

# **Pipeline Safety Trust**

Financial Statements with  
Independent Accountant's Review Report

Years Ended March 31, 2022 and 2021

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, 2022 and 2021, the related statements of activities, functional expenses and cash flows 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 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 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.

We are required to be independent of Pipeline Safety Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

### Accountant's Conclusion

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 accordance with accounting principles generally accepted in the United States of America.

*Larson Gross PLLC*

Bellingham, Washington  
November 1, 2022

Pipeline Safety Trust

**Statements of Financial Position**

March 31, 2022 and 2021

(See Independent Accountant's Review Report)

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 367,699	\$ 74,210
Interest and dividends receivable	-	2,121
Other receivable	-	3,055
Total current assets	<u>367,699</u>	<u>79,386</u>
<b>Investments</b>	5,069,841	5,250,274
<b>Security deposit</b>	<u>3,000</u>	<u>1,025</u>
<b>Total assets</b>	<u>\$ 5,440,540</u>	<u>\$ 5,330,685</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,600	\$ 462
Accrued liabilities	34,841	19,548
Contract liabilities	<u>275,897</u>	<u>15,284</u>
Total current liabilities	315,338	35,294
<b>Paycheck Protection Program loan</b>	<u>-</u>	<u>41,200</u>
<b>Total liabilities</b>	315,338	76,494
<b>Net assets</b>		
Without donor restrictions		
Undesignated	1,075,202	1,204,191
Board-designated	<u>4,050,000</u>	<u>4,050,000</u>
Total net assets	<u>5,125,202</u>	<u>5,254,191</u>
<b>Total liabilities and net assets</b>	<u>\$ 5,440,540</u>	<u>\$ 5,330,685</u>

Pipeline Safety Trust

**Statements of Activities**

Years Ended March 31, 2022 and 2021

(See Independent Accountant's Review Report)

	<u>2022</u>	<u>2021</u>
<b>Changes in net assets without donor restrictions</b>		
<b>Support and revenue</b>		
Support		
Contributions	\$ 10,819	\$ 18,784
Revenue		
Government grant revenue	311,413	10,972
Investment return, net	59,250	1,511,694
Other revenue	595	-
Interest income – other	169	122
Program service fees	-	5,000
Total revenue	<u>371,427</u>	<u>1,527,788</u>
Total support and revenue	382,246	1,546,572
<b>Expenses</b>		
Program services	467,440	284,086
Management and general	36,077	25,806
Fundraising	<u>7,718</u>	<u>5,813</u>
Total expenses	<u>511,235</u>	<u>315,705</u>
<b>Change in net assets without donor restrictions</b>	(128,989)	1,230,867
Net assets – beginning of year	<u>5,254,191</u>	<u>4,023,324</u>
<b>Net assets – end of year</b>	<u>\$ 5,125,202</u>	<u>\$ 5,254,191</u>

Pipeline Safety Trust

**Statements of Functional Expenses**

Years Ended March 31, 2022 and 2021

(See Independent Accountant's Review Report)

	2022				2021			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 259,385	\$ 13,945	\$ 5,578	\$ 278,908	\$ 212,429	\$ 11,421	\$ 4,568	\$ 228,418
Employee benefits	24,638	1,325	530	26,493	25,183	1,354	542	27,079
Payroll taxes	17,737	954	381	19,072	13,958	750	300	15,008
Total payroll and related	301,760	16,224	6,489	324,473	251,570	13,525	5,410	270,505
Professional fees	60,523	14,197	-	74,720	11,170	11,171	-	22,341
Rent	33,644	1,809	724	36,177	13,964	751	300	15,015
Information technology	28,143	1,481	-	29,624	-	-	-	-
Office expenses	26,941	1,078	412	28,431	-	-	-	-
Travel and entertainment	8,022	891	-	8,913	-	-	-	-
Miscellaneous	3,115	164	-	3,279	2,689	129	11	2,829
Telephone and utilities	2,450	132	52	2,634	1,766	95	38	1,899
Insurance	1,884	101	41	2,026	2,509	135	54	2,698
Conferences and conventions	958	-	-	958	418	-	-	418
	<u>\$ 467,440</u>	<u>\$ 36,077</u>	<u>\$ 7,718</u>	<u>\$ 511,235</u>	<u>\$ 284,086</u>	<u>\$ 25,806</u>	<u>\$ 5,813</u>	<u>\$ 315,705</u>

Pipeline Safety Trust

**Statements of Cash Flows**

Years Ended March 31, 2022 and 2021

(See Independent Accountant's Review Report)

	<u>2022</u>	<u>2021</u>
<b>Cash flows from operating activities</b>		
Change in net assets without donor restrictions	\$ (128,989)	\$ 1,230,867
Adjustments to reconcile change in net assets without donor restrictions to net cash provided (used) by operating activities:		
Net realized and unrealized gain on investments	(11,372)	(1,435,980)
Forgiveness of Paycheck Protection Program loan	(41,200)	-
Increase in current assets:		
Interest and dividends receivable	2,121	(1,826)
Other receivable	3,055	(3,055)
Security deposit	(1,975)	-
Increase (decrease) in current liabilities:		
Accounts payable	4,138	462
Accrued liabilities	15,293	(2,434)
Contract liabilities	<u>260,613</u>	<u>7,849</u>
<b>Net cash provided (used) by operating activities</b>	<u>101,684</u>	<u>(204,117)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments withdrawn from investment account	239,683	167,085
Reinvested interest and dividends, net of fees	<u>(47,878)</u>	<u>(75,714)</u>
<b>Net cash provided by investing activities</b>	<u>191,805</u>	<u>91,371</u>
<b>Cash flows from financing activities</b>		
Proceeds from Paycheck Protection Program loan	<u>-</u>	<u>41,200</u>
<b>Net cash provided by financing activities</b>	<u>-</u>	<u>41,200</u>
Net increase (decrease) in cash	293,489	(71,546)
Cash – beginning of year	<u>74,210</u>	<u>145,756</u>
<b>Cash – end of year</b>	<u>\$ 367,699</u>	<u>\$ 74,210</u>

Pipeline Safety Trust

**Notes to Financial Statements**

Years Ended March 31, 2022 and 2021

(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 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, 2022 or 2021.

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.

**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.



Pipeline Safety Trust

**Notes to Financial Statements**

Years Ended March 31, 2022 and 2021

(See Independent Accountant's Review Report)

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

**Donated equipment usage and services** – Donations of supplies, equipment, and other goods are recorded at fair value on the date of receipt. Donated services are recognized if services received (a) create or enhance nonfinancial assets or (b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not donated. Equipment usage and services may be donated to the Trust by an agency of the U.S. government. There were no such donations for the years ending March 31, 2022 and 2021.

**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.

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.

Pipeline Safety Trust

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

(See Independent Accountant's Review Report)

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

**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 November 1, 2022, 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:

	<u>2022</u>	<u>2021</u>
Financial assets at year-end:		
Cash	\$ 367,699	\$ 74,210
Interest and dividends receivable	-	2,121
Other receivable	-	3,055
Investments	<u>5,069,841</u>	<u>5,250,274</u>
Total financial assets	5,437,540	5,329,660
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>\$ 1,437,540</u>	<u>\$ 1,329,660</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.

Pipeline Safety Trust

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

(See Independent Accountant’s Review Report)

**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, 2022 and 2021.

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

	<b>2022</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Money market fund	\$ 75,607	\$ -	\$ -	\$ 75,607
Equity investments	3,753,652	-	-	3,753,652
Mutual funds	1,240,582	-	-	1,240,582
Total	<u>\$ 5,069,841</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,069,841</u>
	<b>2021</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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>

Pipeline Safety Trust

**Notes to Financial Statements**

Years Ended March 31, 2022 and 2021

(See Independent Accountant’s Review Report)

**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 – Paycheck Protection Program Loan**

In May 2020, the Trust received a \$41,200 loan through the Paycheck Protection Program (PPP). This loan accrued interest at 1%, was guaranteed by the Small Business Administration (SBA). In April 2021, the loan was forgiven by the SBA. Forgiveness of the loan was recognized as grant revenue in the accompanying statement of activities for the year ended March 31, 2022.

**Note 6 – Government Grant Agreements**

In September 2019, the Trust was awarded an additional technical assistance grant totaling \$30,468 by the PHMSA. As of March 31, 2022, the Trust had received and recognized as revenue \$15,081 under the grant.

In September 2020, the Trust was awarded an additional technical assistance grant totaling \$99,132 by the PHMSA. As of March 31, 2022, the Trust had received \$49,566 under the grant. The Trust recognized as revenue \$39,942 with \$9,624 recorded as deferred work to be performed through September 2022.

In September 2021, the Trust was awarded an additional technical assistance grant totaling \$1,000,000 by the PHMSA. As of March 31, 2022, the Trust had received \$500,000 under the grant. The Trust recognized as revenue \$233,727 with \$266,273 recorded as deferred work to be performed through September 2022.

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

	<b>2022</b>		
	<b>Funds Received</b>	<b>Grant Revenue</b>	<b>Contract Liabilities</b>
2019 PHMSA - \$30,468	\$ 81	\$ 4,928	\$ -
2020 PHMSA - \$99,132	30,745	31,558	9,624
2021 PHMSA - \$1,000,000	500,000	233,727	266,273
Total	<u>\$ 530,826</u>	<u>\$ 270,213</u>	<u>\$ 275,897</u>
	<b>2021</b>		
	<b>Funds Received</b>	<b>Grant Revenue</b>	<b>Contract 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>

Contract liabilities totaled \$7,435 at March 31, 2020.

Pipeline Safety Trust

**Notes to Financial Statements**

Years Ended March 31, 2022 and 2021

(See Independent Accountant's Review Report)

**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, 2022 and 2021, the Trust's contributions to the Plan totaled \$11,091 and \$5,063, respectively.

**Note 8 – Operating Lease**

The Trust leased office space under an operating lease agreement through December 2021. Monthly rent totaled \$1,272 through December 31, 2021. On October 15, 2021, the Trust began leasing a new office space under an operating lease agreement through September 30, 2026. Monthly rent totaled \$3,500 with annual 2.5% increases. Rent expense totaled \$36,177 and \$15,015 for the years ended March 31, 2022 and 2021, respectively.

The following is a schedule by year of future minimum lease payments, including 2.5% annual increase, as of March 31:

2023	\$ 42,500
2024	43,600
2025	44,700
2026	45,800
2027	23,200
	<u>\$ 199,800</u>

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

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

	<u>2022</u>	<u>2021</u>
Endowment reserve	\$ 4,000,000	\$ 4,000,000
Operating reserve	50,000	50,000
	<u>\$ 4,050,000</u>	<u>\$ 4,050,000</u>

**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.

Pipeline Safety Trust

Notes to Financial Statements

Years Ended March 31, 2022 and 2021

(See Independent Accountant’s Review Report)

**Note 10 – Endowment** – (Continued)

**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, 2022 and 2021, 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>2022</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 4,000,000	\$ -	\$ 4,000,000
Investment return	59,250	-	59,250
Appropriations for expenditure	(59,250)	-	(59,250)
Endowment net assets, end of year	<u>\$ 4,000,000</u>	<u>\$ -</u>	<u>\$ 4,000,000</u>

	<b>2021</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor 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>

Pipeline Safety Trust

**Notes to Financial Statements**

Years Ended March 31, 2022 and 2021

(See Independent Accountant's Review Report)

**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 5-50% equity, 20-40% 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, 2022 and 2021, given that there were no donor-restricted endowment funds. There were no deficiencies of this nature for the years ended March 31, 2022 and 2021.

**Note 11 – Recent Accounting Pronouncement**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, *Leases*. This guidance, as amended by subsequent ASU's on the topic, requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less. Additional qualitative and quantitative disclosures, including significant judgments made by management, are required. Application is required for annual periods beginning after December 15, 2021. The Trust expects to adopt this standard on April 1, 2022. While the Trust is still evaluating impact of the new accounting guidance on its financial statements, based on management's preliminary assessment, the Trust will record assets and liabilities for long-term operating leases currently included in Note 8 – Operating Lease.