

# **Pipeline Safety Trust**

Financial Statements with  
Independent Accountant's Review Report

Years Ended March 31, 2015 (Reviewed)  
and March 31, 2014 (Audited)

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 statement of financial position of Pipeline Safety Trust (the Trust) as of March 31, 2015, and the related statements of activities and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Trust 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 review 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 review, we are not aware of any material modifications that should be made to the accompanying financial statements for the year ended March 31, 2015, in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended March 31, 2014 were audited by us, and we expressed an unqualified opinion on those financial statements in our report, dated July 8, 2014, but we have not performed any auditing procedures since that date.

*Larson Gross PLLC*

Bellingham, Washington  
May 1, 2015

Pipeline Safety Trust

**Statements of Financial Position**

March 31, 2015 and 2014

(See Independent Accountant's Review Report)

	<u>2015</u> <u>(Reviewed)</u>	<u>2014</u> <u>(Audited)</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 44,966	\$ 111,984
Interest and dividends receivable	774	3,705
Other receivable	—	1,096
Total current assets	<u>45,740</u>	<u>116,785</u>
<b>Investments</b>	4,498,849	4,350,381
<b>Furniture and equipment, net</b>	413	868
<b>Other assets</b>		
Security deposit	<u>1,025</u>	<u>1,025</u>
<b>Total assets</b>	<u><u>\$ 4,546,027</u></u>	<u><u>\$ 4,469,059</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accrued liabilities	\$ 9,348	\$ 13,656
<b>Net assets - unrestricted</b>	<u>4,536,679</u>	<u>4,455,403</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 4,546,027</u></u>	<u><u>\$ 4,469,059</u></u>

Pipeline Safety Trust

**Statements of Activities**

Years Ended March 31, 2015 and 2014

(See Independent Accountant's Review Report)

	<u>2015</u> <u>(Reviewed)</u>	<u>2014</u> <u>(Audited)</u>
<b>Revenue</b>		
Investment gain	\$ 373,792	\$ 603,605
Program service fees	74,439	58,500
Grant revenue	58,000	25,000
In-kind contributions	26,471	19,854
Contributions	11,084	8,285
Interest income	336	338
Total revenue	<u>544,122</u>	<u>715,582</u>
<b>Operating expenses</b>		
Program services	398,841	355,499
Supporting services	54,651	46,361
Fundraising	9,354	4,844
Total operating expenses	<u>462,846</u>	<u>406,704</u>
<b>Increase in net assets</b>	81,276	308,878
Net assets - beginning of year	<u>4,455,403</u>	<u>4,146,525</u>
<b>Net assets - end of year</b>	<u><u>\$ 4,536,679</u></u>	<u><u>\$ 4,455,403</u></u>

Pipeline Safety Trust

**Statements of Cash Flows**

Years Ended March 31, 2015 and 2014

(See Independent Accountant's Review Report)

	<u>2015</u> <u>(Reviewed)</u>	<u>2014</u> <u>(Audited)</u>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 81,276	\$ 308,878
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	455	832
Net realized and unrealized gain on investments	(275,789)	(505,072)
(Increase) decrease in current assets:		
Interest and dividends receivable	2,931	6,405
Other receivable	1,096	(1,096)
Increase (decrease) in current liabilities:		
Accrued liabilities	<u>(4,308)</u>	<u>3,113</u>
<b>Net cash used by operating activities</b>	<u>(194,339)</u>	<u>(186,940)</u>
<b>Cash flows from investing activities</b>		
Withdrawals from investment funds	204,000	320,000
Reinvested interest and dividends, net of fees	<u>(76,679)</u>	<u>(82,663)</u>
<b>Net cash provided by investing activities</b>	<u>127,321</u>	<u>237,337</u>
Net increase (decrease) in cash	(67,018)	50,397
Cash - beginning of year	<u>111,984</u>	<u>61,587</u>
<b>Cash - end of year</b>	<u>\$ 44,966</u>	<u>\$ 111,984</u>

**Notes to Financial Statements**

March 31, 2015 and 2014

(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 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, 2015 and 2014, 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.

**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.

**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 the 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.

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

**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 \$26,471 and \$19,854 for the years ended March 31, 2015 and 2014, respectively, were recorded at fair market value at the date of donation, and have been included in revenue and expenses.

Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2015 and 2014

(See Independent Accountant's Review Report)

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

**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. Management has determined that no provision for uncertain tax positions is required as of March 31, 2015 and 2014. Tax returns for the prior three years remain subject to examination by major tax jurisdictions.

**Subsequent events** - In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through May 1, 2015, 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:

	2015 <u>(Reviewed)</u>	2014 <u>(Audited)</u>
Equity investments	\$ 3,201,688	\$ 3,050,953
Mutual funds	1,209,776	1,188,580
Money market fund	87,385	930
Fixed income investments	-	109,918
Total	<u>\$ 4,498,849</u>	<u>\$ 4,350,381</u>

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

	2015 <u>(Reviewed)</u>	2014 <u>(Audited)</u>
Net realized and unrealized gain on investments	\$ 275,789	\$ 505,072
Dividends and interest	98,003	98,533
Total	<u>\$ 373,792</u>	<u>\$ 603,605</u>



Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2015 and 2014

(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.

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, 2015 and 2014.

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

	<u>March 31, 2015 (Reviewed)</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity investments				
Common stock	\$ 2,657,876	\$ -	\$ -	\$ 2,657,876
Real estate investment trusts	417,812	-	-	417,812
Preferred stock	126,000	-	-	126,000
Mutual funds				
Short term government bond fund	509,654	-	-	509,654
Intermediate term government bond fund	700,122	-	-	700,122
Money market fund	87,385	-	-	87,385
Total assets at fair value	<u>\$ 4,498,849</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,498,849</u>

Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2015 and 2014

(See Independent Accountant's Review Report)

**Note 3 - Fair Value Measurements** - (Continued)

	March 31, 2014 (Audited)			Total
	Level 1	Level 2	Level 3	
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	<u>\$ 4,350,381</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,350,381</u>

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 years ended March 31, 2015 and 2014, 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:

	2015 (Reviewed)	2014 (Audited)
Computer equipment	\$ 13,042	\$ 13,042
Office furniture	750	750
	13,792	13,792
Less accumulated depreciation	(13,379)	(12,924)
	<u>\$ 413</u>	<u>\$ 868</u>

Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2015 and 2014

(See Independent Accountant's Review Report)

**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	
				2015 (Reviewed)	2014 (Audited)
Salaries and wages	\$ 209,618	\$ 11,392	\$ 6,835	\$ 227,845	\$ 219,490
Conferences and conventions	82,133	-	-	82,133	59,259
Employee benefits	33,909	1,843	1,106	36,858	24,906
Travel and entertainment	23,107	2,567	-	25,674	30,366
Investment fees	-	24,255	-	24,255	22,276
Payroll taxes	16,845	906	362	18,113	20,111
Rent	12,133	659	396	13,188	13,182
Office	14,313	779	467	15,559	3,343
Professional fees	-	11,897	-	11,897	6,662
Telephone and utilities	3,761	204	123	4,088	3,062
Miscellaneous	9	1	-	10	435
Fundraising fees	-	-	-	-	52
Insurance	1,993	108	65	2,166	2,046
Depreciation	432	23	-	455	832
Supplies	322	17	-	339	293
Dues and subscriptions	266	-	-	266	389
	<u>\$ 398,841</u>	<u>\$ 54,651</u>	<u>\$ 9,354</u>	<u>\$ 462,846</u>	<u>\$ 406,704</u>

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, 2015 and 2014, the Trust's contributions to the Plan totaled \$11,373 and \$9,169, 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.

Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2015 and 2014

(See Independent Accountant's Review Report)

**Note 8 - Grant Agreements**

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, 2015, the Trust had received the entire \$50,000 under the grant.

In September 2014, the Trust was awarded a \$49,882 technical assistance grant by the U.S. Department of Transportation (Pipeline and Hazardous Materials Safety Administration (PHMSA)) to provide focused outreach to communities that have shown an interest in pipeline safety issues, and to provide them with additional resources and some initial customized technical assistance. As of March 31, 2015, the Trust had received \$25,000 under the grant.

In August 2014, the Trust was awarded an \$8,000 grant by Patagonia. The grant was provided to build awareness of pipeline safety issues within the Great Lakes region with the end goal of building support for the creation of a new organization - the Great Lakes Pipeline Safety Trust. As of March 31, 2015, the Trust had received the entire \$8,000 under the grant.

**Note 9 - Operating Leases**

The Trust leases office space under an operating lease agreement. Monthly rent totaled \$1,072 through December 31, 2014 and subsequently increased to \$1,097 as of January 2015. The lease is set to expire December 2016.

The scheduled minimum lease payments to be paid during the years ending March 31, 2016 and 2017 total \$13,223 and \$10,046, respectively.

Rent expense totaled \$13,188 and \$13,182 for the years ended March 31, 2015 and 2014, respectively.