

SIGHTLINE INSTITUTE

FINANCIAL REPORT

DECEMBER 31, 2018

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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, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 from 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP.

July 12, 2019

SIGHTLINE INSTITUTE

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 642,519	\$ 1,211,291
Investments	2,039,248	2,136,610
Receivables		
Contributions receivable, net, current portion	25,543	25,543
Grants receivable	452,000	250,000
Prepaid expenses and other assets	14,085	14,628
Total current assets	<u>3,173,395</u>	<u>3,638,072</u>
Long-Term Portion of Contributions Receivable, net	106,100	121,604
Property and Equipment, net	12,791	7,928
Total assets	<u>\$ 3,292,286</u>	<u>\$ 3,767,604</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 35,298	\$ 15,527
Accrued vacation and payroll	180,737	141,256
Total current liabilities	<u>216,035</u>	<u>156,783</u>
Net Assets		
Without donor restrictions	2,241,357	2,470,385
With donor restrictions	834,894	1,140,436
Total net assets	<u>3,076,251</u>	<u>3,610,821</u>
Total liabilities and net assets	<u>\$ 3,292,286</u>	<u>\$ 3,767,604</u>

See Notes to Financial Statements

SIGHTLINE INSTITUTE

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue						
Public support						
Grants	\$ 252,300	\$ 877,000	\$ 1,129,300	\$ 886,985	\$ 718,015	\$ 1,605,000
Contributions	482,556		482,556	529,062		529,062
In-kind contributions	22,538		22,538	115,012		115,012
Fees for service	14,666		14,666	14,578		14,578
Sales of publications	249		249	359		359
Investment income (loss)	(151,824)		(151,824)	278,352		278,352
Total revenue	620,485	877,000	1,497,485	1,824,348	718,015	2,542,363
Net Assets Released from Restrictions	1,182,542	(1,182,542)		74,217	(74,217)	
	1,803,027	(305,542)	1,497,485	1,898,565	643,798	2,542,363
Functional Expenses						
Program services	1,735,600		1,735,600	1,398,740		1,398,740
Fundraising	237,817		237,817	240,762		240,762
Management and general	58,638		58,638	64,877		64,877
Total functional expenses	2,032,055		2,032,055	1,704,379		1,704,379
Change in net assets	(229,028)	(305,542)	(534,570)	194,186	643,798	837,984
Net Assets, beginning of year	2,470,385	1,140,436	3,610,821	2,276,199	496,638	2,772,837
Net Assets, end of year	<u>\$ 2,241,357</u>	<u>\$ 834,894</u>	<u>\$ 3,076,251</u>	<u>\$ 2,470,385</u>	<u>\$ 1,140,436</u>	<u>\$ 3,610,821</u>

See Notes to Financial Statements

SIGHTLINE INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Personnel-related expenses	\$ 1,183,855	\$ 183,832	\$ 23,747	\$ 1,391,434
Consultants	385,848	8,888	305	395,041
Rent and maintenance	53,516	10,193	1,890	65,599
Travel and meals	22,839	9,789	10,699	43,327
Contribution expense	34,660			34,660
Accounting and legal fees			13,500	13,500
Advertising	20,875			20,875
Supplies and software	10,216	6,017	355	16,588
Printing and postage	2,600	8,853	92	11,545
Telecommunications	6,677	794	84	7,555
Dues and fees	1,477	3,878	2,100	7,455
Publications and subscriptions	3,096	3,052	65	6,213
Depreciation expense	4,891	932	99	5,922
Liability insurance			4,512	4,512
Conferences and continuing education	2,835	1,026	33	3,894
Recruiting expense	2,334	436	46	2,816
Miscellaneous expense	(119)	127	1,111	1,119
Total expenses	<u>\$ 1,735,600</u>	<u>\$ 237,817</u>	<u>\$ 58,638</u>	<u>\$ 2,032,055</u>

See Notes to Financial Statements

SIGHTLINE INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Personnel-related expenses	\$ 990,347	\$ 191,312	\$ 39,422	\$ 1,221,081
Consultants	202,736	5,274	471	208,481
Rent and maintenance	47,265	10,761	2,319	60,345
Travel and meals	16,277	8,431	1,828	26,536
Accounting and legal fees			13,416	13,416
Advertising	109,084			109,084
Supplies and software	10,426	5,651	254	16,331
Printing and postage	4,888	8,688	229	13,805
Telecommunications	6,149	862	188	7,199
Dues and fees	1,120	6,654	1,990	9,764
Publications and subscriptions	2,365	886	2	3,253
Depreciation expense	4,189	978	192	5,359
Liability insurance			4,217	4,217
Conferences and continuing education	2,298	1,423	103	3,824
Miscellaneous expense	1,596	(158)	246	1,684
Total expenses	<u>\$ 1,398,740</u>	<u>\$ 240,762</u>	<u>\$ 64,877</u>	<u>\$ 1,704,379</u>

See Notes to Financial Statements

SIGHTLINE INSTITUTE

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ (534,570)	\$ 837,984
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	5,922	5,359
Realized and unrealized loss (gain) on investments	210,718	(238,279)
Changes in operating assets and liabilities		
Receivables	(186,496)	(208,639)
Prepaid expenses and other assets	543	(4,149)
Accounts payable	19,771	(2,735)
Accrued vacation and payroll	39,481	12,271
	(444,631)	401,812
Net cash flows from operating activities		
Cash Flows from Investing Activities		
Net purchases related to investments	(113,356)	(53,734)
Purchase of equipment	(10,785)	(3,331)
	(124,141)	(57,065)
Net cash flows from investing activities		
	(568,772)	344,747
Net change in cash and cash equivalents		
Cash and Cash Equivalents, beginning of year	1,211,291	866,544
	\$ 642,519	\$ 1,211,291
Cash and Cash Equivalents, end of year	\$ 642,519	\$ 1,211,291

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 Cascadia a global model of sustainability – strong communities, a green economy, and a healthy environment. Sightline equips the Northwest's citizens and decision-makers with the policy research and practical tools they need to advance long-term solutions to the region's most significant challenges. Sightline's work includes in-depth research, commentary, and analysis delivered online, by email, and in-person to Northwest policy champions, emerging leaders, and a range of community partners.

Financial Statement Presentation

Sightline reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Contributions that are received are recorded depending on the existence and/or nature of any donor restrictions.

Revenue Recognition

Grants and contributions consist of unrestricted and restricted grants and contributions, and unconditional promises to give. Unconditional grants and contributions are recognized when awarded; 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.

Net Assets with Donor Restrictions

Net assets with donor restrictions consist of unexpended contributions restricted for particular purposes or time periods. Net assets with donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted purpose or as time restrictions are met. Sightline has elected to show restricted contributions whose restrictions are met in the same reporting period they are received as unrestricted support.

Net assets with donor restrictions consist of the following at December 31:

	<u>2018</u>	<u>2017</u>
Purpose-restricted grants and contributions		
Housing and urbanism	\$ 650,043	\$ 820,204
Diversity, Equity, and Inclusion	29,689	48,779
Thin Green Line	22,805	
Coal exports		23,214
	<u>702,537</u>	<u>892,197</u>
Total purpose-restricted grants and contributions		
Time-restricted grants and contributions	<u>132,357</u>	<u>248,239</u>
	<u>\$ 834,894</u>	<u>\$ 1,140,436</u>

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.

Investments

Investments consist of common stocks, corporate bonds, certificates of deposit, and municipal securities. Certificates of deposit are stated at cost plus accrued interest. Other investments are measured at fair value and the change in value is included in the change in net assets. Fair values were 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:

	<u>2018</u>	<u>2017</u>
Common stock	\$ 1,115,114	\$ 1,312,146
Corporate bonds	449,805	498,495
Certificates of deposit	402,484	300,921
Treasury notes and other governmental securities	71,845	25,048
	<u>\$ 2,039,248</u>	<u>\$ 2,136,610</u>

Investment income (loss) consists of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 58,894	\$ 51,297
Realized gain (loss)	(7,267)	80,214
Unrealized gain (loss)	(203,451)	146,841
	<u>\$ (151,824)</u>	<u>\$ 278,352</u>

Receivables

Management reviews the collectibility of receivables on a periodic basis and writes off receivables deemed uncollectible. Contributions receivable are presented net of an allowance for uncollectible amounts of \$714 and \$1,072 at December 31, 2018 and 2017, respectively.

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 and amortization are provided on the straight-line method over the estimated useful lives of the assets. The cost, estimated useful lives, and accumulated depreciation and amortization of property and equipment are as follows:

	Estimated Useful Lives	2018	2017
Office equipment	3 years	\$ 57,152	\$ 47,722
Furniture	5 years	5,883	4,529
Leasehold improvements	5 years	9,066	9,066
		72,101	61,317
Less: accumulated depreciation and amortization		(59,310)	(53,389)
		<u>\$ 12,791</u>	<u>\$ 7,928</u>

Sabbatical Leave

Sightline has a sabbatical leave program that requires all regular employees to take a 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, 2018 and 2017, Sightline had accrued \$113,846 and \$75,221, respectively, which is included with accrued vacation and payroll on the statements of financial position.

In-Kind Contributions

During 2018 and 2017, Sightline received the benefit of donated advertising services, consulting, software, and graphic design services. All advertising is recognized as income and expense when utilized. All services, along with donated supplies, are recorded at their estimated fair value and totaled \$22,538 and \$115,012 in 2018 and 2017, respectively.

Advertising

As noted above, advertising is primarily received in-kind and is expensed as incurred. Advertising expense amounted to \$20,875 and \$109,084 in 2018 and 2017, respectively.

Income Taxes

Sightline is a nonprofit organization that is exempt from income taxes under Internal Revenue Code Section 501(c)(3).

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 and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Functional expenses include all direct expenditures of each program or supporting service and certain categories of expenses that are attributed to more than one program or supporting function. Costs that are readily traceable to an identified cost objective, including personnel-related expenses, are directly allocated. All other expenses, including some personnel-related expenses, that are not directly assigned are allocated based on the ratio of time and effort for each program and supporting function to the time and effort spent by the entire organization.

Recent Accounting Pronouncement Adopted

During the year ended December 31, 2018, Sightline adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Sightline has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented, except for the liquidity and availability of resources note (see Note 2).

Reclassifications

Certain amounts in the prior-year statements have been reclassified to be consistent with the current-year presentation. These reclassifications had no impact on net assets.

Subsequent Events

Sightline has evaluated subsequent events through the date these financial statements were available to be issued, which was July 12, 2019.

Note 2. Liquidity and Availability of Resources

Sightline seeks to fund its operations largely from current-year revenue. To ensure access to cash for the payment of monthly expenditures regardless of cash receipts, it is Sightline's policy to keep a minimum of the equivalent of 1.5 months of budgeted cash expenditures, averaged over the current calendar year, in FDIC-insured or U.S. government-guaranteed, immediately liquid accounts (e.g., checking, savings, or U.S. government money market).

It is Sightline's policy to keep an additional 40% of the organization's current calendar year's budgeted cash expenditures in cash, laddered certificates of deposit, and commercial debt securities, all of which can be converted to cash immediately.

Remaining financial assets are invested in a blend of cash, fixed income assets, and marketable equity investments, all of which can also be converted to cash immediately. It is Sightline's policy that these assets be invested with an average weighting of 30% in fixed income positions and 70% in equity positions, with a maximum departure of 10% above or below those averages at the investment advisor's discretion. A departure greater than 10% from these targets requires the notification of and approval by the board or its designee.

The following table reflects Sightline's financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of donor restrictions:

Cash and cash equivalents	\$ 642,519
Investments	2,039,248
Grants and contributions receivable, net	<u>583,643</u>
Total financial assets	3,265,410
Grants and contributions receivable, long-term portion	<u>(106,100)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 3,159,310</u></u>

Note 3. Contributions and Contributions Receivable

Contributions receivable consist of unconditional promises to give cash. Short-term contributions are recognized at net realizable value (face value less an allowance for doubtful accounts). 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 risk-adjusted present value discount rate and an allowance for doubtful accounts. Amortization of the discount is included in contribution revenue. Contributions are summarized as follows at December 31:

	<u>2018</u>	<u>2017</u>
Amounts receivable in:		
Less than one year	\$ 25,900	\$ 25,900
One to five years	82,150	89,300
Greater than five years	<u>52,500</u>	<u>67,500</u>
	160,550	182,700
Less: allowance for doubtful accounts	(714)	(1,072)
Less: discount on long-term pledges (6%)	<u>(28,193)</u>	<u>(34,481)</u>
Net contributions receivable	<u><u>\$ 131,643</u></u>	<u><u>\$ 147,147</u></u>

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

	<u>2018</u>	<u>2017</u>
Contributions receivable, net, current portion	\$ 25,543	\$ 25,543
Long-term portion of contributions receivable, net	<u>106,100</u>	<u>121,604</u>
	<u><u>\$ 131,643</u></u>	<u><u>\$ 147,147</u></u>

At December 31, 2018 and 2017, 90% and 86%, respectively, of net contributions receivable were due from one donor.

There were no significant contribution revenue concentrations for the years ended December 31, 2018 or 2017.

Note 4. Grants and Grants Receivable

Grants receivable consists of grants awarded but not yet received. Short-term grants are recognized at net realizable value (face value). 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, risk-adjusted present value discount rate. Grants receivable are due within one year at both December 31, 2018 and 2017.

At December 31, 2018, all grants receivables were due from one foundation. At December 31, 2017, all grants receivable were due from two foundations.

For the year ended December 31, 2018, 56% of grant revenue was from two foundations. For the year ended December 31, 2017, 73% of grant revenue was from three foundations.

Note 5. Related Party Transactions

Sightline's Board of Directors includes individuals who also serve on the Board of Directors of some of Sightline's regular grantors. Sightline received two separate grants from organizations with common board members in each of the years ended December 31, 2018 and 2017. These grants totaled \$99,800 and \$300,000, respectively, and are included within grants on the statements of activities for each year.

Note 6. Operating Lease

Sightline leases its facilities under an operating lease expiring in July 2023. Total rent expense amounted to \$63,311 and \$59,467 for 2018 and 2017, respectively. Future minimum rental payments for this noncancelable operating lease are as follows for the years ending December 31:

2019	\$	75,984
2020		78,316
2021		80,648
2022		82,980
2023		48,972
		<hr/>
	\$	366,900
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Note 7. 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, 2018 and 2017, Sightline contributed 10% of employees' salaries to the plan. Contributions to the plan by Sightline were \$97,430 and \$90,933 for 2018 and 2017, respectively.

Note 8. Board Designations

The Board of Directors has designated a reserve of net assets without donor restrictions to cover potential operating shortfalls in future years. These reserve designations are as follows at December 31:

	<u>2018</u>	<u>2017</u>
Operating reserves	\$ 875,023	\$ 646,481
Non-designated funds	<u>1,366,334</u>	<u>1,823,904</u>
Total net assets without donor restrictions	<u>\$ 2,241,357</u>	<u>\$ 2,470,385</u>