

**Houston Advanced Research Center**

Consolidated Financial Statements  
and Single Audit Reports  
for the year ended December 31, 2021

# Houston Advanced Research Center

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**Independent Auditors' Report**

To the Board of Directors of  
Houston Advanced Research Center:

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the financial statements of Houston Advanced Research Center (HARC), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, 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 consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of HARC as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of HARC and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HARC's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

***Auditors' 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 auditors' 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 HARC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HARC's ability to continue as a going concern for a reasonable period of time.

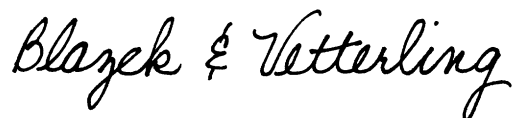
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### ***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, 2021 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 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 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 22, 2022 on our consideration of HARC'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 HARC'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 HARC's internal control over financial reporting and compliance.



June 22, 2022

## Houston Advanced Research Center

### Consolidated Statements of Financial Position as of December 31, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
ASSETS		
Cash	\$ 10,741	\$ 77,675
Accounts receivable	116,406	107,216
Prepaid expenses and other assets	94,086	61,138
Contributions receivable:		
Government grants	395,316	369,126
Other	308,071	260,035
Property, net ( <i>Note 3</i> )	<u>6,652,702</u>	<u>6,988,093</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 7,577,322</u></b>	<b><u>\$ 7,863,283</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 200,831	\$ 216,826
Accrued expenses	172,958	159,974
Paycheck Protection Program refundable advance ( <i>Note 2</i> )		284,262
Deferred revenue – research contracts	<u>31,111</u>	<u>                    </u>
Total liabilities	<u>404,900</u>	<u>661,062</u>
Net assets:		
Without donor restrictions	6,559,114	6,594,009
With donor restrictions ( <i>Note 4</i> )	<u>613,308</u>	<u>608,212</u>
Total net assets	<u>7,172,422</u>	<u>7,202,221</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 7,577,322</u></b>	<b><u>\$ 7,863,283</u></b>

*See accompanying notes to consolidated financial statements.*

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## Houston Advanced Research Center

Consolidated Statement of Activities for the year ended December 31, 2021

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 5)		\$ 2,017,376	\$ 2,017,376
Other (Note 6)	\$ 1,992,258	802,235	2,794,493
Research contracts	399,484		399,484
Gain on sale of property	24,239		24,239
Other income	<u>20,820</u>		<u>20,820</u>
Total revenue	2,436,801	2,819,611	5,256,412
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>2,814,515</u>	<u>(2,814,515)</u>	
Total	<u>5,251,316</u>	<u>5,096</u>	<u>5,256,412</u>
EXPENSES:			
Program services:			
Energy and Building Solutions	2,234,625		2,234,625
Environment	<u>1,525,863</u>		<u>1,525,863</u>
Total program services	3,760,488		3,760,488
Management and general	1,505,287		1,505,287
Fundraising	<u>20,436</u>		<u>20,436</u>
Total expenses	<u>5,286,211</u>		<u>5,286,211</u>
CHANGES IN NET ASSETS	(34,895)	5,096	(29,799)
Net assets, beginning of year	<u>6,594,009</u>	<u>608,212</u>	<u>7,202,221</u>
Net assets, end of year	<u>\$ 6,559,114</u>	<u>\$ 613,308</u>	<u>\$ 7,172,422</u>

*See accompanying notes to consolidated financial statements.*

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## Houston Advanced Research Center

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

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants (Note 5)		\$ 1,339,188	\$ 1,339,188
Other (Note 6)	\$ 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.*

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## Houston Advanced Research Center

### Consolidated Statements of Functional Expenses for the years ended December 31, 2021 and 2020

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2021 TOTAL EXPENSES</u>
Payroll and related benefits	\$ 2,144,834	\$ 940,220	\$ 17,436	\$ 3,102,490
Subcontracts	768,129			768,129
Consulting and professional fees	485,948	136,450	3,000	625,398
Depreciation	111,400	229,679		341,079
Information technology	55,780	88,862		144,642
Occupancy	95,006	2,352		97,358
Insurance	28,374	37,359		65,733
Office supplies	19,758	26,049		45,807
Conferences, meetings, and events	38,145	6,191		44,336
Travel	1,719	8,838		10,557
Other	<u>11,395</u>	<u>29,287</u>	<u>          </u>	<u>40,682</u>
Total expenses	<u>\$ 3,760,488</u>	<u>\$ 1,505,287</u>	<u>\$ 20,436</u>	<u>\$ 5,286,211</u>

	<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
Travel	5,037	2,178		7,215
Interest expense	3,691	7,979		11,670
Other	<u>59,138</u>	<u>33,171</u>	<u>          </u>	<u>92,309</u>
Total expenses	<u>\$ 3,327,453</u>	<u>\$ 1,300,025</u>	<u>\$ 18,526</u>	<u>\$ 4,646,004</u>

*See accompanying notes to consolidated financial statements.*



## Houston Advanced Research Center

### Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ (29,799)	\$ 3,668,599
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	341,079	349,379
Gain on sale of property	(24,239)	
Changes in operating assets and liabilities:		
Accounts receivable	(9,190)	(69,939)
Prepaid expenses and other assets	(32,948)	(12,153)
Contributions receivable	(74,226)	(509,283)
Accounts payable	(15,995)	50,976
Accrued expenses	12,984	26,936
Paycheck Protection Program refundable advance	(284,262)	284,262
Deferred revenue – research contracts	<u>31,111</u>	<u>(49,719)</u>
Net cash provided (used) by operating activities	<u>(85,485)</u>	<u>3,739,058</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property	(21,925)	(30,006)
Proceeds from sale of property	<u>40,476</u>	<u>          </u>
Net cash provided (used) by investing activities	<u>18,551</u>	<u>(30,006)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of note payable		<u>(3,854,010)</u>
NET CHANGE IN CASH	(66,934)	(144,958)
Cash, beginning of year	<u>77,675</u>	<u>222,633</u>
Cash, end of year	<u>\$ 10,741</u>	<u>\$ 77,675</u>

*Supplemental disclosure of cash flow information:*

Interest paid	\$11,670
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*See accompanying notes to consolidated financial statements.*

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## Houston Advanced Research Center

Notes to Consolidated Financial Statements for the years ended December 31, 2021 and 2020

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### 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) was formed as a Texas nonprofit limited liability corporation whose sole member is the Center. HLL's purpose is to hold title to the property known as the HARC Living Lab in the Woodlands.

HARC Research Innovations, Inc. (HRI) was formed as a Texas for-profit corporation and is a wholly-owned subsidiary of the Center. HRI's purpose is 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) was formed as a Texas for-profit corporation and is a majority-owned subsidiary of HRI. Pythias' purpose is to develop, validate and market the Pythias Climate Risk Decision Tool.

Basis of consolidation – These consolidated financial statements include the assets, liabilities, net assets and activities of the Center, HLL, HRI and Pythias (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. HLL is exempt from federal income tax under §501(c)(2) of the Internal Revenue Code. HRI and Pythias are for-profit corporations, which are subject to income tax. HRI and Pythias file annual federal tax returns that are subject to routine examination; however, there are no examinations for any tax periods currently in process.

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. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions revenue. At December 31, 2021, all contributions receivable are expected to be collected within one year.

Allowance for uncollectible receivables – An allowance for receivables is provided when it is believed the balances may not be collected in full. Balances are written off against the allowance when management determines the receivable will not be collected. The amount of bad debt expense or loss on valuation of receivables 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 account-by-account analysis of receivable balances each period. HARC considers receivables to be fully collectible; accordingly, no allowance for doubtful receivables is recorded in these financial statements.

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 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. Funding received before conditions are met is reported as refundable advances.

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. At December 31, 2021, 2020 and 2019, accounts receivable from research contracts were \$116,406, \$107,216 and \$37,277, respectively. Payments collected but not yet recognized as revenue result in a contract liability and are reported as deferred revenue. At December 31, 2021, 2020 and 2019, deferred revenue for research contracts were \$31,111, \$0 and \$49,719, 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>2021</u>	<u>2020</u>
Financial assets:		
Cash	\$ 10,741	\$ 77,675
Accounts receivable	116,406	107,216
Contributions receivable	<u>703,387</u>	<u>629,161</u>
Total financial assets	830,534	814,052
Less financial assets not available for general expenditure:		
Donor-restricted assets subject to satisfaction of restriction	<u>(69,685)</u>	<u>          </u>
Total financial assets available for general expenditure	<u>\$ 760,849</u>	<u>\$ 814,052</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 those 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 could also draw upon its \$100,000 unused line of credit, which is described in Note 7.

HARC received a \$284,262 Paycheck Protection Program (PPP) loan through the U. S. Small Business Administration in April 2020. In May 2021, HARC was notified that the loan had been fully forgiven and it was recognized as a government grant contribution.

## NOTE 3 – PROPERTY

Property consists of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 829,376	\$ 829,376
Building and improvements	7,065,560	7,065,560
Furniture and equipment	<u>907,009</u>	<u>938,368</u>
Total property, at cost	8,801,945	8,833,304
Accumulated depreciation	<u>(2,149,243)</u>	<u>(1,845,211)</u>
Property, net	<u>\$ 6,652,702</u>	<u>\$ 6,988,093</u>

#### NOTE 4 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Development of the Pythias Decision Framework model	\$ 447,496	
Additional senior researcher	68,012	\$ 128,303
Strategic initiatives for organizational growth	49,025	
Strengthen and advance the Galveston Bay Report Card	25,158	
Tracking, Reporting and Innovation Methods in Identifying		
Litter in the Galveston Bay Watershed		163,392
One Solution upgrades		41,468
Other	<u>23,617</u>	<u>25,049</u>
Total subject to expenditure for specified purpose	613,308	358,212
Subject to the passage of time:		
Contributions receivable that are not restricted by donors,		
but which are unavailable for expenditures until due	<u>                    </u>	<u>250,000</u>
Total net assets with donor restrictions	<u>\$ 613,308</u>	<u>\$ 608,212</u>

#### NOTE 5 – GOVERNMENT GRANTS

Government grants include the following:

	<u>2021</u>	<u>2020</u>
Federal grants:		
U. S. Department of Energy	\$ 1,452,633	\$ 1,120,175
U. S. Environmental Protection Agency	210,148	130,853
U. S. Department of Commerce	<u>7,345</u>	<u>                    </u>
Total federal grants	1,670,126	1,251,028
U. S. Small Business Administration – PPP loan forgiveness	284,262	
State grants	57,148	12,306
County grant	<u>5,840</u>	<u>75,854</u>
Total government grants	<u>\$ 2,017,376</u>	<u>\$ 1,339,188</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 \$3,100,000 that have not been recognized at December 31, 2021 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 6 – CONCENTRATIONS**

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

During 2021, HARC received \$1,800,000 in contributions from this foundation, which represents 34% of total revenue. During 2020, HARC received \$5,775,000 in contributions from this foundation, which represents 69% of total revenue.

#### **NOTE 7 – LINE OF CREDIT**

HARC has a \$100,000 line of credit with a bank that expires in February 2026. There were no draws on this line of credit during the year ended December 31, 2021. There were no amounts outstanding under this line of credit at December 31, 2021.

#### **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. In 2021, HARC changed the terms of the Plan. HARC will match 1% for each percent the employee contributes up to a maximum of 7%. HARC contributed to the Plan approximately \$147,000 in 2021 and \$161,000 in 2020.

#### **NOTE 9 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through June 22, 2022, 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.

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## Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2021

<u>CLUSTER TITLE</u>	<u>GRANTOR</u>	<u>Assistance Listing Number</u>	<u>Contract Number or Pass-through Grantor Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
RESEARCH AND DEVELOPMENT CLUSTER					
U. S. DEPARTMENT OF COMMERCE					
Passed through Desert Research Institute:					
Climate and Atmospheric Research					
Improved Simulations of Surface Temperature					
#1	06/01/21 – 05/31/22	11.431	GR13197	\$22,480	\$ 7,345
Total U. S. Department of Commerce					<u>7,345</u>
U. S. DEPARTMENT OF ENERGY					
Passed through State Energy Conservation Office:					
State Energy Program					
City Efficiency Leadership					
#2	09/08/20 – 08/31/22	81.041	PO0163	\$280,000	151,212
State Energy Program					
SECO HVAC Training					
#3	09/08/20 – 08/31/21	81.041	PO0162	\$120,000	71,464
State Energy Program					
SECO HVAC2022 Training					
#4	10/05/21 – 08/31/22	81.041	PO0903	\$130,000	<u>23,886</u>
Subtotal for 81.041					<u>246,562</u>
Direct Funding:					
Conservation Research and Development					
Advances on CHP District Energy and Microgrids Deployment					
Simplified Tool for Rapidly Deploying Feasibility Analytics for the Non-Technical User					
#5	09/01/20 – 11/30/23	81.086	DE-EE0009141	\$1,463,534	<u>385,896</u>
Renewable Energy Research and Development					
Expanding Solar in Deregulated Market					
#6	04/01/20 – 03/31/22	81.087	DE-EE0009007	\$500,000	<u>193,266</u>
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					
#7	08/01/18 – 09/30/22	81.117	DE-EE0008272	\$4,212,500	<u>626,909</u>
Total U. S. Department of Energy					<u>1,452,633</u>

(continued)

## Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2021 *(continued)*

<u>CLUSTER TITLE</u>					
<u>GRANTOR</u>		Assistance	Contract Number		
<u>Pass-through Grantor</u>		Listing	or Pass-through	Award	Federal
<u>Program Title &amp; Period</u>		<u>Number</u>	<u>Grantor Number</u>	<u>Amount</u>	<u>Expenditures</u>
RESEARCH AND DEVELOPMENT CLUSTER <i>(continued)</i>					
U. S. ENVIRONMENTAL PROTECTION AGENCY					
Passed through Texas Commission on Environmental Quality:					
National Estuary Program					
Galveston Bay Regional Database					
#8	01/04/21 – 08/31/25	66.456	582-21-10088	\$350,228	85,574
National Estuary Program					
Estuary Resilience Assessment					
#9	09/01/18 – 02/28/22	66.456	582-19-90217	\$50,000	14,900
National Estuary Program					
Galveston Bay Survey 2019					
#10	08/23/19 – 05/31/22	66.456	582-20-10175	\$86,000	<u>7,498</u>
Subtotal for 66.456					<u>107,972</u>
Nonpoint Source Implementation Grants					
Low Impact Development 2020					
#11	11/06/20 – 08/31/23	66.460	582-21-10148	\$320,250	5,139
Passed through Texas State Soil and Water Conservation Board:					
Nonpoint Source Implementation Grants					
Double Bayou Watershed Protection Planning Implement					
#12	09/01/18 – 08/31/22	66.460	18-07	\$363,196	<u>97,037</u>
Subtotal for 66.460					<u>102,176</u>
Total U. S. Environmental Protection Agency					<u>210,148</u>
TOTAL FEDERAL AWARDS/RESEARCH AND DEVELOPMENT CLUSTER					<u>\$ 1,670,126</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, 2021

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### 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 2021.

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

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**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 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, 2021 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 22, 2022.

**Report on 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 or significant deficiencies may exist that were not identified.

**Report on 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 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*

June 22, 2022

**Independent Auditors' Report on Compliance for Each Major  
Federal 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**

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

We have audited Houston Advanced Research Center's (HARC) 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 HARC's major federal programs for the year ended December 31, 2021. HARC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, HARC complied, in all material respects, with the 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, 2021.

***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 *Auditors' Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of HARC 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 HARC's 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 HARC's federal programs.

## ***Auditors' 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 HARC's 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 HARC's compliance with the requirements of each major federal program as a whole.

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 HARC's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of HARC's 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 HARC's 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 *Auditors' 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.

*Blazek & Vetterling*

June 22, 2022

# Houston Advanced Research Center

Schedule of Findings and Questioned Costs for the year ended December 31, 2021

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## 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:

Assistance Listing Number(s)      Name of Federal Program or Cluster

Research and Development Cluster:

11.431	Climate and Atmospheric Research
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).