

# **Pipeline Safety Trust**

Financial Statements with  
Independent Accountant's Review Report

Years Ended March 31, 2021 (Reviewed) and  
March 31, 2020 (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, 2021, the related statements of activities, functional expenses 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 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 as 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 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 review, 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.

**Prior Period Financial Statements**

The March 31, 2020 financial statements were audited by us, and our report thereon, dated September 11, 2020, stated the financial statements referred to above present fairly, in all material respects, the financial position of Pipeline Safety Trust as of March 31, 2020, and the results of its operations 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 24, 2021

Pipeline Safety Trust

**Statements of Financial Position**

March 31, 2021 (Reviewed) and 2020 (Audited)

|   | <u>2021</u>         | <u>2020</u>         |
|---|---------------------|---------------------|
| <b>Assets</b>                           |                     |                     |
| <b>Current assets</b>                   |                     |                     |
| Cash                                    | \$ 74,210           | \$ 145,756          |
| Interest and dividends receivable       | 2,121               | 295                 |
| Other receivable                        | 3,055               | -                   |
| Total current assets                    | <u>79,386</u>       | <u>146,051</u>      |
| <b>Investments</b>                      | 5,250,274           | 3,905,665           |
| <b>Security deposit</b>                 | <u>1,025</u>        | <u>1,025</u>        |
| <b>Total assets</b>                     | <u>\$ 5,330,685</u> | <u>\$ 4,052,741</u> |
| <b>Liabilities and Net Assets</b>       |                     |                     |
| <b>Current liabilities</b>              |                     |                     |
| Accounts payable                        | \$ 462              | \$ -                |
| Accrued liabilities                     | 19,548              | 21,982              |
| Contract liabilities                    | 15,284              | 7,435               |
| Total current liabilities               | <u>35,294</u>       | <u>29,417</u>       |
| <b>Paycheck Protection Program loan</b> | 41,200              | -                   |
| <b>Net assets</b>                       |                     |                     |
| Without donor restrictions              |                     |                     |
| Undesignated                            | 1,204,191           | (26,676)            |
| Board-designated                        | <u>4,050,000</u>    | <u>4,050,000</u>    |
| Total net assets                        | <u>5,254,191</u>    | <u>4,023,324</u>    |
| <b>Total liabilities and net assets</b> | <u>\$ 5,330,685</u> | <u>\$ 4,052,741</u> |

Pipeline Safety Trust

**Statements of Activities**

Years Ended March 31, 2021 (Reviewed) and 2020 (Audited)

|   | <u>2021</u>         | <u>2020</u>         |
|---|---------------------|---------------------|
| <b>Changes in net assets without donor restrictions</b> |                     |                     |
| <b>Support and revenue</b>                              |                     |                     |
| Support   |                     |                     |
| Contributions   | \$ 18,784           | \$ 43,928           |
| In-kind contributions                                   | -                   | 22,527              |
| Total support   | <u>18,784</u>       | <u>66,455</u>       |
| Revenue   |                     |                     |
| Investment return (loss), net                           | 1,511,694           | (59,008)            |
| Government grant revenue                                | 10,972              | 94,003              |
| Program service fees                                    | 5,000               | 67,768              |
| Interest income – other                                 | 122                 | 445                 |
| Total revenue   | <u>1,527,788</u>    | <u>103,208</u>      |
| Total support and revenue                               | <u>1,546,572</u>    | <u>169,663</u>      |
| <b>Expenses</b>   |                     |                     |
| Program services  | 284,086             | 425,798             |
| Management and general                                  | 25,806              | 25,575              |
| Fundraising   | 5,813               | 5,077               |
| Total expenses  | <u>315,705</u>      | <u>456,450</u>      |
| <b>Change in net assets without donor restrictions</b>  | 1,230,867           | (286,787)           |
| Net assets – beginning of year                          | <u>4,023,324</u>    | <u>4,310,111</u>    |
| <b>Net assets – end of year</b>                         | <u>\$ 5,254,191</u> | <u>\$ 4,023,324</u> |

Pipeline Safety Trust

Statements of Functional Expenses

Years Ended March 31, 2021 (Reviewed) and 2020 (Audited)

|                             | 2021                |                           |                 |                   | 2020                |                           |                 |                   |
|-----------------------------|---------------------|---------------------------|-----------------|-------------------|---------------------|---------------------------|-----------------|-------------------|
|                             | Program<br>Services | Management<br>and General | Fundraising     | Total             | Program<br>Services | Management<br>and General | Fundraising     | Total             |
| Salaries and wages          | \$ 212,429          | \$ 11,421                 | \$ 4,568        | \$ 228,418        | \$ 170,932          | \$ 9,190                  | \$ 3,676        | \$ 183,798        |
| Employee benefits           | 25,183              | 1,354                     | 542             | 27,079            | 28,984              | 1,558                     | 623             | 31,165            |
| Payroll taxes               | 13,958              | 750                       | 300             | 15,008            | 15,276              | 821                       | 329             | 16,426            |
| Total payroll and related   | 251,570             | 13,525                    | 5,410           | 270,505           | 215,192             | 11,569                    | 4,628           | 231,389           |
| Professional fees           | 11,170              | 11,171                    | -               | 22,341            | 33,475              | 8,899                     | -               | 42,374            |
| Rent                        | 13,964              | 751                       | 300             | 15,015            | 14,240              | 766                       | 306             | 15,312            |
| Miscellaneous               | 2,689               | 129                       | 11              | 2,829             | 5,534               | 281                       | 50              | 5,865             |
| Insurance                   | 2,509               | 135                       | 54              | 2,698             | 2,262               | 122                       | 49              | 2,433             |
| Telephone and utilities     | 1,766               | 95                        | 38              | 1,899             | 2,059               | 111                       | 44              | 2,214             |
| Conferences and conventions | 418                 | -                         | -               | 418               | 55,530              | -                         | -               | 55,530            |
| Grants and other assistance | -                   | -                         | -               | -                 | 63,061              | -                         | -               | 63,061            |
| Travel and entertainment    | -                   | -                         | -               | -                 | 34,445              | 3,827                     | -               | 38,272            |
|                             | <u>\$ 284,086</u>   | <u>\$ 25,806</u>          | <u>\$ 5,813</u> | <u>\$ 315,705</u> | <u>\$ 425,798</u>   | <u>\$ 25,575</u>          | <u>\$ 5,077</u> | <u>\$ 456,450</u> |

Pipeline Safety Trust

**Statements of Cash Flows**

Years Ended March 31, 2021 (Reviewed) and 2020 (Audited)

|  | <u>2021</u>             | <u>2020</u>              |
|--|-------------------------|--------------------------|
| <b>Cash flows from operating activities</b>  |                         |                          |
| Change in net assets without donor restrictions  | \$ 1,230,867            | \$ (286,787)             |
| Adjustments to reconcile change in net assets without donor restrictions to net cash used by operating activities: |                         |                          |
| Net realized and unrealized (gain) loss on investments   | (1,435,980)             | 121,275                  |
| Increase in current assets:  |                         |                          |
| Interest and dividends receivable  | (1,826)                 | (181)                    |
| Other receivable   | (3,055)                 | -                        |
| Increase (decrease) in current liabilities:  |                         |                          |
| Accounts payable   | 462                     | -                        |
| Accrued liabilities  | (2,434)                 | 4,383                    |
| Contract liabilities   | 7,849                   | (9,027)                  |
|  | <u>(204,117)</u>        | <u>(170,337)</u>         |
| <b>Net cash used by operating activities</b>   | <b>(204,117)</b>        | <b>(170,337)</b>         |
| <b>Cash flows from investing activities</b>  |                         |                          |
| Proceeds from sales of investments withdrawn from investment account   | 167,085                 | 296,000                  |
| Reinvested interest and dividends, net of fees   | <u>(75,714)</u>         | <u>(62,267)</u>          |
|  | <u>91,371</u>           | <u>233,733</u>           |
| <b>Net cash provided by investing activities</b>   | <b>91,371</b>           | <b>233,733</b>           |
| <b>Cash flows from financing activities</b>  |                         |                          |
| Proceeds from Paycheck Protection Program loan   | <u>41,200</u>           | <u>-</u>                 |
|  | <u>41,200</u>           | <u>-</u>                 |
| <b>Net cash provided by financing activities</b>   | <b>41,200</b>           | <b>-</b>                 |
| Net (decrease) increase in cash  | (71,546)                | 63,396                   |
| Cash – beginning of year   | <u>145,756</u>          | <u>82,360</u>            |
| <b>Cash – end of year</b>  | <u><u>\$ 74,210</u></u> | <u><u>\$ 145,756</u></u> |

**Notes to Financial Statements**

Years Ended March 31, 2021 (Reviewed) and 2020 (Audited)

**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 as described in Note 10, with the income earned from the contributed assets to be used to support the mission of the Trust.

**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 (FASB) Accounting Standards Codification (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 restrictions, depending on the existence and nature of donor restrictions.

**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 unspecified purposes. The Trust had no net assets with donor restrictions as of March 31, 2021 or 2020.

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**

Years Ended March 31, 2021 (Reviewed) and 2020 (Audited)

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

**Furniture and equipment** – 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 that exceed \$2,500 and 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 \$0 and \$22,527 for the years ended March 31, 2021 and 2020, respectively, were recorded in-kind contributions.

**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.

**Government grant revenue** – The Trust receives support from the U.S Department of Transportation's Pipeline and Hazardous Materials Safety Administration (PHMSA). As part of the contract, the Trust engages with leaders from the pipeline industry and regulatory entities and provides trainings to members of the public. The contract stipulates complete and timely submission of reporting on deliverables. Contract grant revenue under cost reimbursement arrangements is recognized as expenses are incurred. Grant receipts in advance of being earned are recorded as contract liabilities (Note 6).

**Program service fees** – The Trust hosts an annual pipeline safety conference for the affected public, local government, the pipeline industry and government regulators to discuss barrier to safer pipeline and promote collaboration between these groups. Revenue for program service fees are recognized as income as the related program service is provided by the Trust. The transaction price is the amount of consideration to which the Trust expects to be entitled in exchange for transferring services. Program service fees revenue is recognized at a point in time when the conference is held.

**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.

Pipeline Safety Trust

Notes to Financial Statements

Years Ended March 31, 2021 (Reviewed) and 2020 (Audited)

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

**Functional allocation of expenses** – (Continued) – 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.

**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.

**Subsequent events** – In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through August 24, 2021, the date the financial statements were available to be issued.

**Note 2 – Availability and Liquidity**

The following represents the Trust's financial assets available for general expenditures over the next twelve months as of March 31:

|   |                     |                    |
|---|---------------------|--------------------|
| Financial assets at year-end:   | <b>2021</b>         | <b>2020</b>        |
| Cash  | \$ 74,210           | \$ 145,756         |
| Interest and dividends receivable                                       | 2,121               | 295                |
| Other receivable  | 3,055               | -                  |
| Investments   | <u>5,250,274</u>    | <u>3,905,665</u>   |
| Total financial assets  | 5,329,660           | 4,051,716          |
| Less amounts not available to be used within one year:                  |                     |                    |
| Board-designated endowment reserve                                      | <u>(4,000,000)</u>  | <u>(4,000,000)</u> |
| Financial assets not available to be used within one year               | <u>(4,000,000)</u>  | <u>(4,000,000)</u> |
| Financial assets available to meet general expenditures within one year | <u>\$ 1,329,660</u> | <u>\$ 51,716</u>   |

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.

## Notes to Financial Statements

Years Ended March 31, 2021 (Reviewed) and 2020 (Audited)

**Note 3 – Investments and Fair Value Measurements**

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 and significant to the fair value measurement.

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, 2021 and 2020.

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

|                    | <b>2021</b>         |                |                |                     |
|--------------------|---------------------|----------------|----------------|---------------------|
|                    | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>        |
| Money market fund  | \$ 64,101           | \$ -           | \$ -           | \$ 64,101           |
| Equity investments | 3,866,768           | -              | -              | 3,866,768           |
| Mutual funds       | 1,319,405           | -              | -              | 1,319,405           |
| Total              | <u>\$ 5,250,274</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 5,250,274</u> |
|                    | <b>2020</b>         |                |                |                     |
|                    | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>        |
| Money market fund  | \$ 6,973            | \$ -           | \$ -           | \$ 6,973            |
| Equity investments | 2,429,563           | -              | -              | 2,429,563           |
| Mutual funds       | 1,469,129           | -              | -              | 1,469,129           |
| Total              | <u>\$ 3,905,665</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 3,905,665</u> |

**Notes to Financial Statements**

Years Ended March 31, 2021 (Reviewed) and 2020 (Audited)

**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.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. Due to these restrictions, the Trust did not provide any grants and other assistance related to travel for pipeline safety conferences and conventions for the year ended March 31, 2021.

The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Trust operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Trust, it is reasonably possible that the Trust is vulnerable to the risk of a near-term severe impact.

**Note 5 – Paycheck Protection Program Loan**

In May 2020, the Trust received a \$41,200 loan through the Paycheck Protection Program (PPP). This loan accrues interest at 1%, is guaranteed by the Small Business Administration (SBA), and outstanding principal is due in May 2022. Subsequent to year end, in April 2021, the loan was forgiven and paid in full by the Small Business Administration. Forgiveness of the loan will be recognized as grant revenue in the Statement of Activities for the year ended March 31, 2022.

**Note 6 – Government Grant Agreements**

In September 2018, the Trust was awarded a technical assistance grant totaling \$99,976 by the PHMSA. As of March 31, 2021, the Trust had recognized as grant revenue the full amount awarded under this grant.

In September 2019, the Trust was awarded an additional technical assistance grant totaling \$30,468 by the PHMSA. As of March 31, 2021, the Trust had received \$15,000 under the grant. The Trust recognized as revenue \$10,153 with \$4,847 recorded as deferred work to be performed through September 2021.

In September 2020, the Trust was awarded an additional technical assistance grant totaling \$99,132 by the PHMSA. As of March 31, 2021, the Trust had received \$18,821 under the grant. The Trust recognized as revenue \$8,384 with \$10,437 recorded as deferred work to be performed through September 2021.

Pipeline Safety Trust

Notes to Financial Statements

Years Ended March 31, 2021 (Reviewed) and 2020 (Audited)

**Note 6 – Government Grant Agreements – (Continued)**

Total grant support received and recognized as of March 31 is as follows:

|                       | <b>2021</b>               |                          |                                 |
|-----------------------|---------------------------|--------------------------|---------------------------------|
|                       | <b>Funds<br/>Received</b> | <b>Grant<br/>Revenue</b> | <b>Contract<br/>Liabilities</b> |
| 2019 PHMSA - \$30,468 | \$ -                      | \$ 2,588                 | \$ 4,847                        |
| 2020 PHMSA - \$99,132 | 18,821                    | 8,384                    | 10,437                          |
| Total                 | <u>\$ 18,821</u>          | <u>\$ 10,972</u>         | <u>\$ 15,284</u>                |
|                       | <b>2020</b>               |                          |                                 |
|                       | <b>Funds<br/>Received</b> | <b>Grant<br/>Revenue</b> | <b>Contract<br/>Liabilities</b> |
| 2018 PHMSA - \$99,976 | \$ 69,976                 | \$ 86,438                | \$ -                            |
| 2019 PHMSA - \$30,468 | 15,000                    | 7,565                    | 7,435                           |
| Total                 | <u>\$ 84,976</u>          | <u>\$ 94,003</u>         | <u>\$ 7,435</u>                 |

**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, 2021 and 2020, the Trust's contributions to the Plan totaled \$5,063 and \$9,539, respectively.

**Note 8 – Operating Lease**

The Trust leases office space under an operating lease agreement extending through December 2021. Monthly rent totaled \$1,245 through December 31, 2019 and subsequently increased to \$1,272 as of January 2020. Rent expense totaled \$15,015 and \$15,312 for the years ended March 31, 2021 and 2020, respectively.

The scheduled minimum lease payments to be paid total \$11,400 during the year ending March 31, 2022.

**Note 9 – Board-Designated Net Assets**

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

|                   | <b>2021</b>         | <b>2020</b>         |
|-------------------|---------------------|---------------------|
| Endowment reserve | \$ 4,000,000        | \$ 4,000,000        |
| Operating reserve | 50,000              | 50,000              |
|                   | <u>\$ 4,050,000</u> | <u>\$ 4,050,000</u> |

Pipeline Safety Trust

Notes to Financial Statements

Years Ended March 31, 2021 (Reviewed) and 2020 (Audited)

**Note 10 – Endowment**

As mentioned in Note 1, 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. As required by U.S. GAAP, net assets associated with endowment funds, are classified as reported based on the existence or absence of donor-imposed restrictions. All endowment net assets are classified as without donor restrictions, given the absence of donor restrictions that the funds must be held in perpetuity.

**Interpretation of relevant law** – The Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by Washington State as of July 2009. The Board of Trustees applies UPMIFA to all the Trust's endowment funds. UPMIFA eliminates the historic dollar value threshold, an amount below which an organization could not spend from the fund, and establishes a set of prudent management and investment standards for boards to follow when managing endowment funds. Under UPMIFA, the Trust may spend as much of an endowment fund as it considers prudent, regardless of whether the fund is below its historic dollar value. For any funds with donor restrictions, the donor's intent that the fund be perpetual in nature must still be considered and the fund managed accordingly. In accordance with UPMIFA, the Trust considers the following factors in making a determination to appropriate or accumulate endowment funds with donor restrictions:

- Duration and preservation of the fund
- Purposes of the Trust and the donor-restricted endowment fund
- General economic conditions
- Possible effects of inflation and deflation
- Expected total return from income and the appreciation of investments
- Other resources of the Trust
- Investment policies of the Trust

As of March 31, 2021 and 2020, endowment net assets were classified entirely as board-designated quasi-endowment. Changes to endowment net assets were as follows for the years ended March 31:

|   | <b>2021</b>                           |                                    |                     |
|---|---------------------------------------|------------------------------------|---------------------|
|   | <b>Without Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> | <b>Total</b>        |
| Endowment net assets, beginning of year | \$ 4,000,000                          | \$ -                               | \$ 4,000,000        |
| Investment return                       | 1,511,694                             | -                                  | 1,511,694           |
| Appropriations for expenditure          | (1,511,694)                           | -                                  | (1,511,694)         |
| Endowment net assets, end of year       | <u>\$ 4,000,000</u>                   | <u>\$ -</u>                        | <u>\$ 4,000,000</u> |
|   | <b>2020</b>                           |                                    |                     |
|   | <b>Without Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> | <b>Total</b>        |
| Endowment net assets, beginning of year | \$ 4,000,000                          | \$ -                               | \$ 4,000,000        |
| Investment loss                         | (59,008)                              | -                                  | (59,008)            |
| Appropriations for expenditure          | (35,327)                              | -                                  | (35,327)            |
| Underwater borrowing from investments   | 94,335                                | -                                  | 94,335              |
| Endowment net assets, end of year       | <u>\$ 4,000,000</u>                   | <u>\$ -</u>                        | <u>\$ 4,000,000</u> |

**Notes to Financial Statements**

Years Ended March 31, 2021 (Reviewed) and 2020 (Audited)

**Note 10 – Endowment** – (Continued)

**Return Objectives and Risk Parameters** – The Trust has adopted investment policies for endowment assets that attempt to provide support of program needs in perpetuity. The Trust has developed investment guidelines which have been designed to allow flexibility in the management oversight process to capture investment opportunities as they may occur, while at the same time setting forth reasonable risk control parameters to ensure prudence and care in the execution of the investment program. The investment objective of the Trust is striking a balance between cash flow for operating expenses, capital preservation, and growth of principal. Generating cash flow for operating expenses is the key objective of the portfolio. Beyond the cash needed for operating expenses, growth of capital is desired to ensure that Trust is capable of supporting its mission with stable or increasing income over the years.

**Strategies Employed for Achieving Objectives** – To satisfy its long-term rate-of-return objectives, the Trust seeks an annual average annual return of 8%. The target asset allocation for endowment investments is 2-50% equity, 30-60% fixed income and 0-10% real estate investment trust. The purpose of the equity investments is to provide a means to increase or to at least maintain the purchasing power and grow the asset base of the investment account over the long term.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** – The Trust will withdraw funds from the investment account on a regular basis for operating expenses. The Board of Directors will determine and approve the amount for appropriations. The Trust anticipates it will withdraw 4-6% of the value of its assets annually. Should the portfolio fall below \$4 million, management and the Board of Directors would determine if the long-term viability of the Trust was endangered and whether a revision or suspension of withdrawal amounts or change in investment strategy is needed.

**Funds with Deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Trust is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies of this nature for the years ended March 31, 2021 and 2020, given that there were no donor-restricted endowment funds. Deficiencies of this nature existed in the board-restricted endowment fund, which has an original gift value of \$4,000,000, a current fair value of \$3,905,665 and a deficiency of \$94,335 as of March 31, 2020. These deficiencies resulted from unfavorable market fluctuations. There were no deficiencies of this nature for the year ended March 31, 2021, given that the board-restricted endowment fund has a current fair market value of \$5,250,274 as of March 31, 2021.

**Note 11 – 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 currently required for annual periods beginning after December 15, 2021. The Trust continues to evaluate the impact of the new accounting guidance on its financial statements.