Report of Independent Auditors and Financial Statements

Policy & Innovation Center

June 30, 2024 and 2023

MOSSADAMS

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Report of Independent Auditors

The Board of Directors
Policy & Innovation Center

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Policy & Innovation Center (formerly San Diego Regional Policy & Innovation Center), which comprise the statements of financial position as of June 30, 2024 and 2023, and the related statements of activities and cash flows for the years 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 Policy & Innovation Center as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Policy & Innovation Center 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 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 Policy & Innovation Center'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 Policy & Innovation Center'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 Policy & Innovation Center'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.

Moss Adams LLP

San Diego, California
November 18, 2024

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Financial Statements

Policy & Innovation Center
Statements of Financial Position
June 30, 2024 and 2023

	2024	2023
ASSETS		
ASSETS		
Cash	$ 2,408,438	$ 3,461,717
Accounts receivable	575,186	640,762
Grants receivable	49,435	12,971
Right-of-use asset – operating	786,135	852,747
Property and equipment, net	87,758	38,716
Other assets	70,275	70,473
Total assets	$ 3,977,227	$ 5,077,386
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$ 141,107	$ 129,345
Refundable advances	2,169,454	3,308,243
Due to related party	702,920	313,983
Lease liability – operating	827,936	889,788
Total liabilities	3,841,417	4,641,359
NET ASSETS		
Without donor restrictions	18,764	2,689
With donor restrictions	117,046	433,338
Total net assets	135,810	436,027
Total liabilities and net assets	$ 3,977,227	$ 5,077,386

See accompanying notes.

Policy & Innovation Center
Statement of Activities
Years Ended June 30, 2024 and 2023

	2024		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions	$ 752,865	$ -	$ 752,865
Federal grant revenue	1,166,827	-	1,166,827
In-kind contributions	454,307	-	454,307
Project income	2,442,100	-	2,442,100
Shared services	129,210	-	129,210
Net assets released from restrictions	316,292	(316,292)	-
Total revenue	5,261,601	(316,292)	4,945,309
EXPENSES			
Salary and wages	2,264,214	-	2,264,214
Employee benefits	676,802	-	676,802
Contracted services	1,537,593	-	1,537,593
Audit/accounting/legal	190,372	-	190,372
Information technology	131,642	-	131,642
Shared services	134,253	-	134,253
Advertising/marketing	16,412	-	16,412
Other expenses	294,238	-	294,238
Total expenses	5,245,526	-	5,245,526
CHANGE IN NET ASSETS	16,075	(316,292)	(300,217)
NET ASSETS			
Beginning of year	2,689	433,338	436,027
End of year	$ 18,764	$ 117,046	$ 135,810

See accompanying notes.

Policy & Innovation Center
Statement of Activities (Continued)
Years Ended June 30, 2024 and 2023

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions	$ 1,859,627	$ 347,887	$ 2,207,514
Federal grant revenue	1,115,317	-	1,115,317
In-kind contributions	423,262	-	423,262
Project income	789,188	-	789,188
Net assets released from restrictions	44,169	(44,169)	-
Total revenue	4,231,563	303,718	4,535,281
EXPENSES			
Salary and wages	1,389,865	-	1,389,865
Employee benefits	411,809	-	411,809
Contracted services	945,376	-	945,376
Audit/accounting/legal	144,389	-	144,389
Information technology	94,033	-	94,033
Shared services	185,453	-	185,453
Advertising/marketing	29,176	-	29,176
Other expenses	222,415	-	222,415
Total expenses	3,422,516	-	3,422,516
CHANGE IN NET ASSETS (DEFICIT)	809,047	303,718	1,112,765
NET ASSETS (DEFICIT)			
Beginning of year	(806,358)	129,620	(676,738)
End of year	$ 2,689	$ 433,338	$ 436,027

See accompanying notes.

Policy & Innovation Center
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions and grants from donors and funders	$ 3,835,631	$ 2,895,024
Payments for expenses – program, general and administrative, fundraising, and development	(4,815,967)	(4,410,024)
Net cash (used in) operating activities	(980,336)	(1,515,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(72,943)	(30,208)
Net cash (used in) investing activities	(72,943)	(30,208)
NET (DECREASE) IN CASH	(1,053,279)	(1,545,208)
CASH, beginning of year	3,461,717	5,006,925
CASH, end of year	$ 2,408,438	$ 3,461,717

See accompanying notes.

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), Policy & Innovation Center (PIC), formerly known as 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), PIC 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 PIC have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP), which require PIC 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 PIC. These net assets may be used at the discretion of PIC's management and the Board of Directors.

- *With donor restrictions* – Net assets with donor restrictions include those assets which have been limited by donors to later periods of time or for specified purposes. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. When a donor restriction is fulfilled, donor-restricted net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from net assets with donor restrictions. Contributions received during the year whose restrictions are met in the same year are recorded and classified as net assets without donor restrictions.

Cash and concentrations of credit risk – 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. PIC has not experienced any losses in such accounts. Management believes that PIC is not exposed to any significant credit risk with respect to its cash.

Receivables – Accounts and grants receivable represents amounts due from private companies, governments, and not-for-profit organizations for services provided.

The allowance for credit losses is based on historical experience, an assessment of economic conditions, and a review of subsequent collections. No allowance was deemed necessary at June 30, 2024 and 2023.

Property and equipment – Acquisitions of property and equipment with a cost in excess of the following thresholds are capitalized: Computer Equipment $200, Leasehold Improvements $1,500, Office Equipment $180. These assets are depreciated using the straight-line method over the following estimated useful life of the assets: Computer Equipment 3 years, Leasehold Improvements 10 years, less of the useful life or lease term, Office Equipment 7 years.

PIC 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. PIC does not believe that there are any significant factors indicating a material adjustment for impairment as of June 30, 2024 and 2023.

Right-of-use (ROU) asset/lease liability – PIC evaluates whether its contractual arrangements contain leases at the inception of such arrangements. Specifically, PIC 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. PIC 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.

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. PIC'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 statements of activities.

Operating leases may contain payments based on the Consumer Price Index 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 PIC's property and equipment policy.

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

Shared services –The Foundation provided administrative and other support services to PIC under a Service Agreement entered into on June 23, 2021. 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 PIC on an as-needed basis. In exchange of these services, PIC paid the Foundation all direct expenses incurred on PIC's behalf. The shared services expenses were approximately $134,000 and $185,000 for the years ended June 30, 2024 and 2023, respectively.

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 statements of activities as net assets released from restrictions.

- *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 PIC'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 refundable advances in the statements of financial position. As of June 30, 2024 and 2023, refundable advances under these agreements was $2,169,454 and $3,227,400, respectively.

- *In-kind contributions* – PIC received donated Chief Executive Officer services of approximately $360,000 and $377,000 for the years ended June 30, 2024 and 2023, respectively. The amount represents the actual costs incurred by the Foundation and is reported as in-kind contributions and salary and benefits on the accompanying statements of activities. In addition, PIC received technical services related to one of their projects of approximately $81,000 and $63,000 for the years ended June 30, 2024 and 2023, respectively. The amount, which is based upon information provided by third-party service providers, is recorded at estimated fair value determined on the date of contribution and reported as in-kind contributions and outside services on the accompanying statements of activities.

- *Project income* – Revenue from fees for services and/or time and materials contracts with private companies, governments, and not-for-profit organizations are recognized over time as the performance obligations in the contract are met, which generally is when the specified research activities are performed and deliverables are available to the customer.

  Total receivables from these contracts included in receivables in the accompanying statements of financial position as of June 30, 2024 and 2023, are approximately $81,000 and $411,000, respectively. Receivables are due upon invoicing.

  Amounts received prior to meeting performance obligations under these contracts are reported as deferred revenue in the statements of financial position. PIC received advances on contracts of approximately $0 and $81,000, which are reflected as deferred revenue as of June 30, 2024 and 2023, respectively, because the performance obligations have not been met.

Functional allocation of expenses – Expenses which apply to more than one functional category have been allocated among program services, 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 the financial statements in conformity with GAAP 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, 2024, funding from four entities accounted for 79% of total revenue. During the year ended June 30, 2023, funding from four entities accounted for 57% of the total revenue.

As of June 30, 2024, three customers comprised 93% of the accounts receivable balance. As of June 30, 2023, four customers comprised 84% of the accounts receivable balance.

Recently adopted accounting standards – On July 1, 2023, PIC adopted Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (A*ccounting* S*tandards* C*odification* 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology.

CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. There was no material impact to PIC's financial statements for the year ended June 30, 2024.

Income tax status – PIC 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. PIC does not have any material uncertain tax positions.

Note 2 – Liquidity and Funds Available

The following table reflects PIC's financial assets as of June 30, 2024 and 2023, 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.

	2024	2023
Financial assets		
Cash	$ 2,408,438	$ 3,461,717
Receivables	624,621	653,733
Total financial assets	3,033,059	4,115,450
Less assets unavailable for general expenditures within one year		
Funds restricted for federal grant program	(2,169,454)	(3,308,243)
Total assets unavailable for general expenditure	(2,169,454)	(3,308,243)
Financial assets available to meet cash needs for general expenditures within one year	$ 863,605	$ 807,207

PIC regularly monitors liquidity required to meet its operating needs and other contractual commitments. PIC 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 – ROU Asset and Lease Liability

PIC entered into an operating lease agreement for office space with the Foundation. The ROU operating lease asset was $786,135 and operating lease liability was $827,936 at June 30, 2024.

Total lease costs for the years ended June 30:

	2024	2023
Operating lease expense	$ 94,535	$ 94,188

The following table provides the supplemental information related to operating leases for the purpose of the measurement of lease liabilities at or for the year ended June 30, 2024:

Operating cash flows from operating leases	$ 89,425	$ 72,845
Weighted-average remaining lease term in years	9.8	10.8
Weighted-average discount rate	3.2%	3.2%

The future minimum lease payments under noncancelable operating leases with remaining lease terms in excess of one year consisted of the following at June 30, 2024:

2025	$ 91,568
2026	93,775
2027	96,049
2028	98,390
2029	100,802
Thereafter	487,395
Total minimum lease payments	967,979
Less: imputed interest	(140,043)
Total	$ 827,936

Note 4 – Property and Equipment

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

	2024	2023
Property and equipment	$ 132,640	$ 59,696
Less: accumulated depreciation	(44,882)	(20,980)
Property and equipment, net	$ 87,758	$ 38,716

Depreciation and amortization expense for years ended June 30, 2024, was $23,901 and $12,903, respectively and is included in other expenses.

Note 5 – Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30:

	2024	2023
With donor restrictions		
Programs	$ 117,046	$ 433,338
Without donor restrictions		
Operations	18,764	2,689
	$ 135,810	$ 436,027
Net assets released from restrictions	$ 316,292	$ 44,169

Note 6 – Functional Allocation of Expenses

The functional expenses were classified as follows at June 30:

	Year Ended June 30, 2024			
	Program Services	General and Administrative	Fundraising and Development	Total
Salary and wages	$ 1,340,270	$ 833,820	$ 90,124	$ 2,264,214
Employee benefits	383,987	266,995	25,820	676,802
Contracted services	772,747	764,846	-	1,537,593
Audit/accounting/legal	12,000	178,372	-	190,372
Information technology	402	112,830	18,410	131,642
Shared services	-	134,253	-	134,253
Advertising/marketing	8,400	8,012	-	16,412
Other expense	95,334	188,559	10,345	294,238
Total expenses	$ 2,613,140	$ 2,487,687	$ 144,699	$ 5,245,526

	Year Ended June 30, 2023			
	Program Services	General and Administrative	Fundraising and Development	Total
Salary and wages	$ 640,258	$ 549,096	$ 200,511	$ 1,389,865
Employee benefits	182,173	172,189	57,447	411,809
Contracted services	643,886	301,490	-	945,376
Audit/accounting/legal	46,015	98,374	-	144,389
Information technology	100	80,769	13,164	94,033
Shared services	18,545	166,908	-	185,453
Advertising/marketing	-	29,176	-	29,176
Other expense	108,685	103,385	10,344	222,415
Total expenses	$ 1,639,662	$ 1,501,387	$ 281,466	$ 3,422,516

Note 7 – Retirement Plans

Through the Foundation, PIC 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 PIC and who work at least 1,000 hours per year. PIC currently matches employee contributions to the plan dollar for dollar, up to 4% of each employee's compensation. 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. Contributions to the plan for the years ended June 30, 2024 and 2023, were approximately $246,000 and $126,000, respectively.

Note 8 – Contingencies

PIC'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, PIC 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. PIC 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. PIC'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.

PIC has evaluated subsequent events through November 18, 2024, 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.

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