Pipeline Safety Trust

Financial Statements with
Independent Accountant's Review Report

Years Ended March 31, 2016 and 2015

Larson Gross

Pipeline Safety Trust

Contents

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Independent Accountant's Review Report

The Board of Directors
Pipeline Safety Trust
Bellingham, Washington

We have reviewed the accompanying financial statements of Pipeline Safety Trust (the Trust), which comprise the statements of financial position as of March 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements. 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'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.

Accountant's Responsibility
Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion
Based on our reviews, except for the issue noted in the Known Departure from Accounting Principles Generally Accepted in the United States of America paragraph, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

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Known Departure from Accounting Principles Generally Accepted in the United States of America

The Trust's financial statements do not present required disclosures relating to the Trust's board designated endowment fund. Accounting principles generally accepted in the United States of America require organizations with either donor-restricted or board designated endowment funds to disclose endowment information subject to the Uniform Prudent Management of Institutional Funds Act of 2006. Disclosure of this information is required by accounting principles generally accepted in the United States of America.

Larson Gross PLLC

Bellingham, Washington
July 25, 2016

Pipeline Safety Trust

Statements of Financial Position

March 31, 2016 and 2015

(See Independent Accountant's Review Report)

	2016	2015
Assets		
Current assets		
Cash	$ 83,329	$ 44,966
Interest and dividends receivable	260	774
Total current assets	83,589	45,740
Investments	4,248,143	4,498,849
Furniture and equipment, net	–	413
Other assets		
Security deposit	1,025	1,025
Total assets	$ 4,332,757	$ 4,546,027
Liabilities and Net Assets		
Current liabilities		
Accrued liabilities	$ 9,902	$ 9,348
Net assets - unrestricted	4,322,855	4,536,679
Total liabilities and net assets	$ 4,332,757	$ 4,546,027

The accompanying notes are an integral part of these financial statements.

Pipeline Safety Trust

Statements of Activities

Years Ended March 31, 2016 and 2015

(See Independent Accountant's Review Report)

	2016	2015
Changes in unrestricted net assets		
Support and revenue		
Support		
Contributions	$ 9,408	$ 11,084
In-kind contributions	19,900	26,471
Total support	29,308	37,555
Revenue		
Grant revenue	155,622	58,000
Program service fees	63,968	74,439
Investment income (loss)	(14,230)	373,792
Interest income - other	427	336
Total revenue	205,787	506,567
Total unrestricted support and revenue	235,095	544,122
Expenses		
Program services	381,714	398,841
Supporting services	58,064	54,651
Fundraising	9,141	9,354
Total expenses	448,919	462,846
Change in unrestricted net assets	(213,824)	81,276
Net assets - beginning of year	4,536,679	4,455,403
Net assets - end of year	$ 4,322,855	$ 4,536,679

The accompanying notes are an integral part of these financial statements.

Pipeline Safety Trust

Statements of Cash Flows

Years Ended March 31, 2016 and 2015

(See Independent Accountant's Review Report)

	2016	2015
Cash flows from operating activities		
Change in net assets	$ (213,824)	$ 81,276
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	413	455
Net realized and unrealized (gain) loss on investments	109,106	(275,789)
(Increase) decrease in current assets:		
Interest and dividends receivable	514	2,931
Other receivable	–	1,096
Increase (decrease) in current liabilities:		
Accrued liabilities	554	(4,308)
Net cash used in operating activities	(103,237)	(194,339)
Cash flows from investing activities		
Withdrawals from investment funds	213,000	204,000
Reinvested interest and dividends, net of fees	(71,400)	(76,679)
Net cash provided by investing activities	141,600	127,321
Net increase (decrease) in cash	38,363	(67,018)
Cash - beginning of year	44,966	111,984
Cash - end of year	$ 83,329	$ 44,966

Note 1 – Summary of Significant Accounting Policies

Nature of activities – 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 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.

Certain required disclosures relating to the endowment are not included in the notes to the financial statements. See the Independent Accountant's Review Report for detail on the departure from accounting principles generally accepted in the United States of America.

Basis of accounting – The Trust prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of presentation – Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Trust and changes therein are classified and reported as follows:

> **Unrestricted net assets** – Net assets that are not subject to externally imposed restrictions.
>
> **Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Trust or the passage of time. The Trust had no temporarily restricted net assets as of March 31, 2016 or 2015.
>
> **Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Trust. The Trust had no permanently restricted net assets as of March 31, 2016 or 2015.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose of restrictions. When donor restrictions are met during the same period that the contribution is received, the contribution is recorded as unrestricted net assets.

Cash – Cash consists of cash in a bank for statement of cash flows purposes.

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

Investment valuation and income recognition – Investments in marketable securities are stated at fair value. Income and gains and losses on investments are reported as increases or decreases in unrestricted net assets unless restricted by donor.

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 – The Trust capitalizes all furniture and equipment acquisitions in excess of $2,500. Furniture and equipment are recorded at cost or, if acquired as a donation, at the estimated fair market value on the date acquired. Additions, improvements, or expenditures which add to productive capacity or extend the life of an asset are capitalized. Expenditures for repairs and maintenance are charged to operations as incurred. Depreciation is recorded using the straight-line method over estimated useful lives of 5 to 7 years.

Contributions – Contribution revenue is recognized in the period received or when an unconditional promise to give is made, whichever is earlier. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

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 $19,900 and $26,471 for the years ended March 31, 2016 and 2015, respectively, were recorded at fair market value at the date of donation, and have been included in revenue and expenses.

Grant revenues – The Trust receives support from various sources. Grant receipts may be subject to restrictions on the use of funds placed by the grantor. The Trust administers these funds in accordance with grantor guidelines. Grant revenue under cost reimbursement arrangements is recognized as expenses are incurred.

Program service fees – Revenues for program service fees are recognized as income as the related program service is provided by the Trust.

Functional allocation of expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and the footnotes (see note 7). Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Federal income tax – The Trust is a nonprofit entity exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. 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. Accordingly, no provision of income tax is necessary. The tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

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.

Subsequent events – In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through July 25, 2016, the date the financial statements were available to be issued.

Note 2 – Fair Value Measurements

Accounting Standards Codification (ASC) 820, *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 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 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 that are unobservable for the asset or liability.

The asset's 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 valuation methods 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 methods 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, 2016 and 2015.

Note 3 – Investments and Investment Income

Investments are all measured using level one inputs, as defined in Note 2, and are comprised of the following at March 31:

	2016	2015
Money market fund	$ 100,544	$ 87,385
Equity investments		
Common stock	2,540,336	2,657,876
Preferred stock	–	126,000
Real estate investment trusts	313,128	417,812
Total equity investments	2,853,464	3,201,688
Mutual funds		
Short term government bond fund	508,227	509,654
Intermediate term government bond fund	785,908	700,122
Total mutual funds	1,294,135	1,209,776
Total	$ 4,248,143	$ 4,498,849

Investment income (loss) is summarized as follows for the years ended March 31:

	2016	2015
Net realized and unrealized gain (loss) on investments	$ (109,106)	$ 275,789
Dividends and interest	94,876	98,003
Total	$ (14,230)	$ 373,792

Note 4 – 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 5 – Furniture and Equipment

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

	2016	2015
Computer equipment	$ 13,042	$ 13,042
Office furniture	750	750
	13,792	13,792
Less accumulated depreciation	(13,792)	(13,379)
	$ –	$ 413

Note 6 – Grant Agreements

In September 2013, the Trust was awarded a technical assistance grant totaling $50,000 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 August 2014, the Trust was awarded a grant by Patagonia totaling $8,000. 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.

In September 2014, the Trust was awarded a technical assistance grant totaling $49,882 by the U.S. Department of Transportation (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, 2016, the Trust had received the entire $49,882 under the grant.

In September 2015, the Trust was awarded a technical assistance grant totaling $73,624 by the U.S. Department of Transportation (PHMSA) to provide the public with more tools so they better understand how pipeline safety rules are created, and give them the knowledge and opportunity to more fully participate in official proceedings such as rulemakings, workshops, standard development, and other local, regional, or national proceedings related to pipeline safety. As of March 31, 2016, the Trust had received $25,000 under the grant.

In December 2015, the Trust was awarded a grant from Canadian Energy totaling $81,300. As of March 31, 2016, the Trust had received the entire $81,300 under the grant.

Note 7 – Functional Classification of Expenses

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

		Supporting Services		Totals	
	Program Services	General and Administrative	Fund-Raising	2016	2015
Salaries and wages	$ 220,312	$ 11,974	$ 7,184	$ 239,470	$ 227,845
Conferences and conventions	71,984	–	–	71,984	82,133
Employee benefits	27,732	1,507	904	30,143	36,858
Travel and entertainment	21,705	2,412	–	24,117	25,674
Investment fees	–	23,989	–	23,989	24,255
Payroll taxes	17,744	954	382	19,080	18,113
Professional fees	–	16,035	–	16,035	11,897
Rent	12,589	684	411	13,684	13,188
Telephone and utilities	3,258	177	106	3,541	4,088
Office	2,732	149	89	2,970	15,559
Insurance	1,997	109	65	2,171	2,166
Depreciation	392	21	–	413	455
Miscellaneous	1,269	53	–	1,322	615
	$ 381,714	$ 58,064	$ 9,141	$ 448,919	$ 462,846

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

Note 8 – 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, 2016 and 2015, the Trust's contributions to the Plan totaled $11,946 and $11,373, respectively.

Note 9 – Operating Leases

The Trust leases office space under an operating lease agreement. Monthly rent totaled $1,097 through December 31, 2015 and subsequently increased to $1,116 as of January 2016. Rent expense totaled $13,684 and $13,188 for the years ended March 31, 2016 and 2015, respectively. The lease is set to expire December 2016. The scheduled minimum lease payments to be paid during the year ending March 31, 2017 totals $10,046.