

PolicyLink
and
PolicyLink
Equity Action Network

Consolidated Financial Statements

December 31, 2021
(With Comparative Totals for 2020)

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of PolicyLink and PolicyLink Equity Action Network (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2021, 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.

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, 2021, 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.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PolicyLink and PolicyLink Equity Action Network and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PolicyLink and PolicyLink Equity Action Network's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PolicyLink and PolicyLink Equity Action Network's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PolicyLink and PolicyLink Equity Action Network's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited PolicyLink and PolicyLink Equity Action Network's 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated September 29, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.



Armanino^{LLP}
San Francisco, California

September 30, 2022

PolicyLink and PolicyLink Equity Action Network
Consolidated Statement of Financial Position
December 31, 2021
(With Comparative Totals for 2020)

	2021	2020
ASSETS		
Cash and cash equivalents	\$ 6,049,599	\$ 23,938,755
Cash - board-designated	-	872,810
Investments	78,993,249	32,480,559
Contributions and grants receivable	27,138,444	9,780,000
Accounts receivable	133,757	155,543
Prepaid expenses	189,359	183,803
Other assets	7,392	15,281
Property and equipment, net	1,117,397	110,375
Total assets	\$ 113,629,197	\$ 67,537,126
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 1,685,452	\$ 493,734
Deferred rent	379,694	100,962
Deferred revenue	-	125,600
Other current liabilities	150,000	150,000
Other accrued expenses	7,460,040	1,416,058
Paycheck Protection Program loan	-	1,314,144
Total liabilities	9,675,186	3,600,498
Net assets		
Without donor restrictions		
Undesignated	15,453,827	3,586,258
Board-designated - CEO Fund	22,203,000	24,000,000
Board-designated - other funds	9,309,819	9,753,369
Total without donor restrictions	46,966,646	37,339,627
With donor restrictions	56,987,365	26,597,001
Total net assets	103,954,011	63,936,628
Total liabilities and net assets	\$ 113,629,197	\$ 67,537,126

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, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Support and revenues				
Grants and contributions	\$ 5,909,418	\$ 74,444,630	\$ 80,354,048	\$ 59,698,210
Program service fees	1,423,247	-	1,423,247	1,511,164
In-kind contributions	-	-	-	601,124
Investment income	246,155	-	246,155	93,072
Other revenue	1,416,840	-	1,416,840	76,582
Net assets released from restrictions	<u>44,054,266</u>	<u>(44,054,266)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>53,049,926</u>	<u>30,390,364</u>	<u>83,440,290</u>	<u>61,980,152</u>
Functional expenses				
Program services				
Healthy Communities of Opportunity	10,293,791	-	10,293,791	6,357,020
Just Society	3,987,821	-	3,987,821	3,473,131
Equitable Economy	5,858,129	-	5,858,129	3,028,278
Other programs	<u>18,893,382</u>	<u>-</u>	<u>18,893,382</u>	<u>3,309,564</u>
Total program services	<u>39,033,123</u>	<u>-</u>	<u>39,033,123</u>	<u>16,167,993</u>
Support services				
Management and general	3,283,264	-	3,283,264	2,238,131
Fundraising	<u>1,106,520</u>	<u>-</u>	<u>1,106,520</u>	<u>513,225</u>
Total support services	<u>4,389,784</u>	<u>-</u>	<u>4,389,784</u>	<u>2,751,356</u>
Total functional expenses	<u>43,422,907</u>	<u>-</u>	<u>43,422,907</u>	<u>18,919,349</u>
Change in net assets	9,627,019	30,390,364	40,017,383	43,060,803
Net assets, beginning of year	<u>37,339,627</u>	<u>26,597,001</u>	<u>63,936,628</u>	<u>20,875,825</u>
Net assets, end of year	<u>\$ 46,966,646</u>	<u>\$ 56,987,365</u>	<u>\$103,954,011</u>	<u>\$ 63,936,628</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, 2021
(With Comparative Totals for 2020)

	Healthy Communities of Opportunity	Just Society	Equitable Economy	Other Programs	Total Program Services	Management and General	Fundraising	2021 Total	2020 Total
Salaries and wages	\$ 2,667,085	\$ 1,571,677	\$ 1,973,285	\$ 2,845,511	\$ 9,057,558	\$ 1,654,446	\$ 704,647	\$ 11,416,651	\$ 8,923,255
Other employee benefits	329,457	194,145	243,754	351,498	1,118,854	204,369	87,043	1,410,266	931,090
Payroll taxes	188,564	111,118	139,512	201,181	640,375	116,970	49,819	807,164	606,741
Retirement contributions	108,263	63,798	80,100	115,505	367,666	67,157	28,603	463,426	411,971
Professional services	1,316,403	765,464	1,843,092	5,376,337	9,301,296	917,240	116,945	10,335,481	3,839,066
Grants and assistance to others	5,031,267	938,983	1,250,000	9,486,861	16,707,111	-	-	16,707,111	1,937,764
Occupancy	223,665	131,803	165,482	238,628	759,578	138,744	59,092	957,414	850,171
Information technology	124,912	73,609	92,418	133,268	424,207	77,486	33,002	534,695	427,046
Travel, meals, conferences, and meetings	237,496	97,932	21,153	73,454	430,035	10,793	9,752	450,580	397,994
Miscellaneous	-	-	-	-	-	48,198	-	48,198	253,910
Depreciation	5,701	3,359	4,218	6,082	19,360	3,536	1,506	24,402	97,420
Insurance	23,072	13,596	17,070	24,615	78,353	14,312	6,096	98,761	64,397
Equipment rental and maintenance	8,314	4,899	6,151	8,870	28,234	5,159	2,197	35,590	60,908
Office expenses	26,748	15,762	19,790	28,472	90,772	16,591	7,067	114,430	57,133
Telephone	1,360	801	1,006	1,517	4,684	843	359	5,886	48,351
Interest	-	-	-	-	-	6,499	-	6,499	8,281
Advertising and promotion	1,484	875	1,098	1,583	5,040	921	392	6,353	3,851
	<u>\$ 10,293,791</u>	<u>\$ 3,987,821</u>	<u>\$ 5,858,129</u>	<u>\$ 18,893,382</u>	<u>\$ 39,033,123</u>	<u>\$ 3,283,264</u>	<u>\$ 1,106,520</u>	<u>\$ 43,422,907</u>	<u>\$ 18,919,349</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, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 40,017,383	\$ 43,060,803
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	24,402	97,420
Loss on disposal of assets	29,761	-
Net realized and unrealized gains on investments	(12,834)	(92,160)
Forgiveness of Paycheck Protection Program loan	(1,314,144)	-
Changes in operating assets and liabilities		
Contributions and grants receivable	(17,358,444)	(4,229,393)
Accounts receivable	21,786	706,941
Accrued interest and dividends	-	10,201
Prepaid expenses	(5,556)	(33,977)
Other assets	7,889	5,486
Accounts payable	1,191,718	94,706
Deferred rent	278,732	(41,844)
Deferred revenue	(125,600)	(140,391)
Other accrued expenses	<u>6,043,982</u>	<u>767,603</u>
Net cash provided by operating activities	<u>28,799,075</u>	<u>40,205,395</u>
Cash flows from investing activities		
Purchases of property and equipment	(1,061,185)	(66,700)
Purchases of investments	(55,006,355)	(50,399,268)
Proceeds from sale of investments	<u>8,506,499</u>	<u>18,010,869</u>
Net cash used in investing activities	<u>(47,561,041)</u>	<u>(32,455,099)</u>
Cash flows from financing activities		
Proceeds from Paycheck Protection Program loan	<u>-</u>	<u>1,314,144</u>
Net cash provided by financing activities	<u>-</u>	<u>1,314,144</u>
Net increase (decrease) in cash, cash equivalents and designated cash	(18,761,966)	9,064,440
Cash, cash equivalents and designated cash, beginning of year	<u>24,811,565</u>	<u>15,747,125</u>
Cash, cash equivalents and designated cash, end of year	<u>\$ 6,049,599</u>	<u>\$ 24,811,565</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, 2021

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 individuals, 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 consolidated 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, 2021

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 People's Coalition for Safety and Freedom ; 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 promote 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. In 2020, PolicyLink expanded this program area to offer several fiscal sponsorships including: Black Ambition, Liberation in a Generation, and Liberation Ventures. Additional projects include the following: the Office of the Founder in Residence, Race Equity and Inclusion consultancies, and strategic communications initiatives.

Subsequent to year end, the Organization entered into agreements to end the fiscal sponsorship agreements with Black Ambition and Convergence Partnership (see Note 13).

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 (the "Board"), and manage the financial and budgetary responsibilities of PolicyLink.

Fundraising - Provides the structure necessary to encourage and secure financial support for the Organization.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2021

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 in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). 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 and grants 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. When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restriction.

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.

Investments

Short-term investments and marketable securities include money market accounts, mutual funds, exchange traded stocks and investment grade government bonds.

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 consolidated statement of financial position.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SAFE Agreements

The Organization, as fiscal sponsor for Black Ambition, invested in twenty-nine Simple Agreement for Future Equity ("SAFE") agreements with person-of-color led start-up organizations during 2021. The SAFE agreements provide the Organization with the right to receive equity in the investee entities upon certain triggering events. The events, as defined by the SAFE agreements include Equity Financing, Liquidity Event, Dissolution Event, and Termination. The investment amounts made during 2021 under SAFE agreements was \$1,260,000.

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 consolidated 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. The fair values of the SAFE investments are based upon the amounts invested at the date of the signed SAFE agreements.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2021 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

Program service fees revenue

The Organization recognizes program service fees 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 fee 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 fee revenue.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2021. Contributions of assets other than cash are recorded at their estimated fair value. Donor restricted contributions are reported as increases in net assets without donor restrictions if the restrictions have been met in the current year. If the restriction has not been met by year end, the amount is reported as an increase in net assets with donor restrictions. When the restriction is met, the amount is shown as a reclassification from net assets with donor restrictions to net assets without donor restrictions. 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, 2021, 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, 2021 totaled \$6,353.

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 Sections 501(c)(3) and 501(c)(4) and the California Revenue and Taxation Code Sections 23701(d) and 23701(f). The Organization has evaluated its current tax positions as of December 31, 2021 and is not aware of any significant uncertain tax positions for which a reserve would be necessary. The Organization's tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively after they are filed.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated 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.

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 consolidated 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	\$ 19,415,655
Receivables due in two to five years	<u>7,722,789</u>
	<u>\$ 27,138,444</u>

4. INVESTMENTS AND FAIR VALUE

Investments consisted of the following at December 31, 2021:

U.S. Treasury Bills	\$ 59,317,878
Money Market Funds	13,858,762
Mutual Funds	2,982,951
Exchange Traded Stocks	1,573,658
SAFE Agreements	<u>1,260,000</u>
	<u>\$ 78,993,249</u>

Investment income for the year ended December 31, 2021 amounted to \$245,155.

PolicyLink and PolicyLink Equity Action Network
Notes to Consolidated Financial Statements
December 31, 2021

4. INVESTMENTS AND FAIR VALUE (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
U.S. Treasury Bills	\$ -	\$ 59,317,878	\$ -	\$ 59,317,878
Money Market Funds	13,858,762	-	-	13,858,762
Mutual Funds	2,982,951	-	-	2,982,951
Exchange Traded Stocks	1,573,658	-	-	1,573,658
SAFE Agreements	<u>-</u>	<u>-</u>	<u>1,260,000</u>	<u>1,260,000</u>
	<u>\$ 18,415,371</u>	<u>\$ 59,317,878</u>	<u>\$ 1,260,000</u>	<u>\$ 78,993,249</u>

The following table sets forth a summary of changes in the fair value of Level 3 investments for the year ended December 31, 2021:

Balance, beginning of year	\$ -
Investments made in SAFE Agreements	<u>1,260,000</u>
Balance, end of year	<u>\$ 1,260,000</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

Construction in progress	\$ 973,553
Office equipment	296,071
Leasehold improvements	<u>50,938</u>
	1,320,562
Accumulated depreciation	<u>(203,165)</u>
	<u>\$ 1,117,397</u>

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6. PAYCHECK PROTECTION PROGRAM LOAN

On April 15 2020, the Organization received a loan in the amount of \$1,314,144 under the Paycheck Protection Program (“PPP”) which was established under the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”). The loan accrues interest at a rate of 1% and has an original maturity date of April 15, 2022. Under the terms of the loan agreement, payments were deferred during the first six months after the loan was funded (the "Deferral Period"). Monthly payment of principal and interest were to commence at the end of the Deferral Period and continue through the maturity date. Under the requirements of the CARES Act, as amended by the PPP Flexibility Act and Consolidated Appropriations Act, 2021, proceeds were only to be used for the Organization's eligible payroll costs, or other eligible costs, in each case paid during the 24-week period following disbursement.

The Organization elected to record this loan under Accounting Standards Codification (ASC) Topic 470, Debt, in which any forgiveness of the loan would result in a gain or extinguishment during the period in which the Organization is legally released from the obligation of the debt. On August 2, 2021, the Organization received notification of full forgiveness of the PPP loan balance and recognized other revenue of \$1,314,144 related to the loan forgiveness.

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Equitable Economy	\$ 8,693,644
Healthy Communities of Opportunity	12,974,466
Just Society	4,454,006
Fiscal sponsees	16,325,930
Other programs	10,434,097
General support - time restricted	4,000,000
PolicyLink Equity Action Network	<u>105,222</u>
	<u>\$ 56,987,365</u>

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

Equitable Economy	\$ 7,263,787
Healthy Communities of Opportunity	9,697,606
Just Society	4,090,266
Fiscal sponsees	7,291,015
Other programs	15,410,676
PolicyLink Equity Action Network	<u>300,916</u>
	<u>\$ 44,054,266</u>

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8. BOARD-DESIGNATED FUNDS

The Board established the Reserve Fund, Growth Fund, and CEO Fund to ensure the stability of the mission, programs, personnel, and ongoing operations of the Organization and to provide sources 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 a board-designated fund 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.

The CEO Fund is a board-designated fund intended for large-scale investments in the racial equity movement, both internally and throughout the racial equity movement. The Board has determined that the Chief Executive Officer, in consultation with the Chief Operating Officer and Chief Financial Officer, has discretion over the use of the CEO Fund and has, furthermore, directed the Chief Executive Officer to report to the Board the uses of the CEO Fund and any impact thereof. At present, management anticipates replenishing the CEO Fund to its current level and that the CEO Fund will operate in perpetuity.

As of December 31, 2021, the balance of the Reserve Fund was \$6,600,000 and the balance of the Growth Fund was \$2,709,819. The Organization has invested these funds in U.S. Treasury Bills and Bonds secured by the full faith and credit of the United States of America. The spending on these funds are included on the consolidated statement of activities as program and supporting services expense.

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8. BOARD-DESIGNATED FUNDS (continued)

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

	<u>Growth Fund</u>	<u>Reserve Fund</u>	<u>CEO Fund</u>	<u>Total</u>
Balance at January 1, 2021	\$ 3,153,369	\$ 6,600,000	\$ 24,000,000	\$ 33,753,369
Spending	(443,550)	-	(2,797,000)	(3,240,550)
Funding	-	-	1,000,000	1,000,000
Balance at December 31, 2021	<u>\$ 2,709,819</u>	<u>\$ 6,600,000</u>	<u>\$ 22,203,000</u>	<u>\$ 31,512,819</u>

9. 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>		
2022	\$	918,215
2023		952,305
2024		979,760
2025		773,966
2026		797,185
Thereafter		541,980
	<u>\$</u>	<u>4,963,411</u>

10. 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 and grants receivable that are considered current will be collected from donors within one year.

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10. LIQUIDITY AND FUNDS AVAILABLE (continued)

The following is a quantitative disclosure which describes assets that are available within one year of December 31, 2021 to fund general expenditures and other obligations when they become due:

Financial assets	
Cash, cash equivalents and designated cash	\$ 6,049,599
Investments	77,733,249
Contributions and grants receivable	16,510,303
Accounts receivable	<u>133,757</u>
	<u>100,426,908</u>
Less amounts unavailable for general expenditures within one year, due to:	
Purpose and time restricted projects	(56,987,365)
Board designated for Reserve Fund	(6,600,000)
Board designated for Growth Fund	(2,709,819)
Board designated for CEO Fund	<u>(22,203,000)</u>
	<u>(88,500,184)</u>
	 <u><u>\$ 11,926,724</u></u>

As part of the Organization's liquidity management, it invests cash in excess of daily requirements in United States Treasury securities, money market funds, mutual funds, and exchange traded stock. In addition, the Organization is able to utilize the Growth Fund, CEO Fund, and Reserve Fund as deemed necessary to help the Organization grow should it need available capital.

11. 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 their compensation. Retirement plan expense for the year ended December 31, 2021 amounted to \$463,426.

12. 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.

Contributions and grants receivable due from four donors comprise approximately 48% of the total contributions and grants receivable as of December 31, 2021. Grants from one donor comprise approximately 11% of total grants and contributions from foundations, corporations, and individuals for the year ended December 31, 2021.

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13. SUBSEQUENT EVENTS

The Organization has evaluated events and transactions subsequent to December 31, 2021 for potential recognition or disclosure in the consolidated financial statements.

In April 2022, the Organization entered into an agreement with NEO Philanthropy, Inc. ("NEO") to terminate the Organization's ownership, operation, and fiscal sponsorship of the Convergence Partnership and to transfer all assets and liabilities of the Convergence Partnership to NEO. The assets and liabilities to be transferred by the Organization to NEO are listed in the separation agreement.

On June 30, 2022, the Organization entered into an agreement with Black Ambition Opportunity, Inc. ("BAOI") to terminate the Direct Project Agreement that was previously entered into in 2020. Effective July 1, 2022 (transfer date), the Organization is to transfer all assets and liabilities related to the direct fiscal sponsorship project (the "Project") of Black Ambition to BAOI. The assets and liabilities to be transferred by the Organization to BAOI are listed in the termination agreement. Included in the assets to be transferred are the SAFE Agreements, pending IRS determination that Black Ambition qualifies as a 501(c)(3). The Organization and BAOI also agree to enter into a new, regrant fiscal sponsorship arrangement as of the transfer date, pursuant to which the Organization intends to use assets received after the transfer date to make grants to support the charitable activities of the Project.

On August 16, 2022, the Organization received a grant in the amount of \$50,000,000 to support its long-term "Winning on Equity" strategy and to increase its nationwide capacity to achieve policy and system changes necessary to catalyze equitable economic and social mobility outcomes for Americans living in or near poverty. The term of the grant is from July 1, 2022 through June 30, 2027. The grant calls for a first installment payment of \$7,900,000 in August 2022, and annual payments each September beginning in 2023 and through 2026. Payments are contingent on the Organization's progress towards the achievement of the grant purpose, including satisfaction of any milestones specified in the grant agreement.

The Organization did not have any further subsequent events that require recognition or disclosure in the consolidated financial statements for the year ended December 31, 2021. Subsequent events have been evaluated through the date the consolidated financial statements became available to be issued, September 30, 2022.