Pipeline Safety Trust

Financial Statements with
Independent Accountant's Review Report

Years Ended March 31, 2012 (Reviewed)
and March 31, 2011 (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 (a not-for-profit corporation) as of March 31, 2012, 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 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 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, 2012, in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The 2011 financial statements of Pipeline Safety Trust were audited by us and we expressed an unqualified opinion on those financial statements in our report, dated May 16, 2011, but we have not performed any auditing procedures since that date.

Larson Gross PLLC

Bellingham, Washington
June 21, 2012

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Pipeline Safety Trust

Statements of Financial Position

March 31, 2012 (Reviewed) and 2011 (Audited)

(See Independent Accountant's Review Report)

Assets

	2012	2011
Current assets		
Cash	$ 77,709	$ 114,640
Interest and dividends receivable	12,283	11,958
Total current assets	89,992	126,598
Investments	3,975,771	4,225,585
Furniture and equipment, net	2,612	3,741
Other assets		
Security deposit	1,025	-
Total assets	$ 4,069,400	$ 4,355,924

Liabilities and Net Assets

	2012	2011
Current liabilities		
Accrued liabilities	$ 6,913	$ 9,760
Net assets - unrestricted	4,062,487	4,346,164
Total liabilities and net assets	$ 4,069,400	$ 4,355,924

Pipeline Safety Trust

Statements of Activities

Years Ended March 31, 2012 (Reviewed) and 2011 (Audited)

(See Independent Accountant's Review Report)

	2012	2011
Revenue		
Investment (loss) gain	$ (65,473)	$ 424,476
Program service fees	48,950	36,900
Contributions	7,291	3,723
In-kind contributions	25,098	26,577
Grant revenue	38,992	40,355
Interest from savings accounts	423	478
Total revenue	55,281	532,509
Operating expenses		
Program services	285,959	272,873
Supporting services	49,617	42,268
Fundraising	3,382	2,951
Total operating expenses	338,958	318,092
(Decrease) increase in net assets	(283,677)	214,417
Net assets - beginning of year	4,346,164	4,131,747
Net assets - end of year	$ 4,062,487	$ 4,346,164

The accompanying notes are an integral part of these statements.

Pipeline Safety Trust

Statements of Cash Flows

Years Ended March 31, 2012 (Reviewed) and 2011 (Audited)

(See Independent Accountant's Review Report)

	2012	2011
Cash flows from operating activities		
(Decrease) increase in net assets	$ (283,677)	$ 214,417
Adjustments to reconcile (decrease) increase in net assets to net cash used by operating activities:		
Depreciation	1,129	1,378
Net realized and unrealized loss (gain) on investments	165,603	(340,556)
(Increase) decrease in assets		
Interest and dividends receivable	(325)	4,917
Other assets	(1,025)	–
Increase (decrease) in current liabilities		
Accounts payable	–	(2,636)
Accrued liabilities	(2,847)	1,208
Net cash used by operating activities	(121,142)	(121,272)
Cash flows from investing activities		
Withdrawals from investment funds	164,345	163,475
Reinvested interest and dividends, net of fees	(80,134)	(69,122)
Purchase of equipment	–	(2,275)
Net cash provided by investing activities	84,211	92,078
Net decrease in cash	(36,931)	(29,194)
Cash - beginning of year	114,640	143,834
Cash - end of year	$ 77,709	$ 114,640

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, 2012 and 2011, 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 $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 $25,098 and $26,577 for the years ended March 31, 2012 and 2011, 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.

Reclassifications - 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 June 21, 2012, 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:

	2012	2011
Equity investments	$ 2,736,316	$ 3,045,324
Mutual funds	660,391	571,659
Fixed income investments	561,165	546,133
Money market fund	17,899	62,469
Total	$ 3,975,771	$ 4,225,585

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

	2012	2011
Dividends and interest	$ 100,130	$ 83,920
Net realized and unrealized (loss) gain on investments	(165,603)	340,556
Total	$ (65,473)	$ 424,476

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, 2012 and 2011, 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, 2012 and 2011.

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, 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	$ 3,975,771	$ –	$ –	$ 3,975,771

	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

Note 4 - Furniture and Equipment

Furniture and equipment consists of the following at March 31:

	2012	2011
Computer equipment	$ 13,042	$ 13,042
Office furniture	750	750
	13,792	13,792
Less accumulated depreciation	(11,180)	(10,051)
	$ 2,612	$ 3,741

Note 5 - Functional Classification of Expenses

Operating expenses by functional classification for the years ended March 31, 2012 and 2011 are as follows:

	Program Services	Supporting Services	Fund Raising	Total 2012	Total 2011
Salaries and wages	$ 140,038	$ 7,529	$ 3,012	$ 150,579	$ 134,061
Payroll taxes	9,165	493	197	9,855	11,470
Employee benefits	7,060	372	–	7,432	10,891
Investment fees	–	22,016	–	22,016	21,190
Contract expense	15,000	–	–	15,000	–
Professional fees	11,046	9,000	–	20,046	38,250
Rent	8,309	436	–	8,745	4,459
Supplies	558	29	–	587	383
Telephone and utilities	3,017	158	–	3,175	4,355
Depreciation	1,073	56	–	1,129	1,378
Insurance	1,587	83	–	1,670	1,609
Travel and entertainment	36,876	9,219	–	46,095	33,068
Conferences & conventions	44,905	–	–	44,905	54,642
Dues and subscriptions	395	–	–	395	186
Office expenses	6,880	223	139	7,242	2,140
Fundraising fees	–	–	34	34	–
Miscellaneous	50	3	–	53	10
	$ 285,959	$ 49,617	$ 3,382	$ 338,958	$ 318,092

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, 2012 and 2011, the Trust's contributions to the Plan totaled $6,476 and $5,467, 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 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 grants, the Trust contracted with a technical research group to do comprehensive research on pipeline safety communication in various communities and to issue a final report detailing the results of that research.

As of March 31, 2011, the Trust had 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.

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, 2012, the Trust has not requested or received any of the $48,700 grant money, and has only expended negligible staff time in the initial research. The grant is to be completed and the final report issued by September 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.

Note 8 - Grant Agreements - (Continued)

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.

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:

2013	$ 12,600
2014	12,600
2015	9,450
	$ 34,650

Total rent expense amounted to $8,745 and $4,459 for the years ended March 31, 2012 and 2011, respectively.