust sponsors the Pipeline Safety Trust Retirement Plan, a SEP-IRA plan covering all employees. The Trust is obligated to contribute 5% of employee gross wages on a quarterly basis to the plan. For the years ended March 31, 2013 and 2012, the Trust's contributions to the Plan totaled \$6,860 and \$6,476, respectively.

Note 7 - Risks and Uncertainties

The Trust invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported on the statements of financial position.

Note 8 - Grant Agreements

In September 2011, the Trust was awarded a \$48,700 technical assistance grant by the U.S. Department of Transportation (Pipeline and Hazardous Materials Safety Administration (PHMSA)) to bring together citizen and local government representatives from around the country who have shown leadership in pipeline safety issues to develop a strategy for ensuring better representation of the public in official proceedings pertaining to pipeline safety issues. As of March 31, 2013, the Trust received the entire \$48,700 under the grant. The final report was issued November 2012.

In September 2010, the Trust was awarded a \$22,650 technical assistance grant by PHMSA to research, draft and distribute a landowner's guide to pipeline safety for citizens living near existing and proposed pipelines. As of March 31, 2012, the Trust received a final total of \$17,216 under the grant, as the expenses associated with the grant came in under budget. The final report was issued September 2011.

In 2011, the Trust received \$21,776 from a sub-grant through the Association of Washington Cities (AWC). The AWC received a technical assistance grant from the U.S. Department of Transportation (Pipeline and Hazardous Materials Safety Administration (PHMSA)) to promote the adoption of local government ordinances improving the safety of land use planning decisions made near transmission pipelines. Through the sub-grant agreement between the Trust and the AWC, the Trust agreed to provide technical assistance to local governments to better understand their local land use planning authority near transmission pipelines, and if desired undertake the adoption of pipeline safety ordinances. The amount received included PHMSA grant funds to be contracted with local governments (the cities of Bellingham, Roy, Kirkland, Gold Bar and Sultan) to help defray their costs of researching, drafting and adopting pipeline safety ordinances in their jurisdictions.

As of March 31, 2012, the Trust expensed \$15,000 related to contracts with those cities to research and draft ordinances governing land use planning decisions near transmission pipelines. The report was issued in October 2011.

Pipeline Safety Trust

Notes to Financial Statements

March 31, 2013 and 2012

(See Independent Accountant's Review Report)

Note 8 - Grant Agreements - (Continued)

In October 2012, the Trust was awarded a \$20,000 technical assistance grant by the U.S. Department of Transportation (Pipeline and Hazardous Materials Safety Administration (PHMSA)) to cover the travel expenses for up to 25 citizens or government employees to attend the Trust's annual National Pipeline Safety Conference. As of March 31, 2013, the Trust received the entire \$20,000 under the grant. The final report was issued January 2013.

In October 2012, the Trust received \$31,572 from a sub-grant through Salt Lake City Corporation (SLCC). SLCC received a technical assistance grant from the U.S. Department of Transportation (Pipeline and Hazardous Materials Safety Administration (PHMSA)) to produce a pipeline safety report that provides a comprehensive analysis of the state of pipelines passing under Salt Lake City, as well as conduct a public awareness and educational program in conjunction with the report. Through the sub-grant agreement between the Trust and the SLCC, the Trust agreed to provide a pipeline safety report and conduct certain public seminars and a community conference for Salt Lake City's mayor's office. The report was issued in August 2012 and all related obligations under the sub-grant were complete in September 2012.

Note 9 - Operating Leases

The Trust began leasing office space in January 2012 under an operating lease agreement. Monthly rent totals \$1,050. The lease is set to expire December 2014.

Through December 2011, the Trust leased office space on a month to month basis. Monthly rent totaled \$481.

Scheduled minimum lease payments to be paid for the years ending March 31 are as follows:

2014	\$ 12,600
2015	9,450
	<u>\$ 22,050</u>

Total rent expense amounted to \$12,843 and \$8,745 for the years ended March 31, 2013 and 2012, respectively.