

# **Pipeline Safety Trust**

Financial Statements with  
Independent Accountant's Review Report

Years Ended March 31, 2019 and 2018

Larson Gross 

# Pipeline Safety Trust

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## Independent Accountant's Review Report

To 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, 2019 and 2018, the related statements of activities, cash flows, and functional expenses 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 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 American Institute of Certified Public Accountants. 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.

### Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2018, the Trust adopted Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *"Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities."* The update addresses the complexity and understandability of net assets restrictions, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The ASU has been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

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

Accounting principles generally accepted in the United States of America require organizations with either donor-restricted or board designated endowment funds to disclose certain endowment information, including a break-down of endowment activity, spending and appropriation policies, return objectives and risk parameters, and strategies employed for achieving the return objectives. The Trust's financial statements do not present the required disclosures relating to the Trust's board designated endowment fund.

*Larson Gross PLLC*

Bellingham, Washington

August 6, 2019

Pipeline Safety Trust

**Statements of Financial Position**

March 31, 2019 and 2018

(See Independent Accountant's Review Report)

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 82,360	\$ 64,316
Interest and dividends receivable	<u>114</u>	<u>102</u>
Total current assets	82,474	64,418
<b>Investments</b>	4,260,673	4,223,913
<b>Security deposit</b>	<u>1,025</u>	<u>1,025</u>
<b>Total assets</b>	<u>\$ 4,344,172</u>	<u>\$ 4,289,356</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accrued liabilities	\$ 17,599	\$ 18,155
Deferred grant revenue	<u>16,462</u>	<u>18,266</u>
Total current liabilities	34,061	36,421
<b>Net assets</b>		
Without donor restrictions		
Undesignated	\$ 260,111	\$ 202,935
Board-designated	<u>4,050,000</u>	<u>4,050,000</u>
Total net assets	<u>4,310,111</u>	<u>4,252,935</u>
<b>Total liabilities and net assets</b>	<u>\$ 4,344,172</u>	<u>\$ 4,289,356</u>

Pipeline Safety Trust

**Statements of Activities**

Years Ended March 31, 2019 and 2018

(See Independent Accountant's Review Report)

	<u>2019</u>	<u>2018</u>
<b>Changes in net assets without donor restrictions</b>		
<b>Support and revenue</b>		
Support		
Contributions	\$ 30,152	\$ 25,123
In-kind contributions	20,667	20,517
Total support	<u>50,819</u>	<u>45,640</u>
Revenue		
Grant revenue	89,441	35,819
Program service fees	85,804	54,876
Investment return, net	267,685	378,703
Interest income – other	680	446
Total revenue	<u>443,610</u>	<u>469,844</u>
Total support and revenue	494,429	515,484
<b>Expenses</b>		
Program services	387,426	391,119
Management and general	41,574	41,654
Fundraising	8,253	8,762
Total expenses	<u>437,253</u>	<u>441,535</u>
<b>Change in net assets without donor restrictions</b>	57,176	73,949
Net assets – beginning of year	<u>4,252,935</u>	<u>4,178,986</u>
<b>Net assets – end of year</b>	<u>\$ 4,310,111</u>	<u>\$ 4,252,935</u>

Pipeline Safety Trust

Statements of Functional Expenses

Years Ended March 31, 2018

(See Independent Accountant's Review Report)

	2019				2018			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 191,848	\$ 10,426	\$ 6,256	\$ 208,530	\$ 221,764	\$ 11,987	\$ 5,994	\$ 239,745
Employee benefits	29,577	1,608	965	32,150	30,695	1,705	1,705	34,105
Payroll taxes	13,224	719	431	14,374	16,637	899	450	17,986
Total payroll and related	234,649	12,753	7,652	255,054	269,096	14,591	8,149	291,836
Grants and other assistance	48,773	-	-	48,773	27,737	-	-	27,737
Conferences and conventions	41,043	-	-	41,043	39,006	-	-	39,006
Professional fees	12,969	24,408	-	37,377	4,192	22,679	-	26,871
Travel and entertainment	30,179	3,353	-	33,532	28,804	3,200	-	32,004
Rent	13,635	741	445	14,821	13,193	717	430	14,340
Telephone and utilities	2,470	134	81	2,685	2,399	130	78	2,607
Insurance	2,160	117	70	2,347	2,155	117	70	2,342
Miscellaneous	1,548	68	5	1,621	4,537	220	35	4,792
	<u>\$ 387,426</u>	<u>\$ 41,574</u>	<u>\$ 8,253</u>	<u>\$ 437,253</u>	<u>\$ 391,119</u>	<u>\$ 41,654</u>	<u>\$ 8,762</u>	<u>\$ 441,535</u>

Pipeline Safety Trust

**Statements of Cash Flows**

Years Ended March 31, 2019 and 2018

(See Independent Accountant's Review Report)

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Change in net assets without donor restrictions	\$ 57,176	\$ 73,949
Adjustments to reconcile change in net assets without donor restrictions to net cash used by operating activities:		
Net realized and unrealized gain on investments	(198,387)	(308,978)
Increase (decrease) in current assets:		
Interest and dividends receivable	(12)	18
Decrease in current liabilities:		
Accrued liabilities	(556)	(177)
Deferred grant revenue	<u>(1,804)</u>	<u>(819)</u>
<b>Net cash used by operating activities</b>	<b>(143,583)</b>	<b>(236,007)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments withdrawn from investment account	230,913	292,000
Proceeds from sales of investments not withdrawn from investment account	298,927	501,827
Purchases of investments	<u>(368,213)</u>	<u>(571,569)</u>
<b>Net cash provided by investing activities</b>	<b><u>161,627</u></b>	<b><u>222,258</u></b>
Net increase (decrease) in cash	18,044	(13,749)
Cash – beginning of year	<u>64,316</u>	<u>78,065</u>
<b>Cash – end of year</b>	<b><u><u>\$ 82,360</u></u></b>	<b><u><u>\$ 64,316</u></u></b>



Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2019 and 2018

(See Independent Accountant's Review Report)

**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 Auditor's 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** – The Trust presents its financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958. Under this standard, the Trust is required to present its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restriction.

**Net assets without donor restrictions** – Net assets that are not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control is classified as net assets without donor restrictions.

**Net assets with donor restrictions** – Net assets that have been restricted by the donor for specific purposes or are time restricted, including contributions that have been restricted by the donor that stipulate the resources be maintained in perpetuity, but permit the Trust to use or expend part or all of the income derived from the donated assets for either specific or unspecific purposes. The Trust had no net assets with donor restrictions as of March 31, 2019 or 2018.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets. In addition, if a restriction is fulfilled in the same year in which the contribution is received, the Trust reports the support as net assets without donor restrictions.

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

**Notes to Financial Statements**

March 31, 2019 and 2018

(See Independent Accountant's Review Report)

**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 net assets without donor restrictions, 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 \$20,667 and \$20,517 for the years ended March 31, 2019 and 2018, respectively, were recorded as deferred grant revenue.

**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. Grant receipts in advance of being earned are recorded as deferred grant revenue.

**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 statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Salaries, payroll taxes and employee benefits are allocated on the basis of estimates of time and effort. All other allocated expenses are allocated based on estimates of usage utilizing square footage, mileage, and other metrics.

Pipeline Safety Trust

Notes to Financial Statements

March 31, 2019 and 2018

(See Independent Accountant's Review Report)

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

**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.

**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.

**New accounting pronouncement** – In August of 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *“Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities.”* The amendments provided by this update address the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The ASU is effective for fiscal years beginning after December 15, 2017, and was applied retrospectively to all periods presented.

**Reclassifications** – Certain reclassifications have been made to the prior year's financial statements to conform to the current year's financial statement presentation.

**Subsequent events** – In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through August 6, 2019, the date the financial statements were available to be issued.

**Note 2 – Availability and Liquidity**

Financial assets available for general expenditures within one year of March 31, 2019, consist of the following:

Financial assets at year-end:	
Cash	\$ 82,360
Interest and dividends receivable	114
Investments	<u>4,260,673</u>
Total financial assets	4,343,147
Less amounts not available to be used within one year:	
Board-designated endowment reserve	<u>(4,000,000)</u>
Financial assets not available to be used within one year	<u>(4,000,000)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 343,147</u>

**Notes to Financial Statements**

March 31, 2019 and 2018

(See Independent Accountant's Review Report)

**Note 2 – Availability and Liquidity – (Continued)**

The Board intends to maintain the investment principal as a restricted balance indefinitely and is not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As part of the Trust's liquidity management plan, cash in excess of daily requirements may be invested in equity investments, mutual funds and money market funds. Investing in certain mutual funds is also permitted with Board approval.

**Note 3 – Investments and 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, 2019 and 2018.

Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2019 and 2018

(See Independent Accountant's Review Report)

**Note 3 – Investment and Fair Value Measurements – (Continued)**

The following tables set forth the Trust's investments at fair value as of March 31:

	2019			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 70,324	\$ -	\$ -	\$ 70,324
Equity investments	2,808,711	-	-	2,808,711
Mutual funds	1,381,638	-	-	1,381,638
Total	<u>\$ 4,260,673</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,260,673</u>

  

	2018			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 77,701	\$ -	\$ -	\$ 77,701
Equity investments	2,871,881	-	-	2,871,881
Mutual funds	1,274,331	-	-	1,274,331
Total	<u>\$ 4,223,913</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,223,913</u>

**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 – Grant Agreements**

In September 2015, the Trust was awarded a technical assistance grant totaling \$73,624 by the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration (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, 2018, the Trust had recognized the entire \$73,624 under the grant.

In September 2017, the Trust was awarded an additional technical assistance grant totaling \$79,437 by the PHMSA. As of March 31, 2019, the Trust had received and recognized the entire \$79,437 under the grant.

In September 2018, the PHMSA awarded the trust a grant totaling \$99,976. As of March 31, 2019, the Trust had received \$30,000 under the grant with \$16,462 recorded as deferred work to be performed through September 2019.

Pipeline Safety Trust

Notes to Financial Statements

March 31, 2019 and 2018

(See Independent Accountant's Review Report)

**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, 2019 and 2018, the Trust's contributions to the Plan totaled \$10,705 and \$12,639, respectively.

**Note 7 – Operating Lease**

The Trust leases office space under an operating lease agreement extending through December 2019. Monthly rent totaled \$1,226 through December 31, 2018 and subsequently increased to \$1,245 as of January 2019. Rent expense totaled \$14,821 and \$14,340 for the years ended March 31, 2019 and 2018, respectively.

The scheduled minimum lease payments to be paid during the year ending March 31, 2020, total \$11,200.

**Note 8 – Board-Designated Net Assets**

Board-designated net assets consist of the following as of March 31:

	<u>2019</u>	<u>2018</u>
Endowment reserve	\$ 4,000,000	\$ 4,000,000
Operating reserve	<u>50,000</u>	<u>50,000</u>
	<u>\$ 4,050,000</u>	<u>\$ 4,050,000</u>

**Note 9 – Prospective Accounting Change**

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 and subsequent amendments outline a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This guidance may be adopted using either a full retrospective or modified retrospective approach. Application is required for annual periods beginning after December 15, 2018.

Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2019 and 2018

(See Independent Accountant's Review Report)

**Note 9 – Prospective Accounting Change – (Continued)**

The Trust plans to adopt ASU 2014-09 effective January 1, 2019, using the modified retrospective method. Under this method, the new standard will be applied only to the most current period presented in the financial statements with the cumulative effect recognized as of the date of initial application. The Trust continues to evaluate the impact of the new accounting guidance on its financial statements and disclosures. The Trust's adoption of ASU 2014-09 is not anticipated to have a material impact on the results of operations or financial position; however, the Trust's assessment is not complete.

**Note 10 – Recent Accounting Pronouncement**

In February 2016, the FASB issued ASU 2016-02, "Leases", which requires lessees to record most leases with terms greater than 12 months on their statement of financial position by recognizing a liability to make lease payments and an asset representing their right to use the asset during the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election, by class of underlying asset, not to recognize the corresponding assets and lease liabilities. Lessee recognition, measurement, and presentation of expenses and cash flows will not change significantly from existing guidance and lessor accounting is largely unchanged. ASU 2016-02 also changes the definition of a lease and requires qualitative and quantitative disclosures that provide information about the amount, timing, and uncertainty of cash flows arising from leases. Application is required for annual periods beginning after December 15, 2020. The Trust continues to evaluate the impact of the new accounting guidance on its financial statements.