

CONSOLIDATED FINANCIAL STATEMENTS  
AND REPORTS AND SCHEDULES REQUIRED BY THE  
UNIFORM GUIDANCE

Texas Biomedical Research Institute  
Years Ended December 31, 2022 and 2021  
With Reports of Independent Auditors

Ernst & Young LLP



Texas Biomedical Research Institute  
Consolidated Financial Statements and Reports  
and Schedules Required by the Uniform Guidance  
Years Ended December 31, 2022 and 2021

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## Report of Independent Auditors

Management and Trustees  
Texas Biomedical Research Institute

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the consolidated financial statements of Texas Biomedical Research Institute, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Texas Biomedical Research Institute at December 31, 2022 and 2021, 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Texas Biomedical Research Institute 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 of 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 Texas Biomedical Research Institute’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

#### *Auditor’s Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS 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 Texas Biomedical Research Institute’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 Texas Biomedical Research Institute’s ability to continue as a going concern for a reasonable period of time.

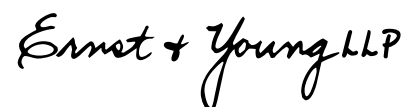
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. We have not performed any procedures with respect to the audited financial statements subsequent to June 1, 2023. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated 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 GAAS. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we also have issued our report dated June 1, 2023 on our consideration of Texas Biomedical Research Institute’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 the Texas Biomedical Research Institute’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 Texas Biomedical Research Institute’s internal control over financial reporting and compliance.



June 1, 2023

Texas Biomedical Research Institute

Consolidated Statements of Financial Position

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 11,115,646	\$ 13,919,907
Accounts receivable	12,914,080	13,983,284
Pledges receivable <i>(Note 3)</i>	5,584,687	6,409,374
Prepaid expenses and supplies	5,339,950	975,388
Assets limited as to use:		
Cash	9,988,846	8,804,311
Investments <i>(Note 6)</i>	86,167,551	111,102,272
Investment in Evestra, Inc. <i>(Note 6)</i>	2,821,861	2,821,861
Funds held in trust by others <i>(Note 7)</i>	17,667,596	24,044,165
Land, buildings, and equipment, net <i>(Note 9)</i>	82,138,784	73,227,782
Right-of-use assets	884,762	1,442,927
Total assets	\$ 234,623,763	\$ 256,731,271
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable	\$ 9,988,924	\$ 7,374,659
Accrued wages, vacation, and other liabilities	4,031,715	3,911,707
Unearned revenue	3,325,420	3,216,065
Lease liability	957,388	1,484,662
Bonds payable <i>(Note 11)</i>	61,655,000	61,655,000
Bond premium <i>(Note 11)</i>	3,749,981	4,146,464
Bond issuance costs <i>(Note 11)</i>	(833,464)	(862,793)
Total liabilities	82,874,964	80,925,764
Net assets:		
Net assets without donor restrictions	93,802,582	109,060,059
Net assets with donor restrictions	57,946,217	66,745,448
Total net assets	151,748,799	175,805,507
Total liabilities and net assets	\$ 234,623,763	\$ 256,731,271

*See accompanying notes.*

Texas Biomedical Research Institute

Consolidated Statement of Activities

	<b>For the Year Ended December 31, 2022</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Operating revenues</b>			
Grants and contracts	\$ 51,715,876	\$ –	\$ 51,715,876
Contributions	2,608,031	5,523,399	8,131,430
Endowment income allocation for operations	4,978,970	2,288,110	7,267,080
External program income	759,823	–	759,823
Other revenue	285,824	–	285,824
Total operating revenues	60,348,524	7,811,509	68,160,033
Net assets released from restrictions	9,822,982	(9,822,982)	–
Total revenues, gains, and other support	70,171,506	(2,011,473)	68,160,033
<b>Operating expenses</b>			
Salaries and benefits	36,607,827	–	36,607,827
Supplies	10,492,413	–	10,492,413
Depreciation	6,665,169	–	6,665,169
Services and professional fees	8,995,885	–	8,995,885
Subcontracts	1,494,094	–	1,494,094
Utilities	2,559,641	–	2,559,641
Interest expense	1,406,848	–	1,406,848
Subscriptions	416,196	–	416,196
Travel	245,410	–	245,410
Insurance	757,568	–	757,568
Shipping	357,930	–	357,930
Amortization	481,373	–	481,373
Other expenses	1,972,316	–	1,972,316
Total operating expenses	72,452,670	–	72,452,670
Net increase (decrease) from operations	(2,281,164)	(2,011,473)	(4,292,637)
<b>Nonoperating revenues, gains, and losses</b>			
Endowment income allocation for operations	(4,978,970)	(2,288,110)	(7,267,080)
Investment gain	(11,909,072)	(4,499,648)	(16,408,720)
Royalty income	1,215,645	–	1,215,645
Gain on disposal of assets, net	2,696,084	–	2,696,084
Total nonoperating revenues, gains, and losses	(12,976,313)	(6,787,758)	(19,764,071)
Change in net assets	(15,257,477)	(8,799,231)	(24,056,708)
Beginning net assets	109,060,059	66,745,448	175,805,507
Ending net assets	\$ 93,802,582	\$ 57,946,217	\$ 151,748,799

Texas Biomedical Research Institute

Consolidated Statement of Activities

	<b>For the Year Ended December 31, 2021</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Operating revenues</b>			
Grants and contracts	\$ 53,318,066	\$ –	\$ 53,318,066
Contributions	5,196,300	4,936,131	10,132,431
Endowment income allocation for operations	5,128,490	2,360,962	7,489,452
External program income	265,271	–	265,271
Other revenue	330,877	–	330,877
Total operating revenues	64,239,004	7,297,093	71,536,097
Net assets released from restrictions	7,568,374	(7,568,374)	–
Total revenues, gains, and other support	71,807,378	(271,281)	71,536,097
<b>Operating expenses</b>			
Salaries and benefits	35,289,003	–	35,289,003
Supplies	12,194,600	–	12,194,600
Depreciation	7,555,374	–	7,555,374
Services and professional fees	7,376,207	–	7,376,207
Subcontracts	1,882,680	–	1,882,680
Utilities	2,515,711	–	2,515,711
Interest expense	1,492,868	–	1,492,868
Subscriptions	468,089	–	468,089
Travel	69,741	–	69,741
Insurance	586,499	–	586,499
Shipping	285,260	–	285,260
Amortization	484,882	–	484,882
Other expenses	1,565,249	–	1,565,249
Total operating expenses	71,766,163	–	71,766,163
Net increase (decrease) from operations	41,215	(271,281)	(230,066)
<b>Nonoperating revenues, gains, and losses</b>			
Endowment income allocation for operations	(5,128,490)	(2,360,962)	(7,489,452)
Investment gain	6,419,023	3,052,727	9,471,750
Royalty income	969,904	–	969,904
Gain on loan forgiveness	3,000,000	–	3,000,000
Gain on disposal of assets	3,642,994	–	3,642,994
Total nonoperating revenues, gains, and losses	8,903,431	691,765	9,595,196
Change in net assets	8,944,646	420,484	9,365,130
Beginning net assets	100,115,413	66,324,964	166,440,377
Ending net assets	\$ 109,060,059	\$ 66,745,448	\$ 175,805,507

*See accompanying notes.*

Texas Biomedical Research Institute

Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2022</b>	<b>2021</b>
<b>Operating activities</b>		
(Decrease) increase in net assets	\$ (24,056,708)	\$ 9,365,130
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,665,169	7,555,374
Amortization of bond issuance costs	29,329	8,530
Amortization of bond premium	(396,483)	(106,746)
Gain on disposal of assets, net	(2,696,084)	(3,642,994)
Net investment loss (gain)	16,420,876	(9,683,215)
Gain on PPP loan forgiveness	–	(3,000,000)
Contributions restricted for long-term investment	(849,221)	(260,434)
Changes in operating assets and liabilities:		
Accounts receivable	1,069,204	3,264,569
Pledges receivable	824,687	384,628
Prepaid expenses and supplies	(4,364,562)	(581,652)
Accounts payable and accrued expenses	2,734,273	5,250,677
Unearned revenue	109,355	(1,627,111)
Net cash (used in) provided by operating activities	(4,510,165)	6,926,756
<b>Investing activities</b>		
Purchases of plant and equipment	(15,609,295)	(4,284,147)
Sale of plant and equipment	2,760,099	3,699,268
Purchases of investments	(22,748,596)	(71,994,597)
Sale of investments	37,358,299	59,410,002
Net cash provided by (used in) investing activities	1,760,507	(13,169,474)
<b>Financing activities</b>		
Payments on notes payable	–	(43,000,000)
Proceeds from bonds payable	–	65,908,210
Payments for bond issuance costs	–	(871,323)
Proceeds from contributions restricted for long-term investment	1,129,932	–
Net cash provided by financing activities	1,129,932	22,036,887
(Decrease) Increase in cash, cash equivalents, and restricted cash	(1,619,726)	15,794,169
Cash, cash equivalents, and restricted cash at beginning of year	22,724,218	6,930,049
Cash, cash equivalents, and restricted cash at end of year	\$ 21,104,492	\$ 22,724,218
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	\$ 1,731,966	\$ 1,492,868

*See accompanying notes.*



# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements

December 31, 2022

### 1. Significant Accounting Policies

#### Nature of Operations

The creation of Texas Biomedical Research Institute (Texas Biomed) was by trust indenture dated December 16, 1941, and restated November 1, 1993, appointing trustees and specifying the scientific, educational, and charitable purposes of Texas Biomed. Texas Biomed conducts scientific research and educational programs to improve the health of the global community. The main revenue sources for these activities include federal and commercial grants and contracts.

#### Principles of Consolidation

For the years ended December 31, 2022 and 2021, the accompanying consolidated financial statements include the accounts of Texas Biomed and the Tom Slick Memorial Trust, which is controlled by the Board of Trustees of Texas Biomed.

The Tom Slick Memorial Trust is held in the Texas Biomed endowment fund. Each month, in accordance with Texas Biomed's board-adopted spending policy, the endowment fund contributes a percentage of its earnings to Texas Biomed to be used for operations. The contribution was 6.5% in 2022 and 2021. As of December 31, 2022 and 2021, all intercompany accounts and transactions have been eliminated in consolidation.

#### Basis of Presentation

The accompanying consolidated financial statements of Texas Biomed are presented on the accrual basis, in accordance with U.S. generally accepted accounting principles (U.S. GAAP). Texas Biomed is required to report information regarding its consolidated financial position and activities according to two classes of net assets. As such, the accompanying consolidated financial statements reflect net assets grouped into these two classes, described as follows:

- *Net assets without donor restrictions* – net assets that are not subject to donor-imposed restrictions and may be designated for specific purposes by action of the Board of Trustees
- *Net assets with donor restrictions* – net assets whose use by Texas Biomed is subject to donor-imposed restrictions

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### **1. Significant Accounting Policies (continued)**

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents include non-interest-bearing and interest-bearing demand deposits, as well as a money market sweep account, all of which have maturities of less than 90 days.

Restricted cash includes cash and cash equivalents that are separately maintained by management based on donor restrictions or other needs.

#### **Assets Limited as to Use and Investments**

Assets limited as to use primarily include assets designated by the donor or set aside by the Board of Trustees for capital expenditures and research, scientific recruitment, and endowment funds.

The investment objectives for Texas Biomed's endowment funds are to preserve the principal value of the endowment funds in both absolute and real terms, and to maximize over the long term the total rate of return (cash income plus market appreciation) earned by the endowment funds, without assuming an unreasonable degree of risk. Accordingly, the Board of Trustees has adopted a spending formula for determining the maximum that can be expended annually, which is 4% of the trailing 12-quarter rolling average value of the endowment funds, computed annually. The Board temporarily increased the spending formula to 8% of the trailing 12-quarter rolling average for 2018 through 2020, and 6.5% for 2021 and 2022.

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### **1. Significant Accounting Policies (continued)**

Net appreciation on endowment funds whose income is unrestricted as to use should be reported as net assets without donor restrictions, unless such net appreciation has been restricted by the donor or by law. In those cases, where a donor has placed specific restrictions on the use of endowment income, any related net appreciation is also subject to the same restriction and is reported as a part of net assets with donor restrictions until such time as the restriction has been met.

Endowment funds are invested primarily in funds made up of U.S. equities, global equities, U.S. fixed-income securities, global fixed-income securities, alternative investments, emerging markets equities, cash, and cash equivalents. The vehicles for these investments include mutual funds and investments in limited partnerships and trusts. The basis for the investments is the aggregate fair market value. A portion of the endowment funds is invested in five limited partnerships and three trusts. The limited partnerships and trusts are recorded at fair value, based on the net asset value of the units held by Texas Biomed.

Realized gains and losses on investments are recognized in the period in which they occur. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in net assets without donor restrictions unless the income or loss is restricted by donor or law. Market appreciation or decreases on donor-restricted gifts are classified on the accompanying consolidated financial statements as either net assets with or without donor restrictions, as stipulated by the donor.

### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, and that amount is then treated as the basis of the asset. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported on the statements of changes in net assets as net assets released from restrictions.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 1. Significant Accounting Policies (continued)

##### Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by Texas Biomed has been limited by donors to a specific time period or purpose or those net assets that have been restricted by donors to be maintained by Texas Biomed in perpetuity. Income from the donor-restricted net assets that can be used for current operations, subject to donor restrictions on use, is reflected as an increase to net assets without donor restrictions. This accounting policy was also used for the Tom Slick Memorial Trust consistent with the terms of the documents establishing that trust, with income from the donor-restricted corpus being recorded as income without donor restrictions.

Net assets with donor restrictions are restricted for the following purposes:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Subject to expenditure for specified purpose:		
Research	\$ 7,373,544	\$ 10,247,237
Facility renovation/construction	4,472,487	3,329,556
Subject to spending policy and appropriation:		
Endowments (including amounts above original gift amount), which, once appropriated, is expendable to support research	11,291,730	18,079,488
Not subject to appropriation or expenditure:		
Endowments held in perpetuity	34,808,456	35,089,167
Total net assets with donor restrictions	<u>\$ 57,946,217</u>	<u>\$ 66,745,448</u>

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### Land, Buildings, and Equipment

Land, buildings, and equipment are carried at cost or at estimated fair value on dates contributed. Texas Biomed provides for depreciation and amortization of property, plant, and equipment at amounts calculated to amortize the cost of the assets over their estimated useful lives, using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	15–30 years
Fixtures and equipment	5–10 years

Expenditures for maintenance and repairs are charged to costs or expenses; renewals and betterments are capitalized. Land, buildings, and equipment acquired by federal funds are made available for use in other similar federally sponsored projects or programs as workload permits. The land, buildings, and equipment acquired with federal funds are subject to use and disposition conditions, including possible repayments to the federal government if assets are disposed of. The amount of total land, buildings, and equipment acquired with federal funds, less accumulated depreciation, is \$7,591,213 and \$8,575,626 as of December 31, 2022 and 2021, respectively.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor-restricted support.

#### Retirement Plan

Texas Biomed's qualified defined contribution retirement plan is available to all active full-time employees, and those who work a minimum of 1,000 hours, immediately upon employment. Contributions to the plan consist of employer contributions ranging from 7% to 9% of such employee's base salary up to the maximum amount allowed under Section 401(a)(17) of the Internal Revenue Code (the Code) based on years of service. Employees are fully vested after the completion of three years of service.

The plan is carried with the Teachers Insurance and Annuity Association and College Retirement Equities Fund and is a defined contribution (money-purchase) plan. Payments for employer contributions to the plan were \$2,224,543 and \$2,060,918 in 2022 and 2021, respectively.

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### Income Taxes

Texas Biomed is exempt from federal income taxes under Section 501(a) of the Code as an organization described under Section 501(c)(3) of the Code.

This exemption does not apply to unrelated business income, as defined by Section 512(a)(1) of the Code, which is subject to federal income tax. Texas Biomed has no tax liability resulting from such unrelated business income in 2022 or 2021.

U.S. GAAP requires management to evaluate uncertain tax positions taken by Texas Biomed. The financial statement effects of a tax position are recognized when the position is more likely than not, based on its technical merits, to be sustained upon examination by the Internal Revenue Service (the IRS). Management has analyzed the tax positions taken by Texas Biomed and has concluded that, as of December 31, 2022, there are no uncertain positions taken or expected to be taken. Texas Biomed has recognized no interest or penalties related to uncertain tax positions. Texas Biomed is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

### 2. Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated statements of financial position that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 11,115,646	\$ 13,919,907
Restricted cash	9,988,846	8,804,311
	<u>\$ 21,104,492</u>	<u>\$ 22,724,218</u>

Amounts included in restricted cash represent contributions required to be set aside for specific use as stipulated by the donors.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 3. Pledges Receivable

As of December 31, 2022 and 2021, Texas Biomed has received unconditional promises to give totaling \$5,584,687 and \$6,409,374, respectively. Unconditional promises to give include both with and without donor restrictions for capital construction, research, faculty recruitment, or endowments. The amounts are recorded at the present value of estimated future cash flows.

Pledges receivable are due as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Promises to give:		
Less than one year	\$ 4,757,098	\$ 3,845,580
One to five years	1,041,667	2,626,856
Six to ten years	—	157,143
	<u>5,798,765</u>	<u>6,629,579</u>
Less amount to reduce to present value	<u>(214,078)</u>	<u>(220,205)</u>
Pledges receivable	<u>\$ 5,584,687</u>	<u>\$ 6,409,374</u>

Texas Biomed records no allowance for uncollectible contributions based on the history of actual collections from donors making the promises to give. Texas Biomed expects all remaining promises to give will be received as pledged.

#### 4. Internal-Use Software

In 2022, Texas Biomed purchased a hosting arrangement that is a service contract and that includes a license to internal-use software for a cloud-based laboratory information system. This service contract is an intangible asset included in prepaid expenses and supplies on the consolidated statements of financial position. The intangible asset for internal-use software was \$710,601 and \$696,066 as of December 31, 2022 and 2021, respectively. There was no amortization of this asset in 2022 or 2021.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### **5. Animal Purchases**

Texas Biomed's historical accounting practice related to the external purchase of nonhuman primates had aligned with normal business practices of purchasing animals shortly ahead of known research studies. In general, this provided for same fiscal year matching of the expense for the purchase of those animals with the associated revenue once the animals were placed on a research study. However, the shortage of nonhuman primates experienced in 2022, combined with the rapidly increasing costs of these animals, forced Texas Biomed to strategically procure available animals well ahead of research studies that would utilize them. Management recognized that historical accounting treatment would likely result in a large mismatch of expenses in one fiscal year and associated revenues in a subsequent fiscal year. This was considered to be a misleading outcome to readers of the Institute's financial statements, particularly in performing trend analysis.

There is no clear end in sight to the nonhuman primate shortage, and prices continue to escalate for these animals. Meanwhile, demand for infectious diseases research, including that which presently can only be conducted by use of nonhuman primates, continues to grow. Texas Biomed, therefore, anticipates there will likely be a continued need to acquire nonhuman primates well before research studies commence.

Accordingly, management has elected to report the dollar value of nonhuman primates purchased, but not yet assigned to research studies, as prepaid expenses and supplies on the statement of financial position. The selected approach adheres to the matching principle, aligning revenues with costs, and was considered a more accurate portrayal of operating results for consumers of the Institute's financial statements. For the year ended December 31, 2022, the total of this prepaid item was \$4,254,917. As the animals are placed on studies, they will be expensed.

#### **6. Investments**

Investments in securities with determinable fair value are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (see Note 8).



Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**6. Investments (continued)**

The composition of these securities is set forth as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Mutual funds	\$ 65,309,210	\$ 84,230,376
Limited partnerships and trusts	20,858,341	26,871,896
	\$ 86,167,551	\$ 111,102,272

Investments traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price.

Limited partnerships and trusts are valued at the net asset values of units held at year-end. Purchases and sales of securities are recorded as of the trade date at cost. Realized gains and losses on sales of securities are determined on the basis of average cost. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

The holdings in the limited partnerships and trusts are primarily composed of publicly traded securities with readily determinable market values. The risks associated with these investments are numerous and include non-regulation risk, managerial risk, minimal liquidity, and limited transparency.

Investment income earned by Texas Biomed and its allocation among net asset classifications are as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Dividends and interest earned on investments	\$ 1,656,065	\$ 1,612,889
Net realized (loss) gain on investments reported at fair value	(752,278)	736,903
Net unrealized (loss) gain on investments reported at fair value	(16,778,111)	7,439,978
Investment expenses netted against income	(534,396)	(318,020)
Total investment (loss) income	\$ (16,408,720)	\$ 9,471,750

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 6. Investments (continued)

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Net asset classification of investment income:		
Without donor restrictions	\$ (11,909,072)	\$ 6,419,023
With donor restrictions	(4,499,648)	3,052,727
Total investment income	<u>\$ (16,408,720)</u>	<u>\$ 9,471,750</u>

Investments in oil and gas mineral interests are considered other investments, and the investments are measured at the lower of cost or fair value. As of December 31, 2022 and 2021, Texas Biomed's investments in oil and gas mineral interests are \$0. For the years ended December 31, 2022 and 2021, royalty income from oil and gas mineral interests are \$1,215,645 and \$969,904, respectively.

In 2008, Texas Biomed helped create a new for-profit pharmaceutical development corporation named Evestra, Inc. (Evestra). Texas Biomed transferred to Evestra certain equipment, supplies, intellectual property, and a National Institutes of Health contract for steroid manufacturing. Additionally, the former staff of Texas Biomed's Organic Chemistry Department became employees of Evestra.

As of December 31, 2022 and 2021, Texas Biomed owns 27% of Evestra's common stock and has two of five voting representatives on Evestra's board; therefore, it is accounted for as an equity investment. Although this is an equity method investment, Texas Biomed keeps the investment at cost and measures the investment at the lower of cost or fair value in accordance with Accounting Standards Codification (ASC) 958, *Investments – Other*. As of December 31, 2022 and 2021, Texas Biomed's investment in Evestra is \$2,821,861. No income has been received from Evestra for the years ended December 31, 2022 and 2021.

#### 7. Funds Held in Trust by Others

Texas Biomed's interest in funds held in trust by others is included in net assets as of December 31, 2022 and 2021. These funds are neither in the possession nor under the control of Texas Biomed.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 7. Funds Held in Trust by Others (continued)

Texas Biomed is a 10% income beneficiary of the Ruth Chapman Cowles and Andrew G. Cowles Memorial Trust. This perpetual trust is held by a third party, where the trustee has no discretion regarding the income beneficiaries' participation in the trust. Texas Biomed's proportionate share of the fair value of the trust, which approximates the net present value of the estimated future cash flows receivable by Texas Biomed, is reported as an asset and as permanently restricted contribution revenue at the formation of the trust. Annual income distributions from the trusts are recognized as investment income in the appropriate net asset class according to the restrictions of the trust. Changes in Texas Biomed's proportionate share of the fair value of the trust is reported as gains or losses on funds held in trust by others in net assets with donor restrictions. The income from this trust is to be used primarily for postdoctoral fellowships.

Bond proceeds related to the Series 2021A tax-exempt revenue bonds and Series 2021B taxable revenue bonds (Note 10) are held in a trust estate managed by a third party and invested in money market accounts. The money market account is considered Level 1 in the fair value hierarchy as of December 31, 2022. See Note 7 for an explanation of the fair value hierarchy levels.

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Ruth Chapman Cowles and Andrew G. Cowles Memorial Trust 10% interest in income generated from trust	\$ 2,683,437	\$ 2,964,148
Series 2021A bonds money market account	11,697,304	17,808,146
Series 2021B bonds money market account	3,125,594	3,271,871
Bond debt service fund money market account	161,261	—
<b>Total funds held in trust by others</b>	<b>\$ 17,667,596</b>	<b>\$ 24,044,165</b>

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 8. Fair Value Measurements

ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value, which are either observable or unobservable. Observable inputs reflect assumptions that market participants would use in pricing an asset or liability based on market data obtained from independent sources, while unobservable inputs reflect a reporting entity's pricing based upon management's own market assumptions. The fair value hierarchy under ASC 820 consists of the following three levels:

- Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities that are accessible to the reporting entity at the measurement date.
- Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:
  - Quoted prices for similar assets and liabilities in active markets
  - Quoted prices for identical or similar assets or liabilities in markets that are not active
  - Observable inputs other than quoted prices that are used in the valuation of the assets or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
  - Inputs that are derived principally from or corroborated by observable market data
- Level 3 – Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's own judgment about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following tables present the financial instruments carried at fair value as of December 31, 2022 and 2021, by caption on the consolidated statements of financial position and by level in the ASC 820 fair value hierarchy. None of Texas Biomed's holdings are concentrated in one specific industry or investment type.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**8. Fair Value Measurements (continued)**

	Fair Value Measurement at December 31, 2022 Using:			
	December 31, 2022	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments:				
Mutual funds:				
U.S. equities	\$ 50,770,261	\$ 50,770,261	\$ –	\$ –
International equities	10,696,706	10,696,706	–	–
U.S. fixed-income securities	3,842,243	3,842,243	–	–
Emerging markets	–	–	–	–
Total mutual funds		<u>\$ 65,309,210</u>	<u>\$ –</u>	<u>\$ –</u>
Investments measured at net asset value:				
Limited partnerships and trusts:				
U.S. equities	–			
International equities	16,440,484			
Global fixed-income securities	2,724,030			
Hedge funds	1,693,827			
Total measured at net asset value	<u>20,858,341</u>			
Total investments at fair value	<u>\$ 86,167,551</u>			
Funds held in trust by others				
Cowles (Bank of Oklahoma)	\$ 2,683,437	\$ –	\$ –	\$ 2,683,437
Series 2021A money market	11,697,304	11,697,304	–	–
Series 2021B money market	3,125,594	3,125,594	–	–
Bond debt service fund money market	161,261	161,261	–	–
	<u>\$ 17,667,596</u>	<u>\$ 14,984,159</u>	<u>\$ –</u>	<u>\$ 2,683,437</u>

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**8. Fair Value Measurements (continued)**

	Fair Value Measurement at December 31, 2021 Using:			
	December 31, 2021	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments:				
Mutual funds:				
U.S. equities	\$ 60,204,124	\$ 60,204,124	\$ –	\$ –
International equities	11,196,559	11,196,559	–	–
U.S. fixed-income securities	7,098,994	7,098,994	–	–
Emerging markets	5,730,699	5,730,699	–	–
Total mutual funds		<u>\$ 84,230,376</u>	<u>\$ –</u>	<u>\$ –</u>
Investments measured at net asset value:				
Limited partnerships and trusts:				
U.S. equities	–			
International equities	11,177,383			
Global fixed-income securities	13,655,254			
Hedge funds	2,039,259			
Total measured at net asset value	<u>26,871,896</u>			
Total investments at fair value	<u>\$ 111,102,272</u>			
Funds held in trust by others				
Cowles (Bank of Oklahoma)	\$ 2,964,148	\$ –	\$ –	\$ 2,964,148
Series 2021A money market	17,808,146	17,808,146	–	–
Series 2021B money market	3,271,871	3,271,871	–	–
	<u>\$ 24,044,165</u>	<u>\$ 21,080,017</u>	<u>\$ –</u>	<u>\$ 2,964,148</u>

The valuation methodologies used for instruments measured at fair value as presented in the table above are as follows:

Investments that are valued at quoted prices available in an active market and interest-bearing cash are classified within Level 1 of the valuation hierarchy.

The fair values of investments in limited partnerships and trusts are measured at the entities' net asset value per share. The table on the following page includes additional disclosures required by ASC 820 for the fair value measurements of investments in certain entities that calculate fair value based on net asset value per share.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**8. Fair Value Measurements (continued)**

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<b>December 31, 2022</b>				
U.S. equities <sup>(a)</sup>	\$ —	\$ —	Daily-quarterly	10–30 days
International equities <sup>(b)</sup>	16,440,484	—	Monthly	10–30 days
Global fixed-income securities <sup>(c)</sup>	2,724,030	—	Daily	10 days
Hedge funds <sup>(d)</sup>	1,693,827	—	Monthly–annually	60–65 days
	\$ 20,858,341	\$ —		
<b>December 31, 2021</b>				
U.S. equities <sup>(a)</sup>	\$ —	\$ —	Daily-quarterly	10–30 days
International equities <sup>(b)</sup>	11,177,383	—	Monthly	10–30 days
Global fixed-income securities <sup>(c)</sup>	13,655,254	—	Daily	10 days
Hedge funds <sup>(d)</sup>	2,039,259	—	Monthly–annually	60–65 days
	\$ 26,871,896	\$ —		

<sup>(a)</sup> U.S. equities include investments in a limited partnership that invests in publicly traded securities in the United States. Management of the partnership has the ability to manage the investment portfolio. Their strategy is to invest in a broad spectrum of stocks covering growth and value stocks and a range of industries. This includes seeking long-term capital appreciation and investing in out-of-favor companies at attractive valuations.

<sup>(b)</sup> International equities include investments in a trust and a limited partnership that invest in international securities outside the United States. Management of the trust and partnership manages their respective investment portfolios. They focus on maximizing intrinsic value in the form of earnings, assets, and dividends provided by their companies and aggregated within their portfolio by implementing a strong price discipline and by quality appraisals which seek to identify strong companies.

<sup>(c)</sup> Global fixed-income securities include investments in a trust and limited partnership that invest in fixed-income securities, such as corporate and government bonds. Management of the trust and partnership manages their respective investment portfolios. Their strategy is to seek global bond investments offering high yield and attractive fundamentals, maintaining primary focus on sovereign debt with a goal of unlocking potential benefits of mean-reversion tendencies in interest rates and currency valuations.

<sup>(d)</sup> Hedge funds include investments in limited partnerships that invest in securities and financial instruments of issuers. Management of the partnerships practices a conservative but flexible form of event-driven investing that favors safer, more predictable transactions, while accepting lower expected returns.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 8. Fair Value Measurements (continued)

Funds held in trust of others were classified as Level 3 because Texas Biomed must rely on the trustee's measurement of fair value of the investments held by the trust.

#### Level 3 Reconciliation

The changes in assets measured at fair value for which Texas Biomed has used Level 3 inputs to determine fair value are as follows:

	<b>Funds Held in Trust by Others</b>
Balance, December 31, 2020	\$ 2,703,714
Unrealized gain included in the consolidated statement of changes in net assets	260,434
Balance, December 31, 2021	2,964,148
Unrealized loss included in the consolidated statement of changes in net assets	(280,711)
Balance, December 31, 2022	\$ 2,683,437

#### 9. Land, Buildings, and Equipment

At December 31, 2022 and 2021, land, buildings, and equipment, less total accumulated depreciation, were as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Argyle, buildings, and improvements	\$ 13,028,490	\$ 13,028,490
Land	255,025	303,684
Buildings and improvements	132,777,272	131,260,314
Fixtures and equipment	37,585,197	37,258,458
Construction-in-progress	12,630,459	2,800,490
Less accumulated depreciation	(114,137,659)	(111,423,654)
Net land, buildings, and equipment	\$ 82,138,784	\$ 73,227,782



## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### **9. Land, Buildings, and Equipment (continued)**

On November 10, 2021, Texas Biomed sold 41.210 acres of undeveloped land. The gain on the sale of land was \$3,642,994 and is reported in gain on disposal of assets on the consolidated statements of activities.

On March 25, 2022, Texas Biomed sold 35.634 acres of undeveloped land. The gain on the sale of land was \$3,161,827 and is reported in gain on disposal of assets on the consolidated statements of activities.

Land, buildings, and equipment not used in the research operations of Texas Biomed are identified separately and valued at cost. Currently, this is limited to property leased to The Argyle Club (The Argyle) and is included in the table above as Argyle, buildings, and improvements. The Argyle is a related party to Texas Biomed, as Texas Biomed has representation (but not control) on The Argyle's board.

The Argyle is a nonprofit organization operated as a social welfare organization. Membership in The Argyle requires initial and annual contributions to Texas Biomed. Texas Biomed leases a building, its contents, surrounding land, and a parking lot to The Argyle for a monthly rental fee of \$6,000.

#### **10. Endowment Funds and Funds Functioning as Endowments**

Texas Biomed holds donor-restricted and Board-designated endowment funds established primarily to fund specified activities for and within Texas Biomed and the research community as a whole. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Uniform Prudent Management of Institutional Funds Act provides statutory guidelines for management, investment, and expenditure of endowment funds held by charitable organizations, which apply in the absence of explicit donor stipulations. The intent of Texas Biomed is to preserve the historic dollar value of original permanently restricted gifts.

Texas Biomed classifies the historic value of donor-restricted gifts to be held in perpetuity as net assets with donor restrictions. The remaining accumulated earnings of the donor-restricted endowment funds are also classified as net assets with donor restrictions until those amounts are appropriated for expenditure. Board-designated endowment funds are reported in net assets without donor restrictions.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 10. Endowment Funds and Funds Functioning as Endowments (continued)

Activity of endowments and funds functioning as endowments for the years ended December 31, 2022 and 2021 is as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets at December 31, 2020	\$ 59,830,629	\$ 52,216,457	\$ 112,047,086
Contributions	98,412	–	98,412
Investment income	842,173	355,938	1,198,111
Net unrealized/realized gain on investments	5,788,404	2,696,789	8,485,193
Gain on funds held in trust by others	–	260,434	260,434
Appropriation of endowment assets for expenditure	(5,128,491)	(2,360,962)	(7,489,453)
Endowment net assets at December 31, 2021	61,431,127	53,168,656	114,599,783
Contributions	145,420	–	145,420
Investment income	865,830	284,729	1,150,559
Net unrealized/realized loss on investments	(12,992,291)	(4,784,376)	(17,776,667)
Loss on funds held in trust by others	–	(280,711)	(280,711)
Appropriation of endowment assets for expenditure	(4,978,970)	(2,288,110)	(7,267,080)
Endowment net assets at December 31, 2022	\$ 44,471,116	\$ 46,100,188	\$ 90,571,304

Texas Biomed has adopted investment and spending policies for endowment assets reflecting a disciplined, consistent management philosophy that accommodates reasonable and probable events. Preservation of capital and return on investment are of primary importance.

The primary investment objective is to preserve financial assets generated through donor gifts, so that the proceeds may be distributed for the purposes intended by the donors and to the benefit of Texas Biomed, at a level of risk deemed acceptable by the Board of Trustees.

To satisfy its long-term rate-of-return objectives, Texas Biomed relies on an investment policy outlined by its board-appointed Investment Committee, which includes a desired mix of international and U.S. bonds, stocks, alternative investments, and cash and cash equivalents. Texas Biomed, at the direction of its Investment Committee, rebalances the portfolio periodically to maintain the desired distribution of assets within each asset class.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**10. Endowment Funds and Funds Functioning as Endowments (continued)**

A reconciliation of endowment net assets to investments is as follows:

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
Endowment net assets at December 31, 2022	\$ 44,471,116	\$ 46,100,188	\$ 90,571,304
Investment fees not withheld from investments	1,774,331	-	1,774,331
Funds held in trust by others	-	(2,683,437)	(2,683,437)
Funds in liquidity account held as cash equivalents	(1,817,941)	(1,676,706)	(3,494,647)
Investments at December 31, 2022	<u>\$ 44,427,506</u>	<u>\$ 41,740,045</u>	<u>\$ 86,167,551</u>

	<b>Net Assets Without Donor Restrictions</b>	<b>Net Assets With Donor Restrictions</b>	<b>Total</b>
Endowment net assets at December 31, 2021	\$ 61,431,127	\$ 53,168,656	\$ 114,599,783
Investment fees not withheld from investments	1,774,331	-	1,774,331
Funds held in trust by others	-	(2,964,148)	(2,964,148)
Funds in liquidity account held as cash equivalents	(1,279,413)	(1,028,281)	(2,307,694)
Investments at December 31, 2021	<u>\$ 61,926,045</u>	<u>\$ 49,176,227</u>	<u>\$ 111,102,272</u>

Texas Biomed has adopted spending policies allowing endowment funds to be utilized only in accordance with the purposes established by the donor or Board of Trustees designation. In addition, it is Texas Biomed's policy not to spend or appropriate underwater endowment funds. An underwater endowment fund is one with a fair market value lower than the value of the gift that originally created that fund.

Texas Biomed has the following underwater endowment funds as of December 31, 2022 and 2021:

	<b>December 31, 2022</b>	<b>2021</b>
Fair value of underwater endowments	\$ 5,980,067	\$ -
Original amount of underwater endowments	6,808,523	-
Underwater amount	<u>\$ (828,456)</u>	<u>\$ -</u>

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**11. Bonds Payable and Notes Payable**

**Bonds Payable**

Indebtedness at December 31, 2022 and 2021, includes bonds issued through Public Finance Authority. The balance of outstanding bonds payable at December 31 consists of the following:

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
Public Finance Authority Revenue Bonds:		
Tax Exempt Series 2021A Bonds	\$ 31,205,000	\$ 31,205,000
Taxable Series 2021B Bonds	30,450,000	30,450,000
Total bonds payable	<u>\$ 61,655,000</u>	<u>\$ 61,655,000</u>

On September 15, 2021, Public Finance Authority issued Series 2021A tax-exempt revenue bonds on behalf of Texas Biomed with a principal amount of \$31,205,000 and premium of \$4,253,210. Texas Biomed received proceeds of \$35,017,213 net of issuance costs, including underwriter's discount of \$440,996, as part of a loan agreement between Public Finance Authority and Texas Biomed dated August 1, 2021. The net bond proceeds loaned to Texas Biomed will primarily be used to prepay debt obligations and finance capital improvements. Texas Biomed is obligated to repay the loan by making payments of principal, premium, and interest on the bonds when due. This is an unsecured general obligation supported by a pledge of Texas Biomed's full faith and credit.

The Series 2021A bonds bear fixed interest rates ranging from 3.00% to 5.00%. Interest on the bonds is payable June 1 and December 1 of each year. The bonds are scheduled to mature beginning June 1, 2027 through June 1, 2048.

On and after June 1, 2031, the Series 2021A bonds are subject to optional redemption, at the direction of Texas Biomed, in whole or in part, at the redemption price of par plus accrued interest to the date fixed for redemption. The bonds are also subject to mandatory sinking fund redemption annually from June 1, 2042 through June 1, 2048.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 11. Bonds Payable and Notes Payable (continued)

On September 15, 2021, Public Finance Authority issued \$30,450,000 Series 2021B taxable revenue bonds on behalf of Texas Biomed. Texas Biomed received proceeds of \$30,019,673 net of issuance costs, including underwriter's discount of \$430,327, as part of a loan agreement between Public Finance Authority and Texas Biomed dated August 1, 2021. The net bond proceeds loaned to Texas Biomed will primarily be used to prepay debt obligations and finance capital improvements. Texas Biomed is obligated to repay the loan by making payments of principal and interest on the bonds when due. This is an unsecured general obligation supported by a pledge of Texas Biomed's full faith and credit.

The bonds bear a fixed interest rate of 3.625%. Interest on the bonds is payable June 1 and December 1 of each year. The bonds are scheduled to mature beginning June 1, 2049 through June 1, 2051.

The Series 2021B bonds are subject to a make-whole redemption, at the option of Texas Biomed. The bonds are also subject to mandatory sinking fund redemption annually from June 1, 2049 through June 1, 2051.

Restrictive covenants in the loan agreement for Series 2021A and 2021B bonds include filings of annual financial statements and limitations on creation of liens. In addition, Texas Biomed agrees that it will maintain a debt service coverage ratio, as calculated at the end of any two consecutive fiscal years, equal to or above 1.10:1.00, and as calculated as of the end of any fiscal year, equal to or above 1.00:1.00. The bonds are considered Level 1 in the fair value hierarchy as of December 31, 2022 and 2021.

The aggregate maturities due on the Series 2021A and Series 2021B bonds at December 31, 2022, are as follows:

<b>Fiscal Year</b>	<b>Principal Amount</b>
2023	\$ —
2024	—
2025	—
2026	—
2027	860,000
Thereafter	60,795,000
	<u>\$ 61,655,000</u>

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**11. Bonds Payable and Notes Payable (continued)**

**Notes Payable**

Other borrowed funds are shown in the consolidated statements of financial position as notes payable.

On June 6, 2017, Texas Biomed entered into a new unsecured promissory note for a \$3,000,000 one-year line of credit with a financial institution, available through June 5, 2018. The line of credit may be extended each year and was extended on the following dates:

<b>Extension Date</b>	<b>Maturity</b>
June 14, 2018	June 13, 2019
June 3, 2019	August 3, 2020
July 24, 2020	August 3, 2021
July 27, 2021	December 1, 2021
November 18, 2021	November 17, 2022
November 18, 2022	November 17, 2023

The interest rate is variable based on changes in the AMERIBOR Term-30. On September 15, 2021, the note was paid in full. The amount outstanding was \$0 as of December 31, 2022 and 2021.

Interest expense is reported in the consolidated statements of activities under other expenses. Total interest expense for Texas Biomed was \$1,406,848 and \$1,492,868 for the years ended December 31, 2022 and 2021, respectively.

	<b>December 31,</b>	
	<b>2022</b>	<b>2021</b>
Interest incurred	\$ 1,652,235	\$ 1,492,868
Interest capitalized	(245,387)	—
Interest expense	\$ 1,406,848	\$ 1,492,868

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### **12. Contract Revenue**

Texas Biomed generates revenue from federal and non-federal grants and contracts with governments and other customers. Contract revenue is recognized under ASC 606 beginning January 1, 2020. While grant revenue is not within the scope of ASC 606, it is accounted for similarly. Some contracts are billed on a cost-reimbursement basis, and some are billed based on milestones. For cost-reimbursement contracts, revenue is recognized as expenses are incurred, similar to grants. For milestone contracts, revenue is recognized as milestones are completed. Milestone contracts have a specific transaction price for each milestone, as outlined in each contract agreement. All contract revenue is presented on the consolidated statements of activities under grants and contracts. Contract revenue totaled \$18,797,634 and \$20,860,345 for 2022 and 2021, respectively.

The timing of billings, cash collections, and revenue recognition results in contract assets and contract liabilities. Payments are due from customers upon receipt of invoice.

A contract asset is a right to payment when revenue is earned. Contract assets are presented in accounts receivable on the consolidated statements of financial position. The contract asset balance was \$4,664,323 and \$5,193,567 at December 31, 2022 and 2021, respectively. A contract liability is an obligation to transfer goods or services to a customer for which a payment has been received (or amount is due) from the customer. Contract liabilities are presented in unearned revenue on the consolidated statements of financial position. The contract liability balance was \$1,058,613 and \$2,007,739 at December 31, 2022 and 2021, respectively.

#### **13. Functional Expenses**

Texas Biomed incurs expenses in three functional categories – research programs, fundraising, and general and administrative. The research programs function includes costs incurred for external research programs. The costs incurred in the efforts of gathering contributions are included in the fundraising function. The costs remaining after allocation to these two functions are categorized as general and administrative.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**13. Functional Expenses (continued)**

The following table shows the allocation of expenses from the functional categories to the natural expense classifications.

<b>Allocation</b>	<b>Research Program Activities</b>	<b>Supporting Activities</b>			<b>Total Expenses</b>
		<b>General &amp; Admin</b>	<b>Fund-Raising</b>	<b>Supporting Subtotal</b>	
<b>For the year ended December 31, 2022</b>					
Salaries and benefits	\$ 19,417,317	\$ 16,559,930	\$ 630,580	\$ 17,190,510	\$ 36,607,827
Supplies	8,387,136	2,104,464	813	2,105,277	10,492,413
Depreciation	5,918,242	449,500	297,427	746,927	6,665,169
Services and professional fees	1,619,899	7,265,285	110,701	7,375,986	8,995,885
Subcontracts	1,487,592	6,502	–	6,502	1,494,094
Utilities	–	2,559,641	–	2,559,641	2,559,641
Interest expense	–	1,406,848	–	1,406,848	1,406,848
Subscriptions	–	324,641	91,555	416,196	416,196
Travel	55,908	189,502	–	189,502	245,410
Insurance	–	757,568	–	757,568	757,568
Shipping	259,592	94,689	3,649	98,338	357,930
Amortization	473,646	7,579	148	7,727	481,373
Other expenses	231,953	1,629,517	110,846	1,740,363	1,972,316
	<u>\$ 37,851,285</u>	<u>\$ 33,355,666</u>	<u>\$ 1,245,719</u>	<u>\$ 34,601,385</u>	<u>\$ 72,452,670</u>



Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**13. Functional Expenses (continued)**

Allocation	Research Program Activities	Supporting Activities			Total Expenses
		General & Admin	Fund-Raising	Supporting Subtotal	
<b>For the year ended December 31, 2021</b>					
Salaries and benefits	\$ 18,703,259	\$ 15,984,143	\$ 601,601	\$ 16,585,744	\$ 35,289,003
Supplies	9,214,991	2,970,011	9,996	2,980,007	12,194,998
Depreciation	6,695,780	557,188	302,406	859,594	7,555,374
Services and professional fees	674,809	6,628,910	72,488	6,701,398	7,376,207
Subcontracts	1,859,317	23,364	–	23,364	1,882,681
Utilities	–	2,515,711	–	2,515,711	2,515,711
Interest expense	–	1,492,868	–	1,492,868	1,492,868
Subscriptions	1,128	462,326	4,635	466,961	468,089
Travel	18,132	46,057	5,552	51,609	69,741
Insurance	–	586,499	–	586,499	586,499
Shipping	210,996	71,889	1,977	73,866	284,862
Amortization	476,269	8,461	151	8,612	484,881
Other expenses	125,356	1,382,850	57,043	1,439,893	1,565,249
	<u>\$ 37,980,037</u>	<u>\$ 32,730,277</u>	<u>\$ 1,055,849</u>	<u>\$ 33,786,126</u>	<u>\$ 71,766,163</u>

Texas Biomed expenses advertising costs as incurred. Advertising expenses recognized totaled \$190,640 and \$47,439 in 2022 and 2021, respectively.

**14. Leases**

Texas Biomed has financing leases for scientific equipment and copiers. The leases have an implied interest rate of 2.43%. The scientific equipment leases each contain a \$1.00 purchase option upon satisfaction of all obligations under the leases.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 14. Leases (continued)

At December 31, 2022 and 2021, amortization of the lease right-of-use assets and interest expense on the lease liabilities, were as follows:

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Amortization	\$ 452,044	\$ 476,352
Interest expense	37,624	55,779

#### 15. Liquidity Management

The following reflects Texas Biomed's financial assets as of the consolidated statements of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Amounts not available include amounts set aside for long-term investing in the endowment that could be drawn upon if the governing board approves that action; however, amounts already appropriated from the donor-restricted endowment for general expenditure within one year of the consolidated statements of financial position date have not been subtracted as unavailable.

	<b>December 31</b>	
	<b>2022</b>	<b>2021</b>
Financial assets	\$ 133,932,621	\$ 158,016,397
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions	(57,946,217)	(66,745,448)
Collateral requirement on outstanding debt	—	—
Financial assets available to meet cash needs for general expenditures within one year	\$ 75,986,404	\$ 91,270,949

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### **15. Liquidity Management (continued)**

Texas Biomed is substantially supported by contributions with donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Texas Biomed must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Texas Biomed's liquidity management, it has the policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, Texas Biomed could also draw upon the line of credit (as further discussed in Note 10).

#### **16. Contingencies**

Texas Biomed is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Texas Biomed's consolidated financial position.

#### **17. Subsequent Events**

Texas Biomed has evaluated subsequent events through June 1, 2023, the date the accompanying consolidated financial statements were available to be issued.

# Reports and Schedules Required by the Uniform Guidance



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## Report of Independent Auditors 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*

Management and Trustees  
Texas Biomedical Research Institute

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 (*Government Auditing Standards*), the consolidated financial statements of Texas Biomedical Research Institute, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report thereon dated June 1, 2023.

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

In planning and performing our audit of the financial statements, we considered Texas Biomedical Research Institute’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 Texas Biomedical Research Institute’s internal control. Accordingly, we do not express an opinion on the effectiveness of Texas Biomedical Research Institute’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.

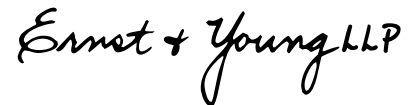
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 Texas Biomedical Research Institute's financial statements are free of 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.



June 1, 2023

## Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Management and Trustees  
Texas Biomedical Research Institute

### **Report of Independent Auditors on Compliance for the Major Federal Program**

#### ***Opinion on the Major Federal Program***

We have audited Texas Biomedical Research Institute's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on Texas Biomedical Research Institute's major federal program for the year ended December 31, 2022. Texas Biomedical Research Institute's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Texas Biomedical Research Institute 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, 2022.

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

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

We are required to be independent of Texas Biomedical Research Institute and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for the major federal program. Our audit does not provide a legal determination of Texas Biomedical Research Institute'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 Texas Biomedical Research Institute's federal programs.

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

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Texas Biomedical Research Institute'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 GAAS, *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 Texas Biomedical Research Institute's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *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 Texas Biomedical Research Institute'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 Texas Biomedical Research Institute'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 Texas Biomedical Research Institute'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 instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs and summarized in the table below.

<b>Finding No.</b>	<b>Assistance Listing No.</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2022-002	Various	Research and Development Cluster	Cash Management

Our opinion on the major federal program is not modified with respect to these matters.

*Government Auditing Standards* requires the auditor to perform limited procedures on Texas Biomedical Research Institute’s response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Texas Biomedical Research Institute’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.

Texas Biomedical Research Institute is responsible for preparing a corrective action plan to address each audit finding included in our auditor’s report. Texas Biomedical Research Institute’s corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

**Report on Internal Control Over Compliance**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

*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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs and summarized in the table below to be significant deficiencies.

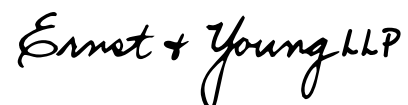
<b>Finding No.</b>	<b>Assistance Listing No.</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2022-001	Various	Research and Development Cluster	Subrecipient Monitoring
2022-002	Various	Research and Development Cluster	Cash Management

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.

*Government Auditing Standards* requires the auditor to perform limited procedures on Texas Biomedical Research Institute’s response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Texas Biomedical Research Institute’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.

Texas Biomedical Research Institute is responsible for preparing a corrective action plan to address each audit finding included in our auditor’s report. Texas Biomedical Research Institute’s corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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.



June 1, 2023

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2022

Cluster/Federal Agency/Major Subdivision/Federal Grantor	Assistance Listing Name/Project	Assistance Listing Number	Pass-Through Entity (PTE)	PTE Subaward #	Federal Expenditures			Amounts Provided to Subrecipients
					Direct	Pass-Through	Total	
<b>Research and Development Cluster</b>								
<b>U.S. Department of Agriculture</b>								
Agricultural Research Service	Agricultural Research Basic and Applied Research	10.001			\$ 37,189	\$ -	\$ 37,189	\$ -
<b>TOTAL – U.S. Department of Agriculture</b>					<u>37,189</u>	<u>-</u>	<u>37,189</u>	<u>-</u>
<b>U.S. Department of Defense</b>								
<b>Defense Threat Reduction Agency</b>								
Defense Threat Reduction Agency	Scientific Research - Combating Weapons of Mass Destruction	12.351	Advanced Technology International	MCDC2021-006	-	2,068,575	2,068,575	-
<b>TOTAL – Defense Threat Reduction Agency</b>					<u>-</u>	<u>2,068,575</u>	<u>2,068,575</u>	<u>-</u>
<b>U.S. Army Medical Command</b>								
<b>U.S. Army Medical Research Acquisition Activity</b>								
	COVID-19 Military Medical Research and Development	12.420	University of Texas Health Science Center at Tyler	6046-SC21-23	-	12,777	12,777	-
	COVID-19 Military Medical Research and Development	12.420	University of Texas Health Science Center at San Antonio	169207/169200	-	3,419	3,419	-
	Military Medical Research and Development	12.420	Southwest Research Institute	Q99026NS	-	10,011	10,011	-
	Military Medical Research and Development	12.420			607,125	-	607,125	388,256
	COVID-19 Military Medical Research and Development	12.420			367	-	367	-
U.S. Army Medical Research and Material Command	COVID-19 Military Medical Research and Development	12.420	Southwest Research Institute	N99064N	-	210,186	210,186	-
<b>Subtotal – Military Medical Research and Development</b>					<u>607,492</u>	<u>236,393</u>	<u>843,885</u>	<u>388,256</u>
<b>TOTAL – U.S. Army Medical Command</b>					<u>607,492</u>	<u>236,393</u>	<u>843,885</u>	<u>388,256</u>
<b>TOTAL – U.S. Department of Defense</b>					<u>607,492</u>	<u>2,304,968</u>	<u>2,912,460</u>	<u>388,256</u>
<b>General Services Administration</b>								
Federal Acquisition Service	Completion of filovirus project study report 100037225-08150 for SP0-700-00-D-3180	39.RD	Battelle	US0010000790206	-	1	1	-
<b>TOTAL – General Services Administration</b>					<u>-</u>	<u>1</u>	<u>1</u>	<u>-</u>
<b>U.S. Department of Health and Human Services</b>								
<b>Food and Drug Administration</b>								
Food and Drug Administration	Bordetella-Free Weanling Baboons	93.RD			(12,695)	-	(12,695)	-
<b>TOTAL – Food and Drug Administration</b>					<u>(12,695)</u>	<u>-</u>	<u>(12,695)</u>	<u>-</u>

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Cluster/Federal Agency/Major Subdivision/Federal Grantor	Assistance Listing Name/Project	Assistance Listing Number	Pass-Through Entity (PTE)	PTE Subaward #	Federal Expenditures			Amounts Provided to Subrecipients
					Direct	Pass-Through	Total	
<b>Office of the Secretary</b>								
Office of the Assistant Secretary for Preparedness and Response								
	Biomedical Advanced Research and Development Authority (BARDA), Biodefense Medical Countermeasure Development	93.360	Battelle	PO US001-0000722369	\$ -	\$ 21,569	\$ 21,569	\$ -
		93.360	Battelle	PO 0000846639	-	29,888	29,888	-
		93.360	IIT Research Institute	144-0-2703-001-RL; PO000038	-	22,667	22,667	-
		93.360	Albert B. Sabin Vaccine Institute, Inc.	WO 020442-01	-	1,612,026	1,612,026	-
		93.360	Albert B. Sabin Vaccine Institute, Inc.	020442-03	-	32,953	32,953	-
	<i>Subtotal – Biomedical Advanced Research and Development Authority (BARDA), Biodefense Medical Countermeasure Development</i>				-	1,719,103	1,719,103	-
<b>TOTAL – Office of the Secretary</b>					-	1,719,103	1,719,103	-
<b>National Institutes of Health</b>								
National Institute of Environmental Health Sciences								
	Environmental Health	93.113	The Trustees of Columbia Univ. in the City of NY	2(GG017501-01)/PO G15462	-	8,529	8,529	-
		93.113	The Trustees of Columbia Univ. in the City of NY	1(GG017501-01)/PO G15462	-	45,091	45,091	-
	<i>Subtotal – Environmental Health</i>				-	53,620	53,620	-
National Institute of Mental Health								
	Mental Health Research Grants	93.242	Tulane National Primate Research Center	TUL-HSC-558754-20/21	-	33,346	33,346	-
		93.242	Board of Regents – University of Wisconsin-Madison	0000002569	-	99,628	99,628	-
		93.242	Board of Regents – University of Wisconsin-Madison	0000001477	-	208,985	208,985	-
		93.242	Oregon Health & Science University	1017296_TBRI	-	220,444	220,444	-
		93.242			1,143,527	-	1,143,527	119,643
	<i>Subtotal – Mental Health Research Grants</i>				1,143,527	562,403	1,705,930	119,643
National Institute on Drug Abuse								
	Drug Abuse and Addiction Research Programs	93.279	The Research Foundation for the State of New York	86524/2/1157858	-	195,619	195,619	-
		93.279	The Research Foundation for the State of New York	90786/2/1167092	-	2,101	2,101	-
		93.279	University of Texas at San Antonio	1000004418	-	516,051	516,051	-
		93.279			1,113,335	-	1,113,335	86,394
	<i>Subtotal – Drug Abuse and Addiction Research Programs</i>				1,113,335	713,771	1,827,106	86,394

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Cluster/Federal Agency/Major Subdivision/Federal Grantor	Assistance Listing Name/Project	Assistance Listing Number	Pass-Through Entity (PTE)	PTE Subaward #	Federal Expenditures			Amounts Provided to Subrecipients
					Direct	Pass-Through	Total	
<b>National Institutes of Health (continued)</b>								
National Institute of Biomedical Imaging and Bioengineering	Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	The Regents of the University of CA, Santa Cruz	A20-0105-S002-P0720191	\$ -	\$ 75,314	\$ 75,314	\$ -
	COVID-19 Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	The Regents of the University of CA, Santa Cruz	A20-0105-S002-P0720191	-	776	776	-
	<b>Subtotal – Discovery and Applied Research for Technological Innovations to Improve Human Health</b>				-	76,090	76,090	-
National Institute on Minority Health and Health Disparities	Minority Health and Health Disparities Research	93.307	University of North Carolina	5109072	-	100,985	100,985	-
National Center for Advancing Translational Sciences	COVID-19 National Center for Advancing Translational Sciences	93.350			4,376	-	4,376	-
Office of the Director	Research Infrastructure Programs	93.351	Trinity University	NIH22033-2	-	40,007	40,007	-
	Research Infrastructure Programs	93.351			12,657,719	-	12,657,719	314,323
	COVID-19 Research Infrastructure Programs	93.351			562,711	-	562,711	-
	<b>Subtotal – Research Infrastructure Programs</b>				13,220,430	40,007	13,260,437	314,323
Office of the Director	Construction Support	93.352			3,522	-	3,522	-
National Heart, Lung, and Blood Institute	Cardiovascular Diseases Research	93.837	The Regents of the University of California, San Diego	104297239	-	109,089	109,089	-
National Heart, Lung, and Blood Institute	Lung Diseases Research	93.838	University of Rochester	417770 / URFAO GR511031	-	11,905	11,905	-
	COVID-19 Lung Diseases Research	93.838	Columbia University Medical Center	16(GG015997-01)	-	12,126	12,126	-
	Lung Diseases Research	93.838			29,080	-	29,080	-
	<b>Subtotal – Lung Diseases Research</b>				29,080	24,031	53,111	-
	Strong Heart Study Coordinating Center	93.RD	Board of Regents of the University of Oklahoma	RS20180873-02/RS20180873-02A4	-	417,654	417,654	-
	Strong Heart Study (SHS) Core Study Operations Coordinating Center Task Area B	93.RD	Board of Regents of the University of Oklahoma	RS20180873-02A3	-	22,550	22,550	-
National Institute of Diabetes and Digestive and Kidney Diseases	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	University of Texas at San Antonio	1000003823	-	77,401	77,401	-

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Cluster/Federal Agency/Major Subdivision/Federal Grantor	Assistance Listing Name/Project	Assistance Listing Number	Pass-Through Entity (PTE)	PTE Subaward #	Federal Expenditures			Amounts Provided to Subrecipients	
					Direct	Pass-Through	Total		
<b>National Institutes of Health (continued)</b>									
National Institute of Allergy and Infectious Diseases	Allergy and Infectious Diseases Research	93.855	Infectious Disease Research Institute	CF1097-Op2-TxBiomed-HHSN272201	\$	–	\$ 442,490	\$ 442,490	\$ –
		93.855	The Scripps Research Institute	5-54725		–	33,755	33,755	–
		93.855	Stellenbosch University, Faculty of Medicine & Health Sciences	S004089		–	12,879	12,879	–
		93.855	University of Notre Dame	203482TBRI		–	542,860	542,860	–
		93.855	The Scripps Research Institute	5-53907		–	147,983	147,983	–
		93.855	The Washington University	WU-19-236-MOD-4		–	28,375	28,375	–
		93.855	Boston Children's Hospital	GENFD0001782855		–	379,242	379,242	–
		93.855	Emory University	A595759		–	376,169	376,169	–
		93.855	The Methodist Hospital Research Institute	AGMT00003668AM3		–	265,871	265,871	–
		93.855	University of Alabama at Birmingham	000525397-SC003		–	166,222	166,222	–
		93.855	Albert Einstein College of Medicine	311667 (PO 814659)		–	(6,124)	(6,124)	–
		93.855	The Scripps Research Institute	5-54189		–	91,771	91,771	–
		93.855	Texas A&M University	M2001367		–	96,488	96,488	–
		93.855	The Washington University	WU-20-346-MOD-2 (PO ST00000208)		–	62,088	62,088	–
		93.855	The Washington University	WU-20-346-MOD-3 (PO ST00000208)		–	4,072	4,072	–
		93.855	University of Iowa	S01507-01		–	41,750	41,750	–
		93.855	The Washington University	PO 2940075K/WU-21-64		–	(22,782)	(22,782)	–
		93.855	The Washington University	PO ST00000291/WU-21-64		–	6,824	6,824	–
		93.855	The Washington University	PO 2940075K/WU-21-64		–	47,722	47,722	–
		93.855	Tulane University of Louisiana	TUL-HSC-558738-20/21		–	(187,950)	(187,950)	–
		93.855	The Regents of the University of California, Los Angeles	1560 G YB264		–	53,045	53,045	–
		93.855	The Washington University	WU-21-313		–	53,336	53,336	–
		93.855	Board of Regents of the Univ. of Nebraska	24-1220-0021-002		–	30,294	30,294	–
		93.855	Trustees of the University of Pennsylvania	581937		–	70,325	70,325	–
		93.855	The Washington University	WU-21-406; PO 2940950K		–	36,397	36,397	–
		93.855	West Virginia University Research Corporation	20-238-TBRI/PO MM000350883		–	63,748	63,748	–
		93.855	Kenyatta University	P0541		–	46,838	46,838	–
		93.855	St. Louis University	8835		–	130,833	130,833	–
		93.855	Baylor College of Medicine	7000001402		–	154,915	154,915	–
		93.855	Johns Hopkins University	2005284848		–	450,984	450,984	–
	COVID-19 Allergy and Infectious Diseases Research	93.855	University of Texas Health Science Center at San Antonio	169928/169926		–	72,918	72,918	–
	COVID-19 Allergy and Infectious Diseases Research	93.855	University of Alabama at Birmingham	000532029-SC001		–	35,386	35,386	–
	COVID-19 Allergy and Infectious Diseases Research	93.855	Emory University	A683253		–	60,028	60,028	–
	COVID-19 Allergy and Infectious Diseases Research	93.855	The Scripps Research Institute	5-54838		–	6,842	6,842	–

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Cluster/Federal Agency/Major Subdivision/Federal Grantor	Assistance Listing Name/Project	Assistance Listing Number	Pass-Through Entity (PTE)	PTE Subaward #	Federal Expenditures			Amounts Provided to Subrecipients
					Direct	Pass-Through	Total	
<b>National Institutes of Health (continued)</b>								
	COVID-19 Allergy and Infectious Diseases Research	93.855	The Scripps Research Institute	5-54852	\$ -	\$ 13,248	\$ 13,248	\$ -
	COVID-19 Allergy and Infectious Diseases Research	93.855	University of California at San Francisco	13632sc	-	62,811	62,811	-
		93.855	Rutgers Biomedical Health Sciences	SUB00002303	-	298,482	298,482	-
		93.855	The Washington University	WU-22-0090	-	25,876	25,876	-
		93.855	Seattle Children's Research Institute	12798SUB	-	24,526	24,526	-
		93.855	Harvard University	117402-5121643	-	48,480	48,480	-
		93.855	Boston Children's Hospital	GENFD0001782855	-	2,181	2,181	-
		93.855	The Washington University	6316	-	4,194	4,194	-
		93.855	The Washington University	WU-21-313	-	15,825	15,825	-
	Allergy and Infectious Diseases Research	93.855			7,830,824	-	7,830,824	721,469
	COVID-19 Allergy and Infectious Diseases Research	93.855			364,449	-	364,449	-
	<b>Subtotal – Allergy and Infectious Diseases Research</b>				<b>8,195,273</b>	<b>4,291,217</b>	<b>12,486,490</b>	<b>721,469</b>
	COVID-19 NIAID Centers of Excellence for Influenza Research and Response	93.RD	Icahn School of Medicine at Mount Sinai	0258-A704-4609	-	219,711	219,711	-
National Institute of General Medical Sciences	Biomedical Research and Research Training	93.859			46,911	-	46,911	-
Eunice Kennedy Shriver National Institute of Child Health and Human Development	Child Health and Human Development Extramural Research	93.865	Tulane University of Louisiana	TUL-HSC-559028-20/21	-	49,604	49,604	-
		93.865	Tulane University of Louisiana	TUL-HSC-560191-22/23	-	80,620	80,620	-
	<b>Subtotal – Child Health and Human Development Extramural Research</b>				<b>-</b>	<b>130,224</b>	<b>130,224</b>	<b>-</b>
National Institute on Aging	Aging Research	93.866	University of Wyoming	1004352A-TBRI	-	943,703	943,703	-
		93.866	Trinity University	NIH20009	-	202,586	202,586	-
		93.866	University of Texas Health Science Center at San Antonio	168384/168375	-	10,209	10,209	-
		93.866	University of Texas Health Science Center at San Antonio	171391/171390	-	6,015	6,015	-
		93.866			1,466,525	-	1,466,525	346,889
	COVID-19 Aging Research	93.866			249,576	-	249,576	-
	<b>Subtotal – Aging Research</b>				<b>1,716,101</b>	<b>1,162,513</b>	<b>2,878,614</b>	<b>346,889</b>
<b>TOTAL – National Institutes of Health</b>					<b>25,472,555</b>	<b>8,001,266</b>	<b>33,473,821</b>	<b>1,588,718</b>
<b>TOTAL – U.S. Department of Health and Human Services</b>					<b>25,459,860</b>	<b>9,720,369</b>	<b>35,180,229</b>	<b>1,588,718</b>
<b>TOTAL – Research and Development Cluster</b>					<b>26,104,541</b>	<b>12,025,338</b>	<b>38,129,879</b>	<b>1,976,974</b>

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Cluster/Federal Agency/Major Subdivision/Federal Grantor	Assistance Listing Name/Project	Assistance Listing Number	Pass-Through Entity (PTE)	PTE Subaward #	Federal Expenditures			Amounts Provided to Subrecipients
					Direct	Pass-Through	Total	
U.S. Department of Homeland Security Federal Emergency Management Agency Grants Programs Directorate	Non-Profit Security Program	97.008			\$ 120	\$ -	\$ 120	\$ -
<b>TOTAL - Federal Emergency Management Agency</b>					120	-	120	-
<b>TOTAL - U.S. Department of Homeland Security</b>					120	-	120	-
<b>TOTAL - EXPENDITURES OF FEDERAL AWARDS</b>					<u>\$ 26,104,661</u>	<u>\$ 12,025,338</u>	<u>\$ 38,129,999</u>	<u>\$ 1,976,974</u>

See accompanying notes to schedule of expenditures of federal awards.



# Texas Biomedical Research Institute

## Notes to Schedule of Expenditures of Federal Awards

December 31, 2022

### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Texas Biomedical Research Institute (Texas Biomed) under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

### 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Texas Biomed has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

### 3. Reconciliation to Consolidated Financial Statements

Texas Biomed recognizes revenues from grants and contracts at the time eligible direct and indirect costs are incurred under terms of the awards and recognized as expenditures. Revenue recognized from expenditure of federal awards is reconciled to Texas Biomed's consolidated statement of activities as follows:

Revenues reported in Texas Biomed's consolidated financial statements:	
Grants and contracts	\$ 51,715,876
Less amounts not subject to Uniform Guidance	(13,966,003)
Plus subrecipient accruals – 2021	729,451
Less subrecipient accruals – 2022	(349,325)
Total federal award expenditures	<u>\$ 38,129,999</u>

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs

Year Ended December 31, 2022

Section I – Summary of Auditor’s Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_ Yes    X No

Significant deficiency(ies) identified?

\_\_\_ Yes    X None reported

Noncompliance material to financial statements noted?

\_\_\_ Yes    X No

Federal Awards

Internal control over major federal program:

Material weakness(es) identified?

\_\_\_ Yes    X No

Significant deficiency(ies) identified?

X Yes    \_\_\_ None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

X Yes    \_\_\_ No

Identification of major federal program

Assistance Listing number(s)

Name of federal program or cluster

10.001, 12.RD, 12.351, 12.420, 39.RD, 93.RD, 93.360, 93.113, 93.242, 93.279, 93.286, 93.307, 93.350, 93.351, 93.352, 93.837, 93.838, 93.847, 93.855, 93.859, 93.865, 93.866

Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$1,143,900

Auditee qualified as low-risk auditee?

X Yes    \_\_\_ No

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

**Section II – Financial Statement Findings**

No findings were noted.

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

**Finding 2022-001 – Subrecipient Monitoring**

Identification of the federal program

**U.S. Department of Defense**  
**U.S. Department of Health and Human Services**  
Research and Development Cluster  
Assistance Listing Nos.  
12.420, 93.242

<u>Federal Award Numbers:</u>	<u>Grant Period</u>
1R01MH130193-01	4/5/2022-2/28/2027
W81XWH1910496	5/1/2020-10/31/2023

Criteria or specific requirement (including statutory, regulatory, or other citation)

2 CFR 200.303(a) requires that a non-federal entity must “(a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

According to Texas Biomed’s “Subcontracts (Post Award)” procedures, “A Subaward Risk Assessment form will be completed prior to issuing any new initial subaward agreements.

1. A “Subaward Risk Assessment: Initial” form for new subawards.
2. Completion of the “Subrecipient Monitoring Questionnaire form” for continuing subawards.”

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2022-001 – Subrecipient Monitoring (continued)**

<u>Condition</u>	While risk assessment procedures were performed by Texas Biomed for selected subrecipients, for 2 of 5 of the selected subrecipients, Texas Biomed did not perform the risk assessment procedures in accordance with Texas Biomed’s documented procedures and internal controls.
<u>Cause</u>	Texas Biomed did not adhere to its documented subrecipient procedures and internal controls.
<u>Effect or potential effect</u>	If Texas Biomed does not adhere to its documented subrecipient procedures and internal controls, Texas Biomed may not appropriately perform its ongoing monitoring of subrecipients based on risk assessment procedures.
<u>Questioned costs</u>	None.
<u>Context</u>	<p>For one subrecipient, Texas Biomed did not perform the subaward risk assessment prior to issuing a new subaward agreement with a subrecipient. Texas Biomed did perform the risk assessment two weeks after the subaward was issued.</p> <p>For another subrecipient, Texas Biomed did not obtain a subrecipient monitoring questionnaire during the year.</p> <p>Texas Biomed’s subrecipient expenditures totaled \$2.0 million during the period, which represented 5.2% of Texas Biomed’s total research and development cluster expenditures of \$38.1 million.</p>
<u>Identification as a repeat finding, if applicable</u>	This is not a repeat finding.

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2022-001 – Subrecipient Monitoring (continued)**

Recommendation

We recommend Texas Biomed perform risk assessment procedures for subrecipients in accordance with Texas Biomed’s documented procedures and internal controls.

Views of responsible officials

Texas Biomed will revise existing procedures and internal controls to minimize the number of designated officials authorized to execute subaward agreements and amendments and elevate such responsibilities to more senior individuals. The designated officials will be responsible for reviewing risk assessments or subrecipient monitoring questionnaires and the most recent Single Audit of the relevant subrecipient. Prior to execution of a subaward agreement or amendment, the authorized designated officials will certify their review of risk assessment or subrecipient monitoring questionnaire and the most recent Single Audit. Texas Biomed will implement corrective action on June 1, 2023.

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2022-002 – Cash Management – Pass-through Entities**

Identification of the federal program

**U.S. Department of Defense**  
**U.S. Department of Health and Human Services**  
 Research and Development Cluster  
 All Assistance Listing Nos. with amounts provided to subrecipients – 12.420, 93.242, 93.279, 93.351, 93.855, and 93.866

<b>Federal Award Numbers</b>	<b>Grant Period</b>
5R01AI123047-05	8/15/2017-7/31/2022
1R56AG073316-01	9/01/2021-8/31/2023
W81XWH1910496	5/01/2020-10/31/2023
1R01MH130193-01	4/05/2022-2/28/2023
7R01MH116844-04	7/01/2020-1/31/2022
R01MH116844-05	2/01/2022-1/31/2024
5R01DA052845-03	7/01/2022-6/30/2023
5R01DA052845-02	7/01/2021-6/30/2022
2P51OD011133-23	5/01/2021-4/30/2022
2P51OD011133-18	5/01/2016-4/30/2017
5U42OD010442-21	2/01/2022-1/31/2023
5P51OD011133-24	5/01/2022-4/30/2023
5R21AI150445-02	2/01/2021-1/31/2024
5R01AI138587-05	5/01/2022-4/30/2023
5R01AI136831-04	8/01/2022-7/31/2023
5R01AI138587-04	5/01/2021-4/30/2022
5R01AI134245-05	2/01/2022-4/30/2023
1P30AI168439-01	3/10/2022-2/28/2023
5R01AI123047-05	8/01/2020-7/31/2022
7R01AI134245-05	9/01/2021-4/30/2022
5U34AG068482-03	6/01/2022-5/31/2022
U34AG068482	6/01/2021-5/31/2022
5P01AG051428-05	3/01/2020-2/28/2022
1R56AG073316-01	9/01/2021-8/31/2023
5R01AG065546-03	6/01/2022-5/31/2023
1R01AG065546-02	6/01/2021-5/31/2022

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2022-002 – Cash Management – Pass-through Entities (continued)**

Criteria or specific requirement (including statutory, regulatory, or other citation)

2 CFR 200.303(a) requires that a non-federal entity must “(a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

2 CFR 200.305(b)(1) requires “The non-Federal entity must be paid in advance, provided it maintains or demonstrates the willingness to maintain both written procedures that minimize the time elapsing between the transfer of funds and disbursement by the non-Federal entity, and financial management systems that meet the standards for fund control and accountability as established in this part. Advance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project. The timing and amount of advance payments must be as close as is administratively feasible to the actual disbursements by the non-Federal entity for direct program or project costs and the proportionate share of any allowable indirect costs. The non-Federal entity must make timely payment to contractors in accordance with the contract provisions.”

2 CFR 200.305(b)(3) requires “when the reimbursement method is used, the Federal agency or pass-through entity must make payment within 30 calendar days after receipt of the billing, unless the Federal awarding agency or pass-through entity reasonably believes the request to be improper.”



Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2022-002 – Cash Management – Pass-through Entities (continued)**

<u>Condition</u>	Texas Biomed did not provide evidence of effectively designed internal controls to ensure subrecipients are paid by Texas Biomed within 30 days of requests for reimbursement received by Texas Biomed. Texas Biomed paid 2 of 23 subrecipients after 30 days of receipt of the request for reimbursement from the subrecipient, resulting in noncompliance with 2 CFR 200.305(b)(3).
<u>Cause</u>	Texas Biomed’s internal controls around payments to subrecipients were not precisely designed to ensure the issuance of payments to subrecipients occurs within 30 days of requests for reimbursement by the subrecipient.
<u>Effect or potential effect</u>	Texas Biomed did not comply with the cash management requirements of the Uniform Guidance to pay subrecipients within 30 days of their requests for reimbursement.
<u>Questioned costs</u>	None.
<u>Context</u>	<p>For 2 of 23 subrecipient payments, Texas Biomed made payments to subrecipients at 50 and 41 days after receipt of the requests for reimbursement. These payments were not made in accordance with the 30-day requirement (5R01AI123047-05 and 1R56AG073316-01).</p> <p>For 1 additional subrecipient payment, we noted approval by the principal investigator of the subrecipient’s request for reimbursement was made after the payment was made to the subrecipient (5R01AI123047-05).</p> <p>Texas Biomed’s subrecipient expenditures totaled \$2.0 million during the period, which represented 5.2% of Texas Biomed’s total research and development expenditures of \$38.1 million.</p>
<u>Identification as a repeat finding, if applicable</u>	This is not a repeat finding.

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

**Section III – Federal Award Findings and Questioned Costs (continued)**

**Finding 2022-002 – Cash Management – Pass-through Entities (continued)**

Recommendation

We recommend Texas Biomed design and implement internal controls with the required precision to ensure subrecipients are paid within 30 days of the receipt of requests for reimbursement from the subrecipient and approved by the principal investigator prior to paying the subrecipient.

Views of responsible officials

Texas Biomed will implement a more effective operating procedure for subrecipient invoice approval and timely payment that will include timeline expectations for the initial approval request to the applicable principal investigator upon receipt of invoices from the subrecipient, timeline for following-up with the principal investigator on approval requests, timeline and direction for seeking proxy approval if the principal investigator is unavailable or unable to provide a timely response, and timeline for entering the subrecipient invoice in Texas Biomed financial systems facilitating payment upon approval. Texas Biomed will implement corrective action on June 1, 2023.

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