

POLICYLINK

FINANCIAL STATEMENTS

December 31, 2018

(with summarized financial information for 2017)



POLICYLINK

T A B L E O F C O N T E N T S

	Page(s)
Independent Auditors' Report	1
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6–17



10 Almaden Boulevard, Suite 1000, San Jose, CA 95113

Phone (408) 961-6300 Fax (408) 961-6324 Email bpm@bpmcpa.com Web bpmcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
PolicyLink

We have audited the accompanying financial statements of PolicyLink, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and changes in net assets, 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 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.

Auditors' 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 of America. 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 PolicyLink as of December 31, 2018, 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 of America.

Report on Summarized Comparative Information

We have previously audited PolicyLink's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BPM LLP

San Jose, California
October 14, 2019

POLICYLINK

STATEMENT OF FINANCIAL POSITION

As of December 31, 2018

(with summarized financial information as of December 31, 2017)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 7,194,690	\$ 5,514,901
Cash - Board and donor restricted for Reserve Fund	6,000,000	6,500,000
Grants receivable	5,970,916	7,898,219
Program service revenue	1,091,545	1,090,246
Related party receivable, net	73,492	53,435
Prepaid expenses	185,159	451,471
Deposits and other assets	53,946	69,421
Property and equipment, net	<u>206,904</u>	<u>291,423</u>
Total assets	<u><u>\$ 20,776,652</u></u>	<u><u>\$ 21,869,116</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 537,381	\$ 232,754
Deferred rent	217,741	260,233
Deferred revenue	170,477	461,956
Other accrued liabilities	<u>418,189</u>	<u>473,264</u>
Total liabilities	<u>1,343,788</u>	<u>1,428,207</u>
Net assets:		
Without donor restriction:		
Undesignated	155,742	124,172
Board designated - Growth Fund	5,416,369	6,258,369
Board designated - Reserve Fund	<u>6,600,000</u>	<u>4,100,000</u>
	12,172,111	10,482,541
With donor restrictions	<u>7,260,753</u>	<u>9,958,368</u>
Total net assets	<u>19,432,864</u>	<u>20,440,909</u>
Total liabilities and net assets	<u><u>\$ 20,776,652</u></u>	<u><u>\$ 21,869,116</u></u>

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

POLICYLINK

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the year ended December 31, 2018
(with summarized financial information for the year ended December 31, 2017)

	Without Donor Restriction	With Donor Restriction	2018 Total	2017 Total
Support and revenues:				
Grants and contributions	\$ 5,189,571	\$ 5,029,752	\$ 10,219,323	\$ 10,800,017
Program services	2,464,665	-	2,464,665	3,077,992
Government grants and contracts	237,943	-	237,943	184,057
Conference contributions	1,055,041	-	1,055,041	-
Earned income, honoraria, and other	85,018	-	85,018	84,182
Net assets released from restrictions	4,727,367	(4,727,367)	-	-
Total support and revenues	13,759,605	302,385	14,061,990	14,146,248
Expenses:				
Program services:				
Healthy Communities of Opportunity	3,542,303	-	3,542,303	4,154,117
Just Society	2,176,905	-	2,176,905	2,344,911
Equitable Economy	3,867,901	-	3,867,901	3,108,968
Other programs	4,105,065	-	4,105,065	1,788,250
Total program services expense	13,692,174	-	13,692,174	11,396,246
General and administrative	1,022,155	-	1,022,155	628,375
Fundraising	355,706	-	355,706	592,437
Total expenses	15,070,035	-	15,070,035	12,617,058
Change in net assets from operations	(1,310,430)	302,385	(1,008,045)	1,529,190
Other changes:				
Contributions for Growth Fund	-	-	-	3,050,000
Contributions for Reserve Fund	-	-	-	1,750,000
Net assets released from restrictions	3,000,000	(3,000,000)	-	-
Total other changes	3,000,000	(3,000,000)	-	4,800,000
Change in net assets	1,689,570	(2,697,615)	(1,008,045)	6,329,190
Net assets, beginning of year	10,482,541	9,958,368	20,440,909	14,111,719
Net assets, end of year	\$ 12,172,111	\$ 7,260,753	\$ 19,432,864	\$ 20,440,909

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

POLICYLINK

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018
(with summarized financial information for the year ended December 31, 2017)

	Program Services					Support Services			2018 Total	2017 Total
	Healthy Communities of Opportunity	Just Society	Equitable Economy	Other Programs	Total Program Services	General and Administrative	Fundraising	Total Supporting Services		
Expenses:										
Salaries and benefits	\$ 2,638,638	\$ 1,226,629	\$ 2,390,459	\$ 800,347	\$ 7,056,073	\$ 752,622	\$ 253,152	\$ 1,005,774	\$ 8,061,847	\$ 8,349,473
Partnerships and consulting services	378,825	396,003	950,058	564,108	2,288,994	16,113	50,755	66,868	2,355,862	1,729,409
Travel	165,231	109,259	162,482	686,738	1,123,710	7,887	12,241	20,128	1,143,838	730,354
Conferences, conventions, and meetings	66,922	256,312	49,178	1,557,446	1,929,858	706	1,992	2,698	1,932,556	398,223
Occupancy	169,603	104,228	185,192	196,762	655,785	48,941	17,031	65,972	721,757	631,802
Software and computer supplies	35,002	17,274	31,104	63,189	146,569	16,867	2,808	19,675	166,244	152,970
Telephone	19,194	15,498	18,619	20,357	73,668	3,559	1,540	5,099	78,767	141,214
Temporary agencies and casual labor	9,912	6,092	10,824	36,439	63,267	2,860	995	3,855	67,122	53,462
Printing and publications	5,996	5,965	16,241	38,834	67,036	716	200	916	67,952	53,621
Professional fees	413	3,773	451	2,355	6,992	121,812	-	121,812	128,804	104,262
Depreciation	28,930	17,779	31,589	33,526	111,824	8,349	2,905	11,254	123,078	124,178
Supplies	9,506	6,921	10,409	22,003	48,839	3,855	1,093	4,948	53,787	68,043
Equipment rental and maintenance	4,410	2,710	4,815	5,126	17,061	2,444	443	2,887	19,948	23,053
Other	7,593	7,197	4,333	68,213	87,336	34,934	10,398	45,332	132,668	44,694
Postage and shipping	2,128	1,265	2,147	9,622	15,162	490	153	643	15,805	12,300
Total expenses	\$ 3,542,303	\$ 2,176,905	\$ 3,867,901	\$ 4,105,065	\$ 13,692,174	\$ 1,022,155	\$ 355,706	\$ 1,377,861	\$ 15,070,035	\$ 12,617,058

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

POLICYLINK

STATEMENT OF CASH FLOWS

For the year ended December 31, 2018
(with summarized financial information for the year ended December 31, 2017)

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ (1,008,045)	\$ 6,329,190
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	123,078	124,178
Change in assets and liabilities:		
Grants receivable	1,927,303	(4,623,246)
Program service revenue	(1,299)	(192,355)
Related party receivable, net	(20,057)	(21,450)
Prepaid expenses	266,312	(287,061)
Deposits and other assets	15,475	1,647
Accounts payable	304,627	(108,155)
Deferred rent	(42,492)	(9,005)
Deferred revenue	(291,479)	183,087
Other accrued liabilities	(42,812)	55,268
Net cash provided by operating activities	1,230,611	1,452,098
Cash flows from investing activities:		
Purchases of property and equipment	(38,559)	(83,799)
Net cash used in investing activities	(38,559)	(83,799)
Cash flows from financing activities:		
Payments made on capital leases	(12,263)	(13,706)
Net cash used in financing activities	(12,263)	(13,706)
Net increase in cash, cash equivalents, and restricted cash	1,179,789	1,354,593
Cash, cash equivalents, and restricted cash, beginning of year	12,014,901	10,660,308
Cash, cash equivalents, and restricted cash, end of year	\$ 13,194,690	\$ 12,014,901
Supplementary cash flow information:		
Cash paid during the year for interest	\$ 4,700	\$ 4,831
Schedule of noncash investing and financing activities:		
Property and equipment financed through a capital lease	\$ -	\$ 24,669

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

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

1. Organization and Nature of Activities

Organization

PolicyLink (“PolicyLink” or the “Organization”) is a national research and action institute advancing racial and economic equity by Lifting Up What Works®. PolicyLink advocates for groundbreaking policy and practice changes that enable everyone, especially people of color, to be economically secure, live in healthy communities of opportunity, and benefit from a just society. PolicyLink accomplishes this by leveraging a results framework focused on providing pathways to opportunity for the 100 million people in America living in or near poverty so that they can achieve economic security, live in or connect to communities of opportunity, and actively participate in civic and democratic processes. PolicyLink is guided by the belief that the solutions to the nation’s challenges lie with those closest to these challenges: when the wisdom, voice, and experience of those traditionally absent from policymaking drive the process, profound policy transformations emerge. PolicyLink receives funding from other charitable organizations and foundations.

PolicyLink, founded in 1999, is a California nonprofit public benefit corporation organized under section 501(c)(3) of the Internal Revenue Code.

Nature of Activities

The Organization’s programs focus in four complementary areas of work. Through these initiatives, PolicyLink advances policies that enable everyone to participate in an equitable economy, live in a community of opportunity, and thrive in a just society.

The following programs and supporting services are included in the accompanying financial statements:

Healthy Communities of Opportunity – This portfolio is dedicated to creating and maintaining opportunity-rich communities in all neighborhoods and all regions of the country through strong networks and social capital, equitable development, and infrastructure investments that enable low-income people and communities of color to thrive. Work in this area includes advancing housing justice, advocating for equitable infrastructure investments, cultivating inclusive social enterprises in an equitable food system, pushing for water justice and climate resilience, and supporting cradle-to-career policies and practices. This program includes such projects as *Anti-Displacement Policy Network*; *Affirmatively Furthering Fair Housing*; *Water Equity and Climate Resilience Caucus*; *the Convergence Partnership*; *Cradle-to-Career Advocacy*; *Building and Sustaining Healthy Communities*; *Healthy Food Procurement*; *Health Equity Fellowship for Systems Change Leaders*; *Community Development Investment Initiative*; and *Arts, Culture, and Equitable Development Initiative*.

Just Society – This portfolio is dedicated to building power and expanding agency to ensure that all systems and institutions are just, free of racial bias, and lead to a vibrant democracy where all, especially the most vulnerable, can participate and prosper. To do so, the Organization provides representation, analysis, and strategies to community-based coalitions working toward equity in economic development and criminal justice. This includes advancing policies related to inequitable fines, police accountability and alternatives, and the needs of boys and men of color. Specific projects include *PolicyLink Legal*; *Alliance for Boys and Men of Color*; *Community-Centered Policing, Fines and Fees*; and *Public Safety Metrics*.

Continued

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

1. **Organization and Nature of Activities**, continued

Nature of Activities, continued

Equitable Economy – This portfolio is dedicated to promoting economic inclusion and ownership to eliminate poverty, shrink inequality, and increase mobility. This program includes *All-in-Cities*, *National Equity Atlas*, *Bay Area Equity Atlas*, *the Federal Job Guarantee*, *Racial Wealth Gap*, *Corporate Racial Equity Index* and *Financial Security* and is a body of work driven by data and demographic analysis that is applied to the development of policy proposals and strategy development to secure opportunity for all, including people in low income communities and communities of color. These programs are designed to further the development of an equitable economy: one in which working-class people and people of color have good jobs, economic security, rising standards of living, and increased voice, power, and ownership.

Other Programs – Central to its mission, PolicyLink seeks to expand the thinking, reach, and power of local partners by creating more fertile ground for action through framing national debates and policy advocacy. This portfolio is dedicated to supporting and growing the equity movement and building new alliances and partnerships across the PolicyLink program areas that empower advocates to win on equity. The Organization's flagship initiative is the *Equity Summit*, which is held approximately every three years and assembles over 4,000 leaders to design and chart the course of the equity movement. Additional projects include the following: the *Office of the Founder in Residence*, *Race Equity and Inclusion consultancies*, and *strategic communications initiatives*.

General and Administrative – Includes the functions necessary to: support programs; ensure a supportive working environment; provide coordination of organizational strategy for PolicyLink; properly implement the directives of the Board of Directors; and manage the financial and budgetary responsibilities of PolicyLink.

Fundraising – Provides the structure necessary to encourage and secure financial support from individuals, foundations, and corporations.

2. **Summary of Significant Accounting Policies**

Basis of Accounting and Presentation

PolicyLink has prepared these financial statements using the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Basis of Presentation

Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization.

Net assets with donor restrictions are those that are subject to donor-imposed stipulations that require the passage of time or the satisfaction of a purpose restriction in order to be expended. As of December 31, 2018, PolicyLink had \$7,260,753 of net assets with donor restrictions.

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

As of December 31, 2018 and 2017, PolicyLink had \$6,000,000 and \$6,500,000, respectively cash reserved for the Reserve Fund and Growth Fund (Note 7) that the Organization’s Board of Directors (the “Board”) designated.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet that sum to the total of the same amounts shown in the statement of cash flows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 7,194,690	\$ 5,514,901
Restricted cash and cash equivalents	<u>6,000,000</u>	<u>6,500,000</u>
Cash, cash equivalents, and restricted cash	<u>\$ 13,194,690</u>	<u>\$ 12,014,901</u>

Program Service Revenue

PolicyLink records at net realizable value – which approximates fair value – those grants or contributions receivable that it expects to collect within one year. The Organization does not include conditional grants or contributions as support until the conditions thereof are substantially met. There were no conditional grants receivable as of December 31, 2018. Management has determined that all grants receivable are collectible and payable within one to three years. Management has discounted long-term receivables to present value for presentation herein.

Contracts Receivable

Contracts receivable consists of amounts due from entities under fee-for-service agreements. Management believes these amounts to be fully collectible as of December 31, 2018 and, therefore, has provided no allowance for doubtful accounts. In determining the adequacy of the allowance, management identifies specific receivables for which collection is not certain and estimates the potentially uncollectible amount based on the most recently available information. Management writes off receivables when it deems them to be uncollectible. Management credits to the allowance for doubtful accounts any subsequent payments on such receivables.

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

2. Summary of Significant Accounting Policies, continued

Property and Equipment

PolicyLink capitalizes all property and equipment acquisitions in excess of \$1,000, in aggregate and records, at cost, equipment it purchases. Management records contributed assets at fair value as of the date of donation and expenses maintenance and repairs when it incurs such expense. Management capitalizes expenditures that increase the value or productive capacity of assets. When the Organization retires, sells, or otherwise disposes of property and equipment, it removes the related asset's carrying amount and related depreciation from the accounts and includes in operations any gain or loss. Management computes amortization of leasehold improvements using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. Management calculates depreciation using the straight-line method over the estimated useful lives of the assets as follows:

Furniture and equipment	3 to 5 years
Leasehold improvements	Lesser of life of lease or useful life

Reserve Fund and Growth Fund

The Board established the Reserve Fund and Growth Fund to ensure the stability of the mission, programs, personnel, and ongoing operations of PolicyLink and to provide a source of internal funds for capacity building.

The Reserve Fund is intended for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. Management replenishes any Reserve Fund assets it uses within a reasonably short period of time as the Board, at its sole discretion, may determine. The Reserve Fund is Board-designated. The Board may, from time to time, direct management to set aside a specific source of operating revenue to augment the Reserve Fund and has authorized certain members of management to use Reserve Fund assets so long as such use is consistent with the purpose of the Reserve Fund. The Board must approve the use of Reserve Fund assets in any amount over \$300,000 and requires management to report to the Board all uses of Reserve Fund assets. Management's report to the Board must include specific plans to replenish the Reserve Fund to its balance prior to all such uses. The Reserve Fund is intended to operate in perpetuity. During its fiscal year ended December 31, 2018, PolicyLink spent \$500,000 of funds from the Reserve Fund account.

The Growth Fund is intended for capacity building including, but not limited to, activities such as staff development, program research and development, and investment in infrastructure. The Board has determined that the Chief Executive Officer has sole discretion over the use of the Growth Fund and has, furthermore, directed the Chief Executive Officer to report to the Board the uses of the Growth Fund and any impact thereof. At present, management anticipates it will have spent down the Growth Fund in its entirety by the Organization's fiscal year ending December 31, 2022. During its fiscal year ended December 31, 2018, PolicyLink released \$842,000 of funds from the Growth Fund account.

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

2. Summary of Significant Accounting Policies, continued

Revenue Recognition

Grants and Contributions

Management recognizes grants and contributions, including certain government grants, when the donor makes an unconditional promise to give. Management reports as increases in net assets without donor restrictions those contributions with donor-imposed restrictions whose restrictions management satisfies in the fiscal year in which it recognizes such contributions. Management reports as increases in net assets with donor restrictions all other contributions with donor-imposed restrictions. When management satisfies a donor-imposed restriction, it reclassifies net assets with donor restrictions to net assets without donor restrictions.

Program Service Revenue

PolicyLink recognizes program service revenue as earned when it renders specific services and completes certain deliverables in accordance with an agreement under which it performs services for another party in return for valuable consideration (“Agreement”). The Organization recognizes program service revenue as net assets without donor restrictions when it earns such revenue.

Certain agreements provide for the counterparty to make an initial payment to PolicyLink, in advance, to fund the Organization’s performance of services contemplated under those agreements. PolicyLink accounts for such advances as a deferred revenue liability until it has rendered the related services, at which point it recognizes the liability as program service revenue.

Income Taxes

PolicyLink was incorporated under the laws of the State of California and granted tax-exempt status by the Internal Revenue Service (“IRS”) under section 501(c)(3) of the Internal Revenue Code and by the California Franchise Tax Board under Section 23701(d) of the California Revenue and Taxation Code. PolicyLink has been classified as an organization that is not a private foundation under Section 509(a)(1) and has been designated as a “publicly supported” organization under Section 170(b)(1)(A)(VI) of the Code. However, income from activities not related to its tax-exempt purpose may be subject to taxation as unrelated business income.

Functional Classification of Expenses

PolicyLink allocates all direct expense attributable to individual functions relating to program and supporting services. The Organization allocates expense – including, but not limited to salaries and benefits, travel, fees for services, occupancy costs, and depreciation – that benefits more than one function (one or more program services, general and administrative, or fundraising) to those functions on the basis of time estimates, full-time employee equivalents, and other criteria.

Measure of Operations

PolicyLink includes in its measure of operations all revenue and expense that are an integral part of its programs and supporting activities. The measure of operations does not include proceeds from fundraising for the Reserve Fund or Growth Fund or release of restrictions related to the Reserve Fund or Growth Fund.

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

Fair value the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. PolicyLink classifies its financial assets and liabilities according to the following hierarchy, and maximizes the use of observable inputs while minimizing the use of unobservable inputs when measuring fair value.

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – observable inputs other than the quoted prices included in Level 1 (e.g. quoted prices for similar instruments, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – unobservable inputs (including the Organization’s assumptions in determining the fair value of instruments)

The valuation levels are not necessarily an indication of the risk or liquidity associated with the investments.

PolicyLink held \$11,813,527 of money market funds included in the cash and cash equivalents as of December 31, 2018, which it classifies as Level 1 assets. The Organization does not have any Level 2 or Level 3 assets or liabilities as of December 31, 2018.

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 that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Liquidity and Availability of Financial Assets

The following reflects the PolicyLink’s financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Financial assets:	
Cash and cash equivalents	\$ 13,194,690
Grants and accounts receivable	7,135,953
Prepaid expenses	185,159
Total financial assets	<u>20,515,802</u>
Less those unavailable for general expenditures within one year:	
Donor-imposed restrictions for specific purposes	(7,260,753)
Board-designated Reserve Fund	(6,600,000)
Board-designated Growth Fund	(5,416,369)
	<u>(19,277,122)</u>
Add: donor and board designated releases available for general expenditures within one year:	<u>4,678,490</u>
Financial assets available for general expenditure within one year	<u>\$ 5,917,170</u>

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

2. Summary of Significant Accounting Policies, continued

Liquidity and Availability of Financial Assets, continued

As part of the Organization's liquidity management, it invests cash in excess of daily requirements in short-term investments, typically Certificates of Deposit held at FDIC-insured financial institutions through a Certificate of Deposit Account Registry Service ("CDARS") in amounts such that both principal and interest are fully-insured. In addition, the Organization is able to utilize the Growth Fund and Reserve Fund as deemed necessary to help the Organization grow should they need the available capital.

Summarized Financial Information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements of PolicyLink as of and for the year ended December 31, 2017, from which the summarized information was derived.

Changes in Accounting Principles

During the year ended December 31, 2018, PolicyLink adopted the requirements of the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, 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 between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity and availability (Note 3) and functional allocation of expenses (Note 2) have also been added. PolicyLink applied the new guidance retrospectively, with the exception of the liquidity and availability and functional allocation of expenses which are required to be included only for the first year of adoption.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), which converges the FASB and the International Accounting Standards Board standards on revenue recognition. The ASU supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The ASU is effective for fiscal years beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. PolicyLink is currently evaluating the impact of the adoption of this ASU on its financial statements.

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS

December 31, 2018

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

In June 2018, the FASB issued ASU 2018-08, *Grants and Contracts (958)*, that modifies the accounting for contributions to clarify whether organizations should account for grants or contracts as non-reciprocal contributions or as exchange transactions that follow revenue recognition accounting. For exchange transactions, the standard clarifies when each party directly receives commensurate value in the transaction, and how to deal with third-party payers to a transaction. Additionally, the criteria for determining whether a contribution is conditional has been changed from a probability-based approach to one focused on barriers in an arrangement. The changes in this standard are likely going to result in more transactions being treated as conditional contributions, including those that were previously considered earned revenue as exchange transactions. The new guidance is effective for fiscal years beginning after December 31, 2018 and interim periods beginning the following year. PolicyLink is in the process of evaluating the impact of the new guidance on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (842)*. The new guidance requires lessees to recognize a right-to-use asset and a lease liability for virtually all leases (other than leases that meet the definition of a short-term lease). The new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods beginning the following year. Early application is permitted. PolicyLink is in the process of evaluating the impact of the new guidance on the Fund's financial statements.

3. Grants Receivable

Grants receivable are as follows as of December 31, 2018:

	Growth and Reserve Funds	Other Grant Receivable	Total
Due in one year or less	\$ 1,075,000	\$ 3,500,916	\$ 4,575,916
Due within one to five years	400,000	995,000	1,395,000
Total	\$ 1,475,000	\$ 4,495,916	\$ 5,970,916

4. Property and Equipment, Net

Property and equipment, net consisted of the following as of December 31, 2018:

Furniture and equipment	\$ 780,325
Leasehold improvements	589,282
	1,369,607
Less: accumulated depreciation and amortization	(1,162,703)
Property and equipment, net	\$ 206,904

For the year ended December 31, 2018, PolicyLink recorded \$123,078 of depreciation and amortization expense.

Continued

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

5. Other Accrued Liabilities

Other accrued liabilities consisted of the following as of December 31, 2018:

Payroll, payroll related expenses, and vacation	\$ 401,838
Capital lease obligations	14,448
Program expenses	1,903
	<u>1,903</u>
	<u>\$ 418,189</u>

6. Board Designated – Reserve Fund and Growth Fund

Throughout the year, the Board and management of the Organization worked on its campaign for a Reserve Fund and Growth Fund. As of December 31, 2018, the balance of the Reserve Fund was \$6,600,000 and the balance of the Growth Fund was \$5,416,369. The Organization has invested these funds in short-term Certificates of Deposit held at FDIC-insured financial institutions through a CDARS in amounts such that both principal and interest are fully insured. The spending which incurred on these funds is included on the Statement of Activity in the Program and Supporting Services expenses.

	<u>Growth Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Balance, January 1, 2018	\$ 6,258,369	\$ 4,100,000	\$ 10,358,369
Release of donor restriction	-	3,000,000	3,000,000
Contributions	-	-	-
Spending	<u>(842,000)</u>	<u>(500,000)</u>	<u>(1,342,000)</u>
Total	<u>\$ 5,416,369</u>	<u>\$ 6,600,000</u>	<u>\$ 12,016,369</u>

7. Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of December 31, 2018:

Just Society	\$ 2,810,091
Healthy Communities of Opportunity	2,392,702
Equitable Economy	1,733,575
Other Programs	324,385
	<u>324,385</u>
Total	<u>\$ 7,260,753</u>

Continued

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

7. Net Assets With Donor Restrictions, continued

Net assets with donor restrictions that were released from donor restrictions by incurring expenses satisfying the purposes specified by donors were as follows for the year ended December 31, 2018:

Equitable Economy	\$ 1,686,031
Healthy Communities of Opportunity	1,213,432
Just Society	1,173,077
Other programs	654,827
Reserve Fund	<u>3,000,000</u>
Total	<u><u>\$ 7,727,367</u></u>

8. Reserve Fund Endowment

The balances of the Reserve Fund related to Board-designated and with donor restrictions gifts balances as of December 31, 2018 are summarized as follows:

2018	Without Donor Restrictions	With Donor Restrictions	Total Reserves Restriction
Board-designated reserve funds	<u>\$ 6,600,000</u>	<u>\$ -</u>	<u>\$ 6,600,000</u>

Changes in Reserve Fund and Growth Fund for the fiscal year ended December 31, 2018 are summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Reserves Restriction
Reserves fund, January 1, 2018	\$ 4,100,000	\$ 3,000,000	\$ 7,100,000
Donor release of restriction	3,000,000	(3,000,000)	-
Board release of reserve funds	<u>(500,000)</u>	<u>-</u>	<u>(500,000)</u>
Reserves fund, December 31, 2018	<u><u>\$ 6,600,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,600,000</u></u>

The amount classified as with donor restrictions represents the amount of the Reserve Fund that must be retained at least for the duration of the grant period in accordance with explicit donor stipulations. During the year ended December 31, 2018, the donor explicating released the restrictions and the funds were transferred to without donor restrictions.

Continued

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

9. Retirement Plan

PolicyLink has a contributory 401(k) plan for all eligible employees. Contributions are based on 4% of each eligible participant's compensation for the plan year, regardless of whether the participant made 401(k) contributions. In addition, PolicyLink matches the eligible participant's contributions up to 2% of his/her compensation. Retirement plan expense for the year ended December 31, 2018 amounted to \$343,041.

10. Concentrations of Credit Risk

Cash and Cash Equivalents

PolicyLink maintains cash and cash equivalents at high-quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. At times, balances may exceed insured limits.

Significant Sources of Funding

Contracts

At December 31, 2018, two foundations represented 31% and 24% of total contracts receivable. For 2018, three foundations represented 35%, 11%, and 10% of the total contracts and contracts revenue.

Grants

At December 31, 2018, three foundations represented 22%, 20%, and 20% of total grants receivable. For 2018, one foundation represented 12% of the total grants revenue.

11. Related Party Transactions

During 2018, PolicyLink incurred expenses of \$150,000 payable and earned \$335,542 of contract revenue from the Program for Environmental and Regional Equity ("PERE"), which is part of the University of Southern California. The Director of PERE was also a member of the Board of Directors of PolicyLink during 2018.

PolicyLink Equity Action Network (the "Network") was formed as a 501(c)(4) to advance racial equity and social justice initiatives at local, state, and federal levels of government. The Network has Board members in common with the Organization and the Network reimburses the Organization for services provided to the Network. As of December 31, 2018, the Organization had a \$76,492 net receivable from the Network related to Organization set-up and legal fees.

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

12. Commitments and Contingencies

Lease Commitments

PolicyLink has various lease agreements and terms for locations in California (through August 2020), Washington D.C. (through October 2018) and New York (through June 2024) for office space. Future minimum payments by year and in aggregate under these leases, with initial or remaining terms of one year or more as of December 31, 2018, consist of the following:

<u>Year ending December 31:</u>	<u>Minimum Lease Payments</u>	<u>Deferred Rent</u>	<u>Total Rent Expense</u>
2019	\$ 454,350	\$ (66,349)	\$ 388,001
2020	198,372	(26,850)	171,522
2021	198,372	(2,730)	195,642
2022	198,372	(11,554)	186,818
2023	198,372	(24,395)	173,977
Thereafter	241,903	(85,863)	156,040
	<u>\$ 1,489,741</u>	<u>\$ (217,741)</u>	<u>\$ 1,272,000</u>

Rent expense and tenant related expenses under operating leases for the year ended December 31, 2018 amounted to \$640,917.

13. Subsequent Events

PolicyLink evaluated subsequent events for recognition and disclosure through October 14, 2019, the date which these financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2018 that required recognition or disclosure in such financial statements.