

PolicyLink
and
PolicyLink
Equity Action Network

Consolidated Financial Statements

December 31, 2019
(With Comparative Totals for 2018)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
PolicyLink and PolicyLink Equity Action Network
Oakland, California

We have audited the accompanying consolidated financial statements of PolicyLink and PolicyLink Equity Action Network (a California nonprofit corporation) (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of PolicyLink and PolicyLink Equity Action Network as of December 31, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 12 to the financial statements, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic on March 11, 2020 and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

The consolidated financial statements of PolicyLink and PolicyLink Equity Action Network as of December 31, 2018, were audited by other auditors whose report dated October 14, 2019, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Francisco, California

October 21, 2020

PolicyLink and PolicyLink Equity Action Network
Consolidated Statement of Financial Position
December 31, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 5,843,756	\$ 7,194,690
Cash - Board designated	9,903,369	6,000,000
Contributions and grants receivable	5,550,607	5,970,916
Accounts receivable	862,484	1,091,545
Accrued interest and dividends	10,201	-
Due from related parties	-	73,492
Prepaid expenses	149,826	185,159
Other assets	20,767	53,946
Property and equipment, net	141,095	206,904
Total assets	\$ 22,482,105	\$ 20,776,652
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 399,028	\$ 537,381
Deferred rent	142,806	217,741
Deferred revenue	265,991	170,477
Other accrued expenses	798,455	418,189
Total liabilities	1,606,280	1,343,788
Net assets		
Without donor restrictions		
Undesignated	163,234	155,742
Board designated	10,703,369	12,016,369
Total without donor restrictions	10,866,603	12,172,111
With donor restrictions	10,009,222	7,260,753
Total net assets	20,875,825	19,432,864
Total liabilities and net assets	\$ 22,482,105	\$ 20,776,652

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

PolicyLink and PolicyLink Equity Action Network
Consolidated Statement of Activities
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Support and revenues				
Grants and contributions	\$ 20,201	\$ 12,872,450	\$ 12,892,651	\$ 10,219,323
Program service fees	2,151,760	-	2,151,760	2,464,665
Government grants and contracts	57,000	-	57,000	237,943
Conference contributions	-	-	-	1,055,041
Earned income, honoraria, and other	146,432	-	146,432	85,018
Net assets released from restrictions	<u>10,123,981</u>	<u>(10,123,981)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>12,499,374</u>	<u>2,748,469</u>	<u>15,247,843</u>	<u>14,061,990</u>
Functional expenses				
Program services				
Healthy Communities of Opportunity	3,980,492	-	3,980,492	3,542,303
Just Society	2,420,850	-	2,420,850	2,176,905
Equitable Economy	4,063,696	-	4,063,696	3,867,901
Other programs	<u>1,867,582</u>	<u>-</u>	<u>1,867,582</u>	<u>4,105,065</u>
Total program services	<u>12,332,620</u>	<u>-</u>	<u>12,332,620</u>	<u>13,692,174</u>
Support services				
Management and general	1,024,499	-	1,024,499	1,022,155
Fundraising	<u>447,763</u>	<u>-</u>	<u>447,763</u>	<u>355,706</u>
Total support services	<u>1,472,262</u>	<u>-</u>	<u>1,472,262</u>	<u>1,377,861</u>
Total functional expenses	<u>13,804,882</u>	<u>-</u>	<u>13,804,882</u>	<u>15,070,035</u>
Change in net assets	(1,305,508)	2,748,469	1,442,961	(1,008,045)
Net assets, beginning of year	<u>12,172,111</u>	<u>7,260,753</u>	<u>19,432,864</u>	<u>20,440,909</u>
Net assets, end of year	<u>\$ 10,866,603</u>	<u>\$ 10,009,222</u>	<u>\$ 20,875,825</u>	<u>\$ 19,432,864</u>

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

PolicyLink and PolicyLink Equity Action Network
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	Healthy Communities of Opportunity	Just Society	Equitable Economy	Other Programs	Management and General	Fundraising	2019 Total	2018 Total
Personnel expenses								
Salaries and wages	\$ 2,065,194	\$ 1,000,864	\$ 1,974,713	\$ 419,771	\$ 452,162	\$ 263,786	\$ 6,176,490	\$ 6,254,594
Retirement contributions	108,783	47,101	108,300	23,033	23,794	12,906	323,917	323,041
Other employee benefits	312,772	124,330	290,452	81,993	104,985	32,486	947,018	1,003,827
Payroll taxes	155,664	75,170	145,122	29,094	35,586	17,258	457,894	461,657
Grants and assistance to others	34,978	259,220	15,000	30,500	-	-	339,698	57,646
Professional services	349,152	449,949	985,200	873,241	226,394	46,454	2,930,390	2,484,666
Travel, meals, conferences, and meetings	602,335	230,059	194,166	240,770	32,893	37,271	1,337,494	3,076,394
Occupancy	215,359	130,977	219,861	102,275	54,810	24,258	747,540	721,757
Information technology	41,145	30,939	42,323	20,103	17,496	5,049	157,055	166,244
Depreciation	34,275	20,846	34,992	16,081	8,610	3,856	118,660	123,078
Office expenses	25,337	27,110	17,210	13,959	7,553	1,463	92,632	48,587
Telephone	19,952	12,129	20,379	9,397	3,347	1,304	66,508	78,767
Temporary labor	5,893	3,584	6,016	2,765	15,843	602	34,703	67,122
Insurance	4,657	2,832	4,754	2,185	7,152	524	22,104	21,531
Equipment rental and maintenance	4,651	2,846	4,748	2,182	5,672	523	20,622	19,948
Advertising and promotion	345	2,894	460	207	3,602	23	7,531	8,247
Interest	-	-	-	26	6,700	-	6,726	28,757
Miscellaneous	-	-	-	-	17,900	-	17,900	124,172
	<u>\$ 3,980,492</u>	<u>\$ 2,420,850</u>	<u>\$ 4,063,696</u>	<u>\$ 1,867,582</u>	<u>\$ 1,024,499</u>	<u>\$ 447,763</u>	<u>\$ 13,804,882</u>	<u>\$ 15,070,035</u>

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

PolicyLink and PolicyLink Equity Action Network
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 1,442,961	\$ (1,008,045)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	118,660	123,078
Changes in operating assets and liabilities		
Contributions and grants receivable	420,309	1,927,303
Accounts receivable	229,061	(21,356)
Accrued interest and dividends	(10,201)	-
Prepaid expenses	35,333	266,312
Other current assets	33,179	15,475
Accounts payable	(138,353)	304,627
Deferred rent	(74,935)	(42,492)
Deferred revenue	95,514	(291,479)
Other accrued expenses	453,758	(42,812)
Net cash provided by operating activities	<u>2,605,286</u>	<u>1,230,611</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(52,851)</u>	<u>(38,559)</u>
Net cash used in investing activities	<u>(52,851)</u>	<u>(38,559)</u>
Cash flows from financing activities		
Payments made on capital leases	<u>-</u>	<u>(12,263)</u>
Net cash provided by (used in) financing activities	<u>-</u>	<u>(12,263)</u>
Net increase in cash, cash equivalents and designated cash	2,552,435	1,179,789
Cash, cash equivalents and designated cash, beginning of year	<u>13,194,690</u>	<u>12,014,901</u>
Cash, cash equivalents and designated cash, end of year	<u>\$ 15,747,125</u>	<u>\$ 13,194,690</u>

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

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2019

1. NATURE OF OPERATIONS

Organization

PolicyLink, founded in 1999, is a California nonprofit public benefit corporation organized under Section 501(c)(3) of the Internal Revenue Code. PolicyLink 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 Equity Action Network (the "Network"), founded in 2015, is a California nonprofit public benefit corporation organized under section 501(c)(4) of the Internal Revenue Code. The Network was formed to advance racial equity and social justice initiatives at local, state, and federal levels of government.

Nature of Activities

PolicyLink'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.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2019

1. NATURE OF OPERATIONS (continued)

Nature of Activities (continued)

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, PolicyLink 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 Safety and Justice, Fines and Fees, and Public Safety Metrics.

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. PolicyLink'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.

Management and General - 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.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The accompanying consolidated financial statements include the accounts of PolicyLink and PolicyLink Equity Action Network (collectively, the "Organization"). All intercompany balances and transactions have been eliminated in consolidation.

Basis of accounting and financial statement presentation

The accompanying consolidated financial statement have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* - represent resources which have not been specifically restricted by a donor. Net assets without donor restrictions may be designated for specific purposes by the Organization, such as Board-designated net assets, or may be limited by contractual agreements with outside parties.
- *Net assets with donor restrictions* - represent contributions whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations and those net assets to be held in perpetuity.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with original maturities of six months or less, donor restricted receipts and amounts designated for long-term purposes. The Organization maintains its cash in bank deposit accounts which, at time, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

As of December 31, 2019, PolicyLink had \$9,903,369 of cash designated by the Board of Directors for the Reserve Fund and Growth Fund.

Investments

Short-term investments and marketable securities include money market accounts, certificates of deposit, and investment grade government and corporate bonds. Investments received by donation are recorded at fair value at the date of donation.

Investment securities are exposed to various risks such as changes in interest rates or credit and market fluctuations. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. The Organization has characterized the fair value of its assets, based on the priority of the inputs used to value the assets, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the asset.

Assets recorded in the statement of financial position are categorized based on the inputs to valuation techniques as follows:

- *Level 1* - Values are based on unadjusted quoted prices for identical assets in an active market that the Organization has the ability to assess.
- *Level 2* - Values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investment.
- *Level 3* - Values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the assumptions of management about assumptions market participants would use in pricing the investments.

Accounts 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, 2019 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.

Property and equipment

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	5 - 8 years
Furniture and fixtures	3 - 7 years

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Program service revenue

The Organization 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. 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.

Grants and contributions

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. The Organization had no conditional grants as of December 31, 2019. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after fiscal year-end are recorded at the present value of their estimated future cash flows. The discount on these amounts is computed using risk adjusted market interest rates applicable to the years in which the promises are expected to be received. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is established based upon management's judgment including such factors as prior collection history, aging statistics of contributions, and the nature of the receivable. At December 31, 2019, there was no allowance for uncollectible contributions as management considered all balances fully collectible.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenue within the net asset class without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment with donor stipulations are reported as revenue within the net asset class with donor restrictions; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Advertising costs

The Organization expenses advertising costs as incurred. Advertising costs for the year ended December 31, 2019 totaled \$7,532.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and 501(c)(4) and the California Revenue and Taxation Code Section 23701(d). The Organization has evaluated its current tax positions as of December 31, 2019 and is not aware of any significant uncertain tax positions for which a reserve would be necessary. The Organizations tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively after they are filed.

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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue and expenses during the period. Accordingly, actual results could differ from those estimates.

Functional classification of expenses

The Organization allocates all direct expense attributable to individual functions relating to program and supporting services. The Organization allocates expenses - 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.

Change in accounting principle

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("Topic 606"), which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Organization adopted ASU 2014-09 with a date of the initial application of January 1, 2019, using the modified retrospective method.

The adoption of ASU 2014-09 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The majority of the Organization's revenue arrangements consist of a single performance obligation to transfer promised services. Based on the Organization's evaluation of its contracts with customers, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenue as a result of the adoption of this standard.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

In June 2018, the FASB issued ASU 2018-08, Contributions Received and Contributions Made, which clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. The Organization adopted ASU 2018-08 with a date of the initial application of January 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on the Organization's financial position, result of operations, or cash flows. The Organization has evaluated contributions received and contributions made and has determined that there is no change as a result of the adoption of the standard.

Reclassifications

Certain amounts presented in the 2018 financial statement have been reclassified to conform to the current year presentation. Such reclassifications had no effect on total assets, liabilities, net assets, changes in net assets, or cash flows from the amount previously presented.

3. CONTRIBUTIONS AND GRANTS RECEIVABLE

Unconditional promises to give, which are not expected to be collected until after the year promised, are reflected in the accompanying financial statements as contributions and grants receivable and revenue in the appropriate net asset category:

Contributions and grants receivable consisted of the following:

Receivables due in less than one year	\$ 5,050,607
Receivables due in two to five years	<u>500,000</u>
	<u>\$ 5,550,607</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Office equipment	\$ 816,769
Leasehold improvements	<u>605,689</u>
	1,422,458
Accumulated depreciation	<u>(1,281,363)</u>
	<u>\$ 141,095</u>

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2019

5. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Equitable Economy	\$ 3,846,445
Healthy Communities of Opportunity	2,994,581
Just Society	2,272,748
Other programs	370,448
PolicyLink Equity Action Network	525,000
	\$ 10,009,222

Net assets with donor restrictions released from restriction during the year were as follows:

Equitable Economy	\$ 4,124,630
Healthy Communities of Opportunity	2,523,894
Just Society	2,101,543
Other Programs	1,298,914
PolicyLink Equity Action Network	75,000
	\$ 10,123,981

6. BOARD DESIGNATED - 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 the Organization 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.

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.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2019

6. BOARD DESIGNATED - RESERVE FUND AND GROWTH FUND (continued)

As of December 31, 2019, the balance of the Reserve Fund was \$6,600,000 and the balance of the Growth Fund was \$4,103,369, of which, \$400,000 is receivable from one funder in 2020 and \$400,000 is receivable from the same funder in 2021. The Organization has invested these funds in short-term Certificates of Deposit held at FDIC-insured financial institutions through a Certificate of Deposit Account Registry Service ("CDARS") in amounts such that the principal and interest are fully secured. The spending on these funds are included on the Consolidated Statement of Activities as Program and Supporting Services expense.

Activity in the Reserve Fund and Growth Fund consisted of the following:

	<u>Growth Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
Balance at January 1, 2019	\$ 5,416,369	\$ 6,600,000	\$ 12,016,369
Spending	<u>(1,313,000)</u>	<u>-</u>	<u>(1,313,000)</u>
Balance at December 31, 2019	<u>\$ 4,103,369</u>	<u>\$ 6,600,000</u>	<u>\$ 10,703,369</u>

7. COMMITMENTS AND CONTINGENCIES

PolicyLink has various operating lease agreements for equipment and office space for locations in California and New York. The leases require monthly payments ranging from approximately \$3,000 to \$57,000 and expiring at various dates through 2027.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending December 31,</u>				
2020			\$	704,294
2021				888,761
2022				918,215
2023				952,305
2024				979,760
Thereafter				<u>2,113,131</u>
			<u>\$</u>	<u>6,556,466</u>

8. LIQUIDITY AND FUNDS AVAILABLE

As part of the Organization's liquidity management, it structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To meet liquidity needs, the Organization has cash and cash equivalents available. Contributions receivable that are considered current will be collected from donors within one year.

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8. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following is a quantitative disclosure which describes assets that are available within one year of December 31, 2019 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash, cash equivalents and designated cash	\$ 15,747,125
Contributions and grants receivable	5,550,607
Accounts receivable	<u>862,484</u>
	<u>22,160,216</u>
Less amounts unavailable for general expenditures within one year, due to:	
Purpose restricted projects	(9,539,222)
Board designated for Reserve Fund	(6,600,000)
Board designated for Growth Fund	<u>(4,103,369)</u>
	<u>(20,242,591)</u>
	<u>\$ 1,917,625</u>

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 it need available capital.

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 \$323,917.

10. CONCENTRATIONS

The Organization receives a significant portion of its revenues from external donors. Accordingly, the Organization's financial condition is dependent to some extent on the economic state of the region and the philanthropic community in general.

Grants receivable due from three donors comprise approximately 49% of the total grants receivable as of December 31, 2019. Grants from one donor comprise approximately 23% of total grants from foundations, corporations, and individuals for the year ended December 31, 2019.

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11. RELATED PARTY TRANSACTIONS

During 2019, the Organization incurred expenses of \$160,000 payable to the Equity Research Institute ("ERI," formerly Program for Environmental and Regional Equity), which is part of the University of Southern California. The director of ERI is a former member of the board of directors of the Organization.

12. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 21, 2020, the date the financial statements were available to be issued.

In December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") began to spread among a number of countries including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., including California, where the Organization is headquartered, have declared a state of emergency.

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. While the economic disruption is currently expected to be temporary and markets typically recover, there is considerable uncertainty around the duration of the closings and shelter in place orders. In addition, impacts to the Organization's donor base may be affected in a variety of ways, potentially limiting the amount of contributions that might be received during this time and donors' ability to make grant or pledge payments. It is at least reasonably possible that this matter will negatively impact the Organization. However, the financial impact and duration cannot be reasonably estimated at this time, therefore, the Organization has not accrued for any potential losses that may occur in the future as a result.

In May 2020, the Organization received a grant without donor restrictions of \$18,000,000 from an anonymous donor.