

POLICYLINK

FINANCIAL STATEMENTS

December 31, 2016

(with summarized financial information for 2015)

PolicyLink

POLICYLINK

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
PolicyLink

We have audited the accompanying financial statements of PolicyLink (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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 auditors' 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 17, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BPM LLP

San Francisco, California
September 11, 2017

POLICYLINK

STATEMENT OF FINANCIAL POSITION

December 31, 2016

(with summarized financial information as of December 31, 2015)

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|---------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 1,497,985 | \$ 630,180 |
| Cash - restricted for Reserve and Growth Capital Fund | 9,162,323 | 3,550,000 |
| Grants receivable | 3,274,973 | 2,181,303 |
| Contracts receivable | 897,891 | 1,420,008 |
| Related party receivable, net | 31,985 | 53,706 |
| Prepaid expenses | 164,410 | 244,933 |
| Deposits and other assets | 71,068 | 72,438 |
| Property and equipment, net | <u>307,133</u> | <u>390,922</u> |
| Total assets | <u>\$ 15,407,768</u> | <u>\$ 8,543,490</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | \$ 340,909 | \$ 358,102 |
| Deferred rent | 269,238 | 322,561 |
| Deferred revenue | 278,869 | 51,500 |
| Other accrued liabilities | <u>407,033</u> | <u>486,748</u> |
| Total liabilities | <u>1,296,049</u> | <u>1,218,911</u> |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | 112,031 | 94,313 |
| Board designated - Growth Fund | 3,812,323 | - |
| Board designated - Reserve Fund | <u>2,350,000</u> | <u>-</u> |
| | 6,274,354 | 94,313 |
| Temporarily restricted | 4,837,365 | 4,230,266 |
| Permanently restricted | <u>3,000,000</u> | <u>3,000,000</u> |
| Total net assets | <u>14,111,719</u> | <u>7,324,579</u> |
| Total liabilities and net assets | <u>\$ 15,407,768</u> | <u>\$ 8,543,490</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, 2016
(with summarized financial information for the year ended December 31, 2015)

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 2016 Total | 2015 Total |
|---------------------------------------|--------------|---------------------------|---------------------------|---------------|---------------|
| Support and revenues: | | | | | |
| Grants and contributions | \$ 5,701,901 | \$ 3,899,013 | \$ - | \$ 9,600,914 | \$ 10,842,597 |
| Contracts | 2,949,658 | - | - | 2,949,658 | 2,162,424 |
| Government grants and contracts | 194,963 | - | - | 194,963 | 138,005 |
| Conference contributions | 450 | - | - | 450 | 671,534 |
| Earned income, honoraria, and other | 68,161 | - | - | 68,161 | 35,227 |
| Net assets released from restrictions | 2,741,914 | (2,741,914) | - | - | - |
| Total support and revenues | 11,657,047 | 1,157,099 | - | 12,814,146 | 13,849,787 |
| Expenses: | | | | | |
| Program services: | | | | | |
| Center for Healthy Equity and Place | 3,275,507 | - | - | 3,275,507 | 3,004,180 |
| Center for Infrastructure Equity | 1,741,191 | - | - | 1,741,191 | 1,660,936 |
| Cradle to Career | 2,393,489 | - | - | 2,393,489 | 2,830,049 |
| Equitable Economy | 2,899,784 | - | - | 2,899,784 | 2,056,116 |
| Other programs | 503,199 | - | - | 503,199 | 3,322,032 |
| Total program services expense | 10,813,170 | - | - | 10,813,170 | 12,873,313 |
| General and administrative | 812,065 | - | - | 812,065 | 703,134 |
| Fundraising | 541,771 | - | - | 541,771 | 567,277 |
| Total expenses | 12,167,006 | - | - | 12,167,006 | 14,143,724 |
| Change in net assets from operations | (509,959) | 1,157,099 | - | 647,140 | (293,937) |
| Other changes: | | | | | |
| Contributions for growth fund | 4,140,000 | - | - | 4,140,000 | 200,000 |
| Contributions for reserve fund | 2,000,000 | - | - | 2,000,000 | 3,350,000 |
| Release of restrictions | 550,000 | (550,000) | - | - | - |
| Total other changes | 6,690,000 | (550,000) | - | 6,140,000 | 3,550,000 |
| Change in net assets | 6,180,041 | 607,099 | - | 6,787,140 | 3,256,063 |
| Net assets, beginning of year | 94,313 | 4,230,266 | 3,000,000 | 7,324,579 | 4,068,516 |
| Net assets, end of year | \$ 6,274,354 | \$ 4,837,365 | \$ 3,000,000 | \$ 14,111,719 | \$ 7,324,579 |

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

POLICYLINK

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

| | Program Services | | | | | Support Services | | | | 2016 Total | 2015 Total |
|---|--|--|---------------------|----------------------|-------------------|------------------------------|----------------------------------|-------------------|---------------------------------|----------------------|----------------------|
| | Center for Health Equity and Place | Center for Infrastructure Equity | Cradle to Career | Equitable Economy | Other Programs | Total Program Services | General and Administrative | Fundraising | Total Supporting Services | | |
| Expenses: | | | | | | | | | | | |
| Salaries and benefits | \$ 2,169,766 | \$ 1,244,202 | \$ 1,373,270 | \$ 2,052,162 | \$ 185,986 | \$ 7,025,386 | \$ 563,822 | \$ 459,245 | \$ 1,023,067 | \$ 8,048,453 | \$ 7,938,678 |
| Consulting services | 565,196 | 186,439 | 233,744 | 415,833 | 139,615 | 1,540,827 | 1,250 | 3,399 | 4,649 | 1,545,476 | 2,344,752 |
| Travel | 112,897 | 114,288 | 197,134 | 112,528 | 87,375 | 624,222 | 20,105 | 24,584 | 44,689 | 668,911 | 1,129,087 |
| Conferences, conventions, and meetings | 86,816 | 24,924 | 70,351 | 26,723 | 8,277 | 217,091 | 4,009 | 2,353 | 6,362 | 223,453 | 949,251 |
| Occupancy | 180,310 | 94,886 | 130,432 | 158,023 | 27,422 | 591,073 | 44,253 | 29,524 | 73,777 | 664,850 | 726,990 |
| Software and computer supplies | 32,803 | 17,099 | 299,994 | 41,150 | 8,286 | 399,332 | 6,861 | 4,542 | 11,403 | 410,735 | 383,240 |
| Telephone | 28,120 | 17,064 | 22,840 | 23,481 | 4,105 | 95,610 | 6,646 | 4,524 | 11,170 | 106,780 | 141,476 |
| Temporary agencies and casual labor | 36,228 | 5,113 | 7,029 | 8,516 | 6,128 | 63,014 | 14,437 | 865 | 15,302 | 78,316 | 119,214 |
| Printing and publications | 5,604 | 6,244 | 13,997 | 11,382 | 3,330 | 40,557 | 1,089 | 1,916 | 3,005 | 43,562 | 101,355 |
| Professional fees | 1,932 | 103 | 1,948 | 172 | 646 | 4,801 | 110,266 | - | 110,266 | 115,067 | 104,270 |
| Depreciation | 32,676 | 17,370 | 23,877 | 28,928 | 5,020 | 107,871 | 8,101 | 5,405 | 13,506 | 121,377 | 67,351 |
| Supplies | 9,177 | 5,321 | 7,937 | 8,551 | - | 30,986 | 2,565 | 1,684 | 4,249 | 35,235 | 40,129 |
| Equipment rental and maintenance | 4,108 | 2,184 | 3,030 | 3,636 | 631 | 13,589 | 8,423 | 679 | 9,102 | 22,691 | 27,135 |
| Other | 7,116 | 3,782 | 6,099 | 6,297 | 26,017 | 49,311 | 19,519 | 2,204 | 21,723 | 71,034 | 57,968 |
| Postage and shipping | 2,758 | 2,172 | 1,807 | 2,402 | 361 | 9,500 | 719 | 847 | 1,566 | 11,066 | 12,828 |
| Total expenses | \$ 3,275,507 | \$ 1,741,191 | \$ 2,393,489 | \$ 2,899,784 | \$ 503,199 | \$ 10,813,170 | \$ 812,065 | \$ 541,771 | \$ 1,353,836 | \$ 12,167,006 | \$ 14,143,724 |

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

POLICYLINK

STATEMENT OF CASH FLOWS

For the year ended December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

| | 2016 | 2015 |
|---|---------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 6,787,140 | \$ 3,256,063 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 121,377 | 67,351 |
| Reserve and Growth Capital Fund permanently restricted contributions | - | (3,000,000) |
| Change in assets and liabilities: | | |
| Grants receivable | (1,093,670) | 255,656 |
| Contracts receivable | 522,117 | (397,755) |
| Related party receivable, net | 21,721 | (44,312) |
| Prepaid expenses | 80,523 | 46,224 |
| Deposits and other assets | 1,370 | (2,633) |
| Accounts payable | (17,193) | (329,137) |
| Deferred rent | (53,323) | 272,343 |
| Deferred revenue | 227,369 | (62,743) |
| Other accrued liabilities | (65,767) | 63,316 |
| Net cash provided by operating activities | 6,531,664 | 124,373 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (37,588) | (314,285) |
| Net cash used in investing activities | (37,588) | (314,285) |
| Cash flows from financing activities: | | |
| Receipts of Reserve and Growth Capital Fund permanently restricted gifts | - | 3,000,000 |
| Payments made on capital leases | (13,948) | (13,068) |
| Net cash (used in) provided by financing activities | (13,948) | 2,986,932 |
| Net increase in cash, cash equivalents, and restricted cash | 6,480,128 | 2,797,020 |
| Cash, cash equivalents, and restricted cash, beginning of year | 4,180,180 | 1,383,160 |
| Cash, cash equivalents, and restricted cash, end of year | \$ 10,660,308 | \$ 4,180,180 |
| Supplementary cash flow information: | | |
| Cash paid during the year for interest | \$ 7,389 | \$ 7,584 |
| Schedule of noncash investing and financing activities: | | |
| Property and equipment financed through a capital lease | \$ - | \$ 13,251 |

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

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

1. Organization and Nature of Activities

Organization

PolicyLink is a national research and action institute advancing economic and social equity by Lifting Up What Works®. PolicyLink frames policy issues and priorities; analyzes policy options from the perspective of low-income people and communities of color; lifts up what is working at the local level; and offers policy recommendations to disseminate and implement local equity innovations. The ultimate goal of the equity frame and corresponding policy agenda is to build an equitable society in which all have the opportunity to participate and prosper. PolicyLink receives funding from other charitable organizations and foundations.

PolicyLink, founded in 1999, is a California nonprofit public benefit corporation.

Nature of Activities

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

Center for Health Equity and Place (“CHEP”) – is driven by the recognition that a neighborhood’s environment—its access to healthy food and opportunities for safe physical activity, the availability of jobs, public transit, and quality affordable housing—all affect our health. The CHEP equips advocates with the tools necessary to push for real change by providing technical assistance, strategies for shaping policy, communications training, and other resources. The *General Convergence*, the *Food Portal*, *Building and Sustaining Healthy Communities*, *Healthy Food Financing*, and *Health Equity Fellowship for Systems Change Leaders* are a few significant projects carried out under this program.

Center for Infrastructure Equity (“CIE”) – advocates for fair and inclusive policies and provides community and grassroots leaders, advocates, and public officials with the tools, training, and consultation needed to ensure that public investments in infrastructure create economic opportunity and health in all communities. The main projects carried out under this program include *Affirmatively Furthering Fair Housing Tools*, *Federal Transportation Equity Initiative*, *Community Development Investment Initiative*, and *Arts, Culture, and Equitable Development Initiative*.

Cradle to Career (“CC”) – this program provides guidance and support to grant-recipients of the federal Promise Neighborhood program as well as communities interested in creating Promise Neighborhoods even without federal funding. A Promise Neighborhood is a community of opportunity, centered around strong schools, that allows children to learn, grow, and succeed by wrapping children in high-quality, coordinated health, social, community, and educational programs from the cradle to college to career. The Center also works on a wide range of Boys and Men of Color initiatives to remove barriers that inhibit boys and men of color from achieving their full potential and the development of new positive efforts that will support their healthy development.

Equitable Economy (“EE”) – this program is inclusive of *All-in-Cities*, *National Equity Atlas*, *Equity is the Superior Growth Model* 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. The EE programs are designed to demonstrate the ways in which changing demographics in the US are the basis for enhancing the national economy if certain policies and programs are in place to support and expand the growth of equity in the future.

Continued

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

1. Organization and Nature of Activities, continued

Nature of Activities, continued

Other Programs – include efforts to bring more leaders of color into the policymaking process and uses arts and culture as means to inform, mobilize, and build communities. Activities *Race, Equity, and Inclusion Trainings*, other *Speaking Engagements and Training*, and *Communication* are the main ongoing projects that make up other programs. Also included in other programs for 2015 are the costs associated with the *Equity Summit 2015: All in for Inclusion, Justice, and Prosperity*. The Equity Summit or conferences are not a yearly occurrence.

General and Administrative – includes the functions necessary to support the programs; ensure an adequate working environment; provide coordination of organizational strategy for PolicyLink; secure proper administrative functioning of the management and 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

The financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

Net Assets

PolicyLink classifies its activities and net assets into three categories of unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions or otherwise limited by contractual arrangements with outside parties, but may be designated for specific purposes by action of the Board of Directors. Additionally, this includes net assets that are subject to donor-imposed restrictions and have been fulfilled by actions of PolicyLink pursuant to donor restrictions within the same fiscal year.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that can be fulfilled either by actions of PolicyLink pursuant to donor restrictions or by the passage of time.

Permanently Restricted Net Assets – Net assets that are subject to donor-imposed restrictions that PolicyLink must maintain. Generally, the donors of these assets permit PolicyLink to use all or part of the income earned on related investments for general or specific purposes.

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

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

At December 31, 2016 and 2015, PolicyLink had \$9,162,323 and \$3,550,000 of restricted cash, respectively. These funds are restricted for the Reserve and Growth Capital Fund (Note 6).

Grants Receivable

Grants or contributions receivable that are expected to be collected within one year are recorded at net realizable value, which approximates fair value. Conditional grants or contributions are not included as support until the conditions are substantially met. There were no conditional grants receivable as of December 31, 2016. Management has determined that all grants receivable are collectible and are due within a year.

Contracts Receivable

Contracts receivable consist of amounts due from entities under fee for service agreements. At December 31, 2016, management believes these amounts are collectible; therefore, no allowance for doubtful accounts has been provided.

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. Receivables are written off when determined to be uncollectible. Payments subsequently received on such receivables are credited to the allowance for doubtful accounts. During the year ended December 31, 2016, PolicyLink had no allowance for doubtful accounts or uncollectible amounts.

Property and Equipment

PolicyLink capitalizes all property and equipment acquisitions in excess of \$1,000, in aggregate. Property and equipment purchased is recorded at cost. Contributed assets are stated at fair value at the date of donation. Maintenance and repairs are charged to expense as incurred. Expenditures that increase the value or productive capacity of assets are capitalized. When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related depreciation are removed from the accounts and any gain or loss is included in operations. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. Depreciation is provided 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 |

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

2. Summary of Significant Accounting Policies, continued

Reserves and Growth Capital Fund

The Reserve and Growth Fund is being established by PolicyLink to strengthen its ability to support strategies and policies that will lift those at the bottom of the income distribution, grow the middle class, provide upward mobility for all, and build communities of opportunities. The purpose of the Reserves Fund and Growth Fund is to ensure the stability of the mission, programs, employment, and ongoing operations of PolicyLink and to provide a source of internal funds for organizational priorities such as financial sustainability, program research and development, and capacity building. The Reserve Fund is a designated fund to provide an internal source of funds for situations such as a sudden increase in expenses, one time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. The Reserve Fund assets used should be replenished within in a reasonably short period of time. The Reserve Fund is deemed Board-Designated Reserve Fund and will be maintained in a separate bank account or investment fund in accordance with the investment policy. The Board of Directors may from time to time direct that a specific source of revenue be set aside for operating reserves to the Reserve Fund. Certain members of management have the authority to identify the need to access the reserve funds and confirm the use is consistent with the purpose of the reserves fund policy. Board approval, through both Board Co-Chairs is required for the use of the Reserve Funds for any amount over \$300,000. All uses of the Reserve Fund assets will be reported to the Board of Directors, along with the plans for replenishment to restore the Reserve Fund within 12 months. The Growth Fund is intended for organization capacity such as staff development, new program research and development, or investment in infrastructure. The Growth Fund will be used under the sole discretion of the Chief Executive Officer who will report to the Board of Directors the use and impact of the Growth Fund. The Growth Fund is expected to be spent over at least the next five years.

Endowment

The State of California enacted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) effective January 1, 2009. The Board of Directors are currently reviewing and adopting policies regarding the interpretation of UPMIFA, a spending policy, and formalizing the investment policy. The primary objective of the investment of the Reserve Fund is to preserve capital. The secondary objective of all funds is to maximize yields consistent with an acceptable level of risks and within the constraints of the primary objectives. The Reserve Fund is intended to operate in perpetuity.

Revenue Recognition

Grants and Contributions

Grants and contributions, including certain government grants, are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the donor-imposed restrictions are met in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

2. Summary of Significant Accounting Policies, continued

Revenue Recognition, continued

Contract Revenue

Contract revenues, including certain government contracts, are earned when PolicyLink renders specific services and completes certain deliverables, pursuant to a reciprocal agreement entered into with a third party. Contract revenues are recognized as unrestricted net assets when the contracted services have been performed.

Certain contracts provide for an initial payment to be made to PolicyLink in advance, so as to provide funding to complete the objectives of the contract. Such advances are accounted for as a deferred revenue liability until the related services have been rendered, at which point the liability is recognized as contract 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) 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

Expenses such as salaries and benefits, travel, fees for services, occupancy costs, and depreciation are allocated among program services, general and administrative, and fund-raising classifications on the basis of time estimates, head counts, and other criteria determined by PolicyLink’s management.

Measure of Operations

PolicyLink includes in its measure of operations all revenue and expenses that are an integral part of its programs and supporting activities. The measure of operations does not include proceeds from the fundraising for the board designated Reserve and Growth Fund.

Fair Value Measurements

Fair value is defined as 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 and minimizes the use of unobservable inputs when measuring fair value.

Level 1 – quoted prices in active markets for identical investments.

Level 2 – other significant observable inputs (including quoted prices for similar instruments, interest rates, prepayment speeds, credit risk, etc.).

Level 3 – significant unobservable inputs (including assumptions made by PolicyLink in determining fair value instruments).

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

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

PolicyLink held \$88,764 of money market funds included in the cash and cash equivalents as of December 31, 2016, which are considered to be Level 1 assets. PolicyLink does not have any Level 2 or Level 3 assets or liabilities.

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.

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, 2015, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the December 31, 2015 financial statement presentation to conform to the December 31, 2016 presentation.

Recent Accounting Pronouncements

In May 2014, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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, 2016

2. Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

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.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash* (230). The amendment address diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment requires that a statement of cash flow explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendment are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted and the amendment should be applied using a retrospective transition method to each period presented. PolicyLink has early adopted this ASU and accordingly have reclassified restricted cash and restricted cash equivalents to be included with cash and equivalents on the statement of cash flows for 2015.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (958). This statement includes updates that improve the usefulness of financial statements or reduce complexities for preparers. Some of the updates include requiring all nonprofits to present expenses by function and nature; replacing traditional three classes of net assets with only two classes (those with donor-imposed restrictions and those without); reaffirmation of existing methods of presenting operating cash flows. The ASU is effective for annual reporting periods beginning after December 15, 2017, with early adoption permitted. PolicyLink is currently evaluating the impact of adoption on its financial statements.

3. Property and Equipment

Property and equipment consisted of the following as of December 31, 2016:

| | |
|--|-------------|
| Furniture and equipment | \$ 665,597 |
| Leasehold improvements | 646,251 |
| | <hr/> |
| | 1,311,848 |
| Less accumulated depreciation and amortization | (1,004,715) |
| | <hr/> |
| Net property and equipment | \$ 307,133 |

For the year ended December 31, 2016, PolicyLink recorded \$121,377 of depreciation and amortization expense.

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POLICYLINK
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

4. Line of Credit

PolicyLink has a \$1,000,000 revolving line of credit (the “Line”) expiring in April 2017. During the year ended December 31, 2016, PolicyLink did not borrow any funds against the Line and the outstanding balance at December 31, 2016 was zero. Interest on the Line is based on the prime rate as published in the Wall Street Journal, (3.75% at December 31, 2016) plus 1.75% (currently 5.50%). The line is collateralized by all property and equipment, and receivables of PolicyLink. PolicyLink was in compliance with all financial covenants as of December 31, 2016. Subsequent to year end as the line matured on April 21, 2017, PolicyLink elected not to renew the Line now that it has a reserve fund (Note 6).

5. Other Accrued Liabilities

Other accrued liabilities consisted of the following at December 31, 2016:

| | |
|---|--------------------------|
| Payroll, payroll related expenses, and vacation | \$ 375,785 |
| Capital lease obligations | 15,748 |
| Program expenses | <u>15,500</u> |
| | <u><u>\$ 407,033</u></u> |

6. Board Designated - Reserves and Growth Fund

Throughout the year, the Board of Directors and management of PolicyLink worked on its campaign for a Reserves and Growth Fund. During fiscal year 2016, PolicyLink received \$6,140,000 in funding. PolicyLink spent \$527,677 of the growth funds during the year ended December 31, 2016. Management also released \$550,000 which was reported in temporarily restricted net assets at December 31, 2015 while the Board and Management formalized plans and the policy regarding the Reserve and Growth Fund. The balance of these funds was \$9,162,323 as of December 31, 2016 and is held as restricted cash until PolicyLink formalizes and executes its investment strategy. The 2015 funding consists of \$3,000,000, which is permanently restricted.

Subsequent to year end, PolicyLink secured an additional \$4,800,000 in commitments toward the Reserves and Growth Fund.

7. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31, 2016:

| | |
|-------------------------------------|----------------------------|
| Center for Health, Equity and Place | \$ 947,658 |
| Center for Infrastructure Equity | 1,111,681 |
| Cradle to Career | 744,811 |
| Equitable Economy | 1,942,937 |
| Other Programs | <u>90,278</u> |
| Total | <u><u>\$ 4,837,365</u></u> |

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POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

7. Temporarily Restricted Net Assets, continued

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the purposes specified by donors as follows for the year ended December 31, 2016:

| | | |
|-------------------------------------|----|-----------|
| Center for Health, Equity and Place | \$ | 980,957 |
| Equitable Economy | | 874,012 |
| Center for Infrastructure Equity | | 100,834 |
| Cradle to Career | | 786,111 |
| | | 786,111 |
| Total | \$ | 2,741,914 |

In addition \$550,000 of temporarily restricted net assets were released from restrictions as the funding related to the Growth and Reserve fund which management and the donors determined was board designated fund and therefore the restrictions were removed (Note 6).

8. Reserves Fund Endowment

The balances of the Reserves Fund related to board-designated and permanently restricted gifts (corpus and any donor specified earnings), and any related temporarily restricted (earnings) and unrestricted (underwater) balances as of December 31, 2016 are summarized as follows:

| 2016 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Reserves and Growth Fund Restriction |
|---------------------------------|--------------|---------------------------|---------------------------|---|
| Donor-restricted endowment | \$ - | \$ - | \$ 3,000,000 | \$ 3,000,000 |
| Board-designated reserves funds | 2,350,000 | - | - | 2,350,000 |
| | \$ 2,350,000 | \$ - | \$ 3,000,000 | \$ 5,350,000 |

Changes in reserve and growth capital fund for the fiscal year ended December 31, 2016 are summarized as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Reserves and Growth Fund Restriction |
|----------------------------------|--------------|---------------------------|---------------------------|---|
| Reserves fund, December 31, 2015 | \$ - | \$ 350,000 | \$ 3,000,000 | \$ 3,350,000 |
| Contributions | 2,000,000 | - | - | 2,000,000 |
| Release of restriction | 350,000 | (350,000) | - | - |
| Reserves fund, December 31, 2016 | \$ 2,350,000 | \$ - | \$ 3,000,000 | \$ 5,350,000 |

The amount classified as permanently restricted represents the amount of the Reserves Fund that must be retained permanently at least for the duration of the grant period in accordance with explicit donor stipulations.

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POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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 will match the eligible participant's contributions up to 2% of his/her compensation. Retirement plan expense for the year ended December 31, 2016 amounted to \$328,989.

10. Concentrations of Credit Risk

Cash and Cash Equivalents

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

Significant Sources of Funding

Contracts

At December 31, 2016, one foundation represented 51% of total contracts receivable. For 2016, one foundation represented 46% of the total government grants and contracts and contracts revenue.

Grants and Contributions

Three foundations represented 81% of the grants receivable at December 31, 2016 and two foundations represented 36% of total grants and contributions revenue for 2016.

11. Commitments and Contingencies

Lease Commitments

PolicyLink leases office space in California, Washington, D.C., and New York under operating leases with various terms through 2020. 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, 2016 consist of the following:

| | Minimum Lease Payments | Deferred Rent | Total Rent Expense |
|--------------------------|------------------------------|---------------------|--------------------------|
| Year ending December 31: | | | |
| 2017 | \$ 468,773 | \$ (144,797) | \$ 323,976 |
| 2018 | 396,063 | (89,832) | 306,231 |
| 2019 | 396,063 | (34,609) | 361,454 |
| 2020 | 254,415 | - | 254,415 |
| | <u>\$ 1,515,314</u> | <u>\$ (269,238)</u> | <u>\$ 1,246,076</u> |

Rent expense under operating leases for the year ended December 31, 2016 amounted to \$627,230.

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POLICYLINK
NOTES TO FINANCIAL STATEMENTS

December 31, 2016

12. Related Party Transactions

During 2016, PolicyLink incurred expenses of \$130,000 payable to the Program for Environmental and Regional Equity (“PERE”), which is part of the University of Southern California. Also in 2016, PolicyLink earned revenue of \$235,863 from PERE for projects which PolicyLink provided program services. The Director of PERE is also a member of the Board of Directors of PolicyLink.

During 2016, two PolicyLink board members were selected to serve on an eighteen month health equity ambassador panel that met multiple times throughout the year. Each board member received stipend payments for their roles of \$2,500 a piece for services performed during 2016.

PolicyLink Equity Action Network (the “Network”) was formed as a 501(c)(4) for the purposes of developing and advocating for government decisions that advance economic and social equity. The Network has similar board members as PolicyLink and PolicyLink staff are reimbursed for services provided to the Network. At December 31, 2016, PolicyLink had a \$31,985 net receivable from the Network related to organization set up and legal fees.

13. Subsequent Events

Subsequent to year end, PolicyLink entered into two new lease agreements for office locations in Washington, D.C. and New York. The Washington, D.C. location is a twelve month sub-lease beginning in April 2017 and ending in April 2018. The sublease includes monthly base rent of \$1,150 through September and escalates to \$2,300 per month for the remainder of the lease. The New York lease has a seven year, four month term beginning in March 2017 with monthly base rent of \$15,433 per month and annual rent escalations each year after for the term of the lease.

PolicyLink evaluated subsequent events for recognition and disclosure through September 11, 2017, the date which these financial statements were available to be issued. With the exception of the maturing of the line of credit in Note 4, the additional f committed for the Reserve and Growth Fund in Note 6, and those noted above, management concluded that no material subsequent events have occurred since December 31, 2016 that required recognition or disclosure in such financial statements.