Pipeline Safety Trust

Financial Statements with
Independent Auditor's Report

Years Ended March 31, 2011 (Audited)
and March 31, 2010 (Reviewed)

Larson Gross

Pipeline Safety Trust

Contents

Larson Gross

Independent Auditor's Report

The Board of Directors
Pipeline Safety Trust

We have audited the accompanying statement of financial position of Pipeline Safety Trust (a not-for-profit corporation) as of March 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Pipeline Safety Trust. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The 2010 financial statements were reviewed by us and our report thereon, dated May 24, 2010, stated that we were not aware of any material modifications that should be made to those 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 taken as a whole.

Larson Gross PLLC

Bellingham, Washington
May 16, 2011

P 360.734.4280
F 360.734.4893
larsongross.com

Bellingham Office
1616 Cornwall Ave., Ste. 205
Bellingham, WA 98225

Bellingham
Blaine
Burlington
Lynden

Pipeline Safety Trust

Statements of Financial Position

March 31, 2011 (Audited) and 2010 (Reviewed)

Assets

	2011	2010
Current assets		
Cash	$ 114,640	$ 143,834
Interest and dividends receivable	11,958	16,875
Total current assets	126,598	160,709
Investments		
Marketable securities	4,225,585	3,979,382
Furniture and equipment, net	3,741	2,844
Total assets	$ 4,355,924	$ 4,142,935

Liabilities and Net Assets

	2011	2010
Current liabilities		
Accounts payable	$ –	$ 2,636
Accrued liabilities	9,760	8,552
Total current liabilities	9,760	11,188
Net assets - unrestricted	4,346,164	4,131,747
Total liabilities and net assets	$ 4,355,924	$ 4,142,935

Pipeline Safety Trust

Statements of Activities

Years Ended March 31, 2011 (Audited) and 2010 (Reviewed)

	2011	2010
Revenue		
Investment gain	$ 424,476	$ 1,171,450
Program service fees	63,198	25,150
Contributions	30,300	26,618
Grant revenue	14,057	25,000
Interest from savings accounts	478	3,452
Total revenue	532,509	1,251,670
Operating expenses		
Program services	272,873	258,709
Supporting services	42,268	41,601
Fundraising	2,951	3,145
Total operating expenses	318,092	303,455
Increase in net assets	214,417	948,215
Net assets - beginning of year	4,131,747	3,183,532
Net assets - end of year	$ 4,346,164	$ 4,131,747

The accompanying notes are an integral part of these statements.

Pipeline Safety Trust

Statements of Cash Flows

Years Ended March 31, 2011 (Audited) and 2010 (Reviewed)

	2011	2010
Cash flows from operating activities		
Increase in net assets	$ 214,417	$ 948,215
Adjustments to reconcile increase in net assets to net cash used by operating activities:		
Depreciation	1,378	2,003
Net realized and unrealized gain on investments	(340,556)	(1,040,148)
(Increase) decrease in current assets		
Prepaid expenses	–	283
Interest and dividends receivable	4,917	(142)
Increase (decrease) in current liabilities		
Accounts payable	(2,636)	1,321
Accrued liabilities	1,208	2,253
Net cash used by operating activities	(121,272)	(86,215)
Cash flows from investing activities		
Withdrawals from investment funds	163,475	140,673
Net change in certificates of deposit	–	179,511
Reinvested interest and dividends, net	(69,122)	(112,919)
Purchase of equipment	(2,275)	–
Net cash provided by investing activities	92,078	207,265
Net increase (decrease) in cash	(29,194)	121,050
Cash - beginning of year	143,834	22,784
Cash - end of year	$ 114,640	$ 143,834

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, 2011 and 2010, 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 and marketable securities - Investments and marketable securities are carried at fair value as measured by ASC 820-10. Donated items are recorded at fair market value at the date of the contribution; purchased items are initially recorded at cost. Investments are evaluated and adjusted to fair value.

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 $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 $26,577 and $21,472 for the years ended March 31, 2011 and 2010, 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.

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.

Reclassification - Certain amounts in the prior year's financial statements have been reclassified to conform to the presentation of the current year's financial statements.

Subsequent events - In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through May 16, 2011, 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:

	2011	2010
Equity investments	$ 3,045,324	$ 2,673,258
Mutual funds	571,659	250,327
Fixed income investments	546,133	907,584
Money market fund	62,469	148,213
Total	$ 4,225,585	$ 3,979,382

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

	2011	2010
Dividends and interest	$ 83,920	$ 131,302
Net realized and unrealized gain on investments	340,556	1,040,148
Total	$ 424,476	$ 1,171,450

Note 3 - Fair Value Measurements

ASC 820-10 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 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust has the ability to access.

Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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, 2011 and 2010, 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.

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

Note 3 - Fair Value Measurements - (Continued)

Assets, at fair value, consist of the following as of March 31, 2011:

	Level 1	Level 2	Level 3	Total
Equity Investments				
Common stocks	$ 2,614,908	–	–	$ 2,614,908
Preferred stock	107,000	–	–	107,000
Real estate investment trusts	323,416	–	–	323,416
Mutual funds				
Short term government bond fund	270,548	–	–	270,548
Intermediate term government bond fund	301,111	–	–	301,111
Fixed income investments				
Municipal bonds -A series credit rating	107,237	–	–	107,237
Corporate bonds - A series credit rating	329,902	–	–	329,902
Corporate bonds - B series credit rating	108,994	–	–	108,994
Money market fund	62,469	–	–	62,469
Total assets at fair value	$ 4,225,585	$ –	$ –	$ 4,225,585

Assets at fair value consist of the following as of March 31, 2010:

	Level 1	Level 2	Level 3	Total
Equity Investments				
Common stocks	$ 2,119,526	$ –	$ –	$2,119,526
Preferred stock	100,940	–	–	100,940
Real estate investment trusts	452,792	–	–	452,792
Mutual funds				
Intermediate term government	250,327	–	–	250,327
Fixed income investments				
Municipal bonds - A series credit rating	103,975	–	–	103,975
Corporate bonds - A series credit rating	590,027	–	–	590,027
Corporate bonds - B series credit rating	213,582	–	–	213,582
Money market fund	148,213	–	–	148,213
Total assets at fair value	$ 3,979,382	$ –	$ –	$ 3,979,382

Note 4 - Furniture and Equipment

Furniture and equipment consists of the following at March 31:

	2011	2010
Computer equipment	$ 13,042	$ 10,767
Office furniture	750	750
	13,792	11,517
Less accumulated depreciation	(10,051)	(8,673)
	$ 3,741	$ 2,844

Note 5 - Functional Classification of Expenses

Operating expenses by functional classification for the years ended March 31, 2011 and 2010 are as follows:

	Program Services	Supporting Services	Fund Raising	Total 2011	Total 2010
Salaries and wages	$ 124,677	$ 6,703	$ 2,681	$ 134,061	$ 138,474
Payroll taxes	10,667	574	229	11,470	10,990
Employee benefits	10,346	545	–	10,891	16,073
Investment fees	–	21,190	–	21,190	18,914
Professional fees	32,250	6,000	–	38,250	22,065
Rent	4,237	222	–	4,459	4,681
Supplies	364	19	–	383	599
Telephone and utilities	4,138	217	–	4,355	3,433
Depreciation	1,309	69	–	1,378	2,003
Insurance	1,529	80	–	1,609	1,580
Travel and entertainment	26,454	6,614	–	33,068	38,698
Conferences & conventions	54,642	–	–	54,642	37,339
Dues and subscriptions	186	–	–	186	163
Office expenses	2,065	34	41	2,140	8,002
Miscellaneous	9	1	–	10	310
	$ 272,873	$ 42,268	$ 2,951	$ 318,092	$ 303,455

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, 2011 and 2010, the Trust's contributions to the Plan totaled $5,467 and $6,210, 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 - Commitments and Contingencies

The Trust entered into a service contract for professional services to be performed subsequent to year end. The contract expires March 31, 2012. Amounts due under contract for the year ending March 31, 2012 are $7,200.

Note 9 - Grant Agreements

In September 2009, the Trust was awarded a $47,250 technical assistance grant by the U.S. Department of Transportation (Pipeline and Hazardous Materials Safety Administration (PHMSA)) to determine effective communication strategies to engage local public officials to improve pipeline safety in their communities. Under the terms of the grant, the Trust contracted with a technical research group to do comprehensive research on pipeline safety in various communities and to issue a final report detailing the results of all activities undertaken as a result of the grant.

As of March 31, 2011, the Trust received the entire $47,250 under the grant. However, as the expenses associated with the grant came in under budget, the Trust returned $8,195 to PHMSA. Also as of March 31, 2011, the Trust expensed $27,809 related to the contract with the technical research group. The final report was issued in December 2010.

Additionally, in September 2010, the Trust was awarded a $22,650 technical assistance grant by PHMSA to research, draft and distribute a resource guide for citizens living near existing and proposed pipelines.

As of March 31, 2011, the Trust has not requested or received any of the grant money from PHMSA, and has only expended negligible staff time in the initial research. The grant is to be completed and the final report is expected to be issued by September 2011.