

Houston Advanced Research Center

Consolidated Financial Statements
and Single Audit Reports
for the year ended December 31, 2024

Houston Advanced Research Center

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Consolidated Statements of Financial Position as of December 31, 2024 and 2023	3
Consolidated Statement of Activities for the year ended December 31, 2024	4
Consolidated Statement of Activities for the year ended December 31, 2023	5
Consolidated Statements of Functional Expenses for the years ended December 31, 2024 and 2023	6
Consolidated Statements of Cash Flows for the years ended December 31, 2024 and 2023	7
Notes to Consolidated Financial Statements for the years ended December 31, 2024 and 2023	8
Supplementary Information:	
Schedule of Expenditures of Federal Awards for the year ended December 31, 2024	13
Note to Schedule of Expenditures of Federal Awards for the year ended December 31, 2024	17
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>	18
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	20
Schedule of Findings and Questioned Costs for the year ended December 31, 2024	23
Corrective Action Plan	25

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, 2024 and 2023, 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, 2024 and 2023, 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.

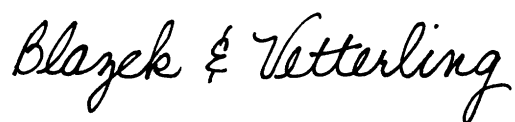
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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, 2024 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 September 24, 2025 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.



September 24, 2025

Houston Advanced Research Center

Consolidated Statements of Financial Position as of December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash	\$ 5,986	\$ 18,201
Accounts receivable	51,000	233,896
Prepaid expenses and other assets	44,005	76,420
Contributions receivable – government grants	862,103	352,953
Property, net (<i>Note 3</i>)	<u>5,864,173</u>	<u>6,126,079</u>
TOTAL ASSETS	<u>\$ 6,827,267</u>	<u>\$ 6,807,549</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 406,965	\$ 371,129
Accrued expenses	298,480	257,656
Refundable advances	22,534	94,115
Note payable (<i>Note 7</i>)	<u>100,000</u>	<u>75,000</u>
Total liabilities	<u>827,979</u>	<u>797,900</u>
Commitment and contingencies (<i>Notes 2, 5 and 7</i>)		
Net assets:		
Without donor restrictions	5,892,388	6,009,255
With donor restrictions (<i>Note 4</i>)	<u>106,900</u>	<u>394</u>
Total net assets	<u>5,999,288</u>	<u>6,009,649</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,827,267</u>	<u>\$ 6,807,549</u>

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Consolidated Statement of Activities for the year ended December 31, 2024

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants <i>(Note 5)</i>		\$ 3,393,513	\$ 3,393,513
Other <i>(Note 6)</i>	\$ 3,731,510	515,365	4,246,875
Research contracts	288,792		288,792
Other income	<u>21,587</u>		<u>21,587</u>
Total revenue	4,041,889	3,908,878	7,950,767
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>3,802,372</u>	<u>(3,802,372)</u>	
Total	<u>7,844,261</u>	<u>106,506</u>	<u>7,950,767</u>
EXPENSES:			
Program services:			
Energy and Building Solutions	2,806,033		2,806,033
Environment	<u>2,300,528</u>		<u>2,300,528</u>
Total program services	5,106,561		5,106,561
Management and general	2,504,310		2,504,310
Fundraising	<u>350,257</u>		<u>350,257</u>
Total expenses	<u>7,961,128</u>		<u>7,961,128</u>
CHANGES IN NET ASSETS	(116,867)	106,506	(10,361)
Net assets, beginning of year	<u>6,009,255</u>	<u>394</u>	<u>6,009,649</u>
Net assets, end of year	<u>\$ 5,892,388</u>	<u>\$ 106,900</u>	<u>\$ 5,999,288</u>

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Consolidated Statement of Activities for the year ended December 31, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Government grants <i>(Note 5)</i>		\$ 2,298,165	\$ 2,298,165
Other <i>(Note 6)</i>	\$ 3,362,818	551,884	3,914,702
Research contracts	724,006		724,006
Other income	<u>12,512</u>		<u>12,512</u>
Total revenue	4,099,336	2,850,049	6,949,385
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>3,265,786</u>	<u>(3,265,786)</u>	
Total	<u>7,365,122</u>	<u>(415,737)</u>	<u>6,949,385</u>
EXPENSES:			
Program services:			
Energy and Building Solutions	2,787,288		2,787,288
Environment	<u>2,030,085</u>		<u>2,030,085</u>
Total program services	4,817,373		4,817,373
Management and general	2,204,765		2,204,765
Fundraising	<u>161,154</u>		<u>161,154</u>
Total expenses	<u>7,183,292</u>		<u>7,183,292</u>
CHANGES IN NET ASSETS	181,830	(415,737)	(233,907)
Net assets, beginning of year	<u>5,827,425</u>	<u>416,131</u>	<u>6,243,556</u>
Net assets, end of year	<u>\$ 6,009,255</u>	<u>\$ 394</u>	<u>\$ 6,009,649</u>

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Consolidated Statements of Functional Expenses for the years ended December 31, 2024 and 2023

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2024 TOTAL EXPENSES
Payroll and related benefits	\$ 3,096,940	\$ 1,623,421	\$ 251,229	\$ 4,971,590
Subcontracts	998,963			998,963
Consulting and professional fees	549,356	374,124	71,041	994,521
Occupancy and information technology	188,742	201,822		390,564
Depreciation	119,285	164,336	14,639	298,260
Office supplies and expenses	64,343	101,611	7,506	173,460
Travel	73,054	29,036	5,533	107,623
Materials and supplies	<u>15,878</u>	<u>9,960</u>	<u>309</u>	<u>26,147</u>
Total expenses	<u>\$ 5,106,561</u>	<u>\$ 2,504,310</u>	<u>\$ 350,257</u>	<u>\$ 7,961,128</u>

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	2023 TOTAL EXPENSES
Payroll and related benefits	\$ 2,720,913	\$ 1,440,258	\$ 160,472	\$ 4,321,643
Subcontracts	970,790			970,790
Consulting and professional fees	668,726	325,311		994,037
Occupancy and information technology	166,057	162,129		328,186
Depreciation	136,953	155,664		292,617
Office supplies and expenses	93,280	52,995	354	146,629
Travel	45,047	34,160	193	79,400
Materials and supplies	<u>15,607</u>	<u>34,248</u>	<u>135</u>	<u>49,990</u>
Total expenses	<u>\$ 4,817,373</u>	<u>\$ 2,204,765</u>	<u>\$ 161,154</u>	<u>\$ 7,183,292</u>

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Consolidated Statements of Cash Flows for the years ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (10,361)	\$ (233,907)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	298,260	292,617
Changes in operating assets and liabilities:		
Accounts receivable	182,896	71,637
Prepaid expenses and other assets	32,415	(11,686)
Contributions receivable	(509,150)	78,881
Accounts payable	35,836	(103,349)
Accrued expenses	40,824	51,333
Refundable advances	(71,581)	(185,957)
Deferred revenue – research contracts	<u> </u>	<u>(376)</u>
Net cash used by operating activities	<u>(861)</u>	<u>(40,807)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(36,354)</u>	<u>(23,708)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	624,000	473,000
Repayment of note payable	<u>(599,000)</u>	<u>(398,000)</u>
Net cash provided by financing activities	<u>25,000</u>	<u>75,000</u>
NET CHANGE IN CASH	(12,215)	10,485
Cash, beginning of year	<u>18,201</u>	<u>7,716</u>
Cash, end of year	<u>\$ 5,986</u>	<u>\$ 18,201</u>
<i>Supplement disclosure of cash flow information:</i>		
Interest paid	\$2,333	\$2,878

See accompanying notes to consolidated financial statements.

Houston Advanced Research Center

Notes to Consolidated Financial Statements for the years ended December 31, 2024 and 2023

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. HLL, HRI, and Pythias were legally active in 2024 but had no operations or financial activity.

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.

Accounts receivable reflects the consideration the Center expects to be entitled to in exchange for services. Management estimates an allowance for doubtful accounts based on historical collection experience adjusted for management's expectations about current and future economic conditions which indicates that there are no estimated uncollectible accounts receivable at December 31, 2024 or 2023.

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 contribution revenue. At December 31, 2024, all contributions receivable are expected to be collected within one year. An allowance for contributions 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. 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 and a useful life of greater than one year 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, 2024, 2023 and 2022, accounts receivable from research contracts were \$51,000, \$233,896 and \$305,533, respectively. Payments collected but not yet recognized as revenue result in a contract liability and are reported as deferred revenue. At December 31, 2024, 2023 and 2022, deferred revenue for research contracts were \$0, \$0 and \$376, 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 expenditure, that is, without donor or other restrictions limiting their use within one year of December 31 comprise the following:

	<u>2024</u>	<u>2023</u>
Financial assets:		
Cash	\$ 5,986	\$ 18,201
Accounts receivable	51,000	233,896
Contributions receivable – government grants	<u>862,103</u>	<u>352,953</u>
Total financial assets available for general expenditure	<u>\$ 919,089</u>	<u>\$ 605,050</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 also maintains a revolving line of credit, as described in Note 7, to support short-term liquidity needs and working capital management. Borrowings under the line are typically outstanding for less than 30 days and are repaid from operating cash receipts.

In January 2025, the U. S. Office of Management and Budget (OMB) issued a memo directing federal agencies to temporarily pause funding of all federal assistance programs to allow time to evaluate agencies and programs for consistency with the law and with Presidential priorities. The memo was later rescinded but there continue to be delays in funding and increased scrutiny of programs. These actions are the subject of various on-going legal proceedings which may impact collectability of existing contracts and future funding availability.

The extent to which OMB's actions and Presidential priorities may impact current and future operations, financial results, and cash flows depends on developments which are uncertain at this time and cannot be reasonably estimated. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 – PROPERTY

Property consists of the following:

	<u>2024</u>	<u>2023</u>
Land	\$ 829,376	\$ 829,376
Building and improvements	7,065,560	7,065,560
Furniture and equipment	<u>1,009,207</u>	<u>972,854</u>
Total property, at cost	8,904,143	8,867,790
Accumulated depreciation	<u>(3,039,970)</u>	<u>(2,741,711)</u>
Property, net	<u>\$ 5,864,173</u>	<u>\$ 6,126,079</u>

NOTE 4 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2024</u>	<u>2023</u>
Subject to expenditure for specified purpose:		
Building an energy and water workforce in under-resourced communities	\$ 100,000	
Ensure Texas Solar for All coalition is prepared for EPA program	6,900	
Strategy for increasing tree canopy	<u> </u>	\$ <u>394</u>
Total net assets with donor restrictions	<u>\$ 106,900</u>	<u>\$ 394</u>

NOTE 5 – GOVERNMENT GRANTS

HARC is party to agreements with government agencies. Should these agreements not be received, a replacement for this source of support may not be forthcoming and related expenses would not be incurred.

Government grants include the following:

	<u>2024</u>	<u>2023</u>
Federal grants:		
U. S. Department of Energy	\$ 1,860,649	\$ 1,782,183
U. S. Department of Agriculture	715,944	13,175
U. S. Environmental Protection Agency	<u>715,959</u>	<u>432,574</u>
Total federal grants	3,292,552	2,227,932
State grants	100,961	42,923
County grant	<u> </u>	<u>27,310</u>
Total government grants	<u>\$ 3,393,513</u>	<u>\$ 2,298,165</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 \$67,000,000 that have not been recognized at December 31, 2024 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 December 31, 2024, HARC received \$3,500,000 in contributions from this foundation, which represents 45% of total revenue. During 2023, HARC received \$3,100,000 in contributions from this foundation, which represents 45% of total revenue.

NOTE 7 – LINE OF CREDIT

HARC has a \$100,000 line of credit with a bank. A draw of \$100,000 was made on the line of credit near the end of fiscal year 2024 and was outstanding at December 31, 2024. The line of credit bears interest at 13.6% and matures in February 2026.

NOTE 8 – RELATED PARTY TRANSACTIONS

HARC subcontracted research services with the employers of certain members of the HARC Board of Directors totaling approximately \$34,000 and \$183,000 during 2024 and 2023, respectively. These subcontractors were obtained through a competitive award process or based on their technical qualifications.

NOTE 9 – 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 match of 1% for each percent the employee contributes up to 7%. HARC contributed to the Plan approximately \$183,000 in 2024 and \$173,000 in 2023.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 24, 2025, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than as disclosed in Note 2 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, 2024

<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 AGRICULTURE					
Direct Funding:					
Inflation Reduction Act Urban and Community Forestry Program					
Creating an Inclusive Community Canopy within Houston and Harris County					
#1	04/24/24 – 04/23/29	10.727	24-DG-11083150-568	\$15,000,000	\$ 715,944
Total U. S. Department of Agriculture					<u>715,944</u>
U. S. DEPARTMENT OF ENERGY					
Passed through State Energy Conservation Office:					
State Energy Program					
SECO HVAC2023 Training					
#2	09/01/22 – 08/31/25	81.041	PO0187	\$491,802	169,087
State Energy Program					
City Efficiency Leadership Council					
#3	09/01/22 – 08/31/25	81.041	23-7600JM	\$608,700	217,315
State Energy Program					
From Classroom to Career: Building the Pipeline for Texas' Clean Energy Workforce					
#4	01/30/23 – 08/31/24	81.041	PO1539	\$160,000	<u>56,860</u>
Subtotal for 81.041					<u>443,262</u>
Direct Funding:					
Weatherization Assistance for Low-Income Persons					
Preparing the Frontlines for a Climate Future through Holistic Weatherization					
#5	03/01/23 – 02/28/26	81.042	DE-EE0010270	\$1,970,345	<u>297,795</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 – 08/31/24	81.086	DE-EE0009141	\$1,463,534	<u>234,227</u>

(continued)

Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2024 *(continued)*

CLUSTER TITLE

<u>GRANTOR</u>	Assistance	Contract Number	Award	Federal
<u>Pass-through Grantor</u>	Listing	or Pass-through	Amount	Expenditures
<u>Program Title & Period</u>	<u>Number</u>	<u>Grantor Number</u>		

RESEARCH AND DEVELOPMENT CLUSTER *(continued)*

U. S. DEPARTMENT OF ENERGY *(continued)*

Direct Funding:

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 – 03/31/25	81.117	DE-EE0008272	\$4,212,500	338,585
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Energy Efficiency and Renewable Energy Information Dissemination,
Outreach, Training and Technical Analysis/Assistance
Onsite Energy Technical Assistance Partnership

#8	10/01/23 – 12/31/25	81.117	DE-EE0010963	\$1,498,631	<u>516,948</u>
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	Subtotal for 81.117				<u>855,533</u>
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Passed through GTI Energy:

Clean Energy Demonstrations
HyVelocity Hub: Rapidly Scaling Clean Energy and Demand

#9	11/18/24 – 04/30/26	81.255	SR140	\$750,000	<u>29,832</u>
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	Total U. S. Department of Energy				<u>1,860,649</u>
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U. S. ENVIRONMENTAL PROTECTION AGENCY

Passed through Houston-Galveston Area Council:

Climate Pollution Reduction Grants
Planning Grant Workplan

#10	10/01/23 – 09/30/27	66.046	11728	\$188,262	<u>67,710</u>
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Direct Funding:

Surveys, Studies, Investigations, Training and Special Purpose Activities
Relating to Environmental Justice
Port Arthur Environmental Justice Initiative 2022-2023

#11	11/01/22 – 10/31/24	66.309	02F24001	\$39,716	<u>14,958</u>
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(continued)

Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2024 (continued)

CLUSTER TITLE

GRANTOR	Assistance	Contract Number	Award	Federal
Pass-through Grantor	Listing	or Pass-through	Amount	Expenditures
Program Title & Period	Number	Grantor Number		

RESEARCH AND DEVELOPMENT CLUSTER (continued)

U. S. ENVIRONMENTAL PROTECTION AGENCY (continued)

Passed through Texas Commission on Environmental Quality:

	National Estuary Program				
	Galveston Bay Regional Database				
#12	01/04/21 – 08/31/25	66.456	582-21-10088	\$350,228	36,249
	National Estuary Program				
	Galveston Bay Report Card Vietnamese Outreach				
#13	09/01/22 – 03/31/25	66.456	582-23-40249	\$75,000	31,055
	National Estuary Program				
	Advancing Environmental Justice				
#14	04/11/23 – 02/28/24	66.456	582-23-43948	\$56,000	214
	National Estuary Program				
	Galveston Bay Comprehensive Conservation Management Plan Update				
#15	09/01/23 – 08/31/25	66.456	582-24-50173	\$222,157	53,058
	National Estuary Program				
	Galveston Bay Comprehensive Conservation Management Plan Update				
#16	09/01/23 – 05/31/26	66.456	582-24-50169	\$100,000	3,523
	National Estuary Program				
	Evaluating Galveston Bay's Resilience to Ocean and Coastal Acidification				
#17	09/01/24 – 05/31/27	66.456	582-25-00040	\$278,000	6,542
	Subtotal for 66.456				130,641

	Nonpoint Source Implementation Grants				
	Low Impact Development 2020				
#18	11/06/20 – 04/30/26	66.460	582-21-10148	\$666,184	46,964

Passed through Texas State Soil and Water Conservation Board:

	Nonpoint Source Implementation Grants				
	Double Bayou Watershed Protection Planning Implement				
#19	10/17/22 – 08/31/25	66.460	22-13	\$373,175	110,693
	Subtotal for 66.460				157,657

(continued)

Houston Advanced Research Center

Schedule of Expenditures of Federal Awards for the year ended December 31, 2024 *(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 & 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 <i>(continued)</i>				
Passed through Harris County:				
Greenhouse Gas Reduction Fund: Solar for All				
The Texas Solar for All Coalition: A Collaborative Effort to				
Enable Low-Income Solar and Storage				
#20 09/01/24 – 08/31/29	66.959	84087701	\$47,432,657	<u>204,448</u>
Total U. S. Environmental Protection Agency				<u>575,414</u>
TOTAL FEDERAL AWARDS/RESEARCH AND DEVELOPMENT CLUSTER				<u>\$ 3,152,007</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, 2024

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 2024.

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.

**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, 2024 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 consolidated financial statements, and have issued our report thereon dated September 24, 2025.

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

September 24, 2025

**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 HARC's major federal program for the year ended December 31, 2024. HARC's major federal program is 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 its major federal program for the year ended December 31, 2024.

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 the 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 program.

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 its 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.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item #2024-001. Our opinion on the major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on HARC's response to the noncompliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. HARC's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

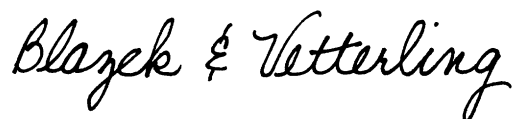
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

A handwritten signature in black ink that reads "Blazeck & Vetterling". The script is cursive and fluid, with the ampersand being a simple loop.

September 24, 2025

Houston Advanced Research Center

Schedule of Findings and Questioned Costs for the year ended December 31, 2024

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 program:

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

10.727	Inflation Reduction Act Urban and Community Forestry Program
81.041	State Energy Program
81.042	Weatherization Assistance for Low-Income Persons
81.086	Conservation Research and Development
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance
81.255	Clean Energy Demonstrations
66.046	Climate Pollution Reduction Grants
66.309	Surveys, Studies, Investigations, Training and Special Purpose Activities Relating to Environmental Justice
66.456	National Estuary Program
66.460	Nonpoint Source Implementation Grants
66.959	Greenhouse Gas Reduction Fund: Solar for All

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

Finding #2024-001 – Other Noncompliance

Applicable federal program:

U. S. Environmental Protection Agency
Passed through Texas Commission on Environmental Quality
Nonpoint Source Implementation Grants
Low Impact Development 2020
Assistance Listing #66.460
Contract period: 11/06/20 – 04/30/26
Contract number: 582-21-10148

Criteria: Allowable costs – *Uniform Guidance, Subpart E Cost Principles*, §200.434 states that the value of services and property donated to the recipient or subrecipient may not be charged to the federal award either as a direct or indirect cost.

Condition and context: Under the terms of its agreement with the Texas Commission in Environmental Quality, HARC receives reimbursement for a percentage of the expenditures incurred in performance of the funded program. Donated services utilized in performance of the program were included in reimbursement submitted to the grantor.

Cause: A lack of understanding that in-kind donations may not be charged to the federal award as reimbursable costs.

Effect: As a result of not following federal grant requirements for the allowability of in-kind donations, unallowed costs were charged to the program.

Questioned costs: \$140,545

Recommendation: Re-emphasize to program and accounting personnel federal grant requirements for the allowability of in-kind donations.

Views of responsible officials and planned corrective actions: Management agrees with the finding. See Corrective Action Plan.



CORRECTIVE ACTION PLAN

September 24, 2025

U. S. ENVIRONMENTAL PROTECTION AGENCY

Houston Advanced Research Center (HARC) respectfully submits the following Corrective Action Plan for the year ended December 31, 2024. The audit was performed by: Blazek & Vetterling, 2900 Wesleyan, Suite 200, Houston, Texas, 77027.

The finding from the December 31, 2024 schedule of findings and questioned costs is discussed below.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding #2024-001 – Other Noncompliance

Applicable federal program:

U. S. Environmental Protection Agency
Passed through Texas Commission on Environmental Quality
Nonpoint Source Implementation Grants
Low Impact Development 2020
Assistance Listing #66.460
Contract period: 11/06/20 – 04/30/26
Contract number: 582-21-10148

Condition and context: Under the terms of its agreement with the Texas Commission in Environmental Quality, HARC receives reimbursement for a percentage of the expenditures incurred in performance of the funded program. Donated services utilized in performance of the program were included in reimbursement submitted to the grantor.

Recommendation: Re-emphasize to program and accounting personnel federal grant requirements for the allowability of in-kind donations.

Management's response: Management concurs with the finding. This issue arose because the non-federal flow-through sponsor required certain in-kind cost share amounts to be invoiced as direct expenses, which conflicted with federal cost principles. It is important to note that while the questioned costs increased reported revenue for 2024, the program had unreimbursed expenditures. Corrective actions were implemented in the first half of 2025, including the hiring of new Grants and Contracts Management staff and strengthening of internal controls, to ensure compliance with federal requirements and prevent recurrence in future reporting.

Responsible officer: Carmen Osier, Director of Business Operations

Estimated completion date: June 30, 2025

If the U. S. Environmental Protection Agency has questions regarding this plan, please call Carmen Osier at (281) 364-6020.

Sincerely,

Carmen Digitally signed by
Osier Carmen Osier
 Date: 2025.09.25
 16:33:39 -05'00'

Carmen Osier
Director of Business Operations