

SIGHTLINE INSTITUTE

FINANCIAL REPORT

DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sightline Institute
Seattle, Washington

We have audited the accompanying financial statements of Sightline Institute ("Sightline") which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sightline Institute as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matter – Prior Year Financial Statements

The 2011 financial statements were reviewed by us and our report, dated May 24, 2012, stated that we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.

Peterson Sullivan LLP.

June 4, 2013

601 Union Street
Suite 2300
Seattle, WA 98101

(206) 382-7777 **MAIN**
(206) 382.7700 **FAX**

psepa.com

SIGHTLINE INSTITUTE

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 and 2011

ASSETS	2012 (Audited)	2011 (Reviewed)
Current assets		
Cash and cash equivalents	\$ 570,252	\$ 428,952
Investments	772,565	795,766
Receivables		
Accounts receivable	395	7,929
Contributions receivable, net, current portion	41,457	57,482
Grants receivable, net, current portion	130,000	100,000
Inventory	6,252	7,435
Prepaid expenses	10,529	12,760
Total current assets	<u>1,531,450</u>	<u>1,410,324</u>
Long-term portion of receivables		
Contributions receivable, net	197,367	199,413
Grants receivable, net	263,604	
Property and equipment, net	6,233	8,815
Website development costs, net	2,776	17,207
Total assets	<u>\$ 2,001,430</u>	<u>\$ 1,635,759</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 2,493	\$ 5,431
Accrued payroll liabilities	122,655	113,890
Total current liabilities	<u>125,148</u>	<u>119,321</u>
Net assets		
Unrestricted	1,202,508	1,064,353
Temporarily restricted	673,774	452,085
Total net assets	<u>1,876,282</u>	<u>1,516,438</u>
Total liabilities and net assets	<u>\$ 2,001,430</u>	<u>\$ 1,635,759</u>

See Notes to Financial Statements

SIGHTLINE INSTITUTE

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2012 and 2011

	2012 (Audited)			2011 (Reviewed)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue						
Public support						
Grants	\$ 382,947	\$ 422,604	\$ 805,551	\$ 258,409	\$ 89,975	\$ 348,384
Contributions	457,328	38,140	495,468	388,709	58,720	447,429
In-kind contributions	36,274		36,274	15,297		15,297
Fees for service	50,798		50,798	28,777		28,777
Sales of publications	6,321		6,321	6,913		6,913
Cost of sales	(1,183)		(1,183)	(1,349)		(1,349)
Investment income	16,778		16,778	11,537		11,537
Interest income on notes receivable				3,621		3,621
Total revenue	949,263	460,744	1,410,007	711,914	148,695	860,609
Net assets released from restrictions	239,055	(239,055)		183,037	(183,037)	
	1,188,318	221,689	1,410,007	894,951	(34,342)	860,609
Functional expenses						
Program services	822,100		822,100	776,986		776,986
Management and general	40,218		40,218	41,786		41,786
Fundraising	187,845		187,845	183,484		183,484
Total functional expenses	1,050,163		1,050,163	1,002,256		1,002,256
Change in net assets	138,155	221,689	359,844	(107,305)	(34,342)	(141,647)
Net assets, beginning of year	1,064,353	452,085	1,516,438	1,171,658	486,427	1,658,085
Net assets, end of year	\$ 1,202,508	\$ 673,774	\$ 1,876,282	\$ 1,064,353	\$ 452,085	\$ 1,516,438

See Notes to Financial Statements

SIGHTLINE INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012

(Audited)

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 492,649	\$ 17,887	\$ 116,538	\$ 627,074
Payroll taxes and benefits	127,147	5,312	30,902	163,361
Consultants and contract personnel	68,822	193	4,466	73,481
Rent	46,628	1,933	12,011	60,572
Advertising and media	27,707		802	28,509
Travel and meals	14,099	1,981	5,421	21,501
Depreciation and amortization	17,454	125	793	18,372
Small equipment	6,689	270	4,686	11,645
Printing and reproduction	5,771	239	3,037	9,047
Telephone and internet	7,387	277	954	8,618
Dues and fees	3,821	534	4,030	8,385
Accounting and legal		7,750		7,750
Publications and subscriptions	1,005		1,874	2,879
Postage and bulk mail	1,035	17	1,676	2,728
Office supplies	1,044	39	369	1,452
Bad debt expense	69	3	18	90
Miscellaneous	773	3,658	268	4,699
Total expenses	<u>\$ 822,100</u>	<u>\$ 40,218</u>	<u>\$ 187,845</u>	<u>\$ 1,050,163</u>

See Notes to Financial Statements

SIGHTLINE INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2011

(Reviewed)

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 512,153	\$ 14,466	\$ 119,138	\$ 645,757
Payroll taxes and benefits	97,105	2,743	22,589	122,437
Consultants and contract personnel	54,910	307	4,782	59,999
Rent	43,168	2,260	11,339	56,767
Advertising and media	13,580			13,580
Travel and meals	13,197	5,178	8,009	26,384
Depreciation and amortization	18,779	228	1,141	20,148
Small equipment	5,083	248	4,142	9,473
Printing and reproduction	4,193	148	3,648	7,989
Telephone and internet	10,508	440	762	11,710
Dues and fees	1,750	713	2,976	5,439
Accounting and legal		11,500		11,500
Publications and subscriptions	764		2,292	3,056
Postage and bulk mail	1,518	45	2,430	3,993
Office supplies	1,792	94	614	2,500
Bad debt expense (recovery)	(1,998)	(105)	(525)	(2,628)
Miscellaneous	484	3,521	147	4,152
Total expenses	\$ 776,986	\$ 41,786	\$ 183,484	\$ 1,002,256

See Notes to Financial Statements

SIGHTLINE INSTITUTE

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

	2012 (Audited)	2011 (Reviewed)
Cash Flows from Operating Activities		
Change in net assets	\$ 359,844	\$ (141,647)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation and amortization	18,372	20,148
Loss (gain) on investments	(4,504)	3,917
Change in operating assets and liabilities		
Receivables	(267,999)	61,164
Inventory	1,183	1,349
Prepaid expenses	2,231	6,272
Accounts payable	(2,938)	(2,030)
Accrued payroll liabilities	8,765	15,069
Net cash flows from operating activities	114,954	(35,758)
Cash Flows from Investing Activities		
Principal received on notes receivable		164,109
Proceeds from sale of investments	365,000	697,103
Purchase of investments	(337,295)	(1,083,074)
Purchase of equipment	(1,359)	(1,437)
Net cash flows from investing activities	26,346	(223,299)
Net change in cash and cash equivalents	141,300	(259,057)
Cash and cash equivalents, beginning of year	428,952	688,009
Cash and cash equivalents, end of year	\$ 570,252	\$ 428,952

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization

Sightline Institute ("Sightline") is an independent, nonprofit research and communications center working to make the Northwest a global model of sustainability – strong communities, a green economy, and a healthy environment. Since 1993, Sightline has equipped policymakers and citizens with the information and tools they need to advance solutions to the most significant challenges facing our region. Sightline's innovative research and practical ideas connect the dots across a range of issues, giving leaders the resources they need to create change.

Financial Statement Presentation

Sightline reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Sightline has no permanently restricted net assets, so this class of net assets is not shown on the financial statements. Contributions that are received are recorded as unrestricted or temporarily restricted support depending on the existence and/or nature of any donor restrictions.

Revenue Recognition

Grants and contributions consist of unrestricted and temporarily restricted grants and contributions, and include unconditional promises to give. Unconditional grants and contributions are recognized when received; unconditional promises to give are recognized when pledged. Grants, contributions, or pledges that include donor-imposed conditions are not recognized until the conditions have been substantially met.

Fees for services are recognized when services are performed.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose, or as time restrictions are met. Sightline has elected to show temporarily restricted contributions whose restrictions are met in the same reporting period they are received as unrestricted support.

Temporarily restricted net assets consist of the following at December 31:

	2012	2011
Time restricted grants and contributions	\$ 636,990	\$ 362,110
Contributions and grants restricted to support specific programs		
Speaker series	27,500	
Sound stormwater	9,284	64,975
Carbon pricing conferences		25,000
	\$ 673,774	\$ 452,085

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term, highly liquid instruments with original maturities of three months or less. At times, Sightline maintains amounts on deposit in banks in excess of the federally insured limits. The risk is managed by maintaining all deposits in high quality financial institutions.

Investments

Investments are measured at fair value and the change in value is included in the change in net assets. The fair value of the investments was determined using Level 1 observable market inputs, within the accounting fair value hierarchy, consisting of quoted prices in active markets (such as national exchanges) for identical assets.

Investments consist of the following at December 31:

	2012	2011
Certificates of deposit	\$ 405,525	\$ 441,895
Domini fixed income mutual fund	113,558	110,746
Corporate bond (General Electric)	76,848	79,740
Calvert fixed income mutual fund - short duration	77,676	73,571
Calvert fixed income mutual fund - social investment	67,452	62,647
Parnassus fixed income mutual fund	27,732	27,167
Other	3,774	
	\$ 772,565	\$ 795,766

Investment income on the statements of activities consists of:

	2012	2011
Interest and dividends	\$ 12,274	\$ 15,454
Realized gain	2,310	1,010
Unrealized gain (loss)	2,194	(4,927)
	\$ 16,778	\$ 11,537

Receivables

Receivables (other than contributions and grants receivable see Note 2 and 3, respectively) are stated at their outstanding principal balances. Management reviews the collectibility of receivables on a periodic basis and determines the amount estimated to be uncollectible. An allowance for doubtful accounts is then established and management charges off receivables against the allowance when it determines that a receivable is not collectible. Sightline generally does not require collateral or charge interest on receivable balances. No allowance was considered necessary at December 31, 2012 and 2011.

Inventory

Inventory, consisting of publications, is stated at the lower of average cost or market.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of receipt, if donated. Items with a cost in excess of \$1,000 and a useful life of at least one year are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. The cost, estimated useful lives, and accumulated depreciation of property and equipment are as follows:

	Estimated Useful Lives	2012	2011
Office equipment	3 years	\$ 58,405	\$ 57,047
Furniture	5 years	4,529	4,529
Leasehold improvements	5 years	9,066	9,066
		<u>72,000</u>	<u>70,642</u>
Less: accumulated depreciation		<u>(65,767)</u>	<u>(61,827)</u>
		<u>\$ 6,233</u>	<u>\$ 8,815</u>

Sabbatical Leave

Sightline has a sabbatical leave program that stipulates that all regular employees will take a mandatory sabbatical of three full, contiguous months for every seven years of service. Compensated time under this program is accrued over the requisite service period. At December 31, 2012 and 2011, Sightline has accrued \$73,473 and \$79,263, respectively, which is included with accrued payroll liabilities on the statements of financial position.

Website Development Costs

Sightline has capitalized costs related to its internally developed website. The website was completed during 2008 and there have been no additional costs with this project. Website development costs are amortized using the straight-line method over the estimated useful life of five years. Total capitalized website development costs at December 31, 2012 and 2011, were \$72,158. Total amortization expense for 2012 was \$14,431 (2011 was \$14,432) and accumulated amortization was \$69,382 (2011 was \$54,951). Amortization expense is expected to be \$2,776 for the year ending December 31, 2013.

Donated Materials and Services

During 2012 and 2011, Sightline received the benefit of donated consulting and advertising services as well as donated software, travel, and meals. All significant advertising expenses have been contributed in-kind and are recognized as income and an expense when utilized. These services, along with donated materials, are recorded at their estimated fair value and totaled \$36,274 and \$15,297 in 2012 and 2011, respectively.

Income Taxes

Sightline is a nonprofit organization which is exempt from income taxes under Internal Revenue Code Section 501(c)(3). Tax returns for the last three years are subject to audit by federal taxing authorities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain amounts from the December 31, 2011, financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

Sightline has evaluated subsequent events through the date these financial statements were available to be issued, which was the date of the independent auditors' report.

Note 2. Contributions and Contributions Receivable

Contributions receivable consist of unconditional promises to give cash. Long-term contributions are recognized at fair value (at the time of the donation) and, in arriving at fair value, management has discounted these contributions using an estimated present value discount rate and an established allowance for doubtful accounts. Contributions are summarized as follows at December 31:

	<u>2012</u>	<u>2011</u>
Amounts receivable in:		
Less than one year	\$ 54,428	\$ 7,243
One to five years	115,562	175,813
Greater than five years	<u>157,500</u>	<u>172,500</u>
	327,490	355,556
Less: allowance for doubtful accounts	(4,562)	(5,215)
Less: discount on long-term pledges (at 6%)	<u>(84,104)</u>	<u>(93,446)</u>
Net contributions receivable	<u>\$ 238,824</u>	<u>\$ 256,895</u>

These amounts are included in the statements of financial position as follows:

	<u>2012</u>	<u>2011</u>
Contributions receivable, net, current portion	\$ 41,457	\$ 57,482
Long-term portion of contributions receivable, net	<u>197,367</u>	<u>199,413</u>
	<u>\$ 238,824</u>	<u>\$ 256,895</u>

During the years ended December 31, 2012 and 2011, 20% and 22%, respectively, of contribution revenue was from one donor.

At December 31, 2012 and 2011, 76% and 75%, respectively, of total net contributions receivable were due from two donors.

Discount rates used here and in Note 3 vary due to the year(s) when amounts were originally recognized and due to payment terms.

Note 3. Grants and Grants Receivable

Grants receivable consists of grants awarded but not yet received. Long-term grants receivable are recognized at fair value (at the grant date) and, in arriving at fair value, management has discounted long-term grants receivable using an estimated present value discount rate. Grants receivable are due as follows at December 31:

	<u>2012</u>	<u>2011</u>
Amounts receivable in:		
Less than one year	\$ 130,000	\$ 100,000
One to five years	<u>275,000</u>	
	405,000	100,000
Less: discount on long-term pledges (at 2.25%)	<u>(11,396)</u>	
Net grants receivable	<u>\$ 393,604</u>	<u>\$ 100,000</u>

The amounts are included in the statements of financial position as follows:

	<u>2012</u>	<u>2011</u>
Grants receivable, net, current portion	\$ 130,000	\$ 100,000
Long-term portion of grants receivable, net	<u>263,604</u>	
	<u>\$ 393,604</u>	<u>\$ 100,000</u>

At December 31, 2012, 47% of grants recognized as revenue were from one foundation. At December 31, 2011, 51% of grants recognized as revenue were from three foundations.

At December 31, 2012 and 2011, 92% and 100%, respectively, of total net grants receivable were due from one foundation.

Note 4. Operating Lease

Sightline leases its facilities under an operating lease expiring May 2018. Rent expense under this lease amounted to \$60,572 for 2012 and \$56,767 for 2011. Future minimum rental payments under non-cancelable operating leases are as follows for the years ending December 31:

2013	\$ 52,309
2014	49,051
2015	51,223
2016	53,395
2017	55,567
Thereafter	<u>23,530</u>
	<u>\$ 285,075</u>

Note 5. Retirement Plan

Sightline has a defined contribution employee pension plan. All employees are eligible to participate after three months of service, as defined. For the years ended December 31, 2012 and 2011, Sightline contributed 10% and 5%, respectively, of an employee's salary to the plan. Contributions to the plan by Sightline were \$60,835 for 2012 and \$29,673 for 2011.

Note 6. Board Designations

The Board of Directors has designated a reserve of unrestricted net assets to cover potential operating shortfalls in future years. These reserve designations are as follows at December 31:

	<u>2012</u>	<u>2011</u>
Operating reserves	\$ 418,638	\$ 406,588
Non-designated funds	<u>783,870</u>	<u>657,765</u>
Total unrestricted net assets	<u>\$ 1,202,508</u>	<u>\$ 1,064,353</u>