

POLICYLINK

FINANCIAL STATEMENTS

December 31, 2012

(with summarized financial information for 2011)



POLICYLINK

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
PolicyLink:

Report on the Financial Statements

We have audited the accompanying financial statements of PolicyLink (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors consider 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, 2012, 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.

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2013, on our consideration of PolicyLink's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PolicyLink's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

Other auditors audited PolicyLink's 2011 financial statements and they expressed an unmodified audit opinion on those audited financial statements in their report dated October 23, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Burr Pilger Mayer, Inc.

San Francisco, California
September 27, 2013

POLICYLINK

STATEMENT OF FINANCIAL POSITION

December 31, 2012

(with summarized financial information as of December 31, 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 2,008,898	\$ 2,242,323
Investments, at fair value	-	101,339
Grants receivable, net	3,736,760	2,492,680
Contracts receivable	998,314	476,742
Prepaid expenses	168,100	220,463
Deposits and other assets	62,730	83,988
Property and equipment, net	<u>185,732</u>	<u>220,404</u>
Total assets	<u><u>\$ 7,160,534</u></u>	<u><u>\$ 5,837,939</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 808,027	\$ 363,797
Other accrued liabilities	<u>649,494</u>	<u>489,712</u>
Total liabilities	<u>1,457,521</u>	<u>853,509</u>
Net assets:		
Unrestricted net assets	53,423	31,153
Temporarily restricted net assets	<u>5,649,590</u>	<u>4,953,277</u>
Total net assets	<u>5,703,013</u>	<u>4,984,430</u>
Total liabilities and net assets	<u><u>\$ 7,160,534</u></u>	<u><u>\$ 5,837,939</u></u>

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

POLICYLINK

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

for the year ended December 31, 2012

(with summarized financial information for the year ended December 31, 2011)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2012 Total</u>	<u>2011 Total</u>
Support and revenues:				
Grants and contributions	\$ 7,054,771	\$ 4,781,801	\$ 11,836,572	\$ 8,438,085
Contracts	1,521,023	-	1,521,023	2,739,395
Government grants and contracts	789,067	-	789,067	59,591
Earned income and honoraria	67,069	-	67,069	299,825
Other income	3,706	-	3,706	2,838
Net assets released from restrictions	<u>4,085,488</u>	<u>(4,085,488)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>13,521,124</u>	<u>696,313</u>	<u>14,217,437</u>	<u>11,539,734</u>
Expenses:				
Program services	11,653,046	-	11,653,046	11,256,774
General and administrative	1,342,169	-	1,342,169	1,236,419
Fundraising	<u>503,639</u>	<u>-</u>	<u>503,639</u>	<u>574,059</u>
Total expenses	<u>13,498,854</u>	<u>-</u>	<u>13,498,854</u>	<u>13,067,252</u>
Change in net assets	22,270	696,313	718,583	(1,527,518)
Net assets, beginning of year	<u>31,153</u>	<u>4,953,277</u>	<u>4,984,430</u>	<u>6,511,948</u>
Net assets, end of year	<u>\$ 53,423</u>	<u>\$ 5,649,590</u>	<u>\$ 5,703,013</u>	<u>\$ 4,984,430</u>

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

POLICYLINK

STATEMENT OF FUNCTIONAL EXPENSES

for the year ended December 31, 2012

(with summarized financial information for the year ended December 31, 2011)

	2012				2011 Total
	Program Services	Support Services		Total	
		General and Administrative	Fundraising		
Expenses:					
Salaries and benefits	\$ 5,663,298	\$ 1,009,153	\$ 416,207	\$ 7,088,658	\$ 7,307,742
Temporary agencies and casual labor	215,914	8,753	1,033	225,700	193,957
Other fees for services	3,807,177	77,956	3,687	3,888,820	2,193,465
Professional fees	5,722	75,197	171	81,090	90,665
Advertising and promotion	-	3,799	-	3,799	-
Bad debts	-	-	-	-	4,900
Travel	845,431	40,333	2,104	887,868	1,699,273
Conferences, conventions, and meetings	19,497	919	-	20,416	66,167
Depreciation	71,425	13,320	3,087	87,832	109,671
Equipment rental and maintenance	37,913	6,274	10,601	54,788	57,996
Sponsorships	18,025	-	-	18,025	114,896
Information technology	77,263	3,548	1,331	82,142	23,783
Insurance	8,060	928	348	9,336	12,533
Interest	-	13,028	-	13,028	4,189
Occupancy	542,645	61,858	23,151	627,654	605,321
Other	8,472	3,768	180	12,420	74,440
Postage and shipping	15,885	1,992	7,145	25,022	33,081
Printing and publications	76,227	734	24,035	100,996	169,860
Supplies	66,205	5,770	4,758	76,733	120,067
Telephone	173,887	14,839	5,801	194,527	185,246
Total expenses	\$ 11,653,046	\$ 1,342,169	\$ 503,639	\$ 13,498,854	\$ 13,067,252

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

POLICYLINK

STATEMENT OF CASH FLOWS

for the year ended December 31, 2012

(with summarized financial information for the year ended December 31, 2011)

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 718,583	\$ (1,527,518)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	87,832	109,671
Loss on disposal of property and equipment	-	1,016
Unrealized loss	-	2,898
Amortization of discount on promises to give	(31,605)	(43,514)
(Increase) decrease in assets:		
Grants receivable, net	(1,212,475)	1,905,764
Contracts receivable	(521,572)	266,442
Prepaid expenses	52,363	(75,052)
Deposits and other assets	21,258	(34,176)
Increase (decrease) in liabilities:		
Accounts payable	444,230	(79,845)
Other accrued liabilities	152,235	(356,361)
Net cash (used in) provided by operating activities	(289,151)	169,325
Cash flows from investing activities:		
Purchases of property and equipment	(29,711)	(30,526)
Proceeds from sale and maturities of investments	101,339	37,000
Net cash provided by investing activities	71,628	6,474
Cash flows from financing activity:		
Payments made on capital leases	(15,902)	(17,945)
Net cash used in financing activity	(15,902)	(17,945)
Net (decrease) increase in cash and cash equivalents	(233,425)	157,854
Cash and cash equivalents, beginning of year	2,242,323	2,084,469
Cash and cash equivalents, end of year	\$ 2,008,898	\$ 2,242,323
Supplementary cash flow information:		
Cash paid during the year for interest	\$ 13,028	\$ 4,242
Schedule of noncash investing and financing activities:		
Property and equipment financed through a capital lease	\$ 23,449	\$ 14,654

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

POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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.

PolicyLink has the following programs:

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 *Boys and Men of Color*, the *Regional and General Convergence*, the *Food Portal*, and the *Building Sustainability* are a few significant projects carried out under this program.

Center for Infrastructure Equity - 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 the *Community Equity Initiative*, the *Sustainable Communities Initiative*, and the *Federal Transportation Equity Initiative*.

Promise Neighborhoods Institute at PolicyLink - 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.

Equity is the Superior Growth Model (ESGM) - 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 ESGM 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, 2012

1. Organization and Nature of Activities, continued

Organization, continued

Other Programs - include efforts to bring more leaders of color into the policymaking process and uses arts and culture as means to inform, mobilize, and build communities. Activities to provide tools and techniques to others seeking to help people in low income communities and people of color include asset building strategies; working with immigration rights organizations to use polling techniques to determine the impact policing strategies in local communities; supporting the work of advocates seeking to provide better outcomes in the lives of boys and men of color in general and black males specifically; and seeking new and creative ways to develop jobs and influence the built environment. The *Asset Building* and the *Leadership and Sustainability Institute* are two main projects that make up other programs.

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 in accordance with the provisions of Accounting Standards Codification 958, *Financial Statements of Not-For-Profit Organizations*: 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.

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. At December 31, 2012, PolicyLink had no permanently restricted net assets.

Cash and Cash Equivalents

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

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POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

2. Summary of Significant Accounting Policies, continued

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, 2012, PolicyLink had no allowance for doubtful accounts or uncollectible amounts.

Investments

Short-term investments are carried at the fair value (see fair value measurements below). Investment income consists of dividends, interest income, and appreciation (depreciation) of investments and which are reflected in the statement of activities and changes in net assets.

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. Grants or contributions receivable that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts, when material, are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts are included in grants and contributions revenue. 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 cost-reimbursement agreements. At December 31, 2012, management believes these amounts are collectible; therefore, no allowance for doubtful accounts has been provided.

Property and Equipment

PolicyLink capitalizes all property and equipment acquisitions in excess of \$1,000. 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 - 5 years
Leasehold improvements	Lesser of life of lease or useful life

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POLICYLINK
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

2. **Summary of Significant Accounting Policies**, continued

Revenue Recognition

Grants and Contributions

Contributions 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 restriction expires 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 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 contract advances 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. Donated services for 2012 consisted of a contractor's work on the *Capacity Building for Sustainable Communities* project in the amount of \$128,122.

Income Taxes

PolicyLink was incorporated under the laws of the State of California and granted tax-exempt status by the Internal Revenue Service 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.

PolicyLink follows the guidance for uncertain tax positions. Management has concluded there are no uncertain tax positions at December 31, 2012.

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POLICYLINK
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

2. Summary of Significant Accounting Policies, continued

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 PolicyLink's own assumptions in determining fair value instruments).

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

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.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications had no effect on total assets, liabilities, net assets or change in net assets of PolicyLink.

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 (GAAP). Accordingly, such information should be read in conjunction with PolicyLink's financial statements as of and for the year ended December 31, 2011, from which the summarized information was derived.

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POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

3. Grants Receivable

Management has determined that all grants receivable are collectible. Total amount of grants receivable at December 31, 2012 are expected to be collected as follows:

Receivable in less than one year	\$ 3,336,760
Receivable in one to five years	<u>400,000</u>
Total grants receivable	<u><u>\$ 3,736,760</u></u>

4. Property and Equipment

Property and equipment consisted of the following as of December 31, 2012:

Furniture and equipment	\$ 590,206
Leasehold improvements	<u>329,589</u>
	919,795
Less accumulated depreciation and amortization	<u>(734,063)</u>
Net property and equipment	<u><u>\$ 185,732</u></u>

For the year ended December 31, 2012, PolicyLink recorded \$87,832 of depreciation and amortization expense.

5. Other Accrued Liabilities

Other accrued liabilities consisted of the following at December 31, 2012:

Vacation	\$ 308,636
Payroll and related expenses	42,716
Consultants	129,000
Deferred rent liability	91,520
Capital lease obligations	30,963
Other	30,900
Deferred revenue	<u>15,759</u>
	<u><u>\$ 649,494</u></u>

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POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

6. Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following at December 31, 2012:

Center for Health, Equity and Place	\$ 2,362,697
Center for Infrastructure Equity	657,731
Equity is the Superior Growth Model	608,207
Promise Neighborhoods Institute at PolicyLink	609,168
Other	<u>1,411,787</u>
Total	<u>\$ 5,649,590</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, 2012:

Center for Health, Equity and Place	\$ 1,776,108
Center for Infrastructure Equity	365,780
Equity is the Superior Growth Model	269,533
Promise Neighborhoods Institute at PolicyLink	316,922
Other	<u>1,357,145</u>
Total	<u>\$ 4,085,488</u>

7. 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, 2012 amounted to \$286,833.

8. Concentrations of Credit Risk

Cash and Cash Equivalents

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

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

8. Concentrations of Credit Risk, continued

Significant Sources of Funding

Contracts

At December 31, 2012, the U.S. Department of Housing and Urban Development (HUD) and a foundation made up 11% and 51% of total contracts receivable, respectively.

For 2012, HUD and a foundation represented 26% and 51% of the total "Government Grants and Contracts" and "Contracts" revenue, respectively.

Grants and Contributions

Five foundations represented 75% of the grants receivable at December 31, 2012 and 79% of total grants and contributions revenue for 2012.

9. Line of Credit

In March 2012, PolicyLink renewed its existing \$1,000,000 revolving line of credit (the Line). During the year ended December 31, 2012, PolicyLink did not borrow any funds against the Line and the outstanding balance at December 31, 2012 was zero. Interest on the Line is based on the prime rate as published in the Wall Street Journal, (3.25% at December 31, 2012) plus two percent (1.75%), but not less than 5.00% per year. In March 2013, the Line was extended through February 2014. PolicyLink was in compliance with all financial covenants as of December 31, 2012.

10. Commitments and Contingencies

Lease Commitments

PolicyLink leases office space in California, Washington D.C., and New York under operating leases with various terms. 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, 2012, consist of the following:

Year ending December 31:	
2014	\$ 413,552
2015	175,723
2016	176,953
2017	<u>59,112</u>
Total minimum lease payments	<u>\$ 825,340</u>

Rent expense under operating leases for the year ended December 31, 2012 amounted to \$573,484.

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POLICYLINK

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

11. Related Party Transactions

PolicyLink has an agreement with Center for the Study of Social Policy (CSSP) to compensate CSSP for work done in support of the Promise Neighborhoods Institute. The Chair of PolicyLink's Board of Directors is also a CSSP employee. This employee did not and will not receive any compensation from the above mentioned contract. PolicyLink paid \$306,544 for these services during 2012. PolicyLink had \$285,054 payable to CSSP and this made up 20% of the total balances of accounts payable and other accrued liabilities on the statement of financial position at December 31, 2012.

The President and CEO of the Harlem Children's Zone is also a member of PolicyLink's Board of Directors. PolicyLink paid \$124,256 to Harlem Children's Zone for work done in support of the Promise Neighborhoods Institute during 2012.

During 2012, PolicyLink paid a total of \$227,424 to the Program for Environmental and Regional Equity (PERE), which is part of the University of Southern California. The Director of PERE is also a member of PolicyLink's Board of Directors. At December 31, 2012, PolicyLink accrued \$112,500 payable to PERE.

12. Subsequent Events

PolicyLink evaluated subsequent events for recognition and disclosure through September 27, 2013, the date which these financial statements were available to be issued. Other than Note 9, management concluded that no material subsequent events have occurred since December 31, 2012 that required recognition or disclosure in such financial statements.

SUPPLEMENTARY INFORMATION

POLICYLINK

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended December 31, 2012

<u>Federal Grantor/Pass-through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Contract Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development			
Capacity Building for Sustainable Communities Program	14.705	CASGP0001-11	\$ 604,022
<i>Pass through Program:</i>			
<i>Passed through Mid-America Regional Council</i>			
Regional Sustainable Communities Planning Grant	14.703	MORIP002410	<u>25,478</u>
Total Expenditures of Federal Awards			<u>\$ 629,500</u>

The accompanying notes are an integral part of this schedule.

POLICYLINK

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2012

1. **Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of PolicyLink under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of PolicyLink, it is not intended to and does not present the financial position, changes in net assets or cash flows of PolicyLink.

2. **Summary of Significant Accounting Policies**

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of
PolicyLink:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of PolicyLink (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, 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, and have issued our report thereon dated September 27, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered PolicyLink's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of PolicyLink's internal control. Accordingly, we do not express an opinion on the effectiveness of PolicyLink's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PolicyLink's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burr Pilger Mayer, Inc.

San Francisco, California
September 27, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of
PolicyLink:

Report on Compliance for Each Major Federal Program

We have audited PolicyLink's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on PolicyLink's major federal program for the year ended December 31, 2012. PolicyLink's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of PolicyLink's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about PolicyLink's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of PolicyLink's compliance.

Opinion on Each Federal Program

In our opinion, PolicyLink complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2012-01. Our opinion on the major federal program is not modified with respect to this matter.

PolicyLink's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs.

PolicyLink's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of PolicyLink is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered PolicyLink's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PolicyLink's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose

Burr Pilger Mayer, snc.

San Francisco, California
September 27, 2013

POLICYLINK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2012

Section I: Summary of Auditors' Results

Financial Statements

1. The independent auditors' report expresses an unmodified opinion on the financial statements of PolicyLink.
2. Internal control over financial reporting:
 - Material weaknesses identified:
No
 - Significant deficiencies identified that are not considered to be material weaknesses:
No
3. No instances of noncompliance material to the financial statements of PolicyLink were noted.

Federal Awards

4. Internal control over major programs:
 - Material weaknesses identified:
No
 - Significant deficiencies identified that are not considered to be material weaknesses:
No
5. The Auditors' Report on compliance for major programs expresses an unmodified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in Part 2 of this schedule.
7. The following was tested as a major program:

Capacity Building for Sustainable Communities Program	CFDA #14.705
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8. The threshold used to distinguish between Type A and Type B programs was \$300,000.
9. PolicyLink did not qualify as a low risk auditee for the year ended December 31, 2012.

Section II: Financial Statement Findings

No matters reported.

POLICYLINK

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

December 31, 2012

Section III: Federal Award Findings and Questioned Costs

2012-01 – Late Reporting

CFDA Numbers and Titles: 14.705 –Capacity Building for Sustainable Communities Program

Federal Award Numbers: CASGP0001-11

Federal Award Periods: October 1, 2011 to September 30, 2013

Federal Agencies: Department of Housing and Urban Development

Criteria: The reporting compliance requirement stipulates for organizations to prepare and submit certain reports in a timely manner on an accrual basis of accounting. In addition, the grant agreement between PolicyLink and the Department of Housing and Urban Development (the Department) states that failure to submit timely reports will result in not having its “eLOCCS Request Voucher for Grant Payment” processed and also may result in a low performance rating, which could result in grant termination.

Condition: PolicyLink did not submit quarterly reports to the Department of Housing and Urban Development in a timely manner in the first, second and third quarter in 2012.

Questioned Cost: No

Cause: The Department’s deadlines were, in practice, evolving as they developed systems at the beginning of the grant process. The program itself was new, and all parties involved were determining key elements of reporting parameters and activities related to cost-sharing or match requirements versus those specifically carried out for the Department. As scope and systems were in design while work was occurring, reporting necessarily followed the resolution.

Effect: Reports were submitted late which could lead to grant termination.

Recommendation: PolicyLink’s development team maintains a reporting calendar that outlines the reporting deadlines of various non-federal grant awards. We recommend that management utilize the existing calendar and include the reporting requirements and due dates of the HUD award. We believe this will ensure timely submission of reports as the due dates will be visible to all.

Views of Responsible Officials and Planned Corrective Actions: Regarding the three reporting periods where invoicing and reporting to the Department were late, for two of those periods, reporting was submitted within 15 days of the established deadlines or deadlines for which extensions were provided or requested and granted. In the other reporting period, internal delays created a late filing. Once systems were in place at the Department and PolicyLink’s systems aligned, reports have been submitted in a more timely manner. Given that terms of this award involve expenditure by PolicyLink and subsequent reimbursement by the Department, the delays resulted in PolicyLink deferring receipt of payment until reports submission of reports occurred. PolicyLink will update its development reporting calendar with the due dates of the HUD award.

Section IV: Status of Prior Year Findings

Not applicable.