

POLICYLINK

FINANCIAL STATEMENTS

December 31, 2015

(with summarized financial information for 2014)



POLICYLINK

C O N T E N T S

	Page
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	6–15

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, 2015, 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, 2015, 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



San Francisco, California
August 17, 2016

POLICYLINK

STATEMENT OF FINANCIAL POSITION

December 31, 2015

(with summarized financial information as of December 31, 2014)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and cash equivalents	\$ 630,180	\$ 1,383,160
Cash - restricted for Reserve and Growth Capital Fund	3,550,000	-
Grants receivable	2,181,303	2,436,959
Contracts receivable	1,420,008	1,022,253
Related party receivable	53,706	9,394
Prepaid expenses	244,933	291,157
Deposits and other assets	72,438	69,805
Property and equipment, net	390,922	130,737
	<u>\$ 8,543,490</u>	<u>\$ 5,343,465</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 358,102	\$ 687,239
Deferred rent	322,561	50,218
Other accrued liabilities	538,248	537,492
	<u>1,218,911</u>	<u>1,274,949</u>
Net assets:		
Unrestricted net assets	94,313	80,981
Temporarily restricted net assets	4,230,266	3,987,535
Permanently restricted net assets	3,000,000	-
	<u>7,324,579</u>	<u>4,068,516</u>
Total liabilities and net assets	<u>\$ 8,543,490</u>	<u>\$ 5,343,465</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, 2015
(with summarized financial information for the year ended December 31, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
Support and revenues:					
Grants and contributions	\$ 7,215,665	\$ 4,176,932	\$ 3,000,000	\$ 14,392,597	\$ 6,631,934
Contracts	2,162,424	-	-	2,162,424	1,917,660
Government grants and contracts	138,005	-	-	138,005	453,510
Conference contributions	671,534	-	-	671,534	-
Earned income, honoraria, and other	35,227	-	-	35,227	40,863
Net assets released from restrictions	3,934,201	(3,934,201)	-	-	-
	14,157,056	242,731	3,000,000	17,399,787	9,043,967
Expenses:					
Program services:					
Center for Healthy Equity and Place	3,004,180	-	-	3,004,180	2,935,181
Center for Infrastructure Equity	1,660,936	-	-	1,660,936	1,857,660
Cradle to Career	2,830,049	-	-	2,830,049	3,691,835
Equitable Economy	2,056,116	-	-	2,056,116	2,639,364
Other programs	3,322,032	-	-	3,322,032	594,343
	12,873,313	-	-	12,873,313	11,718,383
Total program services expense					
General and administrative	703,134	-	-	703,134	721,979
Fundraising	567,277	-	-	567,277	523,844
	14,143,724	-	-	14,143,724	12,964,206
Total expenses					
Change in net assets	13,332	242,731	3,000,000	3,256,063	(3,920,239)
Net assets, beginning of year	80,981	3,987,535	-	4,068,516	7,988,755
Net assets, end of year	\$ 94,313	\$ 4,230,266	\$ 3,000,000	\$ 7,324,579	\$ 4,068,516

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

POLICYLINK

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2015
(with summarized financial information for the year ended December 31, 2014)

	Program Services					Support Services				2015 Total	2014 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	\$ 1,975,018	\$ 902,928	\$ 1,493,461	\$ 1,480,990	\$ 1,091,245	\$ 6,943,642	\$ 509,021	\$ 486,015	\$ 995,036	\$ 7,938,678	\$ 7,790,270
Consulting services	552,264	505,949	581,570	292,676	409,572	2,342,031	659	2,062	2,721	2,344,752	2,588,661
Travel	136,255	81,824	196,183	74,781	615,702	1,104,745	18,000	6,342	24,342	1,129,087	699,983
Conferences, conventions, and meetings	58,025	13,153	38,463	9,161	829,907	948,709	203	339	542	949,251	203,139
Occupancy	158,183	86,253	146,966	106,775	163,709	661,886	36,033	29,071	65,104	726,990	675,148
Software and computer supplies	17,865	10,041	276,298	11,678	60,042	375,924	4,239	3,077	7,316	383,240	423,662
Telephone	30,810	18,185	29,807	19,368	31,965	130,135	6,221	5,120	11,341	141,476	176,899
Temporary agencies and casual labor	26,240	11,012	18,763	13,632	22,024	91,671	531	27,012	27,543	119,214	49,630
Printing and publications	18,575	6,981	17,929	21,772	32,998	98,255	1,630	1,470	3,100	101,355	73,338
Professional fees	1,301	7,285	-	-	-	8,586	95,684	-	95,684	104,270	91,066
Depreciation	12,251	6,773	11,541	8,385	22,352	61,302	3,348	2,701	6,049	67,351	76,505
Supplies	5,687	3,573	7,710	8,903	11,128	37,001	1,897	1,231	3,128	40,129	36,833
Equipment rental and maintenance	4,195	2,319	3,953	2,871	4,640	17,978	8,365	792	9,157	27,135	23,093
Interest	-	-	-	-	16,667	16,667	7,945	-	7,945	24,612	6,747
Insurance	2,420	1,338	2,279	1,656	2,675	10,368	6,327	457	6,784	17,152	9,320
Other	2,863	1,958	2,697	1,959	3,668	13,145	2,522	537	3,059	16,204	15,176
Postage and shipping	2,228	1,364	2,429	1,509	3,738	11,268	509	1,051	1,560	12,828	13,520
Advertising and promotion	-	-	-	-	-	-	-	-	-	-	11,216
Total expenses	\$ 3,004,180	\$ 1,660,936	\$ 2,830,049	\$ 2,056,116	\$ 3,322,032	\$ 12,873,313	\$ 703,134	\$ 567,277	\$ 1,270,411	\$ 14,143,724	\$ 12,964,206

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

POLICYLINK

STATEMENT OF CASH FLOWS

For the year ended December 31, 2015
(with summarized financial information for the year ended December 31, 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,256,063	\$ (3,920,239)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	67,351	76,505
Reserve and Growth Capital Fund contributions	(3,000,000)	-
Change in assets and liabilities		
Grants receivable	255,656	2,999,547
Contracts receivable	(397,755)	(380,590)
Related party receivable	(44,312)	-
Prepaid expenses	46,224	78,201
Deposits and other assets	(2,633)	(19,934)
Accounts payable	(329,137)	5,150
Deferred rent	272,343	-
Other accrued liabilities	573	78,649
Net cash provided by (used in) operating activities	<u>124,373</u>	<u>(1,082,711)</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(314,285)</u>	<u>(78,580)</u>
Net cash used in investing activities	<u>(314,285)</u>	<u>(78,580)</u>
Cash flows from financing activities:		
Receipts of Reserve and Growth Capital Fund gifts	3,000,000	-
Payments made on capital leases	<u>(13,068)</u>	<u>(17,797)</u>
Net cash provided by (used in) financing activities	<u>2,986,932</u>	<u>(17,797)</u>
Net increase (decrease) in cash and cash equivalents	2,797,020	(1,179,088)
Cash and cash equivalents, beginning of year	<u>1,383,160</u>	<u>2,562,248</u>
Cash and cash equivalents, end of year	<u>\$ 4,180,180</u>	<u>\$ 1,383,160</u>
Supplementary cash flow information:		
Cash paid during the year for interest	<u>\$ 7,584</u>	<u>\$ 6,747</u>
Schedule of noncash investing and financing activities:		
Property and equipment financed through a capital lease	<u>\$ 13,251</u>	<u>\$ 29,049</u>

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

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

1. Organization and Nature of Activities

Organization

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

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.

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*, and *Health Equity Policy Agenda and Convenings* 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*, *Community Equity Initiative*, the *Sustainable Communities Initiative*, and the *Federal Transportation Equity Initiative*.

Cradle to Career (“CC”) – previously labeled Promise Neighborhoods Institute at PolicyLink 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 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 (previously Asset Building) 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, 2015

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. The *Equity Through Arts, Culture, and Creative Placemaking Initiative* and *Communication* are the main ongoing projects that make up other programs. Also included in other programs are the revenue and costs associated with the Equity Summit 2015: *All in for Inclusion, Justice, and Prosperity* the Equity Summit, which is not a yearly event.

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, 2015

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, 2015, PolicyLink had \$3,550,000 of restricted cash. These funds are restricted for the Reserve and Growth Capital Fund (see Note 8).

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.

Contracts Receivable

Contracts receivable consist of amounts due from entities under fee for service agreements. At December 31, 2015, 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, 2015, 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, 2015

2. Summary of Significant Accounting Policies, continued

Reserves and Growth Capital Fund

In December 2015, the Board of Directors of PolicyLink started the silent phase of its campaign for a Reserves and Growth Capital Fund. During 2015, PolicyLink received \$3,550,000 in funding. These funds are currently classified in the restricted cash account until PolicyLink formalized and developed an investment policy. The balance consists of \$3,000,000, which is permanently restricted and \$550,000 that is temporarily restricted. The Reserve and Growth Capital 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 Reserve and Growth Capital Fund has a goal to campaign for funds raised to be split equally between a Reserve Fund and Growth Fund. PolicyLink launched the public phase of its campaign in April 2016 (see Note 13).

Subsequent to year end, PolicyLink formalized an investment policy. The primary objective of the investment of the Operating Reserve and the Reserve Fund is to preserve capital while the primary objective of the Growth Capital Fund is to preserve capital and ensure liquidity. 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 Growth Capital Fund is expected to spend down over 5 years and the Reserve Fund is intended to operate in perpetuity. PolicyLink is still working to establish the spending policy for both Funds.

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.

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 (see Note 6) until the related services have been rendered, at which point the liability is recognized as contract revenue.

Donated Services

Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS

December 31, 2015

2. Summary of Significant Accounting Policies, continued

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.

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).

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

PolicyLink held \$88,905 of money market funds included in the cash and cash equivalents as of December 31, 2015, which are considered to be Level 1 assets.

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.

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

2. Summary of Significant Accounting Policies, continued

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, 2014, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the December 31, 2014 financial statement presentation to conform to the December 31, 2015 presentation.

3. Grants Receivable

Management has determined that all grants receivable are collectible. The total amount of grants receivable were \$2,181,303 at December 31, 2015, and are due within a year.

4. Property and Equipment

Property and equipment consisted of the following as of December 31, 2015:

Furniture and equipment	\$ 632,840
Leasehold improvements	641,420
	<hr/>
	1,274,260
Less accumulated depreciation and amortization	(883,338)
	<hr/>
Net property and equipment	<u>\$ 390,922</u>

For the year ended December 31, 2015, PolicyLink recorded \$67,351 of depreciation and amortization expense.

5. Line of Credit

In May 2015, PolicyLink renewed its existing \$1,000,000 revolving line of credit (the "Line") expiring in April 2016. During the year ended December 31, 2015, PolicyLink did not borrow any funds against the Line and the outstanding balance at December 31, 2015 was zero. Interest on the Line is based on the prime rate as published in the Wall Street Journal, (3.25% at December 31, 2015) plus 1.75% (currently 5%). 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, 2015. Subsequent to year end the line of credit was extended with the same terms until April 24, 2017.

Continued

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

6. Other Accrued Liabilities

Other accrued liabilities consisted of the following at December 31, 2015:

Vacation	\$ 336,768
Consultants	93,121
Deferred revenue	51,500
Capital lease obligations	29,696
Payroll and related expenses	25,763
Program expenses	1,400
	<hr/>
	<u>\$ 538,248</u>

7. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31, 2015:

Center for Health, Equity and Place	\$ 1,337,999
Center for Infrastructure Equity	100,834
Cradle to Career	1,312,206
Equitable Economy	911,252
Growth and Reserve Fund	550,000
Other Programs	17,975
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Total	<u>\$ 4,230,266</u>

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, 2015:

Center for Health, Equity and Place	\$ 952,814
Center for Infrastructure Equity	789,738
Cradle to Career	772,299
Equitable Economy	452,088
Other Programs	467,262
General Support	500,000
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Total	<u>\$ 3,934,201</u>

Continued

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

8. Reserves and Growth Capital Fund – Permanently Restricted

The balances of the Reserves and Growth Capital Fund related to permanently restricted gifts (corpus and any donor specified earnings), and any related temporarily restricted (earnings) and unrestricted (underwater) balances as of December 31, 2015 are summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Reserves and Growth Fund Restriction
Donor-restricted funds	\$ -	\$ -	\$ 3,000,000	\$ 3,000,000
	\$ -	\$ -	\$ 3,000,000	\$ 3,000,000

Changes in reserve and growth capital fund for the fiscal year ended December 31, 2015 are summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Reserves and Growth Fund Restriction
Reserves and Growth Fund, December 31, 2014	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	3,000,000	3,000,000
Reserves and Growth Fund, December 31, 2015	\$ -	\$ -	\$ 3,000,000	\$ 3,000,000

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

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, 2015 amounted to \$322,101.

Continued

POLICYLINK
NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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, 2015, one foundation represented 53% of total contracts receivable. For 2015, one foundation represented 57% of the total government grants and contracts and contracts revenue.

Grants and Contributions

Three foundations represented 81% of the grants receivable at December 31, 2015 and two foundations represented 32% of total grants and contributions revenue for 2015.

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, 2015 consist of the following:

Year ending December 31:	
2016	\$ 556,693
2017	446,017
2018	398,506
2019	410,463
2020	<u>281,144</u>
Total minimum lease payments	<u><u>\$ 2,092,823</u></u>

Rent expense under operating leases for the year ended December 31, 2015 amounted to \$528,902.

12. Related Party Transactions

The President and CEO of the Harlem Children Zone is also a member of the Board of Directors of PolicyLink. PolicyLink paid \$200,000 to Harlem Children's Zone for work done in support of the Promise Neighborhoods Institute during 2014 and 2015.

Continued

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

12. Related Party Transactions, continued

During 2015, PolicyLink paid approximately \$150,000 to the Program for Environmental and Regional Equity (“PERE”), which is part of the University of Southern California. The amount was paid in 2015, but was for a majority of services performed in 2014. The Director of PERE is also a member of the Board of Directors of PolicyLink. PolicyLink has had a contract receivable at December 31, 2015 from PERE for \$50,000.

During 2015, a new nonprofit 501(c)(4) called PolicyLink Equity Action Network (the “Network”) was formed 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, 2015, PolicyLink had a \$53,706 receivable from the Network related to initial organization set up and legal fees.

13. Subsequent Events

PolicyLink evaluated subsequent events for recognition and disclosure through August 17, 2016, the date which these financial statements were available to be issued. Other than the extension of the line of credit in Note 5, and those noted below management concluded that no material subsequent events have occurred since December 31, 2015 that required recognition or disclosure in such financial statements.

In April 2016, PolicyLink launched the public phase of their Reserves and Growth Capital Fund Campaign. The purpose of the Reserve Fund is to help the organization weather funding fluctuation, provide bridge funding when awaiting grant and contract payment, generate income to cover operating costs, allow PolicyLink leadership to focus on delivery the mission of the organization. The Growth will help increase the capacity of PolicyLink to respond to opportunities and invest in high potential initiatives. As of July 31, 2016, PolicyLink has raised a total of \$10.55 million toward the Reserve and Growth Capital Fund Campaign.

Subsequent to year end, PolicyLink formalized and adopted a new investment policy related to the campaign for the Growth Capital and Reserve Fund described above.