

PLAINS ALL AMERICAN PIPELINE LP

Form 10-Q

November 07, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2007

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**Commission file number: 1-14569**  
**PLAINS ALL AMERICAN PIPELINE, L.P.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**76-0582150**  
(I.R.S. Employer  
Identification No.)

**333 Clay Street, Suite 1600, Houston, Texas 77002**  
(Address of principal executive offices) (Zip Code)  
**(713) 646-4100**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

At November 5, 2007, there were outstanding 115,981,676 Common Units.

**PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES  
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**Item 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in millions, except units)

	<b>September 30, 2007</b>	<b>December 31, 2006</b> <b>(unaudited)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 12.5	\$ 11.3
Trade accounts receivable and other receivables, net	2,098.0	1,725.4
Inventory	964.9	1,290.0
Other current assets	109.2	130.9
Total current assets	3,184.6	3,157.6
<b>PROPERTY AND EQUIPMENT</b>		
Accumulated depreciation	4,751.9 (479.2)	4,190.1 (348.1)
	4,272.7	3,842.0
<b>OTHER ASSETS</b>		
Pipeline linefill in owned assets	240.5	265.5
Inventory in third-party assets	63.0	75.7
Investment in unconsolidated entities	212.9	183.0
Goodwill	1,059.2	1,026.2
Other, net	154.3	164.9
Total assets	\$ 9,187.2	\$ 8,714.9
<b>LIABILITIES AND PARTNERS CAPITAL</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 2,358.0	\$ 1,846.6
Short-term debt	481.1	1,001.2
Other current liabilities	181.0	176.9
Total current liabilities	3,020.1	3,024.7
<b>LONG-TERM LIABILITIES</b>		
Long-term debt under credit facilities and other	1.2	3.1

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Senior notes, net of unamortized net discount of \$2.0 and \$1.8, respectively	2,623.0	2,623.2
Other long-term liabilities and deferred credits	119.7	87.1
Total long-term liabilities	2,743.9	2,713.4

**COMMITMENTS AND CONTINGENCIES (NOTE 12)**

**PARTNERS CAPITAL**

Common unitholders (115,981,676 and 109,405,178 units outstanding at September 30, 2007 and December 31, 2006, respectively)	3,342.9	2,906.1
General partner	80.3	70.7
Total partners capital	3,423.2	2,976.8
Total liabilities and partners capital	\$ 9,187.2	\$ 8,714.9

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in millions, except per unit data)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	(unaudited)		(unaudited)	
<b>REVENUES</b>				
Crude oil, refined products and LPG sales and related revenues (includes buy/sell transactions of \$4,761.9 in the first three months of 2006)	\$ 5,673.2	\$ 4,449.4	\$ 13,581.9	\$ 17,843.8
Pipeline tariff activities revenues	93.2	71.4	272.7	198.4
Other revenues	32.6	4.7	91.7	10.4
<b>Total revenues</b>	<b>5,799.0</b>	<b>4,525.5</b>	<b>13,946.3</b>	<b>18,052.6</b>
<b>COSTS AND EXPENSES</b>				
Crude oil, refined products and LPG purchases and related costs (includes buy/sell transactions of \$4,795.1 in the first three months of 2006)	5,455.2	4,261.5	12,884.4	17,343.3
Field operating costs	133.4	94.0	394.8	268.6
General and administrative expenses	33.4	33.0	127.9	92.2
Depreciation and amortization	42.9	24.2	134.9	67.1
<b>Total costs and expenses</b>	<b>5,664.9</b>	<b>4,412.7</b>	<b>13,542.0</b>	<b>17,771.2</b>
<b>OPERATING INCOME</b>	<b>134.1</b>	<b>112.8</b>	<b>404.3</b>	<b>281.4</b>
<b>OTHER INCOME/(EXPENSE)</b>				
Equity earnings in unconsolidated entities	3.8	1.5	12.4	3.2
Interest expense (net of capitalized interest of \$4.1 and \$1.7 in the three months and \$9.8 and \$3.4 in the nine months ended September 30, 2007 and 2006, respectively)	(38.8)	(19.2)	(121.1)	(52.5)
Interest income and other income (expense), net	2.5	0.3	7.7	0.7
Income before tax	101.6	95.4	303.3	232.8
Current income tax expense	(0.4)		(1.3)	
Deferred income tax expense	(2.8)		(14.1)	
Income before cumulative effect of change in accounting principle	98.4	95.4	287.9	232.8
Cumulative effect of change in accounting principle				6.3

<b>NET INCOME</b>	\$ 98.4	\$ 95.4	\$ 287.9	\$ 239.1
<b>NET INCOME-LIMITED PARTNERS</b>	\$ 76.8	\$ 84.6	\$ 231.3	\$ 212.7
<b>NET INCOME-GENERAL PARTNER</b>	\$ 21.6	\$ 10.8	\$ 56.6	\$ 26.4
<b>BASIC NET INCOME PER LIMITED PARTNER UNIT</b>				
Income before cumulative effect of change in accounting principle	\$ 0.66	\$ 0.90	\$ 2.06	\$ 2.37
Cumulative effect of change in accounting principle				0.08
Net income	\$ 0.66	\$ 0.90	\$ 2.06	\$ 2.45
<b>DILUTED NET INCOME PER LIMITED PARTNER UNIT</b>				
Income before cumulative effect of change in accounting principle	\$ 0.66	\$ 0.89	\$ 2.05	\$ 2.35
Cumulative effect of change in accounting principle				0.08
Net income	\$ 0.66	\$ 0.89	\$ 2.05	\$ 2.43
<b>BASIC WEIGHTED AVERAGE UNITS OUTSTANDING</b>				
	116.0	79.9	112.1	77.0
<b>DILUTED WEIGHTED AVERAGE UNITS OUTSTANDING</b>				
	116.8	80.8	113.0	77.8

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
	(unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 287.9	\$ 239.1
Adjustments to reconcile to cash flows from operating activities:		
Depreciation and amortization	134.9	67.1
Cumulative effect of change in accounting principle		(6.3)
SFAS 133 mark-to-market adjustment	14.8	(14.8)
Gain on sale of investment assets	(3.9)	
Equity compensation charge	41.4	27.1
Income tax expense	15.4	
Noncash amortization of terminated interest rate hedging instruments	0.6	1.2
(Gain)/loss on foreign currency revaluation	(3.2)	2.1
Equity earnings in unconsolidated entities, net of distributions	(11.1)	(2.1)
Changes in assets and liabilities, net of acquisitions:		
Trade accounts receivable and other	(288.6)	(595.4)
Inventory	410.2	(414.6)
Accounts payable and other liabilities	368.3	512.4
Inventory in third-party assets	0.1	
Due to related parties	1.7	2.3
Net cash provided by (used in) operating activities	968.5	(181.9)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash paid in connection with acquisitions (Note 3)	(69.2)	(560.2)
Additions to property and equipment, net	(401.8)	(223.1)
Investment in unconsolidated entities	(9.3)	(10.0)
Cash paid for linefill in assets owned	(17.6)	(4.8)
Proceeds from sales of assets	13.7	3.8
Net cash used in investing activities	(484.2)	(794.3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net repayments on long-term revolving credit facility		(7.7)
Net borrowings/(repayments) on working capital revolving credit facility	(125.6)	55.3
Net borrowings/(repayments) on short-term letters of credit and hedged inventory facility	(417.5)	559.5
Proceeds from issuance of senior notes		249.5
Net proceeds from the issuance of common units (Note 7)	382.5	315.6
Distributions paid to common unitholders (Note 7)	(272.7)	(164.0)
Distributions paid to general partner (Note 7)	(57.5)	(25.4)



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Other financing activities	(0.5)	(6.6)
Net cash provided by (used in) financing activities	(491.3)	976.2
Effect of translation adjustment on cash	8.2	0.7
Net increase in cash and cash equivalents	1.2	0.7
Cash and cash equivalents, beginning of period	11.3	9.6
Cash and cash equivalents, end of period	\$ 12.5	\$ 10.3
Cash paid for interest, net of amounts capitalized	\$ 146.1	\$ 74.3
Cash paid for income taxes	\$ 2.6	\$

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF PARTNERS CAPITAL**  
(in millions)

	<b>Common Units</b>	<b>General Partner</b>	<b>Total Partners</b>	
	<b>Units</b>	<b>Amount</b>	<b>Capital</b>	
		(unaudited)	<b>Amount</b>	
		<b>Amount</b>		
Balance at December 31, 2006	109.4	\$ 2,906.1	\$ 70.7	\$ 2,976.8
Net income		231.3	56.6	287.9
Distributions		(272.7)	(57.5)	(330.2)
Issuance of common units	6.3	374.8	7.7	382.5
Issuance of common units under Long-Term Incentive Plans ( LTIP )	0.3	17.2	0.4	17.6
Capital contribution from General Partner Class B Units (non-cash)			0.6	0.6
Other comprehensive income		86.2	1.8	88.0
Balance at September 30, 2007	116.0	\$ 3,342.9	\$ 80.3	\$ 3,423.2

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in millions)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	(unaudited)		(unaudited)	
Net income	\$ 98.4	\$ 95.4	\$ 287.9	\$ 239.1
Other comprehensive income	42.8	123.8	88.0	143.4
Comprehensive income	\$ 141.2	\$ 219.2	\$ 375.9	\$ 382.5

**CONDENSED CONSOLIDATED STATEMENT OF**  
**CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME**  
(in millions)

	<b>Net</b>	
	<b>Deferred</b>	
	<b>Gain/(Loss)</b>	
	<b>on</b>	<b>Currency</b>
	<b>Derivative</b>	<b>Translation</b>

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	<b>Instruments</b>	<b>Adjustments</b> (unaudited)	<b>Total</b>
Balance at December 31, 2006	\$ (19.8)	\$ 69.5	\$ 49.7
Current Period Activity:			
Reclassification adjustments for settled contracts	(14.1)		(14.1)
Changes in fair value of outstanding hedge positions	(1.5)		(1.5)
Currency translation adjustment		103.6	103.6
Total period activity	(15.6)	103.6	88.0
Balance at September 30, 2007	\$ (35.4)	\$ 173.1	\$ 137.7

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**PLAINS ALL AMERICAN PIPELINE, L.P. AND SUBSIDIARIES**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**Note 1 Organization and Accounting Policies**

As used in this Form 10-Q and unless the context indicates otherwise, the terms Partnership, Plains, we, us, ours and similar terms refer to Plains All American Pipeline, L.P. and its subsidiaries. We are engaged in the transportation, storage, terminalling and marketing of crude oil, refined products and liquefied petroleum gas and other natural gas-related petroleum products. We refer to liquefied petroleum gas and other natural gas-related petroleum products collectively as LPG. Through our 50% equity ownership in PAA/Vulcan Gas Storage, LLC ( PAA/Vulcan ), we are also engaged in the development and operation of natural gas storage facilities.

Our condensed consolidated interim financial statements should be read in conjunction with our consolidated financial statements and notes thereto presented in our 2006 Annual Report on Form 10-K. The financial statements have been prepared in accordance with the instructions for interim reporting as prescribed by the Securities and Exchange Commission. All adjustments (consisting only of normal recurring adjustments) that in the opinion of management were necessary for a fair statement of the results for the interim periods have been reflected. All significant intercompany transactions have been eliminated. Certain reclassifications are made to prior periods to conform to current period presentation. The results of operations for the three months and nine months ended September 30, 2007 should not be taken as indicative of the results to be expected for the full year.

The accompanying condensed consolidated financial statements of PAA include PAA and all of its wholly-owned subsidiaries. Investments in 50% or less owned entities over which we have significant influence but not control are accounted for by the equity method.

**Note 2 Trade Accounts Receivable**

Our accounts receivable are primarily from purchasers and shippers of crude oil and, to a lesser extent, purchasers of LPG and refined products. The majority of our accounts receivable relate to our marketing activities, which are generally high volume and low margin activities, in many cases involving exchanges of crude oil volumes. We determine the amount, if any, of the line of credit to be extended to any given customer and the form and amount of financial performance assurances we require. Such financial assurances are commonly provided to us in the form of standby letters of credit, advance cash payments or parental guarantees. At September 30, 2007 and December 31, 2006, we had received approximately \$24 million and \$28 million, respectively, of advance cash payments and prepayments from third parties to mitigate credit risk. In addition, we enter into netting arrangements with our counterparties. These arrangements cover a significant part of our transactions and also serve to mitigate credit risk.

We review all outstanding accounts receivable balances on a monthly basis and record a reserve for amounts that we expect will not be fully recovered. Actual balances are not applied against the reserve until substantially all collection efforts have been exhausted. At September 30, 2007 and December 31, 2006, substantially all of our net accounts receivable were less than 60 days past their scheduled invoice date. Although we consider our allowance for doubtful trade accounts receivable to be adequate, actual amounts may vary significantly from estimated amounts.

**Note 3 Acquisitions and Dispositions**

During the first nine months of 2007, we acquired (i) a commercial refined products supply and marketing business (reflected in our marketing segment) for approximately \$8 million in cash (including approximately \$7 million of goodwill), (ii) a trucking business (reflected in our transportation segment) for approximately \$9 million in cash (including approximately \$4 million of goodwill) and (iii) the Bumstead LPG storage facility located near Phoenix, Arizona (reflected in our facilities segment) for

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approximately \$52 million in cash (there was no goodwill associated with this acquisition). The Bumstead facility has a working capacity of approximately 3.2 million barrels of LPG. Also, during the third quarter of 2007, we signed an agreement to acquire the Tirzah LPG storage facility and other assets located near York County, South Carolina for approximately \$54 million. The acquisition closed on October 2, 2007 and will be reflected in our facilities segment in the fourth quarter of 2007. The Tirzah facility has a working capacity of approximately 1.4 million barrels.

Certain adjustments related to the purchase price for the acquisition of Pacific Energy Partners, L. P. ( Pacific ) have been recorded in the first nine months of 2007, resulting in increased goodwill. The purchase price allocations related to the Pacific, Bumstead and Tirzah acquisitions are preliminary and subject to change, pending finalization of the valuation of the assets and liabilities acquired.

In the first nine months of 2007, we incurred a net loss of approximately \$8 million upon the disposition of certain inactive assets. This loss is included within Depreciation and Amortization in our Condensed Consolidated Statements of Operations.

**Note 4 Inventory and Linefill**

At September 30, 2007 and December 31, 2006, inventory and linefill consisted of:

	September 30, 2007			December 31, 2006		
	Barrels	Dollars	Dollar/ barrel ( <sup>2</sup> )	Barrels	Dollars	Dollar/ barrel ( <sup>2</sup> )
	(Barrels in thousands and dollars in millions)					
<b>Inventory<sup>(1)</sup></b>						
Crude oil	7,527	\$ 508.1	\$ 67.50	18,331	\$ 1,029.1	\$ 56.14
LPG	8,673	441.0	\$ 50.85	5,818	250.7	\$ 43.09
Refined Products	94	7.2	\$ 76.60	81	3.8	\$ 46.91
Parts and supplies	N/A	8.6	N/A	N/A	6.4	N/A
Inventory subtotal	16,294	964.9				
State Supported Debt (Orange Regional Medical Center) 6.25% 12/1/37	500,000	548,190				
Ohio State (Cleveland Clinic Health) Series A 5.50% 1/1/39	300,000	337,662				
Orange County, Florida Health Facilities Authority Revenue (Mayflower Retirement Center) 5.00% 6/1/32	400,000	442,788				
5.00% 6/1/36	250,000	275,288				
5.125% 6/1/42	750,000	832,695				
Oregon State Facilities Authority Revenue (Peacehealth Project) Series A 5.00% 11/15/29	500,000	614,710				

(continues) NQ- OV9 [6/16] 8/16 (17335) 3

## Schedule of investments

Delaware Investments® National Municipal Income Fund (Unaudited)

	Principal Amount°	Value (U.S. \$)
<b>Municipal Bonds</b> (continued)		
Healthcare Revenue Bonds (continued)		
Palm Beach County Health Facilities Authority, Florida (Sinai Residences Boca Raton Project) 7.25% 6/1/34 7.50% 6/1/49	20,000 105,000	\$ 24,704 131,103
Tarrant County Cultural Education Facilities Finance (Baylor Scott & White Health) Series A 5.00% 11/15/45	330,000	404,702
West Virginia Hospital Finance Authority Revenue (Highland Hospital Obligation Group) 9.125% 10/1/41 @	500,000	468,675
Westminster, Maryland (Lutheran Village Millers Grant) 6.00% 7/1/34	500,000	574,180
Yavapai County, Arizona Industrial Development Authority Revenue (Yavapai Regional Medical Center) Series A 5.00% 8/1/28	720,000	837,187
		15,979,544
Housing Revenue Bond 0.69%		
California Municipal Finance Authority Mobile Home Park Revenue (Caritas Project) Series A 6.40% 8/15/45	420,000	483,004
		483,004
Lease Revenue Bonds 9.07%		
California State Public Works Board Lease Revenue (Various Capital Projects) Series A 5.00% 4/1/37	1,000,000	1,183,710
Idaho State Building Authority Revenue (Health & Welfare Project) Series A 5.00% 9/1/24 (State Police) Series I 5.00% 9/1/23	135,000 760,000	163,701 911,939
Minnesota State General Revenue Appropriations Series B 5.00% 3/1/29	2,000,000	2,413,700
New Jersey Economic		

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Development Authority Series WW 5.25% 6/15/30 (School Facilities Construction) 5.00% 9/1/18	1,000,000    25,000	1,147,650    26,698
Public Finance Authority, Wisconsin Airport Facilities Revenue (AFCO Investors II Portfolio) 5.75% 10/1/31	    500,000	    521,380
		6,368,778
<b>Local General Obligation Bonds 1.76%</b>		
Chicago, Illinois Series A 5.50% 1/1/34 Series C 5.00% 1/1/38	225,000 500,000	230,989 502,255
New York, New York Series A-1 5.25% 8/15/21 Series I-1 5.375% 4/1/36	250,000 200,000	275,040 225,360
		1,233,644
<b>Pre-Refunded/Escrowed to Maturity Bonds 15.48%</b>		
Atlanta, Georgia Water & Wastewater Revenue Series A 6.25% 11/1/39-19§	950,000	1,122,216
Bay Area, California Toll Authority Toll Bridge Revenue (San Francisco Bay Area) Series F1 5.00% 4/1/34-18§	1,000,000	1,077,050
Brevard County, Florida Health Facilities Authority Revenue (Health First Project) 7.00% 4/1/39-19§	350,000	409,906
Butler County, Pennsylvania Hospital Authority Revenue (Butler Health System Project) 7.125% 7/1/29-19§	450,000	534,357
California State Economic Recovery Series A 5.25% 7/1/21-19§ (Unrefunded) Series A 5.25% 7/1/21-19§	165,000 95,000	187,508 107,959

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(Unaudited)

	Principal Amount <sup>o</sup>	Value (U.S. \$)
<b>Municipal Bonds</b> (continued)		
Pre-Refunded/Escrowed to Maturity Bonds (continued)		
California Statewide		
Communities Development Authority Revenue (Statewide Inland Regional Center Project)		
5.375% 12/1/37-17§	500,000	\$ 534,470
California Statewide		
Communities Development Authority School Facility Revenue (Aspire Public Schools)		
6.125% 7/1/46-19§	625,000	708,387
California Statewide		
Communities Development Authority Student Housing Revenue (Irvine, LLC - UCI East Campus)		
6.00% 5/15/23-18§	470,000	517,578
Central Texas Regional		
Mobility Authority Revenue Senior Lien		
6.00% 1/1/41-21§	520,000	635,352
Gila County, Arizona Unified		
School District No. 10 (Payson School Improvement Project of 2006) Series A		
5.25% 7/1/27-17 (AMBAC)	500,000	523,495
Illinois Finance Authority		
Revenue (Silver Cross & Medical Centers)		
7.00% 8/15/44-19§	950,000	1,130,851
Koyukuk, Alaska Revenue		
(Tanana Chiefs Conference Health Care Facility Project)		
7.75% 10/1/41-19	300,000	364,749
Louisiana Public Facilities		
Authority Revenue (Ochsner Clinic Foundation Project)		
6.50% 5/15/37-21§	105,000	132,412
Maryland State Economic		
Development Student Housing Revenue (University of Maryland College Park Projects)		
5.75% 6/1/33-18§	370,000	406,260
Metropolitan Transit Authority of Harris County, Texas		



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Series A 5.00% 11/1/24-21§	500,000	604,870
New Jersey Economic Development Authority (School Facilities Construction) 5.00% 9/1/18	75,000	81,962
New York City, New York Industrial Development Agency Civic Facility Revenue (YMCA of Greater New York Project) 5.00% 8/1/36-16§	595,000	597,356
New York, New York Series I-1 5.375% 4/1/36-19§	50,000	56,347
University Medical Center, Tucson, Arizona Hospital Revenue 6.50% 7/1/39-19§	500,000	583,660
University of Arizona Series A 5.00% 6/1/39-19	500,000	561,455
<b>Special Tax Revenue Bonds 20.44%</b>		10,878,200
Anne Arundel County, Maryland Special Obligation Revenue (National Business Park - North Project) 6.10% 7/1/40	200,000	212,460
Brooklyn Arena Local Development, New York Pilot Revenue (Barclays Center Project) 6.25% 7/15/40	940,000	1,086,574
6.50% 7/15/30	300,000	351,378
Central Puget Sound, Washington Regional Transit Authority (Green Bond - Improvement) Series S-1 5.00% 11/1/35	750,000	937,830
Guam Government Business Privilege Tax Revenue Series A 5.00% 1/1/22	775,000	906,587
Series B-1 5.00% 1/1/42	540,000	610,189

(continues) NQ- OV9 [6/16] 8/16 (17335) 5

# Schedule of investments

Delaware Investments® National Municipal Income Fund (Unaudited)

	Principal Amount°	Value (U.S. \$)
<b>Municipal Bonds</b> (continued)		
Special Tax Revenue Bonds (continued)		
Massachusetts Bay Transportation Authority Senior Series A 5.25% 7/1/29	200,000	\$ 277,710
Miami-Dade County, Florida Special Obligation (Capital Appreciation & Income) Series B 5.00% 10/1/35 (NATL-RE)	1,000,000	1,003,560
Mosaic District, Virginia Community Development Authority Revenue Series A 6.875% 3/1/36	520,000	604,952
New Jersey Economic Development Authority Revenue 5.00% 6/15/28 5.00% 6/15/29 (School Facilities Construction) Series AA 5.50% 12/15/29	200,000 800,000 900,000	222,628 888,624 995,787
New York City, New York Transitional Finance Authority Future Tax Secured Revenue (Future Tax Secured - Subordinated Fiscal) Series E-1 5.00% 2/1/41	745,000	911,299
New York State Dormitory Authority Series A 5.00% 3/15/33 (State Personal Income Tax Revenue-Education) Series A 5.00% 3/15/38	1,000,000 570,000	1,209,060 632,706
Northampton County, Pennsylvania Industrial Development Authority Revenue (Route 33 Project) 7.00% 7/1/32	230,000	257,618
Oregon State Department of Transportation Series A 5.00% 11/15/26	1,000,000	1,273,910
Peoria, Arizona Municipal Development Authority Sales Tax & Excise Shared Revenue (Senior Lien & Subordinate Lien) 5.00% 1/1/18	1,085,000	1,153,442

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Regional Transportation

District, Colorado Tax  
Revenue  
(Denver Transit Partners)  
6.00% 1/15/41

500,000 582,460

Wyandotte County, Kansas  
City, Kansas Unified  
Government Special  
Obligation Revenue  
(Sales Tax - Vacation Village  
Project A) Series A  
5.75% 9/1/32

235,000 245,401  
14,364,175

State General Obligation Bonds 2.80%

California State  
5.25% 11/1/40  
(Various Purposes)  
5.00% 10/1/41  
6.00% 4/1/38

320,000 377,418  
440,000 525,602  
105,000 119,851

New York State  
Series A 5.00% 2/15/39

300,000 333,225

Oregon State  
Series K 5.00% 5/1/22

500,000 609,940  
1,966,036

Transportation Revenue Bonds 24.71%

Alameda Corridor  
Transportation Authority  
(2nd Sub Lien) Series B  
5.00% 10/1/37

430,000 527,988

Atlanta, Georgia Department  
of Aviation  
Series B 5.00% 1/1/29

1,000,000 1,233,910

Chicago, Illinois O'Hare  
International Airport  
Revenue  
(General-Senior Lien)  
Series D 5.25% 1/1/34

1,000,000 1,206,050

Maryland State Economic  
Development Revenue  
(Transportation Facilities  
Project) Series A  
5.75% 6/1/35

255,000 281,357

Metropolitan Transportation  
Authority, New York  
Series A 5.00% 11/15/41

500,000 589,085

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(Unaudited)

	Principal Amount <sup>o</sup>	Value (U.S. \$)
<b>Municipal Bonds</b> (continued)		
Transportation Revenue Bonds (continued)		
Metropolitan Washington D.C. Airports Authority Dulles Toll Road Revenue (First Senior Lien) Series A 5.25% 10/1/44	245,000	\$ 274,077
New Jersey State Turnpike Authority Revenue Series A 5.00% 1/1/27	1,000,000	1,208,190
New Orleans, Louisiana Aviation Board Series B 5.00% 1/1/45 (AMT)	1,000,000	1,169,560
New York Liberty Development Revenue (1 World Trade Center Port Authority Construction) 5.00% 12/15/41	500,000	597,755
New York Transportation Development (La Guardia Airport) Series A 5.25% 1/1/50 (AMT)	700,000	822,192
North Texas Tollway Authority Special Projects System Series A 5.00% 9/1/20	250,000	291,400
Pennsylvania Turnpike Commission Series A-1 5.00% 12/1/43	500,000	585,260
Pennsylvania Turnpike Commission Subordinate (Special Motor License Foundation) 5.00% 12/1/22 Series B 5.00% 12/1/41	500,000 500,000	581,165 575,560
Port Authority of Allegheny County, Pennsylvania 5.75% 3/1/29	900,000	1,078,002
Port Authority of New York & New Jersey Special Project (JFK International Air Terminal) 6.00% 12/1/42 6.50% 12/1/28	230,000 500,000	272,148 504,280
St. Louis, Missouri Airport Revenue (Lambert St. Louis International) 5.00% 7/1/32 (AMT) Series A-1 6.625% 7/1/34	1,000,000 325,000	1,113,190 373,523
Texas Private Activity Bond Surface Transportation (Senior Lien - Blueridge)		

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Transportation)			
5.00% 12/31/40 (AMT)	110,000		129,162
5.00% 12/31/45 (AMT)	110,000		129,361
5.00% 12/31/50 (AMT)	160,000		187,872
5.00% 12/31/55 (AMT)	160,000		187,003
Texas Private Activity Bond			
Surface Transportation			
Corporate Senior Lien			
Revenue			
(LBJ Infrastructure)			
7.00% 6/30/40	285,000		343,602
7.50% 6/30/33	665,000		818,329
(Mobility Partners)			
7.50% 12/31/31	500,000		603,005
(NTE Mobility Partners)			
6.75% 6/30/43 (AMT)	225,000		282,524
6.875% 12/31/39	1,000,000		1,182,790
7.00% 12/31/38 (AMT)	165,000		210,710
			17,359,050
Water & Sewer Revenue Bonds 6.79%			
City of Chicago, Illinois			
Waterworks Revenue			
(2nd Lien) 5.00% 11/1/29	280,000		339,282
Massachusetts Water			
Resources Authority			
(Green Bond) Series B			
4.00% 8/1/36	500,000		575,145
New York City Water & Sewer			
System, New York			
(2nd Generation Fiscal			
2013) Series CC			
5.00% 6/15/47	345,000		416,146
Philadelphia, Pennsylvania			
Water & Wastewater			
Revenue			
Series A 5.00% 7/1/45	500,000		596,150
Phoenix, Arizona Civic			
Improvement Wastewater			
Systems Revenue			
(Junior Lien) Series A			
5.00% 7/1/39	900,000		1,001,988
San Francisco, California City			
& County Public Utilities			
Commission Water			
Revenue			
Series F 5.00% 11/1/27	500,000		588,380

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## Schedule of investments

### Delaware Investments® National Municipal Income Fund (Unaudited)

	Principal Amount <sup>o</sup>	Value (U.S. \$)
<b>Municipal Bonds</b> (continued)		
Water & Sewer Revenue Bonds (continued)		
Southern California Water		
Replenishment District		
5.00% 8/1/41	1,000,000	\$ 1,249,990
		4,767,081
<b>Total Municipal Bonds</b>		
(cost \$87,909,166)		<b>98,661,960</b>
<b>Total Value of Securities</b> 140.43%		
(cost \$87,909,166)		<b>\$ 98,661,960</b>
<b>Liquidation Value of</b>		
<b>Preferred</b>		
<b>Stock (42.70%)</b>		<b>(30,000,000)</b>
<b>Receivables and Other</b>		
<b>Assets Net of</b>		
<b>Liabilities 2.27%</b>		<b>1,597,640</b>
<b>Net Assets Applicable to</b>		
<b>4,528,443 Shares</b>		
<b>Outstanding 100.00%</b>		<b>\$ 70,259,600</b>

# Security exempt from registration under Rule 144A of the Securities Act of 1933, as amended. At June 30, 2016, the aggregate value of Rule 144A securities was \$1,167,013, which represents 1.66% of the Fund's net assets.

@ Illiquid security. At June 30, 2016, the aggregate value of illiquid securities was \$607,640, which represents 0.86% of the Fund's net assets.

<sup>o</sup> Principal amount shown is stated in U.S. dollars unless noted that the security is denominated in another currency. Non-income-producing security. Security is currently in default.

§ Pre-refunded bonds. Municipal bonds that are generally backed or secured by U.S. Treasury bonds. For pre-refunded bonds, the stated maturity is followed by the year in which the bond is pre-refunded.

#### Summary of abbreviations:

AMBAC - Insured by AMBAC Assurance Corporation

AMT - Subject to Alternative Minimum Tax

NATL-RE - Insured by National Public Finance Guarantee Corporation

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# Notes

Delaware Investments® National Municipal Income Fund  
June 30, 2016 (Unaudited)

## 1. Significant Accounting Policies

The following accounting policies are in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and are consistently followed by Delaware Investments National Municipal Income Fund (Fund). This report covers the period of time since the Fund's last fiscal year end.

**Security Valuation** Debt securities are valued based upon valuations provided by an independent pricing service or broker and reviewed by management. To the extent current market prices are not available, the pricing service may take into account developments related to the specific security, as well as transactions in comparable securities. Valuations for fixed income securities utilize matrix systems, which reflect such factors as security prices, yields, maturities, and ratings, and are supplemented by dealer and exchange quotations. Generally, other securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith under the direction of the Trust's Board of Directors/Trustees (Board). In determining whether market quotations are readily available or fair valuation will be used, various factors will be taken into consideration, such as market closures or suspension of trading in a security.

## 2. Investments

At June 30, 2016, the cost of investments for federal income tax purposes has been estimated since final tax characteristics cannot be determined until fiscal year end. At June 30, 2016, the cost of investments and unrealized appreciation (depreciation) for the Fund were as follows:

Cost of investments	\$87,909,166
Aggregate unrealized appreciation of investments	\$10,921,736
Aggregate unrealized depreciation of investments	(168,942)
Net unrealized appreciation of investments	\$10,752,794

U.S. GAAP defines fair value as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. A three-level hierarchy for fair value measurements has been established based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The Fund's investment in its entirety is assigned a level based upon the observability of the inputs which are significant to the overall valuation. The three-level hierarchy of inputs is summarized below.

- Level 1 Inputs are quoted prices in active markets for identical investments. (Examples: equity securities, open-end investment companies, futures contracts, exchange-traded options contracts)
- Level 2 Other observable inputs, including, but not limited to: quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the assets or liabilities (such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates) or other market-corroborated inputs. (Examples: debt securities, government securities, swap contracts, foreign currency exchange contracts, foreign securities utilizing international fair value pricing, broker-quoted securities, fair valued securities)
- Level 3 Significant unobservable inputs, including the Fund's own assumptions used to determine the fair value of investments. (Examples: broker-quoted securities, fair valued securities)

Level 3 investments are valued using significant unobservable inputs. The Fund may also use an income-based valuation approach in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied

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due to the nature or duration of any restrictions on the disposition of the investments. Valuations may also be based upon current market prices of securities that are comparable in coupon, rating, maturity, and industry. The derived value of a Level 3 investment may not represent the value which is received upon disposition and this could impact the results of operations.

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## Notes

June 30, 2016 (Unaudited)

The following table summarizes the valuation of the Fund's investments by fair value hierarchy levels as of June 30, 2016:

Securities	Level 2
Municipal Bonds	\$98,661,960

During the period ended June 30, 2016, there were no transfers between Level 1 investments, Level 2 investments, or Level 3 investments that had a material impact to the Fund. The Fund's policy is to recognize transfers between levels at the beginning of the reporting period.

### 3. Subsequent Events

Management has determined that no material events or transactions occurred subsequent to June 30, 2016 that would require recognition or disclosure in the Fund's Schedule of investments.

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**Item 2. Controls and Procedures.**

The registrant's principal executive officer and principal financial officer have evaluated the registrant's disclosure controls and procedures within 90 days of the filing of this report and have concluded that they are effective in providing reasonable assurance that the information required to be disclosed by the registrant in its reports or statements filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There were no significant changes in the registrant's internal control over financial reporting that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 3. Exhibits.**

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2(a)), exactly as set forth below:

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