



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

SAN DIEGO REGIONAL POLICY & INNOVATION CENTER

June 30, 2022



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Report of Independent Auditors

The Board of Directors
San Diego Regional Policy & Innovation Center

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of San Diego Regional Policy & Innovation Center (“SDRPIC”), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SDRPIC as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 SDRPIC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the 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 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 SDRPIC’s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 GAAS 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 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 GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 SDRPIC'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SDRPIC'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.



San Diego, California
December 12, 2022

San Diego Regional Policy & Innovation Center
Statement of Financial Position

ASSETS		<u>June 30, 2022</u>
ASSETS		
Cash		\$ 5,006,925
Receivables		175,000
Right of use asset		917,506
Property and equipment, net		21,412
Other assets		<u>5,044</u>
Total assets		<u><u>\$ 6,125,887</u></u>
LIABILITIES AND NET ASSETS (DEFICIT)		
LIABILITIES		
Accounts payable and accrued liabilities		\$ 202,296
Deferred revenue		4,442,415
Due to related party		1,224,710
Lease liability		<u>933,204</u>
Total liabilities		<u>6,802,625</u>
NET ASSETS (DEFICIT)		
Without donor restrictions		(806,358)
With donor restrictions		<u>129,620</u>
Total net assets (deficit)		<u>(676,738)</u>
Total liabilities and net assets (deficit)		<u><u>\$ 6,125,887</u></u>

San Diego Regional Policy & Innovation Center

Statement of Activities

	Year Ended June 30, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions	\$ 581,299	\$ 129,620	\$ 710,919
Grant revenue	840,526	-	840,526
In-kind contributions	445,061	-	445,061
Other income	101,667	-	101,667
Net assets released from restrictions	-	-	-
Total revenue	1,968,553	129,620	2,098,173
EXPENSES			
Salary and wages	881,113	-	881,113
Employee benefits	229,039	-	229,039
Contracted services	792,519	-	792,519
Audit/accounting/legal	331,654	-	331,654
Shared services	294,555	-	294,555
Information technology	87,558	-	87,558
Advertising/marketing	65,488	-	65,488
Other expenses	92,985	-	92,985
Total expenses	2,774,911	-	2,774,911
CHANGE IN NET ASSETS (DEFICIT)	(806,358)	129,620	(676,738)
NET ASSETS			
Beginning of year	-	-	-
End of year	\$ (806,358)	\$ 129,620	\$ (676,738)

San Diego Regional Policy & Innovation Center Statement of Cash Flows

	Year Ended June 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES	
Contributions and grants from donors and funders	\$ 6,365,588
Payments for expenses – program, general and administrative, fundraising, and development	<u>(1,329,174)</u>
Net cash provided by operating activities	<u>5,036,414</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	<u>(29,489)</u>
Net cash (used in) investing activities	<u>(29,489)</u>
NET INCREASE IN CASH	5,006,925
CASH, beginning of year	<u>-</u>
CASH, end of year	<u><u>\$ 5,006,925</u></u>
NONCASH INVESTING AND FINANCING TRANSACTIONS	
Lease – right of use asset and lease liability	<u><u>\$ 928,250</u></u>

San Diego Regional Policy & Innovation Center

Notes to Financial Statements

Note 1 – Organization and Significant Accounting Policies

Organization – Established in 2021 as a public charity (Internal Revenue Service National Taxonomy of Exempt Entities Code T05), San Diego Regional Policy & Innovation Center (“SDRPIC”) develops, tests, and implements world-class research and policy-driven solutions to address the San Diego region’s most pressing challenges. As an affiliated entity to San Diego Foundation (the “Foundation”), SDRPIC uses applied research to help local leaders identify catalytic policies, programs, and interventions and attract greater capital to the region.

Significant Accounting Policies

Basis of presentation – The financial statements of SDRPIC have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require SDRPIC to report information regarding its financial position and activities according to the following net asset classifications:

- **Without donor restrictions** – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of SDRPIC. These net assets may be used at the discretion of SDRPIC’s management and the Board of Directors.
- **With donor restrictions** – Net assets subject to stipulations imposed by donors and grantors. The donor restrictions are temporary in nature; those restrictions will be met by actions of SDRPIC or by the passage of time.

Cash and concentrations of credit risk – SDRPIC cash consists of cash on deposit with banks. The balances in these accounts may, at times, exceed federally insured limits. Accounts at these institutions are secured by the Federal Deposit Insurance Corporation. SDRPIC has not experienced any losses in such accounts. Management believes that SDRPIC is not exposed to any significant credit risk with respect to its cash.

Property and equipment – Acquisitions of property and equipment with a cost in excess of \$5,000 are capitalized and depreciated using the straight-line method over the estimated three-year useful life of the assets.

SDRPIC reviews the carrying value of its equipment annually to determine if facts and circumstances exist which suggest that these assets may be impaired or that the amortization period, if any, needs to be modified. SDRPIC does not believe that there are any significant factors indicating a material adjustment for impairment as of June 30, 2022.

Right of use (ROU) asset/lease liability – SDRPIC evaluates whether its contractual arrangements contain leases at the inception of such arrangements. Specifically, SDRPIC considers whether it can control the underlying asset and have the right to obtain substantially all of the economic benefits or outputs from the asset. SDRPIC has elected not to recognize an ROU asset and lease liability for leases with terms of 12 months or less and does not have any financing leases. The ROU operating lease assets represent rights to use an underlying asset for the lease term, and operating lease liabilities represent obligations to make lease payments.

San Diego Regional Policy & Innovation Center Notes to Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Both the ROU operating lease asset and liability are recognized as of the lease commencement date at the present value of the lease payments over the lease term. SDRPIC's lease does not provide an implicit rate that can readily be determined. Therefore, a risk-free rate for a period comparable to the lease term is used as allowed under the adopted practical expedient.

The operating lease agreement may include options to extend the lease term or terminate it early. Impacts related to options to extend or terminate leases are included in the ROU operating lease asset and liability only when it is reasonably certain these options will be exercised. Operating lease expense is recognized on a straight-line basis over the lease term and is included in other expenses on the statement of activities.

Operating leases may contain payments based on the Consumer Price Index (CPI) or other similar indices. These variable lease payments are included in the calculation of the ROU asset and lease liability. Other variable lease payments are excluded from the ROU asset and lease liability and are expensed as incurred. In addition to the present value of the future lease payments, the calculation of the ROU asset also includes any lease pre-payments and initial direct costs of obtaining the lease. ROU assets are evaluated for impairment consistent with SDRPIC's property and equipment policy.

Receivables – Unconditional promises to give and receivables for services provided that are expected to be collected within one year are recorded at net realizable value. As of June 30, 2022, SDRPIC's receivables balance of \$175,000 consisted of unconditional promises to give and payment for services provided, which were collected in July 2022.

Due to related party – Amounts reported as due to related party, included in the accompanying statement of financial position, arise principally from the collaborative activities between SDRPIC and the Foundation to further the mission of the organization.

Revenue Recognition

- **Contributions** – Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

San Diego Regional Policy & Innovation Center

Notes to Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

- **Government grants and agreements** – Revenue from government contracts and agreements that is unconditional is recognized as revenue in the period received. Conditional grants, 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. A portion of SDRPIC’s revenue from government grants and agreements is conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when expenditures have been incurred in compliance with the specific contract or agreement. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position. Deferred revenue was \$4,442,415 as of June 30, 2022; 97% of this balance is from the County of San Diego.
- **In-kind contributions** – SDRPIC received donated Chief Executive Officer services of approximately \$339,000 for the year ended June 30, 2022. The amount represents the actual costs incurred by the Foundation and is reported as in-kind contributions and salary and benefits on the accompanying statement of activities and functional expenses. In addition, SDRPIC received technical services related to one of their projects of approximately \$106,000 for the year ended June 30, 2022. The amount, which is based upon information provided by third-party service providers, is recorded at their estimated fair value determined on the date of contribution and reported as in-kind contributions and outside services on the accompanying statement of activities.

Shared services – During the year ended June 30, 2022, the Foundation provided administrative and other support services to SDRPIC. These services included personnel to provide a variety of program, financial, fundraising, human resources, legal, executive, information technology, website development, marketing, and administrative services as requested by SDRPIC on an as-needed basis. In exchange of these services, SDRPIC paid the Foundation all direct expenses incurred on SDRPIC’s behalf. The shared services expense was \$295,000 for the year ended June 30, 2022. A Services Agreement was entered into as of June 23, 2021.

Functional allocation of expenses – Expenses which apply to more than one functional category have been allocated among program, general and administrative, and fundraising and development based on the time spent on these functions by specific employees as estimated by management. Other indirect expenses, such as information technology and office supplies, are allocated by functional departments based on direct staff usage. All other costs are allocated directly to the appropriate functional expense category.

Use of estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations – During the year ended June 30, 2022, three contributions/grants accounted for over 50% of the net contributions/grant revenue.

San Diego Regional Policy & Innovation Center

Notes to Financial Statements

Note 1 – Organization and Significant Accounting Policies (continued)

Income tax status – SDRPIC is exempt from income taxes under the current provisions of the Internal Revenue Code (IRC) Section 501(c)(3) and Section 23701(d) of the California Franchise Tax Code. All tax-exempt entities are subject to review and audit by federal, state, and other applicable agencies. Such agencies may review the taxability of unrelated business income or the qualification of the tax-exempt entity under the IRC and applicable state statutes. SDRPIC does not have any material uncertain tax positions.

Recently adopted accounting standards – As of July 1, 2021, SDRPIC adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a ROU asset and lease liability for most lease arrangements. For nonpublic business entities, the standard allowed use of a risk-free rate for a period comparable to the lease term. The adoption of the standard did not have a material impact on operating results or cash flows.

On July 1, 2021, SDRPIC adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard increases disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received.

Note 2 – Liquidity and Funds Available

The following table reflects SDRPIC's financial assets as of June 30, 2022, reduced by amounts not available for general expenditures due to contractual restrictions within one year. General expenditures include operating and administrative expenses, capital spending, and other financial liabilities, expected to be paid in the subsequent year.

Financial assets	
Cash	\$ 5,006,925
Receivables	<u>175,000</u>
Total financial assets	<u>5,181,925</u>
Less assets unavailable for general expenditures within one year	
Funds restricted for federal grant program	(2,000,000)
Funds restricted for federal grant program beyond one year	<u>(2,326,926)</u>
Total assets unavailable for general expenditure	<u>(4,326,926)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 854,999</u>

San Diego Regional Policy & Innovation Center

Notes to Financial Statements

Note 2 – Liquidity and Funds Available (continued)

SDRPIC procures funds available for general expenditure from a variety of sources, including programmatic contracts and grants. The Foundation may also provide additional working capital, as growth opportunities and/or liquidity needs arise.

Note 3 – Right of Use Asset and Lease Commitment

SDRPIC entered into an operating lease agreement for office space. A ROU operating lease asset and operating lease liability was recorded for \$928,250 at the inception of the lease. The discount rate for the operating lease was 3.2%. No cash payments were made for the operating lease during 2022 due to a four-month lease abatement. Rent expense of \$15,698 was recognized during 2022. The lease liability increased for accrued interest.

The following is a reconciliation of future undiscounted cash flows to the operating lease liabilities, and the related ROU assets, presented on the statement of financial position at June 30, 2022:

Years Ending June 30,		
2023	\$	72,845
2024		89,425
2025		91,568
2026		93,775
2027		96,049
Thereafter		<u>606,966</u>
Total minimum lease payments		1,050,628
Less: imputed interest		<u>(133,122)</u>
Total	\$	<u><u>917,506</u></u>

Note 4 – Property and Equipment

Property, plant, and equipment consisted of the following at June 30, 2022:

Property and equipment	\$	29,489
Less accumulated depreciation		<u>(8,077)</u>
Property and equipment, net	\$	<u><u>21,412</u></u>

Depreciation and amortization expense for fiscal year 2022 was \$8,077.

San Diego Regional Policy & Innovation Center Notes to Financial Statements

Note 5 – Net Assets (Deficit)

Net assets consisted of the following at June 30:

With donor restrictions	
Programs	\$ 129,620
Without donor restrictions	
Operations	<u>(806,358)</u>
	<u><u>\$ (676,738)</u></u>

Note 6 – Functional Allocation of Expenses

The functional expenses were classified as follows at June 30, 2022:

Description	General and Administrative	Fundraising and Development	Program	Total
Salary and wages	\$ 491,549	\$ 172,065	\$ 217,499	\$ 881,113
Employee benefits	124,480	46,051	58,508	229,039
Contracted services	86,539	-	705,980	792,519
Audit/accounting/legal	331,654	-	-	331,654
Information technology	57,610	20,398	9,550	87,558
Shared services	294,555	-	-	294,555
Advertising/marketing	65,488	-	-	65,488
Other expense	52,930	24,312	15,743	92,985
	<u>\$ 1,504,805</u>	<u>\$ 262,826</u>	<u>\$ 1,007,280</u>	<u>\$ 2,774,911</u>

Fiscal year 2022 was the first year of operations for SDRPIC. Due to this, expenses such as legal and shared services were higher than what is anticipated for future periods.

Note 7 – Retirement Plans

Through the Foundation, SDRPIC employees participate in an employee benefit plan that is qualified as tax deferred under Section 403(b) of the IRC. Elective pre-tax compensation deferrals are available to employees who have been employed by SDRPIC and who work at least 1,000 hours per year. SDRPIC currently matches employee contributions to the plan dollar for dollar, up to 4% of each employee's compensation. Employer matching contributions to the plan in fiscal year 2022 were approximately \$20,000. The plan also allows for four categories of participants to receive employer discretionary annual contributions of up to 8.5% of each employee's compensation. Employer discretionary contributions to the plan in fiscal year 2022 were approximately \$17,000.

San Diego Regional Policy & Innovation Center

Notes to Financial Statements

Note 8 – Commitments and Contingencies

SDRPIC's government grants and agreements are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, SDRPIC has no provisions for the possible disallowance of program costs on its financial statements.

Note 9 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are issued. SDRPIC recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. SDRPIC's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued.

SDRPIC has evaluated subsequent events through December 12, 2022, which is the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to the statement of financial position date that would require adjustment to, or disclosure in, the financial statements.