

Pipeline Safety Trust

Financial Statements with
Independent Accountant's Review Report

Years Ended March 31, 2018 (Reviewed) and
March 31, 2017 (Audited)

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 statement of financial position as of March 31, 2018, and the related statements of activities and cash flows for the year 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 engagement 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 review, 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.

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.

Prior Period Financial Statements

The March 31, 2017 financial statements were audited by us, and our report thereon, dated July 27, 2017, stated, except for the known departure from accounting principles generally accepted in the United States of America described in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Pipeline Safety Trust as of March 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Larson Gross PLLC

Bellingham, Washington
August 8, 2018

Pipeline Safety Trust

Statements of Financial Position

March 31, 2018 (Reviewed) and 2017 (Audited)

(See Independent Accountant's Review Report)

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash	\$ 64,316	\$ 78,065
Interest and dividends receivable	<u>102</u>	<u>120</u>
Total current assets	64,418	78,185
Investments	4,223,913	4,137,193
Security deposit	<u>1,025</u>	<u>1,025</u>
Total assets	<u>\$ 4,289,356</u>	<u>\$ 4,216,403</u>
Liabilities and Net Assets		
Current liabilities		
Accrued liabilities	\$ 18,155	\$ 18,332
Deferred grant revenue	<u>18,266</u>	<u>19,085</u>
Total current liabilities	36,421	37,417
Net assets - unrestricted	<u>4,252,935</u>	<u>4,178,986</u>
Total liabilities and net assets	<u>\$ 4,289,356</u>	<u>\$ 4,216,403</u>

Pipeline Safety Trust

Statements of Activities

Years Ended March 31, 2018 (Reviewed) and 2017 (Audited)

(See Independent Accountant's Review Report)

	<u>2018</u>	<u>2017</u>
Changes in unrestricted net assets		
Support and revenue		
Support		
Contributions	\$ 25,123	\$ 14,265
In-kind contributions	20,517	22,819
Total support	<u>45,640</u>	<u>37,084</u>
Revenue		
Grant revenue	35,819	29,539
Program service fees	54,876	62,939
Investment income	378,703	165,540
Interest income - other	446	405
Total revenue	<u>469,844</u>	<u>258,423</u>
Total unrestricted support and revenue	515,484	295,507
Expenses		
Program services	391,119	390,315
Supporting services	41,654	34,533
Fundraising	8,762	14,528
Total expenses	<u>441,535</u>	<u>439,376</u>
Change in unrestricted net assets	73,949	(143,869)
Net assets - beginning of year	<u>4,178,986</u>	<u>4,322,855</u>
Net assets - end of year	<u>\$ 4,252,935</u>	<u>\$ 4,178,986</u>

Pipeline Safety Trust

Statements of Cash Flows

Years Ended March 31, 2018 (Reviewed) and 2017 (Audited)

(See Independent Accountant's Review Report)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in unrestricted net assets	\$ 73,949	\$ (143,869)
Adjustments to reconcile change in unrestricted net assets to net cash used by operating activities:		
Net realized and unrealized gain on investments	(308,978)	(85,987)
Increase in current assets:		
Interest and dividends receivable	18	140
Increase (decrease) in current liabilities:		
Accrued liabilities	(177)	8,430
Deferred grant revenue	<u>(819)</u>	<u>19,085</u>
Net cash used by operating activities	(236,007)	(202,201)
Cash flows from investing activities		
Proceeds from sales of investments withdrawn from investment account	292,000	272,000
Proceeds from sales of investments not withdrawn from investment account	501,827	912,997
Purchases of investments	<u>(571,569)</u>	<u>(988,060)</u>
Net cash provided by investing activities	<u>222,258</u>	<u>196,937</u>
Net decrease in cash	(13,749)	(5,264)
Cash - beginning of year	<u>78,065</u>	<u>83,329</u>
Cash - end of year	<u><u>\$ 64,316</u></u>	<u><u>\$ 78,065</u></u>

Pipeline Safety Trust

Notes to Financial Statements

March 31, 2018 (Reviewed) and 2017 (Audited)

(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 – 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, 2018 or 2017.

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, 2018 or 2017.

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.

Pipeline Safety Trust

Notes to Financial Statements

March 31, 2018 (Reviewed) and 2017 (Audited)

(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 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 \$20,517 and \$22,819 for the years ended March 31, 2018 and 2017, 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. 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.

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.

Notes to Financial Statements

March 31, 2018 (Reviewed) and 2017 (Audited)

(See Independent Accountant's Review Report)

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

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.

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 8, 2018, 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, 2018 and 2017.

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Notes to Financial Statements

March 31, 2018 (Reviewed) and 2017 (Audited)

(See Independent Accountant's Review Report)

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:

	<u>2018</u>	<u>2017</u>
Money market fund	\$ 77,701	\$ 78,837
Equity investments	2,871,881	2,840,701
Mutual funds	<u>1,274,331</u>	<u>1,217,655</u>
Total	<u>\$ 4,223,913</u>	<u>\$ 4,137,193</u>

Investment income, net of investment fees is summarized as follows for the years ended March 31:

	<u>2018</u>	<u>2017</u>
Net realized and unrealized gain on investments	\$ 308,978	\$ 85,987
Dividends and interest	96,288	104,997
Investment fees	<u>(26,563)</u>	<u>(25,444)</u>
Total	<u>\$ 378,703</u>	<u>\$ 165,540</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 (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 U.S. Department of Transportation (PHMSA). As of March 31, 2018, the Trust had received \$54,085 under the grant with \$18,266 recorded as deferred for work to be performed through September 2018.

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Notes to Financial Statements

March 31, 2018 (Reviewed) and 2017 (Audited)

(See Independent Accountant's Review Report)

Note 6 – Functional Classification of Expenses

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

	Program Services	Supporting Services		Totals	
		General and Administrative	Fund- Raising	2018	2017
Salaries and wages	\$ 221,764	\$ 11,987	\$ 5,994	\$ 239,745	\$ 232,888
Conferences and conventions	62,116	-	-	62,116	82,719
Employee benefits	30,695	1,705	1,705	34,105	25,040
Travel and entertainment	28,804	3,200	-	32,004	24,840
Payroll taxes	16,637	899	450	17,986	18,193
Rent	13,193	717	430	14,340	13,918
Professional fees	8,819	22,679	-	31,498	28,176
Miscellaneous	3,157	166	-	3,323	3,468
Telephone and utilities	2,399	130	78	2,607	2,989
Insurance	2,155	117	70	2,342	2,301
Office	985	54	35	1,074	4,844
Dues and subscriptions	395	-	-	395	-
	<u>\$ 391,119</u>	<u>\$ 41,654</u>	<u>\$ 8,762</u>	<u>\$ 441,535</u>	<u>\$ 439,376</u>

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

Note 7 – 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, 2018 and 2017, the Trust's contributions to the Plan totaled \$12,639 and \$9,362, respectively.

Note 8 – Operating Lease

The Trust leases office space under an operating lease agreement extending through December 2019. Monthly rent totaled \$1,207 through December 31, 2017 and subsequently increased to \$1,226 as of January 2018. Rent expense totaled \$14,340 and \$13,917 for the years ended March 31, 2018 and 2017, respectively.

The scheduled minimum lease payments to be paid during the years ending March 31 are as follows:

2019	14,800
2020	11,200
	<u>\$ 26,000</u>

Pipeline Safety Trust

Notes to Financial Statements

March 31, 2018 (Reviewed) and 2017 (Audited)

(See Independent Accountant's Review Report)

Note 9 – Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (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 applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Application is required for annual periods beginning after December 15, 2018. The Trust continues to evaluate the impact of the new accounting guidance on its financial statements.