Center for Innovative Governance Research
DBA Charter Cities Institute

Financial Statements
and Independent Auditor's Report

December 31, 2022 and 2021

Center for Innovative Governance Research
DBA Charter Cities Institute

Financial Statements
December 31, 2022 and 2021

Contents

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Center for Innovative Governance Research DBA Charter Cities Institute

Opinion

We have audited the accompanying financial statements of Center for Innovative Governance Research DBA Charter Cities Institute ("the Institute"), which comprise the statements of financial position as of December 31, 2022 and 2021; the related statements of activities, functional expenses, and cash flows for the years then ended; and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Institute as of December 31, 2022 and 2021, 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. 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 the Institute 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Institute adopted Accounting Standards Update (ASU) 2016-02, Accounting Standards Codification (ASC 842), *Leases,* and all subsequent ASUs that modified ASC 842. The Institute has applied the modified retrospective method to adopt this standard during the year ended December 31, 2022, and adjusted the presentation in the financial statements as permitted by ASC 842. Our opinion is not modified with respect to this matter.

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 the Institute'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 generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the 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 the Institute's internal control. Accordingly, no such opinion is expressed.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- 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 the Institute'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.

Rogers + Company PLLC

Vienna, Virginia
July 24, 2023

Center for Innovative Governance Research
DBA Charter Cities Institute

Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash	$ 821,023	$ 2,618,392
Investments	2,967,365	2,965,777
Grants receivable	600,000	-
Prepaid expenses and deposits	37,229	17,653
Right-of-use asset – operating lease	115,795	-
Total assets	$ 4,541,412	$ 5,601,822
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 15,023	$ 51,173
Deferred rent	-	25,550
Lease liability – operating lease	134,378	-
Total liabilities	149,401	76,723
Net Assets		
Without donor restrictions	4,392,011	5,525,099
Total net assets	4,392,011	5,525,099
Total liabilities and net assets	$ 4,541,412	$ 5,601,822

Center for Innovative Governance Research
DBA Charter Cities Institute

Statements of Activities
For the Years Ended December 31, 2022 and 2021

	2022	2021
Revenue and Support		
Contributions	$ 1,827,751	$ 6,061,289
Other income	63,507	3,560
Investment return, net	(497,699)	117,360
Total revenue and support	1,393,559	6,182,209
Expenses		
Program services	1,795,843	1,141,804
Supporting services:		
Management and general	389,263	321,194
Fundraising	341,541	282,267
Total supporting services	730,804	603,461
Total expenses	2,526,647	1,745,265
Change in Net Assets	(1,133,088)	4,436,944
Net Assets, beginning of year	5,525,099	1,088,155
Net Assets, end of year	$ 4,392,011	$ 5,525,099

See accompanying notes.

Center for Innovative Governance Research
DBA Charter Cities Institute

Statement of Functional Expenses
For the Year Ended December 31, 2022

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total
Advertising and marketing	$ 91,482	$ 17,569	$ 15,146	$ 32,715	$ 124,197
Bank fees	-	700	-	700	700
Books	3,322	638	550	1,188	4,510
Conference	51,140	-	-	-	51,140
Contractors	394,492	31,750	42,900	74,650	469,142
Dues and subscriptions	31,367	6,024	5,193	11,217	42,584
Grants and contributions	198,486	-	-	-	198,486
Insurance	-	2,310	-	2,310	2,310
Internships	34,017	-	5,233	5,233	39,250
Legal and professional services	-	49,990	-	49,990	49,990
Meals and entertainment	22,434	4,309	3,714	8,023	30,457
Office supplies and software	14,240	2,735	2,358	5,093	19,333
Other business expenses	9,310	1,795	3,722	5,517	14,827
Personnel	722,155	244,161	207,432	451,593	1,173,748
Printing and shipping	-	6,480	-	6,480	6,480
Professional development	12,755	2,450	2,112	4,562	17,317
Recruiting	14,654	2,814	2,426	5,240	19,894
Rent	41,329	11,431	11,695	23,126	64,455
Travel	139,811	-	34,953	34,953	174,764
Utilities	14,849	4,107	4,107	8,214	23,063
Total Expenses	$ 1,795,843	$ 389,263	$ 341,541	$ 730,804	$ 2,526,647

See accompanying notes.

Center for Innovative Governance Research
DBA Charter Cities Institute

Statement of Functional Expenses
For the Year Ended December 31, 2021

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total
Advertising and marketing	$ 50,297	$ 8,383	$ 8,383	$ 16,766	$ 67,063
Bank fees	-	2,412	-	2,412	2,412
Books	7,483	1,247	1,247	2,494	9,977
Conference	32,600	-	-	-	32,600
Contractors	165,950	75,334	6,506	81,840	247,790
Dues and subscriptions	30,253	5,042	5,042	10,084	40,337
Grants and contributions	23,729	-	-	-	23,729
Home office expense	986	164	164	328	1,314
Insurance	-	2,149	-	2,149	2,149
Internships	47,773	-	10,058	10,058	57,831
Legal and professional services	-	39,561	-	39,561	39,561
Meals and entertainment	19,251	3,208	3,208	6,416	25,667
Office supplies and software	28,125	4,687	4,687	9,374	37,499
Other business expenses	1,260	217	210	427	1,687
Personnel	558,574	159,619	172,792	332,411	890,985
Printing and shipping	-	1,165	-	1,165	1,165
Professional development	11,985	1,998	1,998	3,996	15,981
Recruiting	87,446	7,363	7,363	14,726	102,172
Reimbursable expenses	200	33	33	66	266
Rent	21,148	6,401	9,701	16,102	37,250
Travel	47,559	-	47,559	47,559	95,118
Utilities	7,185	2,211	3,316	5,527	12,712
Total Expenses	$ 1,141,804	$ 321,194	$ 282,267	$ 603,461	$ 1,745,265

See accompanying notes.

Center for Innovative Governance Research
DBA Charter Cities Institute

Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	$ (1,133,088)	$ 4,436,944
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Unrealized loss (gain) on investments	559,477	(89,653)
Right-of-use asset – operating lease	(115,795)	-
Lease liability – operating lease	134,378	-
Change in operating assets and liabilities:		
Decrease in:		
Grants receivable	(600,000)	-
Prepaid expenses and deposits	(19,576)	(17,653)
(Decrease) increase in:		
Accounts payable and accrued expenses	(36,150)	49,298
Deferred rent	(25,550)	25,550
Net cash (used in) provided by operating activities	(1,236,304)	4,404,486
Cash Flows from Investing Activity		
Purchases of investments	(561,065)	(2,876,124)
Net cash used in investing activity	(561,065)	(2,876,124)
Net (Decrease) Increase in Cash	(1,797,369)	1,528,362
Cash, beginning of year	2,618,392	1,090,030
Cash, end of year	$ 821,023	$ 2,618,392

See accompanying notes.

1. Nature of Operations

The Center for Innovative Governance Research DBA Charter Cities Institute ("the Institute") is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), and was incorporated on October 30, 2017 in the State of Nevada. The Institute is dedicated to building the ecosystem for charter cities. It was founded on the idea that a fresh approach was necessary to tackle humanity's most pressing challenges: global poverty, rapid urbanization, and conflict and migration caused by poverty, war, and climate change.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Institute's financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions in the following classes:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair value. All realized and unrealized gains and losses are included in the accompanying statements of activities. Donated investments are recorded at their fair value on the date of receipt and immediately sold.

Grants Receivable

Grants receivable consist of amounts due to be reimbursed to the Institute for expenses incurred under various grant agreements. The entire amount is expected to be collected within one year, and is recorded at net realizable value at December 31, 2022. No allowance for doubtful grants receivable is recorded, as management believes that all amounts are fully collectible.

Operating Lease

The Institute determines if an arrangement is a lease at inception. Leases are included in right-of-use ("ROU") assets, which represent the Institute's right to use an underlying asset for the lease terms, and lease liabilities represent the Institute's obligation to make lease payments arising from the lease. ROU lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Institute's lease does not provide an implicit rate, the Institute used a risk-free rate based on the information available at the commencement date in determining the present value of lease payments.

The ROU assets also include any lease payments made and exclude lease incentives. The Institute's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Institute will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Revenue Recognition

The Institute recognizes contributions when cash, securities, or other assets, or an unconditional promise to give, is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Revenue from all other sources is recognized when earned.

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include occupancy, which is allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort.

Adopted Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-02, Accounting Standards Codification (ASC) 842, *Leases.* The update requires a lessee to recognize an ROU asset and lease liability, initially measured at the present value of the lease payments, in its statements of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective for the Institute's fiscal year ended December 31, 2022. The Institute adopted ASC 842 during the year ended December 31, 2022, and adjusted the presentation in the financial statements as permitted by ASC 842. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available.

Subsequent Events

In preparing these financial statements, the Institute has evaluated events and transactions for potential recognition or disclosure through July 24, 2023, the date the financial statements were available to be issued.

3. Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise of the following at December 31:

	2022	2021
Cash	$ 821,023	$ 2,618,392
Investments	2,967,365	2,965,777
Total available for general expenditures	$ 3,788,388	$ 5,584,169

4. Concentration of Credit Risk

Financial instruments that potentially subject the Institute to significant concentrations of credit risk consist of cash and investments. The Institute maintains cash deposit and transaction accounts, along with investments, with various financial institutions and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Institute has not experienced any credit losses on its cash and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

5. Investments and Fair Value Measurements

The Institute follows FASB ASC 820, *Fair Value Measurements and Disclosures,* for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, and requires an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value.

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

5. Investments and Fair Value Measurements (continued)

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. The Institute recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

In general, and where applicable, the Institute uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

The following table presents the Institute's fair value hierarchy for those investments measured on a recurring basis at December 31, 2022:

	Level 1	Level 2	Level 3	Total fair value
Exchange traded funds:				
Domestic equity:				
Large cap	$ 1,091,139	$ -	$ -	$ 1,091,139
Small cap	333,921	-	-	333,921
Foreign equity:				
Emerging markets	467,624	-	-	467,624
Domestic fixed income:				
Treasury obligation fund	512,440	-	-	512,440
U.S. aggregate bond fund	562,241	-	-	562,241
Total investments	$ 2,967,365	$ -	$ -	$ 2,967,365

5. Investments and Fair Value Measurements (continued)

The following table presents the Institute's fair value hierarchy for those investments measured on a recurring basis at December 31, 2021:

	Level 1	Level 2	Level 3	Total fair value
Exchange traded funds:				
Domestic equity:				
Large cap	$ 1,360,014	$ -	$ -	$ 1,360,014
Small cap	407,833	-	-	407,833
Foreign equity:				
Emerging markets	550,533	-	-	550,533
Domestic fixed income:				
U.S. aggregate bond fund	647,397	-	-	647,397
Total investments	$ 2,965,777	$ -	$ -	$ 2,965,777

Net investment return consists of the following for the years ended December 31:

	2022	2021
Interest and dividend income	$ 61,778	$ 27,707
Realized and unrealized (loss) gain	(559,477)	89,653
Investment return, net	$ (497,699)	$ 117,360

The Institute's investment portfolio is not actively managed, rather it is self-directed; therefore, the Institute did not incur any investment fees for both years ended December 31, 2022 and 2021.

6. Commitments and Contingencies

Operating Lease

The Institute leases office space in Washington, D.C. under an operating lease that commenced on June 1, 2021 and is set to expire on October 30, 2024. The lease calls for base monthly payments of $5,851 with annual escalations of 2.5%. In addition, the lease contains a lease incentive in the form of a five-month rental abatement.

6. Commitments and Contingencies (continued)

Operating Lease (continued)

On January 1, 2022, the Institute adopted Topic 842 and recorded an ROU asset and a lease liability in the accompanying statement of financial position at December 31, 2022.

Rent expense under the operating lease was $64,455 and $37,250 for the years ended December 31, 2022 and 2021, respectively.

Other supplemental qualitative information related to the operating lease at December 31, 2022 is as follows:

Cash paid for amounts included in the measurement of lease liability – operating cash flows	$	207,771
Right-of-use asset obtained in exchange for lease obligations	$	203,203
Weighted-average remaining lease term (in years)		1.8
Weighted-average discount rate		1.51%

The following is a maturity analysis of the annual discounted cash flows of the operating lease liability and a reconciliation to present value of lease liability for the years ended December 31:

2023	$	73,523
2024		62,826
Total minimum lease payments		136,349
Less: discount to present value at 1.51%		(1,971)
Present value of operating lease liability	$	134,378

7. Related Party Transactions

Members of the Institute formed a completely separate company incorporated under the laws of the Republic of Zambia. The Institute shares two common board members but has no legal, financial, or other interest in this company. The Institute has an agreement in place to provide general purpose grants and support operations. For the years ended December 31, 2022 and 2021, the Institute made unconditional commitments totaling $181,086 and $20,729, respectively, which are included in grants and contributions expense in the accompanying statements of functional expenses.

8. Retirement Plan

The Institute maintains a 401(k) plan. The plan covers substantially all employees who meet certain age and vesting requirements. The plan allows for discretionary employer matching contributions. Employer contributions to the plan totaled $52,249 and $116,546 for the years ended December 31, 2022 and 2021, respectively, and are included in personnel expenses in the accompanying statements of functional expenses.

9. Income Taxes

The Institute is exempt from payment of taxes on income other than net unrelated business income under IRC Section 501(c)(3), and qualifies to receive charitable donations under IRC Section 170(b)(1)(A)(vi). The Institute is considered a disregarded LLC for tax purposes and is also exempt from payment of income taxes other than unrelated business income. No tax expense is recorded in the accompanying financial statements, as there was no net unrelated business taxable income. Management has evaluated the Institute's tax positions and concluded that the financial statements do not include any uncertain tax positions.