

Houston Advanced Research Center

Consolidated Financial Statements
and Single Audit Reports
for the year ended December 31, 2020

Houston Advanced Research Center

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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, 2020 and 2019 and the related consolidated statements of activities, of functional expenses, 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

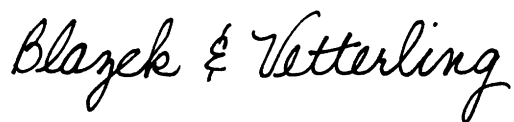
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Houston Advanced Research Center as of December 31, 2020 and 2019 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2020 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) 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 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 June 25, 2021 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 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 Houston Advanced Research Center's 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.



June 25, 2021

Houston Advanced Research Center

Consolidated Statements of Financial Position as of December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 77,675	\$ 222,633
Accounts receivable	107,216	37,277
Prepaid expenses and other assets	61,138	48,985
Contributions receivable:		
Government grants	369,126	119,878
Other	260,035	
Property, net (<i>Note 3</i>)	<u>6,988,093</u>	<u>7,307,466</u>
TOTAL ASSETS	<u>\$ 7,863,283</u>	<u>\$ 7,736,239</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 216,826	\$ 165,850
Accrued expenses	159,974	133,038
Paycheck Protection Program refundable advance (<i>Note 2</i>)	284,262	
Deferred revenue – research contracts		49,719
Note payable (<i>Note 4</i>)	<u> </u>	<u>3,854,010</u>
Total liabilities	<u>661,062</u>	<u>4,202,617</u>
Net assets:		
Without donor restrictions	6,594,009	2,851,877
With donor restrictions (<i>Note 5</i>)	<u>608,212</u>	<u>681,745</u>
Total net assets	<u>7,202,221</u>	<u>3,533,622</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,863,283</u>	<u>\$ 7,736,239</u>

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Consolidated Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (<i>Note 6</i>)		\$ 1,339,188	\$ 1,339,188
Other (<i>Note 7</i>)	\$ 2,412,072	4,303,000	6,715,072
Research contracts	246,415		246,415
Other income	<u>13,928</u>		<u>13,928</u>
Total revenue	2,672,415	5,642,188	8,314,603
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>5,715,721</u>	<u>(5,715,721)</u>	
Total	<u>8,388,136</u>	<u>(73,533)</u>	<u>8,314,603</u>
EXPENSES:			
Program services:			
Energy and Building Solutions	1,874,257		1,874,257
Environment	<u>1,453,196</u>		<u>1,453,196</u>
Total program services	3,327,453		3,327,453
Management and general	1,300,025		1,300,025
Fundraising	<u>18,526</u>		<u>18,526</u>
Total expenses	<u>4,646,004</u>		<u>4,646,004</u>
CHANGES IN NET ASSETS	3,742,132	(73,533)	3,668,599
Net assets, beginning of year	<u>2,851,877</u>	<u>681,745</u>	<u>3,533,622</u>
Net assets, end of year	<u>\$ 6,594,009</u>	<u>\$ 608,212</u>	<u>\$ 7,202,221</u>

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Consolidated Statement of Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (<i>Note 6</i>)		\$ 1,103,036	\$ 1,103,036
Other (<i>Note 7</i>)	\$ 2,040,320	619,700	2,660,020
Research contracts	156,234		156,234
Loss on sale of property	(26,131)		(26,131)
Other income	8,768		8,768
Total revenue	2,179,191	1,722,736	3,901,927
Net assets released from restrictions:			
Satisfaction of program restrictions	1,702,224	(1,702,224)	
Total	3,881,415	20,512	3,901,927
EXPENSES:			
Program services:			
Energy and Building Solutions	1,757,263		1,757,263
Environment	1,237,450		1,237,450
Total program services	2,994,713		2,994,713
Management and general	1,370,243		1,370,243
Fundraising	33,043		33,043
Total expenses	4,397,999		4,397,999
CHANGES IN NET ASSETS	(516,584)	20,512	(496,072)
Net assets, beginning of year	3,368,461	661,233	4,029,694
Net assets, end of year	\$ 2,851,877	\$ 681,745	\$ 3,533,622

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Consolidated Statements of Functional Expenses for the years ended December 31, 2020 and 2019

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2020 TOTAL EXPENSES</u>
Payroll and related benefits	\$ 2,052,903	\$ 780,995	\$ 14,846	\$ 2,848,744
Subcontracts	562,635			562,635
Consulting and professional fees	323,816	81,798	3,680	409,294
Depreciation	115,889	233,490		349,379
Information technology	50,113	87,904		138,017
Occupancy	82,632	4,910		87,542
Insurance	24,971	34,342		59,313
Office supplies	18,063	30,442		48,505
Conferences, meetings, and events	28,565	2,816		31,381
Interest expense	3,691	7,979		11,670
Travel	5,037	2,178		7,215
Other	59,138	33,171		92,309
Total expenses	<u>\$ 3,327,453</u>	<u>\$ 1,300,025</u>	<u>\$ 18,526</u>	<u>\$ 4,646,004</u>

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2019 TOTAL EXPENSES</u>
Payroll and related benefits	\$ 1,828,356	\$ 787,098	\$ 18,932	\$ 2,634,386
Subcontracts	577,176			577,176
Consulting and professional fees	86,500	73,753	13,795	174,048
Depreciation	131,497	210,517		342,014
Information technology	39,412	67,443	216	107,071
Occupancy	80,377	12,593		92,970
Insurance	30,895	35,350		66,245
Office supplies	32,160	35,657		67,817
Conferences, meetings, and events	39,748	21,483	100	61,331
Interest expense	56,656	92,658		149,314
Travel	46,170	17,641		63,811
Other	45,766	16,050		61,816
Total expenses	<u>\$ 2,994,713</u>	<u>\$ 1,370,243</u>	<u>\$ 33,043</u>	<u>\$ 4,397,999</u>

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Consolidated Statements of Cash Flows for the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 3,668,599	\$ (496,072)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	349,379	342,014
Loss on sale of property		26,131
Changes in operating assets and liabilities:		
Accounts receivable	(69,939)	55,606
Prepaid expenses and other assets	(12,153)	(2,002)
Contributions receivable	(509,283)	326,073
Accounts payable	50,976	(5,407)
Accrued expenses	26,936	3,380
Paycheck Protection Program refundable advance	284,262	
Deferred revenue	<u>(49,719)</u>	<u>49,719</u>
Net cash provided by operating activities	<u>3,739,058</u>	<u>299,442</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	(30,006)	(17,305)
Proceeds from sale of property	<u> </u>	<u>10,000</u>
Net cash used by investing activities	<u>(30,006)</u>	<u>(7,305)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note payable	<u>(3,854,010)</u>	<u>(225,000)</u>
NET CHANGE IN CASH	(144,958)	67,137
Cash, beginning of year	<u>222,633</u>	<u>155,496</u>
Cash, end of year	<u>\$ 77,675</u>	<u>\$ 222,633</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$11,670	\$149,308

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Notes to Consolidated Financial Statements for the years ended December 31, 2020 and 2019

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Houston Advanced Research Center (the Center), a Texas nonprofit corporation, is a research hub providing independent analysis on energy, air and water issues to people seeking scientific answers. 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 Living Lab, LLC (HLL) is a limited liability company formed for the exclusive purpose of holding title to the property known as the HARC Living Lab in The Woodlands, Texas. The Center is the sole member of HLL.

HARC Research Innovations, Inc. (HRI) is a wholly-owned subsidiary of the Center formed to acquire, own, and operate companies and subsidiaries that apply sustainable development research and market the development and application of sustainable development technologies and applications.

Pythias Analytics, Inc. (Pythias) is a wholly-owned subsidiary of the Center formed to develop, validate and market the Pythias Climate Risk Decision Tool.

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. In March 2020, the Board of Directors of the Center authorized the dissolution of HTI.

Basis of consolidation – These consolidated financial statements include the assets, liabilities, net assets and activities of the Center, HLL, HRI, Pythias and HTI (collectively HARC). All significant intercompany balances and transactions have been 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). HLL, HRI, Pythias and HTI are pass-through entities for tax purposes and are not subject to income taxes.

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted to estimate the present value of future cash flows, if material. At December 31, 2020, all contributions receivable are expected to be collected within one year.

Property 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 building and improvements.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.

- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service.

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 *net assets with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the organization is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met.

Research contracts – Revenue is recognized over time as performance obligations are met using the input method based on the labor hours expended and third-party costs incurred. Accounts receivable represent contract payments due for completed performance obligations. Payments collected but not yet recognized as revenue result in a contract liability and are reported as deferred revenue. At December 31, 2020, 2019 and 2018, deferred revenue for research contracts were \$0, \$49,719 and \$0, respectively.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and interest expense are allocated based on square footage.

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 – LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 77,675	\$ 222,633
Accounts receivable	107,216	37,277
Contributions receivable	<u>629,161</u>	<u>119,878</u>
Total financial assets	814,052	379,788
Less financial assets not available for general expenditure:		
Donor-restricted assets subject to satisfaction of restriction	<u> </u>	<u>(41,468)</u>
Total financial assets available for general expenditure	<u>\$ 814,052</u>	<u>\$ 338,320</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, HARC considers all expenditures related to its ongoing programmatic activities, as well as the conduct of services undertaken to support these activities, to be general expenditures.

HARC regularly monitors liquidity in order to meet its operating needs and contractual commitments, while striving to minimize use of the annual unrestricted contribution received from an endowment fund with a similar mission. HARC's annual budget is based on expected general expenditures for the next 12-month period and management anticipates collecting sufficient revenue to fund general expenditures not funded by restricted resources.

HARC received a \$284,262 Paycheck Protection Program (PPP) loan through the Small Business Administration in April 2020. PPP loan principal and interest may be forgiven, in whole or in part, if HARC meets eligibility requirements and uses the loan to fund qualified payroll and other eligible costs. Amounts not forgiven, if any, bear interest at 1.0% and may be repaid over 2 years. In May 2021, HARC was notified that the loan had been forgiven.

NOTE 3 – PROPERTY

Property consists of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 829,376	\$ 829,376
Building and improvements	7,065,560	7,065,560
Furniture and equipment	<u>938,368</u>	<u>908,362</u>
Total property, at cost	8,833,304	8,803,298
Accumulated depreciation	<u>(1,845,211)</u>	<u>(1,495,832)</u>
Property, net	<u>\$ 6,988,093</u>	<u>\$ 7,307,466</u>

NOTE 4 – NOTE PAYABLE

HARC had a \$4,500,000 line of credit with a bank maturing in September 2020 for the construction of a building. The line bore interest at LIBOR plus 1.4%. The line of credit was secured by the building. The line of credit was repaid in full in January 2020.

Interest expense totaled approximately \$12,000 and \$149,000 in 2020 and 2019, respectively.

NOTE 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Tracking, Reporting and Innovation Methods in Identifying Litter in the Galveston Bay Watershed	\$ 163,392	\$ 228,777
Additional senior researcher	128,303	188,700
One Solution upgrades	41,468	41,468
Development of Region-Wide Science Information Network	16,298	67,923
Development of Galveston Bay Report Card	5,751	100,156
Butterfly and Pollinator Garden	3,000	
Astrophysics Research		30,322
Building a sustainable future		<u>24,399</u>
Total subject to expenditure for specified purpose	358,212	681,745
Subject to the passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	<u>250,000</u>	
Total net assets with donor restrictions	<u>\$ 608,212</u>	<u>\$ 681,745</u>

NOTE 6 – GOVERNMENT GRANTS

Government grants include the following:

	<u>2020</u>	<u>2019</u>
Federal grants:		
U. S. Department of Energy	\$ 1,120,175	\$ 931,832
U. S. Environmental Protection Agency	<u>130,853</u>	<u>133,789</u>
Total federal grants	1,251,028	1,065,621
State grants	12,306	37,415
County grant	<u>75,854</u>	
Total government grants	<u>\$ 1,339,188</u>	<u>\$ 1,103,036</u>

Government grants are recognized as contributions that are derived from cost-reimbursable federal and state contracts which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when HARC has incurred expenditures in compliance with specific contract provisions. HARC received cost-reimbursable grants of approximately \$3,996,000 that have not been recognized at December 31, 2020 because qualifying expenditures have not yet been incurred or the contracts stipulate these qualifying expenditures have not been approved by the government audit compliance officials as reimbursable amounts.

HARC's government grants require fulfillment of certain conditions as set forth in the grant 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 7 – CONCENTRATIONS

HARC receives annual support from a foundation that shares a similar mission.

During 2020, HARC received \$5,775,000 in contributions from this donor, which represents 69% of total revenue. During 2019, HARC received \$2,000,000 in contributions from this donor, which represents 51% of total revenue.

NOTE 8 – 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 contributed a minimum of 5% of the participating employees' regular monthly salaries. In addition, HARC matched 1/2% for each percent the employee contributes up to 6%, for a maximum HARC contribution of 8% of regular salary. HARC contributed to the Plan approximately \$161,000 in 2020 and \$145,000 in 2019.

HARC changed the terms of the Plan for 2021. HARC will match 1% for each percent the employee contributes up to a maximum of 7%.

NOTE 9 – SUBSEQUENT EVENTS

In March 2021, the Board of Directors of Pythias resolved to issue 5,000 shares of stock to HRI and Pythias' founders and some or all Board members. Once issued, HRI will own a controlling interest in Pythias.

Management has evaluated subsequent events through June 25, 2021, which is the date that the financial statements were available for issuance. No events, other than as disclosed above and in Note 2 and Note 8, 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, 2020

<u>CLUSTER TITLE</u>					
<u>GRANTOR</u>		Assistance	Contract Number		
<u>Pass-through Grantor</u>		Listing	or Pass-through	Award	Federal
<u>Program Title & Period</u>		<u>Number</u>	<u>Grantor Number</u>	<u>Amount</u>	<u>Expenditures</u>
RESEARCH AND DEVELOPMENT CLUSTER					
U. S. DEPARTMENT OF ENERGY					
Passed through State Energy Conservation Office:					
	State Energy Program				
	Cities Energy Efficiency 2020				
#1	09/01/19 – 08/31/20	81.041	6894JM	\$140,000	\$ 96,448
	State Energy Program				
	SECO Clean HVAC 2020				
#2	09/01/19 – 08/31/20	81.041	6895JM	\$120,000	87,408
	State Energy Program				
	Financial Decision Web Tool				
#3	05/01/20 – 08/31/20	81.041	SECO 05012020	\$85,116	82,719
	State Energy Program				
	SECO HVAC Training				
#4	09/08/20 – 08/31/21	81.041	PO0162	\$120,000	36,845
	State Energy Program				
	Cities Energy Efficiency 2021				
#5	09/08/20 – 08/31/22	81.041	PO0163	\$140,000	44,958
	Subtotal for 81.041				
					<u>348,378</u>
	Conservation Research and Development				
	Advances on CHP District Energy and Microgrids Deployment				
	Simplified Tool for Rapidly Deploying Feasibility Analytics				
	for the Non-Technical User				
#6	09/01/20 – 11/30/21	81.086	DE-EE0009141	\$1,463,534	22,132
	Renewable Energy Research and Development				
	Expanding Solar in Deregulated Market				
#7	04/01/20 – 03/31/22	81.087	DE-EE0009007	\$500,000	220,773
	Energy Efficiency and Renewable Energy Information Dissemination,				
	Outreach, Training and Technical Analysis/Assistance				
	South Central/Upper West Combined Heat and Power Technical Assistance				
	Partnership 2017				
#8	08/01/18 – 09/30/21	81.117	DE-EE0008272	\$2,526,444	528,892
Total U. S. Department of Energy					<u>1,120,175</u>

(continued)

Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2020 *(continued)*

<u>CLUSTER TITLE</u>	<u>GRANTOR</u>		<u>Contract Number</u> <u>or Pass-through</u> <u>Grantor Number</u>	<u>Award</u> <u>Amount</u>	<u>Federal</u> <u>Expenditures</u>
<u>Pass-through Grantor</u>	<u>Program Title & Period</u>	<u>CFDA #</u>			
RESEARCH AND DEVELOPMENT CLUSTER <i>(continued)</i>					
U. S. ENVIRONMENTAL PROTECTION AGENCY					
Passed through Texas Commission on Environmental Quality:					
National Estuary Program					
State of the Bay 2018					
#9	09/01/17 – 12/31/20	66.456	582-18-80343	\$110,000	25,000
National Estuary Program					
Estuary Resilience Assessment					
#10	09/01/18 – 02/28/22	66.456	582-19-90217	\$50,000	16,136
National Estuary Program					
Galveston Bay Survey 2019					
#11	08/23/19 – 08/31/21	66.456	582-20-10175	\$86,000	4,724
Subtotal for 66.456					45,860
Passed through Texas State Soil and Water Conservation Board:					
Nonpoint Source Implementation Grants					
Double Bayou Watershed Protection Planning Implement					
#12	09/01/18 – 08/31/21	66.460	18-07	\$363,196	82,910
Passed through Texas Commission on Environmental Quality:					
Nonpoint Source Implementation Grants					
Low Impact Development 2020					
#13	11/06/20 – 08/31/23	66.460	582-21-10148	\$320,250	2,083
Subtotal for 66.460					84,993
Total U. S. Environmental Protection Agency					130,853
TOTAL FEDERAL AWARDS/RESEARCH AND DEVELOPMENT CLUSTER					<u>\$ 1,251,028</u>

See accompanying note to schedule of expenditures of federal awards.

Houston Advanced Research Center

Note to Schedule of Expenditures of Federal Awards for the year ended December 31, 2020

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 Title 2 U. S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal expenditures include allowable costs funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance and include both costs that are capitalized and costs that are recognized as expenses in HARC's financial statements in conformity with generally accepted accounting principles. HARC does not utilize the 10% de minimus indirect rate, but uses a rate equal to or less than the indirect rate approved by the U. S. Department of Energy. There were no subrecipient expenditures in fiscal year 2020.

Because the schedule presents only a selected portion of the operations of HARC, it is not intended to and does not present the financial position, changes in net assets, or cash flows of HARC.

Major programs – All of HARC's programs fall within the Research and Development cluster, which as a result, is the major program.

**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 statement of financial position as of December 31, 2020 and the related consolidated statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 25, 2021.

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) 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 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 financial statements. 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 HARC'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

June 25, 2021

Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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 Compliance Supplement* that could have a direct and material effect on HARC's major federal program for the year ended December 31, 2020. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for HARC's major federal program 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 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). Those standards and the Uniform Guidance 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 the 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, 2020.

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 its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 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 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Blazek & Vetterling

June 25, 2021

Houston Advanced Research Center

Schedule of Findings and Questioned Costs for the year ended December 31, 2020

Section I – Summary of Auditors’ Results

Financial Statements

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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Research and Development Cluster:

81.041	State Energy Program
81.086	Conservation Research and Development
81.087	Renewable Energy Research and Development
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance
66.456	National Estuary Program
66.460	Nonpoint Source Implementation Grants

Dollar threshold used 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 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 2 CFR §200.516(a).