Pipeline Safety Trust

Financial Statements with
Independent Auditor's Report

Years Ended March 31, 2014 (Audited) and
March 31, 2013 (Reviewed)

Pipeline Safety Trust

Contents

Independent Auditor's Report

The Board of Directors
Pipeline Safety Trust
Bellingham, Washington

Report on the Financial Statements
We have audited the accompanying financial statements of Pipeline Safety Trust, which comprise the statement of financial position as of March 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pipeline Safety Trust as of March 31, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
The financial statements of Pipeline Safety Trust, as of and for the year ended March 31, 2013, were reviewed by us and our report thereon, dated May 15, 2013, stated that, based on our review, we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

Bellingham, Washington
July 8, 2014

Pipeline Safety Trust

Statements of Financial Position

March 31, 2014 and 2013

	2014 (Audited)	2013 (Reviewed)
Assets		
Current assets		
Cash	$ 111,984	$ 61,587
Interest and dividends receivable	3,705	10,110
Other receivable	1,096	–
Total current assets	116,785	71,697
Investments	4,350,381	4,082,646
Furniture and equipment, net	868	1,700
Other assets		
Security deposit	1,025	1,025
Total assets	$ 4,469,059	$ 4,157,068
Liabilities and Net Assets		
Current liabilities		
Accrued liabilities	$ 13,656	$ 10,543
Net assets - unrestricted	4,455,403	4,146,525
Total liabilities and net assets	$ 4,469,059	$ 4,157,068

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Statements of Activities

Years Ended March 31, 2014 and 2013

	2014 (Audited)	2013 (Reviewed)
Revenue		
Investment gain	$ 603,605	$ 288,224
Program service fees	58,500	48,633
Grant revenue	25,000	100,322
In-kind contributions	19,854	25,048
Contributions	8,285	7,448
Interest income	338	363
Total revenue	715,582	470,038
Operating expenses		
Program services	355,499	338,806
Supporting services	46,361	43,326
Fundraising	4,844	3,868
Total operating expenses	406,704	386,000
Increase in net assets	308,878	84,038
Net assets - beginning of year	4,146,525	4,062,487
Net assets - end of year	$ 4,455,403	$ 4,146,525

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Statements of Cash Flows

Years Ended March 31, 2014 and 2013

	2014 (Audited)	2013 (Reviewed)
Cash flows from operating activities		
Increase in net assets	$ 308,878	$ 84,038
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	832	912
Net realized and unrealized gain on investments	(505,072)	(176,512)
(Increase) decrease in current assets:		
Interest and dividends receivable	6,405	2,173
Other receivable	(1,096)	–
Increase (decrease) in current liabilities:		
Accrued liabilities	3,113	3,630
Net cash used by operating activities	(186,940)	(85,759)
Cash flows from investing activities		
Withdrawals from investment funds	321,413	163,931
Reinvested interest and dividends, net of fees	(84,076)	(94,294)
Net cash provided by investing activities	237,337	69,637
Net increase (decrease) in cash	50,397	(16,122)
Cash - beginning of year	61,587	77,709
Cash - end of year	$ 111,984	$ 61,587

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 is organized to promote pipeline 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, 2014 and 2013, the Trust did not have any temporarily or permanently restricted net assets.

Cash - Cash consists of cash in bank for statement of cash flows purposes.

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 method 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 $19,854 and $25,048 for the years ended March 31, 2014 and 2013, 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.

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

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

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.

Investment valuation and income recognition - Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Trust's Board of Directors determines the Trust's valuation policies utilizing information provided by the investment advisor. See Note 3 for discussion of fair value measurements.

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. Investment gain includes the Trust's gains and losses on investments bought and sold as well as held during the year.

Subsequent events - In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through July 8, 2014, 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:

	2014 (Audited)	2013 (Reviewed)
Equity investments	$ 3,050,953	$ 2,712,863
Mutual funds	1,188,580	892,357
Fixed income investments	109,918	434,362
Money market fund	930	43,064
Total	$ 4,350,381	$ 4,082,646

Note 2 - Investments - (Continued)

Investment income consists of the following for the years ended March 31:

	2014 (Audited)	2013 (Reviewed)
Net realized and unrealized gain on investments	$ 505,072	$ 176,512
Dividends and interest	98,533	111,712
Total	$ 603,605	$ 288,224

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.

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 is 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 during the years ended March 31, 2014 and 2013.

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, 2014 (Audited)			
	Level 1	Level 2	Level 3	Total
Equity investments				
Common stock	$ 2,638,434	$ –	$ –	$ 2,638,434
Real estate investment trusts	273,519	–	–	273,519
Preferred stock	139,000	–	–	139,000
Mutual funds				
Short term government bond fund	564,976	–	–	564,976
Intermediate term government bond fund	490,593	–	–	490,593
Index fund	133,011	–	–	133,011
Fixed income investments				
Municipal bonds - A series credit rating	109,918	–	–	109,918
Money market fund	930	–	–	930
Total assets at fair value	$ 4,350,381	$ –	$ –	$ 4,350,381

	March 31, 2013 (Reviewed)			
	Level 1	Level 2	Level 3	Total
Equity investments				
Common stock	$ 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
Intermediate term government bond fund	260,131	–	–	260,131
Inflation protected securities fund	151,073	–	–	151,073
Intermediate term corporate bond fund	102,207	–	–	102,207
Short term government bond fund	99,815	–	–	99,815
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	$ 4,082,646	$ –	$ –	$ 4,082,646

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.

Note 3 - Fair Value Measurements - (Continued)

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 years ended March 31, 2014 and 2013, there were no significant transfers in or out of Level 3.

Note 4 - Furniture and Equipment

Furniture and equipment consist of the following as of March 31:

	2014 (Audited)	2013 (Reviewed)
Computer equipment	$ 13,042	$ 13,042
Office furniture	750	750
	13,792	13,792
Less accumulated depreciation	(12,924)	(12,092)
	$ 868	$ 1,700

Note 5 - Functional Classification of Expenses

Operating expenses by functional classification are as follows for the years ended March 31:

	Program Services	Supporting Services	Fund Raising	Total 2014 (Audited)	Total 2013 (Reviewed)
Salaries and wages	$ 204,125	$ 10,975	$ 4,390	$ 219,490	$ 171,786
Travel and entertainment	27,329	3,037	–	30,366	28,419
Conferences & conventions	59,259	–	–	59,259	57,789
Employee benefits	23,661	1,245	–	24,906	8,086
Investment fees	–	22,276	–	22,276	21,522
Payroll taxes	18,703	1,006	402	20,111	13,716
Rent	12,523	659	–	13,182	12,843
Professional fees	–	6,662	–	6,662	6,489
Office	3,176	167	–	3,343	5,943
Telephone and utilities	2,909	153	–	3,062	2,728
Insurance	1,944	102	–	2,046	–
Fundraising fees	–	–	52	52	44
Depreciation	790	42	–	832	912
Miscellaneous	413	22	–	435	1,770
Dues and subscriptions	389	–	–	389	386
Supplies	278	15	–	293	498
Contract expense	–	–	–	–	53,069
	$ 355,499	$ 46,361	$ 4,844	$ 406,704	$ 386,000

Note 5 - Functional Classification of Expenses - (Continued)

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

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, 2014 and 2013, the Trust's contributions to the Plan totaled $9,169 and $6,860, 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 had received the entire $48,700 under the grant. The final report was issued November 2012.

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 September 2013, the Trust was awarded a $50,000 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, 2014, the Trust had received $25,000 of the total grant.

Note 9 - Operating Leases

The Trust leases office space under an operating lease agreement. Monthly rent totaled $1,050 through December 31, 2013 and subsequently increased to $1,072 as of January 2014. The lease is set to expire December 2014.

The scheduled minimum lease payments to be paid during the year ending March 31, 2015 total $9,648.

Rent expense totaled $13,182 and $12,843 for the years ended March 31, 2014 and 2013, respectively.