

Houston Advanced Research Center

Consolidated Financial Statements
and Single Audit Reports
for the year ended December 31, 2012

Houston Advanced Research Center

Table of Contents

| | Page |
|--|------|
| Independent Auditors' Report | 1 |
| Financial Statements: | |
| Consolidated Statements of Financial Position as of December 31, 2012 and 2011 | 3 |
| Consolidated Statement of Activities for the year ended December 31, 2012 | 4 |
| Consolidated Statement of Activities for the year ended December 31, 2011 | 5 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011 | 6 |
| Notes to Consolidated Financial Statements for the years ended December 31, 2012 and 2011 | 7 |
| Supplementary Information: | |
| Schedule of Expenditures of Federal Awards for the year ended December 31, 2012 | 11 |
| Note to Schedule of Expenditures of Federal Awards for the year ended December 31, 2012 | 15 |
| Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 16 |
| Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133 | 18 |
| Schedule of Findings and Questioned Costs for the year ended December 31, 2012 | 20 |

Independent Auditors' Report

To the Board of Directors of
Houston Advanced Research Center:

Report on the Financial Statements

We have audited the accompanying financial statements of Houston Advanced Research Center, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011 and the related consolidated statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Houston Advanced Research Center as of December 31, 2012 and 2011 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended December 31, 2012 as required by Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2013 on our consideration of Houston Advanced Research Center's 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 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 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 Houston Advanced Research Center's internal control over financial reporting and compliance.

Blazek & Vetterling

July 26, 2013

Houston Advanced Research Center

Consolidated Statements of Financial Position as of December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Cash | \$ 1,526,905 | \$ 1,364,673 |
| Accounts receivable, net of allowance for doubtful accounts of \$0 in 2012 and \$35,000 in 2011 | 1,463,371 | 718,785 |
| Pledges receivable | | 30,000 |
| Other assets | 63,239 | 96,604 |
| Note receivable from Texas Environmental Research Consortium (Note 2) | 150,000 | 150,000 |
| Prepaid rent (Note 3) | | 111,875 |
| Property and equipment, net (Note 4) | <u>1,079,577</u> | <u>1,221,280</u> |
| TOTAL ASSETS | <u>\$ 4,283,092</u> | <u>\$ 3,693,217</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities: | | |
| Accounts payable | \$ 1,582,630 | \$ 563,649 |
| Accrued expenses | 295,607 | 265,889 |
| Deferred revenue | 226,629 | 442,085 |
| Note payable (Note 5) | <u>1,157,556</u> | <u>1,165,746</u> |
| Total liabilities | <u>3,262,422</u> | <u>2,437,369</u> |
| Net assets: | | |
| Unrestricted | 774,311 | 758,162 |
| Temporarily restricted (Note 6) | <u>246,359</u> | <u>497,686</u> |
| Total net assets | <u>1,020,670</u> | <u>1,255,848</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 4,283,092</u> | <u>\$ 3,693,217</u> |

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Consolidated Statement of Activities for the year ended December 31, 2012

| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>TOTAL</u> |
|---|---------------------|-----------------------------------|---------------------|
| REVENUE: | | | |
| Research contracts and grants <i>(Note 7)</i> | \$ 7,195,722 | | \$ 7,195,722 |
| Contributions <i>(Note 8)</i> | 1,362,798 | \$ 100,000 | 1,462,798 |
| Other income | <u>15,685</u> | <u> </u> | <u>15,685</u> |
| Total revenue | 8,574,205 | 100,000 | 8,674,205 |
| Net assets released from restrictions: | | | |
| Satisfaction of program restrictions | <u>351,327</u> | <u>(351,327)</u> | <u> </u> |
| Total | <u>8,925,532</u> | <u>(251,327)</u> | <u>8,674,205</u> |
| EXPENSES: | | | |
| Program expenses: | | | |
| Energy and Building Solutions | 3,462,487 | | 3,462,487 |
| Environment | 3,457,013 | | 3,457,013 |
| L3CS Initiative | <u>57,945</u> | <u> </u> | <u>57,945</u> |
| Total program expenses | 6,977,445 | | 6,977,445 |
| Management and general | 1,909,465 | | 1,909,465 |
| Fundraising | <u>22,473</u> | <u> </u> | <u>22,473</u> |
| Total expenses | <u>8,909,383</u> | <u> </u> | <u>8,909,383</u> |
| CHANGES IN NET ASSETS | 16,149 | (251,327) | (235,178) |
| Net assets, beginning of year | <u>758,162</u> | <u>497,686</u> | <u>1,255,848</u> |
| Net assets, end of year | <u>\$ 774,311</u> | <u>\$ 246,359</u> | <u>\$ 1,020,670</u> |

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Consolidated Statement of Activities for the year ended December 31, 2011

| | <u>UNRESTRICTED</u> | <u>TEMPORARILY RESTRICTED</u> | <u>TOTAL</u> |
|---|---------------------|-----------------------------------|---------------------|
| REVENUE: | | | |
| Research contracts and grants <i>(Note 7)</i> | \$ 6,546,803 | | \$ 6,546,803 |
| Contributions <i>(Note 8)</i> | 1,680,965 | \$ 538,416 | 2,219,381 |
| Other income | <u>52,575</u> | <u> </u> | <u>52,575</u> |
| Total revenue | 8,280,343 | 538,416 | 8,818,759 |
| Net assets released from restrictions: | | | |
| Satisfaction of program restrictions | <u>888,330</u> | <u>(888,330)</u> | <u> </u> |
| Total | <u>9,168,673</u> | <u>(349,914)</u> | <u>8,818,759</u> |
| EXPENSES: | | | |
| Program expenses: | | | |
| Energy and Building Solutions | 2,316,557 | | 2,316,557 |
| Environment | 4,953,027 | | 4,953,027 |
| L3CS Initiative | <u>207,180</u> | <u> </u> | <u>207,180</u> |
| Total program expenses | 7,476,764 | | 7,476,764 |
| Management and general | 2,230,834 | | 2,230,834 |
| Fundraising | <u>23,430</u> | <u> </u> | <u>23,430</u> |
| Total expenses | <u>9,731,028</u> | <u> </u> | <u>9,731,028</u> |
| CHANGES IN NET ASSETS | (562,355) | (349,914) | (912,269) |
| Net assets, beginning of year | <u>1,320,517</u> | <u>847,600</u> | <u>2,168,117</u> |
| Net assets, end of year | <u>\$ 758,162</u> | <u>\$ 497,686</u> | <u>\$ 1,255,848</u> |

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets | \$ (235,178) | \$ (912,269) |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: | | |
| Amortization of prepaid rent | 111,875 | 223,750 |
| Depreciation | 164,618 | 200,119 |
| Loss on valuation of note receivable | | 150,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (744,586) | 2,296,632 |
| Pledges receivable | 30,000 | (5,000) |
| Other assets | 33,365 | (8,792) |
| Accounts payable | 1,018,981 | (2,411,713) |
| Accrued expenses | 29,718 | 16,211 |
| Deferred revenue | <u>(215,456)</u> | <u>368,508</u> |
| Net cash provided (used) by operating activities | <u>193,337</u> | <u>(82,554)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | <u>(22,915)</u> | <u>(22,674)</u> |
| Net cash used by investing activities | <u>(22,915)</u> | <u>(22,674)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of note payable | (8,190) | (4,254) |
| Proceeds from note payable | <u> </u> | <u>135,088</u> |
| Net cash provided (used) by financing activities | <u>(8,190)</u> | <u>130,834</u> |
| NET CHANGE IN CASH | 162,232 | 25,606 |
| Cash, beginning of year | <u>1,364,673</u> | <u>1,339,067</u> |
| Cash, end of year | <u>\$ 1,526,905</u> | <u>\$ 1,364,673</u> |
| <i>Supplemental disclosure of cash flow information:</i> | | |
| Interest paid | \$8,297 | \$7,628 |
| Purchase of property and equipment with proceeds from note payable | | \$214,912 |

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Notes to Consolidated Financial Statements for the years ended December 31, 2012 and 2011

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Advanced Research Center (the Center), a Texas nonprofit corporation, is a university-affiliated organization focusing on research in human and ecosystem well-being. Major research interests are in the areas of the environment, energy, and policy analysis. The primary source of funding is research grants and contracts from both public and private sources. Philanthropic support provides funds for internal research and for expenditures not recovered from sponsored research activities.

HARC Technology, Inc. (HTI) is a wholly-owned subsidiary of the Center formed for the purpose of facilitating the transfer of promising technologies from the laboratory to the private sector.

Principles of consolidation – These consolidated financial statements include the assets, liabilities, net assets and activities of the Center and HTI (collectively HARC). All significant intercompany balances and transactions are eliminated in consolidation.

Federal income tax status – The Center is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(2). The Center files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. The Center believes it is no longer subject to examinations of returns for tax years ended before December 31, 2009. HTI is a for-profit corporation subject to federal income taxes and has reported net operating losses for tax purposes since its inception. No deferred tax asset has been recognized because of the uncertainty regarding the ultimate realization of this benefit.

Allowance for doubtful accounts – HARC provides an allowance for accounts receivable that it believes it may not collect in full. The amount of bad debt expense recognized each period and the resulting adequacy of the allowance at the end of each period are determined using a combination of historical loss experience and customer-by-customer analysis of accounts receivable balances.

Pledges receivable that are due within one year are reported at net realizable value. Pledges receivable that are expected to be collected in future years are reported at the present value of the expected future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue.

Property and equipment is reported at cost, if purchased, or at fair value at the date of gift, if donated. Additions and improvements with a cost of more than \$5,000 are capitalized. Depreciation is provided using the straight-line method over estimated useful lives of 3 to 5 years for furniture and equipment and 10 to 31 ½ years for leasehold improvements.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.

- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or future time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Research contracts and grants are recognized as revenue when the related services are provided. Amounts received in advance are reported as deferred revenue.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional promises to give are recognized in the same manner when the conditions are substantially met.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – NOTE RECEIVABLE FROM TEXAS ENVIRONMENTAL RESEARCH CONSORTIUM

The note receivable from Texas Environmental Research Consortium (TERC) is unsecured and a non-interest bearing promissory note. The note is renewable until July 2015.

NOTE 3 – PREPAID RENT

In 2002, HARC sold an office complex consisting of land and two buildings in exchange for cash and the future use of one of the buildings for a ten-year period. An amount equal to the difference between the appraised value of the complex and the cash proceeds from the sale was recognized as prepaid rent and was amortized on a straight-line basis through 2012.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------------|---------------------|---------------------|
| Land | \$ 829,376 | \$ 829,376 |
| Leasehold improvements | 890,963 | 890,963 |
| Furniture and equipment | <u>774,101</u> | <u>751,186</u> |
| Total property and equipment, at cost | 2,494,440 | 2,471,525 |
| Accumulated depreciation | <u>(1,414,863)</u> | <u>(1,250,245)</u> |
| Property and equipment, net | <u>\$ 1,079,577</u> | <u>\$ 1,221,280</u> |

During 2010, HARC acquired a 3.5 acre tract of land on which it plans to construct an office building. There were no outstanding commitments related to such plans at December 31, 2012.

NOTE 5 – NOTE PAYABLE

HARC has a \$1,500,000 unsecured line of credit agreement with the Endowment for Regional Sustainability Science with interest at LIBOR plus 0.50% (0.71% at December 31, 2012). Interest is payable quarterly and the unpaid principal is payable on December 31, 2013.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

| | <u>2012</u> | <u>2011</u> |
|---|-------------------|-------------------|
| IFAS upgrades | \$ 79,008 | \$ 79,008 |
| Texas Climate Initiatives | 74,008 | 47,534 |
| Astrophysics Research | 73,196 | 94,364 |
| Origins & Fate of Our Universe | 11,756 | 18,856 |
| Internships | 8,391 | 8,391 |
| Third Ward Sustainability Project | | 121,635 |
| Industrial Energy Efficiency Outreach | | 112,953 |
| Environmentally Friendly Drilling Project | | 12,767 |
| Solar Energy Pilot Program | | 2,178 |
| | <hr/> | <hr/> |
| Total temporarily restricted net assets | <u>\$ 246,359</u> | <u>\$ 497,686</u> |

NOTE 7 – RESEARCH CONTRACTS AND GRANTS

Revenue from research contracts and grants includes the following:

| | <u>2012</u> | <u>2011</u> |
|---|---------------------|---------------------|
| Federal government contracts and grants: | | |
| U. S. Department of Energy | \$ 5,026,525 | \$ 1,956,397 |
| U. S. Environmental Protection Agency | 718,247 | 1,115,670 |
| U. S. Department of the Interior | 576,151 | 77,449 |
| U. S. Agency for International Development | 76,135 | 23,567 |
| U. S. Department of Commerce | 16,692 | 58,347 |
| National Science Foundation | 10,000 | |
| U. S. Geological Survey | | 165,404 |
| | <hr/> | <hr/> |
| Total federal government contracts and grants | <u>6,423,750</u> | <u>3,396,834</u> |
| State and local government contracts and grants: | | |
| Texas Commission on Environmental Quality | 402,331 | 2,673,143 |
| Texas Water Development Board | | 4,529 |
| | <hr/> | <hr/> |
| Total state and local government contracts and grants | <u>402,331</u> | <u>2,677,672</u> |
| Private research contracts and grants | <u>369,641</u> | <u>472,297</u> |
| Total research contracts and grants | <u>\$ 7,195,722</u> | <u>\$ 6,546,803</u> |

HARC receives grants from federal and state funding sources that require fulfillment of certain conditions as set forth in the related contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by HARC with the terms of the contracts. Management believes such disallowances, if any, would not be material to HARC's financial position or changes in net assets.

NOTE 8 – CONCENTRATIONS

During 2012, HARC received \$1,350,000 in contributions from one donor which represents 16% of total revenue. During 2011, HARC received \$1,680,000 in contributions from one donor which represents 19% of total revenue.

NOTE 9 – RELATED PARTY TRANSACTIONS

HARC subcontracted research services with the employers of certain members of the HARC board of directors totaling approximately \$165,000 and \$371,000 during 2012 and 2011, respectively. These subcontractors were obtained through a competitive award process or based on their technical qualifications.

NOTE 10 – RETIREMENT PLAN

HARC has a tax-sheltered annuity plan (the Plan) established under §403(b) of the Internal Revenue Code. Under the terms of the Plan, HARC contributes a minimum of five percent of the participating employees' regular monthly salaries. In addition, HARC will match one-half percent for each percent the employee contributes up to six percent, for a maximum HARC contribution of eight percent of regular salary. HARC contributed to the Plan approximately \$206,000 in 2012 and \$233,000 in 2011.

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 26, 2013, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2012

| <u>GRANTOR</u> | | | | | | |
|--|---------------------|------------------------|---------------------------------------|---------------------|----------------|---------------------------|
| <u>Pass-through Grantor</u> | | | | | | |
| <u>Program Title & Period</u> | <u>CFDA #</u> | <u>Contract Number</u> | <u>or Pass-through Grantor Number</u> | <u>Award Amount</u> | <u>Revenue</u> | <u>Allowable Expenses</u> |
| U.S. DEPARTMENT OF COMMERCE | | | | | | |
| Passed through Texas General Land Office: | | | | | | |
| Coastal Zone Management Administration | | | | | | |
| Awards – Wetland Mitigation Assessment | | | | | | |
| #1 | 10/01/12 – 03/31/14 | 11.419 | 13-079-000-7102 | \$180,643 | \$ 4,767 | \$ 4,767 |
| Passed through Gulf & South Atlantic Fisheries Foundation: | | | | | | |
| Unallied Management Projects – The Role of Shrimp Imports in the Decline of Shrimp Reliant Communities in the Gulf of Mexico | | | | | | |
| #2 | 08/01/10 – 01/31/13 | 11.454 | 114-01-82772/0 | \$82,772 | <u>11,925</u> | <u>11,925</u> |
| Total U.S. Department of Commerce | | | | | <u>16,692</u> | <u>16,692</u> |
| U.S. DEPARTMENT OF THE INTERIOR | | | | | | |
| Passed through Harris County: | | | | | | |
| Coastal Impact Assistance Program – Harris County | | | | | | |
| Air Quality Research | | | | | | |
| #3 | 09/01/12 – 10/30/14 | 15.426 | F12AF00816 | \$3,203,852 | 189,626 | 189,626 |
| Passed through Texas General Land Office: | | | | | | |
| Coastal Impacts Technology Program | | | | | | |
| #4 | 01/04/12 – 12/01/14 | 15.426 | 12-259-000-5595 | \$1,998,244 | <u>325,194</u> | <u>325,194</u> |
| Subtotal | | | | | 514,820 | 514,820 |
| Passed through Texas Parks & Wildlife Department: | | | | | | |
| State Wildlife Grants – Invasive Species 2012 Scorecard | | | | | | |
| #5 | 04/10/12 – 12/31/13 | 15.634 | 421292 | \$125,734 | <u>61,331</u> | <u>61,331</u> |
| Total U.S. Department of the Interior | | | | | <u>576,151</u> | <u>576,151</u> |
| NATIONAL SCIENCE FOUNDATION | | | | | | |
| Passed through Quantlogic Corporation: | | | | | | |
| Engineering Grants – Testing Supporting of Development | | | | | | |
| #6 | 04/18/12 – 06/30/12 | 47.041 | IIP-1113660 | \$10,000 | <u>10,000</u> | <u>1,811</u> |
| Total National Science Foundation | | | | | <u>10,000</u> | <u>1,811</u> |

(continued)

Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2012 *(continued)*

| <u>GRANTOR</u> | | | Contract Number | | | |
|---|---------------------|--------|--|---------------|----------------|------------------|
| <u>Pass-through Grantor</u> | | | or Pass-through | | | |
| <u>Program Title & Period</u> | <u>CFDA #</u> | | <u>Grantor Number</u> | <u>Award</u> | <u>Revenue</u> | <u>Allowable</u> |
| | | | | <u>Amount</u> | | <u>Expenses</u> |
| U.S. ENVIRONMENTAL PROTECTION AGENCY | | | | | | |
| | | | National Clean Diesel Emissions Reduction Program – EPA Diesel Vehicle Emissions Reduction – ARRA | | | |
| #7 | 08/01/09 – 07/31/12 | 66.039 | 2A-83442001-0 | \$2,362,843 | 457,788 | 457,788 |
| | | | Simultaneous Emissions Reduction and Fuel Savings | | | |
| #8 | 05/20/10 – 03/31/12 | 66.039 | DE-00F11301-1 | \$811,934 | <u>140,425</u> | <u>140,425</u> |
| | | | Subtotal | | 598,213 | 598,213 |
| | | | Environmental Justice Small Grant Program – Yates High School Collective Action to Mobilize Against Environmental Racism Program | | | |
| #9 | 10/01/11 – 09/30/12 | 66.604 | EQ-OOF40201 | \$25,000 | 25,000 | 25,000 |
| Passed through City of Houston: | | | | | | |
| | | | Climate Showcase Communities Grant Program – Houston Climate Showcase | | | |
| #10 | 01/25/10 – 09/27/12 | 66.041 | 4600007403 | \$187,000 | 9,623 | 9,522 |
| Passed through Texas State Soil and Water Conservation Board: | | | | | | |
| | | | Watershed Protection Planning – Double Bayou Watershed | | | |
| #11 | 04/01/12 – 03/31/15 | 66.460 | 11-08 | \$1,023,614 | 65,302 | 65,302 |
| Passed through Texas Commission on Environmental Quality: | | | | | | |
| | | | Gulf of Mexico Program – Characterization of the Galveston Bay Ecosystem, 3 rd Edition FY10 | | | |
| #12 | 08/23/10 – 01/16/12 | 66.475 | 582-8-84951 | \$355,438 | 8,638 | 8,638 |
| Passed through Galveston Bay Foundation: | | | | | | |
| | | | Superfund Technical Assistance Grants – Technical Assistance for the San Jacinto Waste Pits Superfund Site | | | |
| #13 | 09/08/11 – 12/30/13 | 66.806 | GBF-HARC-01-0 | \$37,500 | <u>11,471</u> | <u>11,471</u> |
| Total U.S. Environmental Protection Agency | | | | | <u>718,247</u> | <u>718,146</u> |
| U.S. DEPARTMENT OF ENERGY | | | | | | |
| | | | Gulf Coast Region Clean Energy Application Center | | | |
| #14 | 10/01/09 – 10/31/13 | 81.087 | DE-EE0001103 | \$2,424,349 | <u>601,772</u> | <u>601,772</u> |

(continued)

Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2012 (continued)

| <u>GRANTOR</u> | | | | | | | |
|--|---------------------|--------|---------------------------------------|---------------|------------------|------------------|--|
| <u>Pass-through Grantor</u> | | | Contract Number | Award | | Allowable | |
| <u>Program Title & Period</u> | <u>CFDA #</u> | | <u>or Pass-through Grantor Number</u> | <u>Amount</u> | <u>Revenue</u> | <u>Expenses</u> | |
| Passed through City of Houston: | | | | | | | |
| State Energy Program – Distributed Renewable Energy Grant – ARRA | | | | | | | |
| #15 | 02/08/12 – 09/30/12 | 81.041 | CS1178 | \$900,000 | 900,000 | 900,000 | |
| State Energy Program – Solar Generator Program – ARRA | | | | | | | |
| #16 | 04/28/10 – 04/30/12 | 81.041 | 4600007403-SECO1 | \$77,525 | <u>21,599</u> | <u>24,451</u> | |
| Subtotal | | | | | <u>921,599</u> | <u>924,451</u> | |
| Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis – Solar America Initiative | | | | | | | |
| #17 | 06/01/08 – 04/30/12 | 81.117 | 4600007403-2 | \$209,531 | 7,531 | 19,481 | |
| Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis – Rooftop Sunshot Initiative | | | | | | | |
| #18 | 06/11/12 – 02/15/13 | 81.117 | SUNSHOT | \$91,572 | <u>51,328</u> | <u>56,591</u> | |
| Subtotal | | | | | <u>58,859</u> | <u>76,072</u> | |
| Energy Efficiency and Conservation Block Grant – ARRA | | | | | | | |
| #19 | 01/27/10 – 09/27/13 | 81.128 | 4600007403 WA#2 | \$1,573,182 | 1,416,156 | 1,372,125 | |
| #20 | 05/10/10 – 09/27/13 | 81.128 | 4600007403 WA#5 | \$197,890 | 67,027 | 62,623 | |
| #21 | 01/01/10 – 09/27/13 | 81.128 | 4600007403 WA#6 | \$145,000 | 42,723 | 43,229 | |
| #22 | 01/01/11 – 09/27/13 | 81.128 | 4600007403 WA#7 | \$20,000 | 5,792 | 5,492 | |
| #23 | 01/01/11 – 09/27/13 | 81.128 | 4600007403 WA#8 | \$3,144,958 | 135,012 | 135,012 | |
| #24 | 05/01/11 – 09/27/13 | 81.128 | 4600007403 WA#9 | \$3,856 | 1,205 | 1,272 | |
| #25 | 04/01/12 – 09/27/13 | 81.128 | 4600007403 WA#10 | \$15,857 | 14,376 | 14,085 | |
| #26 | 08/27/12 – 09/27/13 | 81.128 | 4600007403 WA#12 | \$337,161 | 331,810 | 331,810 | |
| #27 | 07/10/12 – 09/27/13 | 81.128 | 4600007403 WA#12 | \$1,191,886 | 364,027 | 364,027 | |
| #28 | 08/27/12 – 09/27/13 | 81.128 | 4600007403PVADD | \$70,000 | <u>42,919</u> | <u>43,518</u> | |
| Subtotal | | | | | <u>2,421,047</u> | <u>2,373,193</u> | |
| Passed through Port of Galveston: | | | | | | | |
| State Energy Program – Port of Galveston Solar Energy Project – ARRA | | | | | | | |
| #29 | 06/28/11 – 08/31/12 | 81.041 | CS1082 | \$900,000 | <u>19,608</u> | <u>19,608</u> | |
| Renewable Energy Research and Development – Port of Galveston Solar Energy Project | | | | | | | |
| #30 | 09/26/11 – 12/31/13 | 81.087 | EE003177 | \$250,000 | <u>124,962</u> | <u>124,962</u> | |

(continued)

Houston Advanced Research Center

Note to Schedule of Expenditures of Federal Awards for the year ended December 31, 2012

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Allowable expenses are determined in accordance with the standards of OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, and are reported in the consolidated statement of activities in conformity with generally accepted accounting principles.

Major programs – All of HARC's programs fall within the Research and Development cluster and, as such, are major programs.

**Independent Auditors' 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 of
Houston Advanced Research Center:

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 Houston Advanced Research Center (HARC) which comprise the consolidated statements of financial position as of December 31, 2012 and the related consolidated statements of activities and of cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated July 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HARC's internal control over financial reporting (internal control) to determine the 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 HARC's internal control. Accordingly, we do not express an opinion on the effectiveness of HARC's 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HARC's 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 determination of financial statement amounts. 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blazek & Vetterling

July 26, 2013

**Independent Auditors' Report on Compliance for Each Major
Federal Program and Report on Internal Control
Over Compliance Required by OMB Circular A-133**

To the Board of Directors of
Houston Advanced Research Center:

Report on Compliance for Each Major Federal Program

We have audited Houston Advanced Research Center's (HARC) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of HARC's major federal programs for the year ended December 31, 2012. HARC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of HARC's major federal programs based on our audit of the types of compliance requirements referred to above. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HARC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of HARC's compliance.

Opinion on Each Major Federal Program

In our opinion, HARC 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, 2012.

Report on Internal Control Over Compliance

Management of HARC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HARC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HARC's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



July 26, 2013

Houston Advanced Research Center

Schedule of Findings and Questioned Costs for the year ended December 31, 2012

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: unmodified qualified adverse disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to the financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor’s report issued on compliance for major programs: unmodified qualified adverse disclaimer

Any audit findings disclosed that are required to be reported in accordance with §.510(a) of Circular A-133? yes no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
|-----------------------|---|

| | |
|---------|--------------------------|
| Various | Research and Development |
|---------|--------------------------|

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee? yes no

Section II – Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There were no findings for federal awards required to be reported in accordance with §.510(a) of OMB Circular A-133.