

*Financial Statements and Reports  
Under Uniform Guidance*

POTOMAC INSTITUTE FOR  
POLICY STUDIES

December 31, 2022

**GENERAL ORGANIZATIONAL DATA**  
**ORGANIZATION AND PURPOSE**

Potomac Institute for Policy Studies (PIPS) was incorporated under the laws of the State of Delaware on March 3, 1994, to operate a non-stock, non-profit organization.

The Potomac Institute for Policy Studies is an independent, not-for-profit public policy research institute that provides nonpartisan analysis of technology and technology policy to leaders in government, business and academia.

The Potomac Institute for Policy Studies was granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code on February 9, 1996.

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Gary L. Sojka, Treasurer/Secretary  
Jennifer M. Buss, Ph.D., CEO  
Gail G. Clifford, CPA, Vice President Financial Management, CFO

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## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Board of Directors and Regents of  
Potomac Institute for Policy Studies  
Arlington, Virginia

### Report on the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of Potomac Institute for Policy Studies (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Potomac Institute for Policy Studies as of December 31, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Potomac Institute for Policy Studies 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 opinions.

#### *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 Potomac Institute for Policy Studies' 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 and *Government 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 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 and *Government 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 Potomac Institute for Policy Studies' 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 Potomac Institute for Policy Studies' 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.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2023, on our consideration of Potomac Institute for Policy Studies' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Potomac Institute for Policy Studies' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Potomac Institute for Policy Studies' internal control over financial reporting and compliance.

Leesburg, Virginia  
June 13, 2023

*Mitchell, Burns & Co., P.C.*

**POTOMAC INSTITUTE FOR POLICY STUDIES**

**STATEMENT OF FINANCIAL POSITION**

**December 31, 2022**

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**ASSETS**

Current Assets

Cash and cash equivalents	\$ 3,587,792
Receivable from contracts, less \$11,349 allowance for doubtful accounts	1,961,467
Rate variance receivable	49,972
Contract assets - unbilled work in process	221,093
Other receivables	180,041
<b>Total current assets</b>	<b><u>6,000,365</u></b>

Property and Equipment

Leasehold improvements	1,440,512
Office equipment and furniture	488,957
Less: accumulated depreciation/amortization	<u>(1,891,892)</u>
	<u>37,577</u>

Other Assets

Rental restricted - certificates of deposit	150,895
Rental security deposit	30,333
Operating lease right-of-use asset	<u>16,014,022</u>
	<u>16,195,250</u>

**Total assets**

**\$ 22,233,192**

**LIABILITIES AND NET ASSETS**

Current liabilities

Accounts payable	\$ 724,240
Contract liabilities - billed in advance	770,011
Accrued expenses	53,066
Accrued payroll and related liabilities	297,334
Other current liabilities	35,233
Lease liability, current portion	<u>1,085,841</u>
<b>Total current liabilities</b>	<b><u>2,965,725</u></b>

Noncurrent liabilities

Lease liability	<u>14,528,019</u>
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**Net assets, without donor restriction**

**4,739,448**

**Total liabilities and net assets**

**\$ 22,233,192**

See Notes to Financial Statements.

**POTOMAC INSTITUTE FOR POLICY STUDIES**

**STATEMENT OF ACTIVITIES**

**For the Year Ended December 31, 2022**

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**CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTION:**

**REVENUE**

Contracts	\$ 13,232,438
Education program	46,319
Sponsorship	25,000
Navigator/membership	23,383
Other	866
Interest income	2,727
<b>Total revenue</b>	<u>13,330,733</u>

**EXPENSES**

Program services	7,084,427
Allocated	
General & Administrative	2,327,684
Overhead	3,545,412
Unallowables	257,233
<b>Total expenses</b>	<u>13,214,756</u>

**Change in net assets without donor restriction** 115,977

**Implementation effect of ASC 842** 499,029

**Net assets, beginning of year** 4,124,442

**Net assets, end of year** \$ 4,739,448

See Notes to Financial Statements.

POTOMAC INSTITUTE FOR POLICY STUDIES

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2022

Expenses	Program	Allocated to Programs		Unallowable	Total Expenses
		G&A	Overhead		
Salaries and wages	\$ 3,176,818	\$ 1,127,834	\$ 219,400	\$ 24,637	\$ 4,548,689
Pension plan contributions	-	-	216,884	-	216,884
Other employee benefits	-	-	1,546,799	-	1,546,799
Payroll tax	-	-	358,733	-	358,733
<b>Total salaries and related expenses</b>	<b>3,176,818</b>	<b>1,127,834</b>	<b>2,341,816</b>	<b>24,637</b>	<b>6,671,105</b>
Subcontractor fees	3,480,810	-	-	-	3,480,810
Consulting fees	298,203	377,819	-	-	676,022
Banking and administrative fees	-	32,361	-	21,919	54,280
Legal and accounting	-	35,865	-	-	35,865
Supplies	15,370	14,735	-	-	30,105
Telephone	-	33,809	9,833	-	43,642
Postage and delivery	-	1,837	-	-	1,837
Occupancy					
Operating lease expense	-	369,693	1,109,081	-	1,478,774
CAM charges	-	12,139	36,416	-	48,555
Equipment rental and maintenance	-	22,168	639	-	22,807
Printing and publications	6,363	10,956	-	-	17,319
Travel	66,535	5,935	277	-	72,747
Conferences and meetings	8,118	3,063	750	-	11,931
Depreciation	-	100,782	-	-	100,782
Insurance	-	2,221	-	-	2,221
Dues and subscriptions	210	136,573	3,250	-	140,033
Business licenses and fees	-	225	2,057	-	2,282
Business development	-	-	35,863	-	35,863
Equipment	32,000	32,667	21	-	64,688
Other	-	7,002	5,409	-	12,411
Unallocable expenses	-	-	-	210,677	210,677
<b>Total expenses</b>	<b>\$ 7,084,427</b>	<b>\$ 2,327,684</b>	<b>\$ 3,545,412</b>	<b>\$ 257,233</b>	<b>\$ 13,214,756</b>

See Notes to Financial Statements.

## POTOMAC INSTITUTE FOR POLICY STUDIES

### STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2022

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#### Cash Flows from Operating Activities

Increase in unrestricted net assets	\$ 115,977
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	100,782
Implementation effect of ASC 842	499,029
Operating lease right-of-use asset	(16,014,022)
Lease liability	15,613,860
Decrease (increase) in assets:	
Receivable from contracts	(768,422)
Contract asset - unbilled work in process	201,630
Rate variance receivable	(49,972)
Other receivables	(180,041)
Other current assets	49,754
Fee retainage	70,370
Increase (decrease) in liabilities:	
Accounts payable	395,193
Accrued expenses	(26,946)
Accrued payroll and related liabilities	30,918
Other current liabilities	11,041
Rate variance obligation	(37,576)
Contract liabilities - billed in advance	165,529
Deferred rent	(275,871)
<b>Net cash used in operating activities</b>	<u>(98,767)</u>
<b>Net decrease in cash</b>	(98,767)

#### Cash and cash equivalents

Beginning of year	<u>3,686,559</u>
End of year	<u>\$ 3,587,792</u>

#### Supplemental disclosures of cash flow information

Cash outflows from operating leases	<u>\$ 2,092,804</u>
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See Notes to Financial Statements.

## POTOMAC INSTITUTE FOR POLICY STUDIES

### NOTES TO THE FINANCIAL STATEMENTS

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#### **Note 1. Nature of Activities and Summary of Significant Accounting Policies**

##### **Nature of Activities**

The Potomac Institute for Policy Studies (PIPS) is an independent, not-for-profit public policy research institute that identifies and aggressively shepherds discussion on key science and technology (S&T) issues facing our society, providing an academic forum for the study of related policy issues. From these discussions and forums, the Institute develops meaningful science and technology policy options, and ensures their implementation at the intersection of business and government. The Institute's current endeavors have required the formation of special efforts in terrorism and asymmetry, emerging threats and opportunities, S&T forecasting and assessment, national security, national health policy and technology transition. The Institute receives both government and private funding to conduct its studies headquartered in Arlington, Virginia.

##### **Significant Accounting Policies**

The financial statements of PIPS have been prepared in accordance with policies followed by nonprofit organizations. The significant accounting policies that follow are described below to enhance the usefulness of the financial statements to the reader.

*Basis of Accounting:* The financial statements of PIPS have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

*Basis of Presentation:* Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) as defined in the FASB Accounting Standards Codification (ASC) Topic 958 dated August 2016, Not-For-Profit Entities, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations". Under ASC Topic 958, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

*Net Assets Without Donor Restriction:* Net assets not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

*Net Assets With Donor Restriction:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

*Functional Allocation of Expenses:* PIPS records its expenditures as program, allocated and unallowables. Program expenses are charged to these areas based on direct expenditures incurred. Any expenses not directly chargeable to a program are allocated based on related salary expenses if such allocation is permitted under the terms of the grant or contract. Other expenses not permitted under grants or contracts are recorded as unallowables.

*Leases:* Operating lease right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future minimum payment over the lease term. ROU assets also include prepaid or accrued rent. Operating lease expense is recognized on a straight-line basis over the lease term in the schedule of direct purchase costs. Lease and non-lease components of lease agreements are broken out on the statement of functional expenses. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised.

## POTOMAC INSTITUTE FOR POLICY STUDIES

### NOTES TO THE FINANCIAL STATEMENTS

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#### Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)

*Cash and Cash Equivalents:* For purposes of reporting cash flows, PIPS considers all financial institution cash on demand deposits, money market deposits, cash management accounts, and certificates of deposit with an original maturity of three months or less to be cash equivalents.

*Certificates of Deposit:* Certificates of deposit totaling \$150,895 are included in Rental restricted – certificates of deposit in the accompanying statement of financial position. The certificates bear interest ranging from 0.01% to 0.50%.

*Receivables from Contracts:* Receivables from contracts are based on contracted prices. PIPS provides an allowance for doubtful collections that is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal contracts receivable are due 30 days after the issuance of the invoice. Receivables past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

*Property and Equipment:* Leasehold improvements, office equipment and furniture are recorded at cost less accumulated depreciation over the estimated useful lives of the assets. Donated assets are recorded at fair market value on the date of receipt less accumulated depreciation. The Institute depreciates its office equipment and furniture on a straight line basis over five years. Certain purchases of equipment under the terms of Federal grants and contracts may be required to be returned to the granting or contracting agency. These purchases of equipment are not capitalized in the financial statements pursuant to the terms of the grants and contracts.

*Revenue Recognition:* PIPS' activities are funded by various sponsors, primarily agencies of the federal government, under fixed-price contracts, cost-type contracts, and time-and-material contracts.

Revenue on fixed-price contracts is recognized as the work is performed, with estimated profit recognized in proportion to the rate that actual costs incurred bear to total projected costs. Revenue on cost-type contracts is recognized as costs are incurred plus applicable fee. Revenue on time-and-material contracts is recognized based on a combination of the fixed hourly rates per the applicable time expended and the costs of material and other specified direct costs stipulated per the terms of the contract. Contract costs include all direct labor and material costs as well as indirect costs allocable to direct contract performance. Provisions for estimated losses on uncompleted contracts are made in the period in which losses are anticipated. Changes in contract performance, contract conditions, and estimated profitability, including final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

*Income taxes:* PIPS qualifies as a tax-exempt Institute under section 501(c)(3) of the Internal Revenue Code. In addition, the Institute has been classified as a publicly-supported Institute under section 509(a)(1) of the Internal Revenue Code. Therefore, no provision for income taxes has been recorded in the accompanying financial statements.

PIPS adopted the guidance under ASC Topic 740, *Income Taxes*. Management has evaluated PIPS' tax positions and concluded that PIPS has taken no uncertain tax provisions that would require adjustment to, or disclosure in, the financial statements to comply with the provisions of the guidance. PIPS annually files the IRS informational filing for 990, return of organizations exempt from income taxes. Reporting years open for IRS audit include 2019, 2020, 2021 and 2022.

*Use of Estimates:* Generally accepted accounting principles require management to make estimates and assumptions that affect assets and liabilities, contingent assets and liabilities, and revenues and expenses. Actual results could differ from those estimates.

**POTOMAC INSTITUTE FOR POLICY STUDIES**

**NOTES TO THE FINANCIAL STATEMENTS**

**Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)**

*Measure of Operations:* The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to PIPS’ ongoing activities. Non-operating activities are limited to resources that generate return from investments, financing costs, and other activities considered to be of a more unusual or nonrecurring nature. There were no non-operating activities in 2022.

**Note 2. Concentration of Banking Risk**

A summary of banking deposits at December 31, 2022 is as follows:

	Amount	
	Bank	Accounting
Truist Bank Deposits		
Operating checking	\$ 594,887	\$ 580,553
Money market	3,007,284	3,007,239
Rental restricted cash deposit - certificates of deposit	150,892	150,895
	<u>\$ 3,753,063</u>	<u>\$ 3,738,687</u>

Bank deposit accounts are insured up to \$250,000 under the FDIC insurance program. At December 31, 2022, banking deposits totaled \$3,753,066 exceeding FDIC insurance coverage limits by \$3,503,066.

During 2022 PIPS’ was victim to a fraudulent banking transactions, summarized as followed:

Description	Amount
Fraudulent transactions	\$ 612,773
Recovered during 2022	(432,732)
Remaining balance to be recovered at December 31, 2022	<u>\$ 180,041</u>

PIPS has filed claim with the Federal Bureau of Investigations and expects the remaining balance to be collected in 2023. The amount has been recorded on PIPS financial statements as other receivables as December 31, 2022.

**Note 3. Rate Variance Receivable**

PIPS performs contract services for the U.S. Government under billing rate arrangements set by the Defense Contract Audit Agency (DCAA). These DCAA set billing rates are based on prior costs to perform contract services and are modified with a billing modification annually to reflect actual approved contract costs.

Actual rates to billed rate modifications are reported as a DCAA rate variance receivable or obligation. A summary of the billed to actual rate variances is as follows:

Item	Rate Variance		Net Total Amount
	Benefit	Obligation	
2021 USAF rate variance receivable	\$ 49,972	\$ -	\$ 49,972

## POTOMAC INSTITUTE FOR POLICY STUDIES

### NOTES TO THE FINANCIAL STATEMENTS

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#### Note 4. Contract Assets – Unbilled

PIPS performs services on various contracts with varying billing arrangements. When amounts billed are less than the amount earned based on performance obligations, PIPS records a contract asset. At December 31, 2022, PIPS had \$221,093 unbilled work-in-process.

#### Note 5. Bank Line of Credit

The Institute has available a \$1,000,000 operating line of credit financing instrument established with Truist Bank. The terms of the credit arrangement are interest at prime rate plus .375%, term extended to May 15, 2024, secured by inventory, chattel paper, accounts, equipment and general intangibles. At December 31, 2022, there was no outstanding line of credit balance.

#### Note 6. Contract Liabilities – Billed in Advance

PIPS performs services on various contracts with varying billing arrangements. Certain contract payments are based on a fixed timeline and not as contract services and efforts are performed. PIPS reports payments received in advance of the performance obligation as contract liabilities until the amounts are earned.

A summary of the contract liabilities at December 31, 2022 are as follows:

Description	Amount
Contract liabilities, December 31, 2021	\$ 604,482
Previously deferred revenue recognized	(604,482)
Cash received for contracts	14,002,449
Current revenue recognized	(13,232,438)
Contract liabilities, December 31, 2022	<u>\$ 770,011</u>

#### Note 7. Operating Leases

PIPS entered into a lease agreement for office space at 901 North Stuart Street, Arlington, Virginia to include Suites 200, 900, 902, 904, 906, 908 and 1200. Terms include - effective leasing commencement dates range from July, 2010 to December, 2012; expiration date of leases - December, 2022; set annual 3% base rent increase; allocated share of building operating expenses; renewal options; and, suite renovation allowances provided by landlord.

Effective July 1, 2018 the lease arrangements were re-negotiated reducing leased space in the ninth and second floor suites. Additionally, the term of the remaining space leased was extended to December, 2032. Lease rates remain the same through 2022 and reduced beginning in 2023 with a subsequent escalation rate as noted in Amendment 9 of the lease.

At December 31, 2022, the weighted average lease term was 10.01 years, and the weighted average discount was 4%. There were no variable lease costs. All CAM and taxes were presented separately on the statement of functional expenses.

## POTOMAC INSTITUTE FOR POLICY STUDIES

### NOTES TO THE FINANCIAL STATEMENTS

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#### Note 7. Operating Leases (Continued)

Future minimum lease payments excluding CAM charges are as follows:

For the year ending:	Amount
2023	\$ 1,687,225
2024	1,733,700
2025	1,781,343
2026	1,830,433
2027	1,879,435
Thereafter	10,188,884
Total lease payments	19,101,020
Less: amount representing interest	(3,487,160)
Present value of lease liability	<u>\$ 15,613,860</u>

PIPS has multiple short-term subleases which are netted against operating lease expense. Total 2022 sublease income was \$388,470.

#### Note 8. Defined Contribution Pension Plan

PIPS has established a defined contribution pension plan under Internal Revenue Code Section 403(b) under which eligible employees may elect to defer part of their salaries. These amounts PIPS can make discretionary contributions at the direction of the Board. For 2022, the Institute matched employee contributions totaling \$216,884 and made no discretionary contributions.

#### Note 9. Fair Value of Financial Instruments

PIPS' financial instruments are cash and cash equivalents, contract and other receivables, unbilled, security deposits, accounts payable, billed in advance, accrued expenses, and other liabilities the recorded values of which approximate their fair values based on their short-term nature.

#### Note 10. Related Party Transactions

During 2022, PIPS procured the following services from related parties:

Related Party	Related By	Services Provided	Amount
Prasam (business owned by Gary L. Sojka)	Board Member	Consulting	\$ 50,923
JY Strategies (business owned by John Young)	Board Member	Consulting	34,010
Lyle A. Cox, Jr., Ph.D.	Board Member	Consulting	60,000
Theodore Glum	Board Member	Consulting	61,435
General Alfred M. Gray, USMC (Ret.)	Board Member	Consulting	151,000
			<u>\$ 357,368</u>

All related party transactions were conducted at arms-length.

## POTOMAC INSTITUTE FOR POLICY STUDIES

### NOTES TO THE FINANCIAL STATEMENTS

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#### Note 11. New Accounting Guidance Implementation

Effective January 1, 2022, PIPS changed its accounting method for leases as a result of implementing requirements in the Financial Accounting Standard's Board Accounting Standard Codification 842, Leases (FASB ASC 842).

PIPS elected to adopt FASB ASC 842 using the optional transition method that allows the organization to initially apply the new leases standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. PIPS elected to adopt the package of practical expedients available under the transition guidance with the new standard. The package includes the following: relief from determination of lease contracts included in existing or expiring leases at the point of adoption and relief from reevaluation of existing leases that have initial direct costs associated with the execution of the lease contract. The Organization also elected to adopt the practical expedient to use hindsight to determine the lease term and assess the impairment of the right-of-use assets.

The adoption of FASB ASC 842 resulted in an implementation effect on net assets as of January 1, 2022 summarized as follows:

Description	Amount
Operating right-of-use assets	\$ 16,093,501
Lease liabilities recorded	15,594,472
Implementation effect on net assets	<u>\$ 499,029</u>

#### Note 12. Subsequent Events

PIPS has evaluated events and transaction subsequent to December 31, 2022 through June 13, 2023, the date these financial statements were available to be issued. Based on the definitions and requirements of the U.S. generally accepted accounting principles, management has not identified any events that have occurred subsequent to December 31, 2022 that requires disclosure in these financial statements.

**POTOMAC INSTITUTE FOR POLICY STUDIES**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended December 31, 2022**

Federal Grantor/Program or Cluster Title	Federal Assistnace Listing Number	Pass-Through Entity	Grant Number/ Pass-Through Entity Identifying Number	Federal Expenditures
<b><i>Research and Development Cluster:</i></b>				
U.S. Department of Defense Navy	12.630	Applied Technology, Inc.	N00178-19-D-7147	913,756
U.S. Department of Energy	81.036	Techsource, Inc.	FA714622CB027 / CLIN 0001	82,644
Total Expenditures of Federal Awards				<u>\$ 996,400</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**POTOMAC INSTITUTE FOR POLICY STUDIES**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

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**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of PIPS under programs of the federal government for the year ended December 31, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirement for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of PIPS, it is not intended to and does not present the financial position, changes in net assets or cash flows of PIPS.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the 2 CFR 200, *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

**Note 3. Indirect Cost Rate**

PIPS uses the established DCAA provided indirect cost rate allowed under the Uniform Guidance.

# MITCHELL, BURNS & Co., P.C.

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

To the Board of Directors and Regents of  
Potomac Institute for Policy Studies  
Arlington, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Potomac Institute for Policy Studies (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 13, 2023.

#### **Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Potomac Institute for Policy Studies' internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Potomac Institute for Policy Studies' internal control. Accordingly, we do not express an opinion on the effectiveness of Potomac Institute for Policy Studies' internal control.

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

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

#### **Report on Compliance and Other Matters**

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

## REPORT IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

### Purpose of this Report

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

Leesburg, Virginia  
June 13, 2023

*Mitchell, Burns & Co., P.C.*

# MITCHELL, BURNS & Co., P.C.

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors and Regents of  
Potomac Institute for Policy Studies  
Arlington, Virginia

### Report on Compliance for Each Major Federal Program

#### *Opinion on Each Major Federal Program*

We have audited Potomac Institute for Policy Studies' compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Potomac Institute for Policy Studies' major federal programs for the year ended December 31, 2022. Potomac Institute for Policy Studies' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Potomac Institute for Policy Studies complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

#### *Basis for Opinion on Each Major Federal Program*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Potomac Institute for Policy Studies and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Potomac Institute for Policy Studies' compliance with the compliance requirements referred to above.

#### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Potomac Institute for Policy Studies' federal programs.

#### *Auditor's Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Potomac Institute for Policy Studies' compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about PIPS' compliance with the requirements of each major federal program as a whole.

## REPORT IN ACCORDANCE WITH UNIFORM GUIDANCE

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Potomac Institute for Policy Studies' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Potomac Institute for Policy Studies' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Potomac Institute for Policy Studies' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Leesburg, Virginia  
June 13, 2023

*Mitchell, Burns & Co., P.C.*

**POTOMAC INSTITUTE FOR POLICY STUDIES**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2022**

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**Section I – Summary of Auditor’s Results**

*Financial Statements:*

Type of auditor’s report issued on whether the financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting

· Material weaknesses identified:  yes  no

· Significant deficiency(ies) identified:  yes  reported

Noncompliance material to financial statements noted:  yes  no

*Federal Awards:*

Internal control over major programs

· Material weaknesses identified:  yes  no

· Significant deficiency(ies) identified:  yes  reported

Type of auditor’s report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of 2CFR 200.516(a):  yes  no

Identification of major programs:

Federal Assistance Listing Number

Name of Federal Program Cluster

12.630

Research and Development Cluster

81.036

Research and Development Cluster

Dollar threshold to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee:  yes  no

**Section II – Financial Statement Findings**

There are no current year questioned costs or prior year findings requiring follow-up.

**Section III – Federal Award Findings and Questioned Costs**

There are no current year questioned costs or prior year findings requiring follow-up.