Report of Independent Auditors and Financial Statements

Policy & Innovation Center

June 30, 2025 and 2024

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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, which comprise the statements of financial position as of June 30, 2025 and 2024, 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, 2025 and 2024, 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.

Baker Tilly US, LLP

San Diego, California
December 22, 2025

Financial Statements

Policy & Innovation Center
Statements of Financial Position
June 30, 2025 and 2024

	2025	2024
ASSETS		
ASSETS		
Cash and cash equivalents	$ 9,642,888	$ 2,408,438
Accounts receivable, net	560,231	575,186
Grants receivable, net	65,664	49,435
Right-of-use asset – operating, net	717,484	786,135
Property and equipment, net	69,350	87,758
Other assets	86,047	70,275
Total assets	$ 11,141,664	$ 3,977,227
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	$ 888,770	$ 141,107
Refundable advances	3,523,644	2,169,454
Due to related party	666,517	702,920
Lease liability – operating	761,904	827,936
Behavioral health loan program liability	4,860,100	-
Total liabilities	10,700,935	3,841,417
NET ASSETS		
Without donor restrictions	323,683	18,764
With donor restrictions	117,046	117,046
Total net assets	440,729	135,810
Total liabilities and net assets	$ 11,141,664	$ 3,977,227

See accompanying notes.

Policy & Innovation Center
Statements of Activities
Years Ended June 30, 2025 and 2024

	2025		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Contributions	$ 4,667,339	$ -	$ 4,667,339
Federal grant revenue	761,309	-	761,309
In-kind contributions	403,639	-	403,639
Project income	510,520	-	510,520
Shared services	70,313	-	70,313
Total revenue	6,413,120	-	6,413,120
EXPENSES			
Salary and wages	2,941,952	-	2,941,952
Employee benefits	785,343	-	785,343
Contracted services	1,544,290	-	1,544,290
Audit/accounting/legal	272,638	-	272,638
Information technology	144,073	-	144,073
Shared services	118,192	-	118,192
Advertising/marketing	3,311	-	3,311
Other expenses	294,680	-	294,680
Board/employee recognition	3,722	-	3,722
Total expenses	6,108,201	-	6,108,201
CHANGE IN NET ASSETS	304,919	-	304,919
NET ASSETS			
Beginning of year	18,764	117,046	135,810
End of year	$ 323,683	$ 117,046	$ 440,729

See accompanying notes.

Policy & Innovation Center
Statements of Activities (continued)
Years Ended June 30, 2025 and 2024

	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
Statements of Cash Flows
Years Ended June 30, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions and grants from donors and funders	$ 12,626,136	$ 3,835,631
Payments for employees and benefits	(3,661,296)	(2,552,079)
Payments to vendors	(1,729,583)	(2,263,888)
Net cash provided by operating activities	7,235,257	(980,336)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(807)	(72,943)
Net cash used in investing activities	(807)	(72,943)
NET INCREASE (DECREASE) IN CASH	7,234,450	(1,053,279)
CASH AND CASH EQUIVALENTS, beginning of year	2,408,438	3,461,717
CASH AND CASH EQUIVALENTS, end of year	$ 9,642,888	$ 2,408,438

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), 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 of accounting 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 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 cash equivalents 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.

Cash includes demand deposits with banks and financial institutions. PIC considers all cash accounts and highly liquid investment accounts with a maturity of three months or less to be cash equivalents.

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 expected future events, and a review of subsequent collections. Receivables are written off when PIC determines such receivables are deemed uncollectible. PIC continuously evaluates aged receivables and adjusts as needed. No allowance was deemed necessary at June 30, 2025 and 2024.

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, or the length of the lease whichever is less, Office Equipment 7 years.

PIC reviews the carrying value of its property and 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, 2025 and 2024.

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. 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 PIC. Amounts are expected to be paid within a year, and no interest is charged on amounts due.

Behavioral health loan program – In June 2025, PIC received $4,860,100 from the County of San Diego to establish and administer the Public Behavioral Health Workforce and Retention Program to distribute and monitor the use of funding to support individuals seeking a variety of job training, tuition support, upskilling, and incentive opportunities designed to attract and retain workers in the public behavioral health field. PIC entered a subcontractor agreement to manage the loans. PIC retains control and compliance responsibility. Subcontractors carry out tasks under PIC's program framework. Amounts received are recognized as revenue when expenditures have been incurred in compliance with the contract.

Refundable advances represent amounts received by the PIC before the conditions specified by the donor or grantor have been substantially met. These amounts are recorded as liabilities until the related performance obligations are satisfied or donor-imposed conditions are fulfilled for program purposes, at which time the funds are recognized as revenue. If the conditions are not met, PIC is obligated to return the funds to the donor or grantor.

Shared services –The Foundation provided administrative and other support services to PIC under an amended Service Agreement entered into June 29, 2023. 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 $118,000 and $134,000 for the years ended June 30, 2025 and 2024, 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. Conditional contributions, 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.

- *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. Services are utilized in operations. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position. As of June 30, 2025 and 2024, refundable advances under these agreements was $3,523,644 and $2,169,454, respectively.

- *In-kind contributions* – PIC received donated Chief Executive Officer services of approximately $360,000 for the years ended June 30, 2025 and 2024. 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 $40,000 and $81,000 for the years ended June 30, 2025 and 2024, 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.

- *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 beginning balances as of July 1, 2024 and 2023, are approximately $81,000 and $411,000, respectively. Total receivables from these contracts included in receivables in the accompanying statements of financial position as of June 30, 2025 and 2024, are approximately $427,531 and $81,000, respectively. Receivables are due upon invoicing once contract obligations are met. No allowance for credit losses was recorded in 2025 for receivables. The allowance is based on historical collection of receivables.

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, 2025, funding from three entities accounted for 85% of total revenue. During the year ended June 30, 2024, funding from four entities accounted for 79% of the total revenue.

As of June 30, 2025, three customers comprised 82% of the accounts receivable balance. As of June 30, 2024, three customers comprised 93% of the accounts receivable balance.

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, 2025 and 2024, 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.

	2025	2024
Financial assets		
Cash and cash equivalents	$ 9,642,888	$ 2,408,438
Receivables	625,895	624,621
Total financial assets	10,268,783	3,033,059
Less assets unavailable for general expenditures within one year		
Funds restricted for federal grant program	(3,523,644)	(2,169,454)
Funds restricted for behavioral health loan program	(4,860,100)	-
Total assets unavailable for general expenditure	(8,383,744)	(2,169,454)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,885,039	$ 863,605

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 $717,484 and operating lease liability was $761,904 at June 30, 2025.

Total lease costs for the years ended June 30:

	2025	2024
Operating lease expense	$ 86,054	$ 94,535

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, 2025:

	2025	2024
Operating cash flows from operating leases	$ 91,568	$ 89,425
Weighted-average remaining lease term in years	8.8	9.8
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, 2025:

Year Ending June 30,	
2026	$ 93,775
2027	96,049
2028	98,390
2029	100,802
2030	103,286
Thereafter	384,112
Total minimum lease payments	876,414
Less imputed interest	(114,510)
Total	$ 761,904

Note 4 – Property and Equipment

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

	2025	2024
Office Equipment	$ 16,402	$ 16,402
Computer Equipment	61,186	60,379
Leasehold Improvement	55,859	55,859
Total equipment cost	133,447	132,640
Less accumulated depreciation	(64,097)	(44,882)
Property and equipment, net	$ 69,350	$ 87,758

Depreciation and amortization expense for years ended June 30, 2025 and 2024, was $19,215 and $23,901, respectively, and is included in other expenses.

Note 5 – Net Assets with Donor Restrictions

Net assets with donor restrictions represent purpose-restricted funds received under grant and contract agreements to support time-bound and program-specific initiatives. These include initiatives focused on workforce equity, regional data infrastructure, environmental resilience, and community-led engagement. Restrictions are released upon satisfaction of the respective programmatic purposes or the passage of time. Net assets with donor restrictions totaled $117,046 at June 30, 2025 and 2024.

Note 6 – Functional Allocation of Expenses

The functional expenses were classified as follows at June 30:

	Year Ended June 30, 2025			
	Program Services	General and Administrative	Fundraising and Development	Total
Salary and wages	$ 1,755,480	$ 904,806	$ 281,666	$ 2,941,952
Employee benefits	492,385	214,542	78,416	785,343
Contracted services	841,464	702,826	-	1,544,290
Audit/accounting/legal	57,832	214,806	-	272,638
Shared services	68,516	49,676	-	118,192
Information technology	31,263	112,810	-	144,073
Board/employee recognition	1,302	2,420	-	3,722
Advertising/marketing	1,886	1,425	-	3,311
Other expense	15,947	278,733	-	294,680
Total expenses	$ 3,266,075	$ 2,482,044	$ 360,082	$ 6,108,201

	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

Note 7 – Retirement Plans

Through the Foundation, PIC employees participate in an employee benefit plan (the 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, 2025 and 2024, were approximately $239,000 and $246,000, 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 – Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no impact on change in net assets or net assets.

Note 10 – 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 December 22, 2025, 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.