

Larson Gross<sup>G</sup>



**Pipeline Safety Trust  
Financial Statements  
With  
Accountant's Review Report  
Years Ended March 31, 2010 and 2009**

## Pipeline Safety Trust

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## Accountant's Review Report

The Board of Directors  
Pipeline Safety Trust

We have reviewed the accompanying statements of financial position of the Pipeline Safety Trust (a not-for-profit corporation) as of March 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All of the information included in these financial statements is the representation of the management of Pipeline Safety Trust.

A review consists principally of inquiries of Pipeline Safety Trust personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

*Larson Gross PLLC*

Bellingham, Washington  
May 24, 2010

Pipeline Safety Trust

**Statements of Financial Position**

March 31, 2010 and 2009

(See Accountant's Review Report)

**Assets**

|                                     | <u>2010</u>         | <u>2009</u>         |
|-------------------------------------|---------------------|---------------------|
| <b>Current assets</b>               |                     |                     |
| Cash                                | \$ 143,834          | \$ 22,784           |
| Prepaid expenses                    | -                   | 283                 |
| Certificates of deposit             | -                   | 179,511             |
| Interest and dividends receivable   | 16,875              | 16,733              |
| Total current assets                | <u>160,709</u>      | <u>219,311</u>      |
| <b>Investments</b>                  |                     |                     |
| Marketable securities               | 3,979,382           | 2,966,988           |
| <b>Furniture and equipment, net</b> | <u>2,844</u>        | <u>4,847</u>        |
| <b>Total assets</b>                 | <u>\$ 4,142,935</u> | <u>\$ 3,191,146</u> |

**Liabilities and Net Assets**

|   |                     |                     |
|---|---------------------|---------------------|
| <b>Current liabilities</b>              |                     |                     |
| Accounts payable                        | \$ 2,636            | \$ 1,315            |
| Accrued liabilities                     | 8,552               | 6,299               |
| Total current liabilities               | <u>11,188</u>       | <u>7,614</u>        |
| <b>Net assets - unrestricted</b>        | <u>4,131,747</u>    | <u>3,183,532</u>    |
| <b>Total liabilities and net assets</b> | <u>\$ 4,142,935</u> | <u>\$ 3,191,146</u> |

Pipeline Safety Trust

**Statements of Activities**

Years Ended March 31, 2010 and 2009

(See Accountant's Review Report)

|  | <u>2010</u>         | <u>2009</u>         |
|--|---------------------|---------------------|
| <b>Revenue</b>                           |                     |                     |
| Investment gain (loss)                   | \$ 1,171,450        | \$ (1,060,903)      |
| Interest from savings accounts           | 3,452               | 7,418               |
| Program service fees                     | 25,150              | 35,600              |
| Grant revenue                            | 25,000              | -                   |
| Contributions                            | 26,618              | 28,515              |
| Total revenue                            | <u>1,251,670</u>    | <u>(989,370)</u>    |
| <b>Operating expenses</b>                |                     |                     |
| Program services                         | 258,709             | 192,370             |
| Supporting services                      | 41,601              | 38,829              |
| Fundraising                              | 3,145               | 340                 |
| Total operating expenses                 | <u>303,455</u>      | <u>231,539</u>      |
| <b>Increase (decrease) in net assets</b> | 948,215             | (1,220,909)         |
| Net assets - beginning of year           | <u>3,183,532</u>    | <u>4,404,441</u>    |
| <b>Net assets - end of year</b>          | <u>\$ 4,131,747</u> | <u>\$ 3,183,532</u> |

Pipeline Safety Trust

**Statements of Cash Flows**

Years Ended March 31, 2010 and 2009

(See Accountant's Review Report)

|  | <u>2010</u>       | <u>2009</u>      |
|--|-------------------|------------------|
| <b>Cash flows from operating activities</b>  |                   |                  |
| Increase (decrease) in net assets  | \$ 948,215        | \$ (1,220,909)   |
| Adjustments to reconcile increase (decrease) in net assets<br>to net cash provided (used) by operating activities: |                   |                  |
| Depreciation   | 2,003             | 2,070            |
| Net realized and unrealized (gain) loss on investments   | (1,040,148)       | 1,241,091        |
| (Increase) decrease in current assets  |                   |                  |
| Prepaid expenses   | 283               | 828              |
| Interest and dividends receivable  | (142)             | (9,080)          |
| Increase (decrease) in current liabilities   |                   |                  |
| Accounts payable   | 1,321             | 55               |
| Accrued liabilities  | 2,253             | 3,149            |
|  | <u>2,253</u>      | <u>3,149</u>     |
| <b>Net cash provided (used) by operating activities</b>  | (86,215)          | 17,204           |
| <b>Cash flows from investing activities</b>  |                   |                  |
| Withdrawals from investment funds  | 140,673           | 155,894          |
| Net change in certificates of deposit  | 179,511           | (25,625)         |
| Reinvested interest and dividends, net   | (112,919)         | (151,135)        |
| Purchase of equipment  | -                 | (2,205)          |
|  | <u>-</u>          | <u>(2,205)</u>   |
| <b>Net cash provided (used) by investing activities</b>  | 207,265           | (23,071)         |
| Net increase (decrease) in cash  | 121,050           | (5,867)          |
| Cash - beginning of year   | <u>22,784</u>     | <u>28,651</u>    |
| <b>Cash - end of year</b>  | <u>\$ 143,834</u> | <u>\$ 22,784</u> |

Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2010 and 2009

(See 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 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, 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, 2010 and 2009, 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 (formerly SFAS No. 157). 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 \$21,472 and \$24,964 for the years ended March 31, 2010 and 2009, respectively, were recorded at fair market value at the date of donation, and have been included in revenue and expenses for that year.

**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.

Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2010 and 2009

(See Accountant's Review Report)

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

**Subsequent events** - In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through May 24, 2010, the date the financial statements were available to be issued.

**Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles 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.

**Note 2 - Investments**

Investments consist of U.S. Government Bonds, common and preferred stocks, real estate investment trusts, mutual funds, and cash. The investment is intended to provide investment income to be used to support the mission of the Trust. The securities are reported at fair value as of March 31, 2010 and 2009.

|                               | <u>2010</u>        | <u>2009</u>         |
|-------------------------------|--------------------|---------------------|
| Fixed income investments      | \$ 907,584         | \$ 1,360,018        |
| Equity investments            |                    |                     |
| Common stocks                 | 2,119,526          | 1,248,110           |
| Preferred stocks              | 100,940            | 46,350              |
| Real estate investment trusts | 452,792            | 286,558             |
| Mutual funds                  | 250,327            | -                   |
| Money market funds            | <u>148,213</u>     | <u>25,952</u>       |
| Total                         | <u>\$3,979,382</u> | <u>\$ 2,966,988</u> |

Investment income (loss) consists of the following:

|  |                     |                      |
|--|---------------------|----------------------|
| Dividends and interest                                 | \$ 131,302          | \$ 180,188           |
| Net realized and unrealized gain (loss) on investments | <u>1,040,148</u>    | <u>(1,241,091)</u>   |
| Total  | <u>\$ 1,171,450</u> | <u>\$(1,060,903)</u> |

**Note 3 - Fair Value Measurements**

ASC 820-10 (formerly FASB Statement No. 157 Fair Value Measurements) 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:



Pipeline Safety Trust

Notes to Financial Statements

March 31, 2010 and 2009

(See Accountant's Review Report)

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

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, 2010, all investments are measured at quoted prices in active markets for identical assets.

The preceding 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.

The following table sets forth by level, within the fair value hierarchy, the Trust's assets at fair value as of March 31, 2010:

Assets at Fair Value as of March 31, 2010

|                               | <u>Level 1</u>     | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>       |
|-------------------------------|--------------------|----------------|----------------|--------------------|
| Money market fund             | \$ 148,213         | \$ -           | \$ -           | \$ 148,213         |
| Municipal bonds               | 103,975            | -              | -              | 103,975            |
| Corporate bonds               | 803,609            | -              | -              | 803,609            |
| Common stocks                 | 2,119,526          | -              | -              | 2,119,526          |
| Preferred stock               | 100,940            | -              | -              | 100,940            |
| Real estate investment trusts | 452,792            | -              | -              | 452,792            |
| Mutual funds                  | 250,327            | -              | -              | 250,327            |
| Total assets at fair value    | <u>\$3,979,382</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$3,979,382</u> |

Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2010 and 2009

(See Accountant's Review Report)

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

Assets at Fair Value as of March 31, 2009

|                               | Level 1            | Level 2     | Level 3     | Total              |
|-------------------------------|--------------------|-------------|-------------|--------------------|
| Money market fund             | \$ 25,952          | \$ -        | \$ -        | \$ 25,952          |
| US Government bonds           | 485,235            | -           | -           | 485,235            |
| Corporate bonds               | 874,783            | -           | -           | 874,783            |
| Common stocks                 | 1,248,110          | -           | -           | 1,248,110          |
| Preferred stock               | 46,350             | -           | -           | 46,350             |
| Real estate investment trusts | 286,558            | -           | -           | 286,558            |
| Total assets at fair value    | <u>\$2,966,988</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$2,966,988</u> |

**Note 4 - Furniture and Equipment**

Furniture and equipment consists of the following at March 31, 2010 and 2009:

|                               | 2010            | 2009            |
|-------------------------------|-----------------|-----------------|
| Office furniture              | \$ 750          | \$ 750          |
| Computer equipment            | 10,767          | 10,767          |
|                               | 11,517          | 11,517          |
| Less accumulated depreciation | (8,673)         | (6,670)         |
|                               | <u>\$ 2,844</u> | <u>\$ 4,847</u> |

**Note 5 - Functional Classification of Expenses**

Operating expenses by functional classification for the years ended March 31, 2010 and 2009 are as follows:

|                           | Program<br>Services | Supporting<br>Services | Fund<br>Raising | Total            |                  |
|---------------------------|---------------------|------------------------|-----------------|------------------|------------------|
|                           |                     |                        |                 | 2010             | 2009             |
| Salaries and wages        | \$128,903           | \$ 6,930               | \$ 2,772        | \$138,605        | \$ 75,382        |
| Payroll taxes             | 10,220              | 550                    | 220             | 10,990           | 6,460            |
| Employee benefits         | 15,269              | 804                    | -               | 16,073           | 16,099           |
| Investment fees           | -                   | 18,914                 | -               | 18,914           | 20,767           |
| Professional fees         | 16,065              | 6,000                  | -               | 22,065           | 23,779           |
| Rent                      | 4,448               | 233                    | -               | 4,681            | 4,863            |
| Supplies                  | 569                 | 30                     | -               | 599              | 204              |
| Telephone and utilities   | 3,262               | 171                    | -               | 3,433            | 2,637            |
| Depreciation              | 1,903               | 100                    | -               | 2,003            | 2,150            |
| Insurance                 | 1,501               | 79                     | -               | 1,580            | 2,074            |
| Travel and entertainment  | 30,958              | 7,740                  | -               | 38,698           | 23,276           |
| Conferences & conventions | 37,339              | -                      | -               | 37,339           | 51,944           |
| Dues and subscriptions    | 163                 | -                      | -               | 163              | 808              |
| Office expenses           | 7,815               | 34                     | 153             | 8,002            | 1,071            |
| Miscellaneous             | 294                 | 16                     | -               | 310              | 25               |
|                           | <u>\$258,709</u>    | <u>\$ 41,601</u>       | <u>\$ 3,145</u> | <u>\$303,455</u> | <u>\$231,539</u> |

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

Pipeline Safety Trust

**Notes to Financial Statements**

March 31, 2010 and 2009

(See 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, 2010 and 2009, the Trust's total contributions to the plan were \$6,210 and \$3,703, 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, 2011. Amounts due under contract for the year ending March 31, 2011 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) 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 has contracted with a technical research group to do comprehensive research on pipeline safety in various communities and will issue a final report detailing the results of all activities undertaken as a result of the grant.

As of March 31, 2010, the Trust has received \$25,000 under the grant. Additionally, the Trust has expensed \$3,460 of a \$36,000 contract with the technical research group. The final report is expected to be issued in September 2010.

**Note 10 - Recent Accounting Pronouncements**

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06 *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends FASB Accounting Standards Codifications Topic 820, *Fair Value Measurements and Disclosures*, to require additional disclosures regarding fair value measurements. Certain disclosures required by ASU No. 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, and other required disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. As of December 31, 2009, management of the Organization does not believe the adoption of this proposed guidance will impact the financial statement amounts; however, additional disclosures may be required.