

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

Texas Biomedical Research Institute
Years Ended December 31, 2023 and 2022
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, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2024 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.

Ernst & Young LLP

May 24, 2024

Texas Biomedical Research Institute

Consolidated Statements of Financial Position

	December 31	
	2023	2022
Assets		
Cash and cash equivalents	\$ 5,002,889	\$ 11,115,646
Accounts receivable	10,866,316	12,914,080
Pledges receivable <i>(Note 3)</i>	5,088,920	5,584,687
Prepaid expenses and supplies	6,648,194	5,339,950
Assets limited as to use:		
Cash	9,182,651	9,988,846
Investments <i>(Note 6)</i>	95,819,086	86,167,551
Investment in Evestra, Inc. <i>(Note 6)</i>	2,821,861	2,821,861
Funds held in trust by others <i>(Note 7)</i>	8,604,929	17,667,596
Land, buildings, and equipment, net <i>(Note 9)</i>	102,272,449	82,138,784
Right-of-use assets	425,644	884,762
Total assets	<u>\$ 246,732,939</u>	<u>\$ 234,623,763</u>
Liabilities and net assets		
Liabilities:		
Accounts payable	\$ 9,591,510	\$ 9,988,924
Accrued wages, vacation, and other liabilities	4,177,374	4,031,715
Unearned revenue	1,406,944	3,325,420
Lease liability	529,573	957,388
Bonds payable <i>(Note 11)</i>	61,655,000	61,655,000
Bond premium <i>(Note 11)</i>	3,383,996	3,749,981
Bond issuance costs <i>(Note 11)</i>	(804,135)	(833,464)
Total liabilities	79,940,262	82,874,964
Net assets:		
Net assets without donor restrictions	105,324,861	93,802,582
Net assets with donor restrictions	61,467,816	57,946,217
Total net assets	166,792,677	151,748,799
Total liabilities and net assets	<u>\$ 246,732,939</u>	<u>\$ 234,623,763</u>

See accompanying notes.

Texas Biomedical Research Institute

Consolidated Statement of Activities

	For the Year Ended December 31, 2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
Grants and contracts	\$ 69,259,423	\$ —	\$ 69,259,423
Contributions	2,271,000	8,431,610	10,702,610
Endowment income allocation for operations	4,684,040	1,963,492	6,647,532
External program income	928,036	—	928,036
Other revenue	376,738	—	376,738
Total operating revenues	77,519,237	10,395,102	87,914,339
Net assets released from restrictions	9,263,384	(9,263,384)	—
Total revenues, gains, and other support	86,782,621	1,131,718	87,914,339
Operating expenses			
Salaries and benefits	41,519,097	—	41,519,097
Supplies	13,040,603	—	13,040,603
Depreciation	6,890,024	—	6,890,024
Services and professional fees	10,638,120	—	10,638,120
Subcontracts	2,551,842	—	2,551,842
Utilities	2,545,776	—	2,545,776
Interest expense	1,850,846	—	1,850,846
Subscriptions	413,022	—	413,022
Travel	485,177	—	485,177
Insurance	785,043	—	785,043
Shipping	303,770	—	303,770
Amortization	488,448	—	488,448
Other expenses	2,405,510	—	2,405,510
Total operating expenses	83,917,278	—	83,917,278
Net increase from operations	2,865,343	1,131,718	3,997,061
Nonoperating revenues, gains, and losses			
Endowment income allocation for operations	(4,684,040)	(1,963,492)	(6,647,532)
Investment gain	12,416,300	4,353,373	16,769,673
Royalty income	1,117,215	—	1,117,215
Loss on disposal of assets, net	(192,539)	—	(192,539)
Total nonoperating revenues, gains, and losses	8,656,936	2,389,881	11,046,817
Change in net assets	11,522,279	3,521,599	15,043,878
Beginning net assets	93,802,582	57,946,217	151,748,799
Ending net assets	\$ 105,324,861	\$ 61,467,816	\$ 166,792,677

Texas Biomedical Research Institute

Consolidated Statement of Activities

	For the Year Ended December 31, 2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues			
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
Operating expenses			
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 decrease from operations	(2,281,164)	(2,011,473)	(4,292,637)
Nonoperating revenues, gains, and losses			
Endowment income allocation for operations	(4,978,970)	(2,288,110)	(7,267,080)
Investment loss	(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

See accompanying notes.

Texas Biomedical Research Institute

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2023	2022
Operating activities		
Increase (decrease) in net assets	\$ 15,043,878	\$ (24,056,708)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,890,024	6,665,169
Amortization of bond issuance costs	29,329	29,329
Amortization of bond premium	(365,985)	(396,483)
(Gain) loss on disposal of assets, net	192,539	(2,696,084)
Net investment (gain) loss	(16,268,213)	16,420,876
Contributions restricted for long-term investment	(3,090,423)	(849,221)
Changes in operating assets and liabilities:		
Accounts receivable	2,047,764	1,069,204
Pledges receivable	495,767	824,687
Prepaid expenses and supplies	(1,308,244)	(4,364,562)
Accounts payable and accrued expenses	(251,755)	2,734,273
Unearned revenue	(1,918,476)	109,355
Net cash provided by (used in) operating activities	1,496,205	(4,510,165)
Investing activities		
Purchases of plant and equipment	(27,500,165)	(15,609,295)
Sale of plant and equipment	315,240	2,760,099
Purchases of investments	(19,004,549)	(22,748,596)
Sale of investments	34,755,266	37,358,299
Net cash (used in) provided by investing activities	(11,434,208)	1,760,507
Financing activities		
Proceeds from contributions restricted for long-term investment	3,019,051	1,129,932
Net cash provided by financing activities	3,019,051	1,129,932
Decrease in cash, cash equivalents, and restricted cash	(6,918,952)	(1,619,726)
Cash, cash equivalents, and restricted cash at beginning of year	21,104,492	22,724,218
Cash, cash equivalents, and restricted cash at end of year	<u>\$ 14,185,540</u>	<u>\$ 21,104,492</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 1,994,783</u>	<u>\$ 1,731,966</u>

See accompanying notes.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements

December 31, 2023

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, 2023 and 2022, 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 6.0% in 2023 and 6.5% in 2022. As of December 31, 2023 and 2022, 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 2019 and 2020, 6.5% for 2021 and 2022, and 6.0% for 2023.

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.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

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 eight 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.

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.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

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

	December 31	
	2023	2022
Subject to expenditure for specified purpose:		
Research	\$ 8,256,529	\$ 7,373,544
Facility renovation/construction	4,632,734	4,472,487
Subject to spending policy and appropriation:		
Endowments (including amounts above original gift amount), which, once appropriated, is expendable to support research	13,698,725	11,291,730
Not subject to appropriation or expenditure:		
Endowments held in perpetuity	34,879,828	34,808,456
Total net assets with donor restrictions	<u>\$ 61,467,816</u>	<u>\$ 57,946,217</u>

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 \$7,412,579 and \$7,591,213 as of December 31, 2023 and 2022, respectively.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

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 \$2,520,738 and \$2,224,543 in 2023 and 2022, respectively.

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 2023 or 2022.

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, 2023, 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.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

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:

	December 31	
	2023	2022
Cash and cash equivalents	\$ 5,002,889	\$ 11,115,646
Restricted cash	9,182,651	9,988,846
	<u>\$ 14,185,540</u>	<u>\$ 21,104,492</u>

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

3. Pledges Receivable

As of December 31, 2023 and 2022, Texas Biomed has unconditional promises to give totaling \$5,088,920 and \$5,584,687, 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:

	December 31	
	2023	2022
Promises to give:		
Less than one year	\$ 2,115,187	\$ 4,757,098
One to five years	3,152,500	1,041,667
	<u>5,267,687</u>	<u>5,798,765</u>
Less amount to reduce to present value	(178,767)	(214,078)
Pledges receivable	<u>\$ 5,088,920</u>	<u>\$ 5,584,687</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.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

4. Internal-Use Software

Texas Biomed purchases hosting arrangements that are service contracts and that include licenses to internal-use software. These service contracts are intangible assets included in prepaid expenses and supplies on the consolidated statements of financial position. The intangible asset for internal-use software was \$1,506,552 and \$710,601 as of December 31, 2023 and 2022, respectively. Amortization of this asset was \$73,652 and \$0 in 2023 and 2022, respectively.

5. Animal Purchases

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 is considered an accurate portrayal of operating results for users of Texas Biomed's financial statements. The total of this prepaid item was \$4,765,965 and \$4,254,917 as of December 31, 2023 and 2022, respectively. As the animals are placed on studies, they are 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).

The composition of these securities is set forth as follows:

	December 31	
	2023	2022
Mutual funds	\$ 65,512,793	\$ 65,309,210
Limited partnerships and trusts	30,306,293	20,858,341
	<u>\$ 95,819,086</u>	<u>\$ 86,167,551</u>

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.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

6. Investments (continued)

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:

	December 31	
	2023	2022
Dividends and interest earned on investments	\$ 1,572,156	\$ 1,656,065
Net realized gain (loss) on investments reported at fair value or net asset value	94,700	(752,278)
Net unrealized gain (loss) on investments reported at fair value or net asset value	15,418,601	(16,778,111)
Investment expenses netted against income	(315,784)	(534,396)
Total investment gain (loss)	<u>\$ 16,769,673</u>	<u>\$ (16,408,720)</u>

	December 31	
	2023	2022
Net asset classification of investment income:		
Without donor restrictions	\$ 12,416,300	\$ (11,909,072)
With donor restrictions	4,353,373	(4,499,648)
Total investment income	<u>\$ 16,769,673</u>	<u>\$ (16,408,720)</u>

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

6. Investments (continued)

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, 2023 and 2022, Texas Biomed's investments in oil and gas mineral interests are \$0. For the years ended December 31, 2023 and 2022, royalty income from oil and gas mineral interests are \$1,117,215 and \$1,215,645, 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, 2023 and 2022, Texas Biomed owns 27% of Evestra's common stock. Texas Biomed records the investment at cost. As of December 31, 2023 and 2022, Texas Biomed's investment in Evestra is \$2,821,861. No income has been received from Evestra for the years ended December 31, 2023 and 2022.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

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, 2023 and 2022. These funds are neither in the possession nor under the control of Texas Biomed.

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, 2023. See Note 8 for an explanation of the fair value hierarchy levels.

	December 31	
	2023	2022
Ruth Chapman Cowles and Andrew G. Cowles Memorial Trust 10% interest in income generated from trust	\$ 2,754,809	\$ 2,683,437
Series 2021A bonds money market account	2,922,530	11,697,304
Series 2021B bonds money market account	2,854,358	3,125,594
Bond debt service fund money market account	73,232	161,261
Total funds held in trust by others	<u>\$ 8,604,929</u>	<u>\$ 17,667,596</u>

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.

Texas Biomed's investments in funds are reported at a net asset value based on the fair value of the underlying investments held by the funds less their liabilities as a practical expedient as of the measurement date. Investments measured under this method are not categorized in the fair value hierarchy and are presented for reconciliation purposes.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

8. Fair Value Measurements (continued)

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, 2023 and 2022, 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.

		Fair Value Measurement at December 31, 2023 Using:			
		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
December 31, 2023					
Investments:					
Mutual funds:					
U.S. equities	\$ 51,150,356	\$ 51,150,356	\$ —	\$ —	
International equities	10,280,972	10,280,972	—	—	
U.S. fixed-income securities	4,081,465	4,081,465	—	—	
Total mutual funds		<u>\$ 65,512,793</u>	<u>\$ —</u>	<u>\$ —</u>	
Investments measured at net asset value:					
Limited partnerships and trusts:					
U.S. equities	1,911,121				
International equities	20,398,767				
Global fixed-income securities	1,461,155				
Hedge funds	6,535,250				
Total measured at net asset value	<u>30,306,293</u>				
Total investments	<u>\$ 95,819,086</u>				
Funds held in trust by others					
Cowles (Bank of Oklahoma)	\$ 2,754,809	\$ —	\$ —	\$ 2,754,809	
Series 2021A money market	2,922,530	2,922,530	—	—	
Series 2021B money market	2,854,358	2,854,358	—	—	
Bond debt service fund money market	73,232	73,232	—	—	
	<u>\$ 8,604,929</u>	<u>\$ 5,850,120</u>	<u>\$ —</u>	<u>\$ 2,754,809</u>	

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

8. Fair Value Measurements (continued)

		Fair Value Measurement at December 31, 2022 Using:			
		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
	December 31, 2022				
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	<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>	

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)

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
December 31, 2023				
U.S. equities ^(a)	\$ 1,911,121	\$ —	Daily	1–30 days
International equities ^(b)	20,398,767	—	Daily-quarterly	10–65 days
Global fixed-income securities ^(c)	1,461,155	—	Daily-quarterly	1–10 days
Hedge funds ^(d)	6,535,250	—	Monthly–annually	10–65 days
	<u>\$ 30,306,293</u>	<u>\$ —</u>		
December 31, 2022				
U.S. equities ^(a)	\$ —	\$ —	Daily-quarterly	10–30 days
International equities ^(b)	16,440,484	—	Monthly	10–30 days
Global fixed-income securities ^(c)	2,724,030	—	Daily	10 days
Hedge funds ^(d)	1,693,827	—	Monthly–annually	60–65 days
	<u>\$ 20,858,341</u>	<u>\$ —</u>		

^(a) 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.

^(b) 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.

^(c) 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.

^(d) 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:

	Funds Held in Trust by Others
Balance, December 31, 2021	\$ 2,964,148
Unrealized loss included in the consolidated statement of changes in net assets	<u>(280,711)</u>
Balance, December 31, 2022	2,683,437
Unrealized gain included in the consolidated statement of changes in net assets	<u>71,372</u>
Balance, December 31, 2023	<u><u>\$ 2,754,809</u></u>

9. Land, Buildings, and Equipment

At December 31, 2023 and 2022, land, buildings, and equipment, less total accumulated depreciation, were as follows:

	December 31	
	2023	2022
Argyle, buildings, and improvements	\$ 14,218,580	\$ 13,028,490
Land	255,025	255,025
Buildings and improvements	138,151,699	132,777,272
Fixtures and equipment	38,184,356	37,585,197
Construction-in-progress	28,983,477	12,630,459
Less accumulated depreciation	<u>(117,520,688)</u>	<u>(114,137,659)</u>
Net land, buildings, and equipment	<u><u>\$ 102,272,449</u></u>	<u><u>\$ 82,138,784</u></u>

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

9. Land, Buildings, and Equipment (continued)

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, 2023 and 2022 is as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
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
Contributions	95,290	—	95,290
Investment income	277,961	85,961	363,922
Net unrealized/realized loss on investments	11,150,112	4,267,411	15,417,523
Loss on funds held in trust by others	—	71,372	71,372
Appropriation of endowment assets for expenditure	(4,701,172)	(1,946,377)	(6,647,549)
Endowment net assets at December 31, 2023	\$ 51,293,307	\$ 48,578,555	\$ 99,871,862

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:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets at December 31, 2023	\$ 51,293,307	\$ 48,578,555	\$ 99,871,862
Investment fees not withheld from investments	1,774,332	—	1,774,332
Funds held in trust by others	—	(2,754,809)	(2,754,809)
Funds in liquidity account held as cash equivalents	(1,649,294)	(1,423,005)	(3,072,299)
Investments at December 31, 2023	<u>\$ 51,418,345</u>	<u>\$ 44,400,741</u>	<u>\$ 95,819,086</u>

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
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>

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, 2023 and 2022:

	December 31,	
	2023	2022
Fair value of underwater endowments	\$ 4,009,291	\$ 5,980,067
Original amount of underwater endowments	4,052,382	6,808,523
Underwater amount	<u>\$ (43,091)</u>	<u>\$ (828,456)</u>

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

11. Bonds Payable and Notes Payable

Bonds Payable

Indebtedness at December 31, 2023 and 2022, includes bonds issued through Public Finance Authority. The balance of outstanding bonds payable at December 31 consists of the following:

	December 31,	
	2023	2022
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 are primarily being 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 are primarily being 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, 2023 and 2022.

The aggregate maturities due on the Series 2021A and Series 2021B bonds at December 31, 2023, are as follows:

Fiscal Year	Principal Amount
2024	\$ —
2025	—
2026	—
2027	860,000
2028	905,000
Thereafter	59,890,000
	<u>\$ 61,655,000</u>

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

11. Bonds Payable and Notes Payable (continued)

Notes Payable

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:

<u>Extension Date</u>	<u>Maturity</u>
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
November 30, 2023	November 29, 2024

The interest rate is variable based on changes in the American Interbank Offer Rate Term-30. On September 15, 2021, the note was paid in full. The amount outstanding was \$0 as of December 31, 2023 and 2022.

Interest expense is reported in the consolidated statements of activities under other expenses. Total interest expense for Texas Biomed was \$1,850,846 and \$1,406,848 for the years ended December 31, 2023 and 2022, respectively.

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Interest incurred	\$ 1,994,783	\$ 1,652,235
Interest capitalized	(143,937)	(245,387)
Interest expense	<u>\$ 1,850,846</u>	<u>\$ 1,406,848</u>

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 – *Revenue from Contracts with Customers* (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 \$22,459,020 and \$18,797,634 for 2023 and 2022, 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 \$2,498,371 and \$4,664,323 at December 31, 2023 and 2022, 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 \$317,240 and \$1,058,613 at December 31, 2023 and 2022, 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.

Allocation	Research Program Activities	Supporting Activities			Total Expenses
		General & Admin	Fund-Raising	Supporting Subtotal	
For the year ended December 31, 2023					
Salaries and benefits	\$ 23,776,182	\$ 17,165,878	\$ 577,037	\$ 17,742,915	\$ 41,519,097
Supplies	11,381,637	1,631,340	27,626	1,658,966	13,040,603
Depreciation	6,093,998	456,461	339,565	796,026	6,890,024
Services and professional fees	2,290,039	8,059,960	288,121	8,348,081	10,638,120
Subcontracts	2,551,842	—	—	—	2,551,842
Utilities	—	2,545,776	—	2,545,776	2,545,776
Interest expense	—	1,850,846	—	1,850,846	1,850,846
Subscriptions	4,029	385,755	23,238	408,993	413,022
Travel	273,543	194,536	17,098	211,634	485,177
Insurance	—	785,043	—	785,043	785,043
Shipping	254,938	46,781	2,051	48,832	303,770
Amortization	480,085	8,202	161	8,363	488,448
Other expenses	259,798	1,982,899	162,813	2,145,712	2,405,510
	\$ 47,366,091	\$ 35,113,477	\$ 1,437,710	\$ 36,551,187	\$ 83,917,278

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	
For the year ended December 31, 2022					
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
	\$ 37,851,285	\$ 33,355,666	\$ 1,245,719	\$ 34,601,385	\$ 72,452,670

Texas Biomed expenses advertising costs as incurred. Advertising expenses recognized totaled \$353,779 and \$190,640 in 2023 and 2022, 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, 2023 and 2022, amortization of the lease right-of-use assets and interest expense on the lease liabilities, were as follows:

	December 31	
	2023	2022
Amortization	\$ 459,118	\$ 452,044
Interest expense	55,055	37,624

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.

	December 31	
	2023	2022
Financial assets	\$ 135,429,917	\$ 133,932,621
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions	(61,467,816)	(57,946,217)
Collateral requirement on outstanding debt	—	—
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 73,962,101</u>	<u>\$ 75,986,404</u>

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 and Commitments

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.

At December 31, 2023, Texas Biomed had \$441,441 in future construction commitments.

17. Subsequent Events

Texas Biomed has evaluated subsequent events through May 24, 2024, the date the accompanying consolidated financial statements were available to be issued.

Reports and Schedules Required by the Uniform Guidance

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 statement of financial position as of December 31, 2023, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes (collectively referred to as the “financial statements”), and have issued our report thereon dated May 24, 2024.

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.

Ernst + Young LLP

May 24, 2024

Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Management and Trustees
Texas Biomedical Research Institute

Report of Independent Auditors on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

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 each of Texas Biomedical Research Institute's major federal programs for the year ended December 31, 2023. Texas Biomedical Research Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Assistance Listing Number 11.307 – Economic Development Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, 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 Assistance Listing Number 11.307 – Economic Development Cluster for the year ended December 31, 2023.

Unmodified Opinion on the Other Major Federal Program

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 the other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2023.

Basis for Qualified and Unmodified Opinions

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 each 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.

Matter Giving Rise to Qualified Opinion on Assistance Listing Number 11.307 – Economic Development Cluster

As described in the accompanying schedule of findings and questioned costs, Texas Biomedical Research Institute did not comply with requirements regarding the following:

Finding Number	Assistance Listing Number	Program (or Cluster) Name	Compliance Requirement
2023-003	11.307	Economic Development Cluster	Special Tests and Provisions

Compliance with such requirements is necessary, in our opinion, for Texas Biomedical Research Institute to comply with the requirements applicable to that program.

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 each 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.

Finding No.	Assistance Listing No.	Program (or Cluster) Name	Compliance Requirement
2023-001	Various	Research and Development Cluster	Cash Management
2023-002	Various	Research and Development Cluster	Procurement and Suspension and Debarment
2023-004	11.307	Economic Development Cluster	Reporting

Our opinion on each 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. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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. 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 material weaknesses.

Finding No.	Assistance Listing No.	Program (or Cluster) Name	Compliance Requirement
2023-002	Various	Research and Development Cluster	Procurement and Suspension and Debarment
2023-003	11.307	Economic Development Cluster	Special Tests and Provisions

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.

Finding No.	Assistance Listing No.	Program (or Cluster) Name	Compliance Requirement
2023-001	Various	Research and Development Cluster	Cash Management
2023-004	11.307	Economic Development Cluster	Reporting

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Texas Biomedical Research Institute as of and for the year ended December 31, 2023, and have issued our report thereon dated May 24, 2024, which contained an unmodified opinion on those financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to May 24, 2024. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst & Young LLP

September 13, 2024

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2023

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	
Research and Development Cluster								
U.S. Department of Agriculture	Agricultural Research Basic and Applied Research	10.001			\$ 2,548	\$ —	\$ 2,548	\$ —
TOTAL – U.S. Department of Agriculture					2,548	—	2,548	—
U.S. Department of Defense								
Defense Threat Reduction Agency	Scientific Research-Combating Weapons of Mass Destruction	12.351	Advanced Technology International	MCDC2021-006	—	2,365,727	2,365,727	—
TOTAL – Defense Threat Reduction Agency					—	2,365,727	2,365,727	—
U.S. Army								
U.S. Army Medical Research Acquisition Activity	Military Medical Research and Development	12.420			257,813	—	257,813	—
	COVID-19 Military Medical Research and Development	12.420	University of Texas Health Science Center at Tyler	6046-SC21-23	—	51,392	51,392	—
	Military Medical Research and Development	12.420	Southwest Research Institute	Q99026NS	—	28,329	28,329	—
	COVID-19 Military Medical Research and Development	12.420	Stanford University	62949067-236407	—	42,563	42,563	—
U.S. Army Medical Research and Material Command	Military Medical Research and Development	12.420	University of Rochester	417769G/UR FAO GR511069	—	1	1	—
	COVID-19 Military Medical Research and Development	12.420	Southwest Research Institute	N99064N	—	6,985	6,985	—
TOTAL – U.S. Army	Subtotal – Military Medical Research and Development				257,813	129,270	387,083	—
Medical CBRN Defense Consortium								
Medical CBRN Defense Consortium	Test Support to the Battelle Accelerated Therapeutics for Combating Acute Viral Epidemics (BAT-CAVE) Program	12.RD	Battelle	851268	—	29,333	29,333	—
TOTAL – Medical CBRN Defense Consortium					—	29,333	29,333	—
TOTAL – U.S. Department of Defense					257,813	2,524,330	2,782,143	—
U.S. Department of Health and Human Services								
Centers for Disease Control	Centers for Disease Control and Prevention							
Centers for Disease Control	Investigations and Technical Assistance	93.283	Cherokee Nation Operational Solutions, LLC	40700-0166	—	784,471	784,471	—
TOTAL – Centers for Disease Control					—	784,471	784,471	—

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	
Office of the Secretary Office of the Assistant Secretary for Preparedness and Response	Biomedical Advanced Research and Development Authority (BARDA), Biodefense Medical Countermeasure Development	93.360			\$ 4,917	\$ -	\$ 4,917	\$ -
	Biomedical Advanced Research and Development Authority (BARDA), Biodefense Medical Countermeasure Development	93.360	Albert B. Sabin Vaccine Institute, Inc.	WO 020442-01	-	603,720	603,720	-
	Biomedical Advanced Research and Development Authority (BARDA), Biodefense Medical Countermeasure Development	93.360	Battelle	846639 MOD 03	-	130,082	130,082	-
	Subtotal - Biomedical Advanced Research and Development Authority (BARDA), Biodefense Medical Countermeasure Development				4,917	733,802	738,719	-
					4,917	733,802	738,719	-
TOTAL - Office of the Secretary								
National Institutes of Health National Institute of Environmental Health Sciences	Environmental Health	93.113	The Trustees of Columbia University in the City of NY	2(GG017501-01)/PO G15462	-	45,223	45,223	-
	Environmental Health	93.113	The Trustees of Columbia University in the City of NY	1(GG017501-01)	-	3,779	3,779	-
Subtotal - Environmental Health					-	49,002	49,002	-
National Institute of Environmental Health Sciences Superfund Research Program	NIEHS Superfund Hazardous Substances Basic Research and Education	93.143	The Trustees of Columbia University in the City of NY	6(GG015160-10)/9GG015160-03	-	8,024	8,024	-
	NIEHS Superfund Hazardous Substances Basic Research and Education	93.143	The Trustees of Columbia University in the City of NY	6(GG015160-22) PROJECT 3	-	20,169	20,169	-
	NIEHS Superfund Hazardous Substances Basic Research and Education	93.143	The Trustees of Columbia University in the City of NY	9(GG015160-03)	-	1,404	1,404	-
	NIEHS Superfund Hazardous Substances Basic Research and Education	93.143	The Trustees of Columbia University in the City of NY	6(GG015160-22) - DMA CORE	-	5,952	5,952	-
	Subtotal - NIEHS Superfund Hazardous Substances_Basic Research and Education				-	35,549	35,549	-
National Institute of Mental Health	Mental Health Research Grants	93.242			865,812	-	865,812	181,022
	Mental Health Research Grants	93.242	Tulane National Primate Research Center Board of Regents - University of Wisconsin-Madison	TUL-HSC-558754-20/21 0000002569	-	6,594	6,594	-
	Mental Health Research Grants	93.242	Board of Regents - University of Wisconsin- Madison	0000003415	-	417,965	417,965	-
	Mental Health Research Grants	93.242	Oregon Health & Science University The Regents of the University of CA, San Francisco	1017296 TBRI 14100sc	-	124,119	124,119	-
	Mental Health Research Grants	93.242			-	151,070	151,070	-
Subtotal - Mental Health Research Grants					-	34,239	34,239	-
					865,812	733,987	1,599,799	181,022
National Institute on Drug Abuse	Drug Abuse and Addiction Research Programs	93.279			730,281	-	730,281	102,396
	Drug Abuse and Addiction Research Programs	93.279	University of Texas at San Antonio	1000004418	-	797,187	797,187	-
	Drug Abuse and Addiction Research Programs	93.279	New York Medical College	124921-301007-####-20	-	85,086	85,086	-
	Drug Abuse and Addiction Research Programs	93.279	New York Medical College	124901-301007-####-20	-	15,036	15,036	-
	Drug Abuse and Addiction Research Programs	93.279	New York Medical College	124920	-	275,136	275,136	-
	Drug Abuse and Addiction Research Programs	93.279	New York Medical College	124900	-	26,432	26,432	-
	Subtotal - Drug Abuse and Addiction Research Programs				730,281	1,198,877	1,929,158	102,396

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	
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	\$ —	\$ 75,917	\$ 75,917	\$ —
National Center for Advancing Translational Sciences	COVID-19 National Center for Advancing Translational Sciences	93.350			5,619	—	5,619	—
Office of the Director	Research Infrastructure Programs	93.351			14,761,567	—	14,761,567	572,140
	COVID-19 Research Infrastructure Programs	93.351			451,895	—	451,895	—
	Research Infrastructure Programs	93.351	Trinity University	NIH22033-2	—	25,675	25,675	—
	Research Infrastructure Programs	93.351	Trinity University	NIH22033-2; 23-05011	—	45,113	45,113	—
	Subtotal – Research Infrastructure Programs				15,213,462	70,788	15,284,250	572,140
	COVID-19 In vitro and in vivo study of ROC-325 and its analogs in live SARS-CoV-2 models	93.RD			36,205	—	36,205	—
	Construction Support	93.352			1,622,874	—	1,622,874	—
National Heart, Lung, and Blood Institute	Lung Diseases Research	93.838			761,001	—	761,001	411,522
	COVID-19 Lung Diseases Research	93.838	Columbia University Medical Center	16(GG015997-03)	—	10,624	10,624	—
	Subtotal – Lung Diseases Research				761,001	10,624	771,625	411,522
	Strong Heart Study Coordinating Center	93.RD	Board of Regents of the University of Oklahoma	RS20180873-02A4	—	98,989	98,989	—
	Strong Heart Study Coordinating Center	93.RD	Board of Regents of the University of Oklahoma	RS20180873-02	—	517,217	517,217	—
	Strong Heart Study (SHS) Core Study Operations Coordinating Center Task Area B	93.RD	Board of Regents of the University of Oklahoma	RS20180873-02	—	28,986	28,986	—
Division of Blood Diseases and Resources	Blood Diseases and Resources Research	93.839	Mayo Clinic Jacksonville	TEX-297012/PO#68700014	—	119,768	119,768	—
and Kidney Diseases	Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	University of Texas at San Antonio	1000003823	—	44,530	44,530	—
National Institute of Neurological Disorders and Stroke	Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			51,715	—	51,715	—

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	
National Institute of Allergy and Infectious Diseases	Allergy and Infectious Diseases Research	93.855			\$ 9,352,901	\$ -	\$ 9,352,901	\$ 1,353,801
	COVID-19 Allergy and Infectious Diseases Research	93.855			1,639,488	-	1,639,488	-
	Allergy and Infectious Diseases Research	93.855	Infectious Disease Research Institute	CF1097-Op2-TxBiomed-HHSN272201800025C	-	60,787	60,787	-
	Allergy and Infectious Diseases Research	93.855	University of Notre Dame	203482TBR1	-	175,833	175,833	-
	Allergy and Infectious Diseases Research	93.855	The Scripps Research Institute	5-53907	-	352,944	352,944	-
	Allergy and Infectious Diseases Research	93.855	Boston Children's Hospital	GENFD0001782855	-	717,132	717,132	-
	Allergy and Infectious Diseases Research	93.855	Emory University	A246707	-	(9,358)	(9,358)	-
	Allergy and Infectious Diseases Research	93.855	University of Alabama at Birmingham	000525397-SC003	-	152,463	152,463	-
	Allergy and Infectious Diseases Research	93.855	The Scripps Research Institute	5-54189	-	68,202	68,202	-
	Allergy and Infectious Diseases Research	93.855	Texas A&M University	M2001367	-	49,772	49,772	-
	Allergy and Infectious Diseases Research	93.855	The Washington University	WU-20-346-MOD-3 -PO ST00000208	-	50,873	50,873	-
	Allergy and Infectious Diseases Research	93.855	University of Iowa	S01507-01	-	28,750	28,750	-
	Allergy and Infectious Diseases Research	93.855	Tulane University of Louisiana	TUL-HSC-558738-20/21	-	119,257	119,257	-
	Allergy and Infectious Diseases Research	93.855	The Regents of the University of California, LA	1560 G YB264	-	143,979	143,979	-
	Allergy and Infectious Diseases Research	93.855	Board of Regents of the University of Nebraska	24-1220-0021-002	-	7,859	7,859	-
	Allergy and Infectious Diseases Research	93.855	Trustees of the University of Pennsylvania	581937	-	62,392	62,392	-
	Allergy and Infectious Diseases Research	93.855	The Washington University	WU-21-406; PO 2940950K	-	(4,451)	(4,451)	-
	Allergy and Infectious Diseases Research	93.855	Kenyatta University	P0541	-	79,385	79,385	-
	Allergy and Infectious Diseases Research	93.855	Baylor College of Medicine	7000001402	-	66,926	66,926	-
	Allergy and Infectious Diseases Research	93.855	Baylor College of Medicine	P700000216	-	133,745	133,745	-
	Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	2005284848	-	533,870	533,870	-
	COVID-19 Allergy and Infectious Diseases Research	93.855	The University of Texas Health Science Center at San Antonio	169928/169926	-	121,513	121,513	-
	Allergy and Infectious Diseases Research	93.855	Rutgers Biomedical Health Sciences	SUB00002677	-	415,720	415,720	-
	COVID-19 Allergy and Infectious Diseases Research	93.855	University of Alabama at Birmingham	000532029-SC001	-	59,168	59,168	-
	Allergy and Infectious Diseases Research	93.855	The Scripps Research Institute	5-54725	-	216,529	216,529	-
	Allergy and Infectious Diseases Research	93.855	Emory University	A595759	-	4,202	4,202	-
	Allergy and Infectious Diseases Research	93.855	Seattle Children's Research Institute	12798SUB	-	80,241	80,241	-
	COVID-19 Allergy and Infectious Diseases Research	93.855	Emory University	A683253	-	203,667	203,667	-
	COVID-19 Allergy and Infectious Diseases Research	93.855	The Scripps Research Institute	5-54838	-	34,318	34,318	-
	COVID-19 Allergy and Infectious Diseases Research	93.855	The Scripps Research Institute	5-54852	-	128,378	128,378	-
	COVID-19 Allergy and Infectious Diseases Research	93.855	University of California at San Francisco	13632sc	-	125,074	125,074	-
	Allergy and Infectious Diseases Research	93.855	Harvard University	117402-5121643	-	93,239	93,239	-
	Allergy and Infectious Diseases Research	93.855	University of Chicago	AWD104210(SUB00000937)	-	19,002	19,002	-
	Allergy and Infectious Diseases Research	93.855	University of Chicago	AWD104211(SUB00000941)	-	20,663	20,663	-
	Allergy and Infectious Diseases Research	93.855	University of Chicago	AWD104245(SUB00000935)	-	7,662	7,662	-
	Allergy and Infectious Diseases Research	93.855	University of Chicago	AWD104016(SUB00000938)	-	17,449	17,449	-
	COVID-19 Allergy and Infectious Diseases Research	93.855	The University of Texas Health Science Center at San Antonio	172158/172157	-	156,666	156,666	-

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			
National Institute of Allergy and Infectious Diseases (continued)	COVID-19 Allergy and Infectious Diseases Research	93.855	Icahn School of Medicine at Mount Sinai	2U19AI135972-06	\$	–	\$ 110,166	\$ 110,166	\$ –	
	COVID-19 Allergy and Infectious Diseases Research	93.855	Icahn School of Medicine at Mount Sinai	0255-H533-4609		–	23,111	23,111	–	
	Allergy and Infectious Diseases Research	93.855	Trustees of the University of Pennsylvania	587023		–	38,406	38,406	–	
	Allergy and Infectious Diseases Research	93.855	Autoimmunity Biologic Solutions	23-05105		–	130,175	130,175	–	
	Allergy and Infectious Diseases Research	93.855	University of North Carolina at Charlotte	20230455-01-TBR		–	15,813	15,813	–	
	Allergy and Infectious Diseases Research	93.855	Baylor College of Medicine	P700000436		–	13,978	13,978	–	
	Allergy and Infectious Diseases Research	93.855	University of North Carolina	5128818		–	14,909	14,909	–	
	Allergy and Infectious Diseases Research	93.855	Ohio State University	SPC-1000012061 GR132520		–	3,817	3,817	–	
	COVID-19 Allergy and Infectious Diseases Research	93.855	University of Alabama at Birmingham	000532029-SC001		–	41,736	41,736	–	
	Subtotal – Allergy and Infectious Diseases Research					10,992,389	4,885,962	15,878,351	1,353,801	
National Institute of Allergy and Infectious Diseases	NIAID Centers of Excellence for Influenza Research and Response	93.RD	Icahn School of Medicine at Mount Sinai	0258-A704-4609		–	221,347	221,347	–	
National Institute of General Medical Sciences	Biomedical Research and Research Training	93.859				246,440	–	246,440	–	
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-560191-22/23		–	29,615	29,615	–	
	Child Health and Human Development Extramural Research	93.865	Tulane University of Louisiana	TUL-HSC-561207-23/24		–	89,708	89,708	–	
						–	119,323	119,323	–	
	Subtotal – Child Health and Human Development Extramural Research									
National Institute on Aging	Aging Research	93.866				1,236,137	–	1,236,137	171,236	
	Aging Research	93.866	University of Wyoming	1004352A-TBRI		–	184,303	184,303	–	
	Aging Research	93.866	Trinity University	NIH20009		–	35,834	35,834	–	
	Aging Research	93.866	Trinity University	NIH20009 / 04767		–	24,573	24,573	–	
	Aging Research	93.866	The University of Texas Health Science Center at San Antonio	171391/171390		–	6,373	6,373	–	
	Aging Research	93.866	The University of Texas Health Science Center at San Antonio	173240/173236		–	7,025	7,025	–	
	Aging Research	93.866	The University of Texas Health Science Center at Houston	SA0002975		–	47,350	47,350	–	
		Subtotal – Aging Research					1,236,137	305,458	1,541,595	171,236
							31,761,935	8,516,324	40,278,259	2,792,117
TOTAL – National Institutes of Health						31,766,852	10,034,597	41,801,449	2,792,117	
TOTAL – U.S. Department of Health and Human Services						32,027,213	12,558,927	44,586,140	2,792,117	
TOTAL – RESEARCH AND DEVELOPMENT CLUSTER										
Economic Development Cluster										
U.S. Department of Commerce										
Economic Development Administration	Economic Adjustment Assistance	11.307	Economic Development Administration			4,000,000	–	4,000,000	–	
TOTAL – Economic Development Administration						4,000,000	–	4,000,000	–	
TOTAL – U.S. Department of Commerce						4,000,000	–	4,000,000	–	
TOTAL – ECONOMIC DEVELOPMENT CLUSTER						4,000,000	–	4,000,000	–	
TOTAL – EXPENDITURES OF FEDERAL AWARDS						\$ 36,027,213	\$ 12,558,927	\$ 48,586,140	\$ 2,792,117	

See accompanying notes to the schedule of expenditures of federal awards.

Texas Biomedical Research Institute

Notes to Schedule of Expenditures of Federal Awards

December 31, 2023

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, 2023. 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	\$ 69,259,423
Less amounts not subject to Uniform Guidance	(20,781,246)
Plus subrecipient accruals – 2022	349,325
Less subrecipient accruals – 2023	(241,362)
Total federal award expenditures	<u>\$ 48,586,140</u>

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs

Year Ended December 31, 2023

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 programs:

Material weakness(es) identified?

 X Yes

 No

Significant deficiency(ies) identified?

 X Yes

 None reported

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

Unmodified, except for Assistance
Listing Number 11.307 Economic
Development Cluster, which is
Qualified

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

 X Yes

 No

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

Section I – Summary of Auditor’s Results (continued)

Identification of Major Federal Programs

Assistance Listing Number(s)	Name of Federal Program or Cluster
10.001, 12.351, 12.420, 12.RD, 93.113, 93.143, 93.242, 93.279, 93.283, 93.286, 93.350, 93.351, 93.352, 93.360, 93.838, 93.839, 93.847, 93.853, 93.855, 93.859, 93.865, 93.866, 93.RD	Research and Development Cluster
11.307	Economic Development Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$1,457,584</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

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 2023-001 – Cash Management – Pass-Through Entities

Identification of the federal program **U.S. Department of Health and Human Services**
 Research and Development Cluster
 All Assistance Listing Numbers with amounts provided to subrecipients:
 93.242 – Mental Health Research Grants
 93.279 – Drug Abuse and Addiction Research Programs
 93.351 – Research Infrastructure Programs
 93.838 – Lung Diseases Research
 93.855 – Allergy and Infectious Diseases Research
 93.866 – Aging Research

Federal Award Numbers	Award Period
R01MH116844-05	2/1/2022-1/31/2024
1R01MH130193-01	4/5/2022-2/28/2023
5R01MH130193-02	3/1/2023-2/29/2024
5R01DA052845-03	7/1/2022-6/30/2023
5R01DA052845-04	7/1/2023-6/30/2024
5P51OD011133-24	5/1/2022-4/30/2023
5P51OD011133-25	5/1/2023-4/30/2024
7R01HL145411-05	1/1/2023-12/31/2024
2R01AI048071-21	12/1/2022-11/30/2023
5R01AI133749-05	7/1/2021-6/30/2023
5R01AI138587-05	5/1/2022-4/30/2024
5R01AI136831-04	8/1/2022-7/31/2024
5R21AI150445-02	2/1/2021-1/31/2024
7R01AI134245-05	9/1/2021-4/30/2022
5R01AI134245-06	2/1/2022-4/30/2023
5R01AI134245-07	5/1/2023-4/30/2025
1P30AI168439-01	3/10/2022-2/28/2023
5P30AI168439-02	3/1/2023-2/29/2024
1R61AI169026-01	5/10/2022-4/30/2023
5R61AI169026-02	5/1/2023-4/30/2024
1R56AI174877-01	4/1/2023-3/31/2025

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-001 – Cash Management – Pass-Through Entities (continued)

Identification of the federal program (continued)	Federal Award Numbers	Award Period
	1R01AI176309-01	4/1/2023-3/31/2024
	5U34AG068482-03	6/1/2022-5/31/2024
	5R01AG065546-03	6/1/2022-5/31/2023
	5R01AG065546-04	6/1/2023-5/31/2024
	1R56AG073316-01	9/1/2021-8/31/2023
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).”	

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-001 – Cash Management – Pass-Through Entities (continued)

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

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.”

Condition

Texas Biomed Research Institute (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. In 5 instances, Texas Biomed paid subrecipients after 30 days of receipt of the request for reimbursement from the subrecipient, resulting in noncompliance with 2 CFR 200.305(b)(3).

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-001 – Cash Management – Pass-Through Entities (continued)

Cause	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.
Effect or potential effect	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.
Questioned costs	None.
Context	For 5 of 30 subrecipient payments, Texas Biomed made payments to subrecipients at dates ranging from 40 to 132 days (40, 41, 71, 110 and 132 days) after receipt of the requests for reimbursement. These payments were not made in accordance with the 30-day requirement (2R01AI048071-21, P51OD011133-24, 5U34AG068482-03, 1P30AI168439-01 and 1R61AI169026-01). Texas Biomed’s subrecipient expenditures totaled \$2.8 million during the period, which represented 6.3% of Texas Biomed’s total research and development expenditures of \$44.6 million.
Identification as a repeat finding, if applicable	This is a repeat finding – Finding 2022-001.
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	Management agrees with the finding and will implement corrective action to implement controls to ensure payments to subrecipients are made timely.

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-002 – Procurement and Suspension and Debarment

Identification of the federal program	U.S. Department of Health and Human Services Research and Development Cluster Assistance Listing Numbers: 93.351 – Research Infrastructure Programs 93.855 – Allergy and Infectious Diseases Research 93.855 – COVID-19 Allergy and Infectious Diseases Research 93.RD – NIAID Centers of Excellence for Influenza Research and Response		
	Federal Award Numbers	Award Period	Pass-Through Entity, if Applicable
	75N93021C00014	9/1/2021-8/31/2024	Icahn School of Medicine at Mount Sinai
	1U19AI171403-01	5/16/2022-4/30/2025	Emory University
	1U19AI171443-01	5/16/2022-4/30/2023	The Scripps Research Institute
	1U19AI171110-01	5/16/2022-4/30/2023	University of California at San Francisco
	5R01AI134240-05	7/1/2022-6/30/2024	N/A
	5R01AI134245-07	5/1/2023-4/30/2025	N/A
	5R01AI170197-02	2/1/2023-1/31/2024	N/A
	5P51OD011133-25	5/1/2023-4/30/2024	N/A
	1R21AI170148-01	8/18/2022-7/31/2023	N/A

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-002 – Procurement and Suspension and Debarment (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 200.318 (i) General Procurement Standards states, “the non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to, the following: Rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.”

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-002 – Procurement and Suspension and Debarment (continued)

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

2 CFR 200.320 – Methods of procurement to be followed states, “the non-Federal entity must have and use documented procurement procedures, consistent with the standards of this section and 200.317, 200.318, and 200.319 for any of the following methods of procurement used for the acquisition of property or services required under a Federal award or sub-award: (a) (2) Small purchases – (i) Small purchase procedures. The acquisition of property or services, the aggregate dollar amount of which is higher than the micro-purchase threshold but does not exceed the simplified acquisition threshold. If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources as determined appropriate by the non-Federal entity; (c) Noncompetitive procurement. There are specific circumstances in which noncompetitive procurement can be used. Noncompetitive procurement can only be awarded if one or more of the following circumstances apply: (1) The acquisition of property or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold; (2) The item is available only from a single source; (3) The public exigency or emergency for the requirement will not permit a delay resulting from publicizing a competitive solicitation; (4) The Federal awarding agency or pass-through entity expressly authorizes a noncompetitive procurement in response to a written request from the non-Federal entity; or (5) After solicitation of a number of sources, competition is determined inadequate.”

Condition

Texas Biomed did not maintain records for procurements sufficient to detail the history of procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-002 – Procurement and Suspension and Debarment (continued)

Cause	Texas Biomed did not have effective internal controls and procedures in place to ensure Texas Biomed maintained records for procurements sufficient to detail the history of procurement, including the rationale for the method of procurement and other required elements.
Effect or potential effect	Texas Biomed did not comply with the general procurement standards and methods of procurement to be followed per the Uniform Guidance to maintain sufficient detail of the history of the procurement, including the rationale of the method of procurement.
Questioned costs	<p>\$94,637 in total as follows:</p> <p>\$27,795 – Assistance Listing Number 93.351, Award Identification Number – 5P51OD011133-25</p> <p>\$7,727 – Assistance Listing Number 93.855 (COVID-19), Award Identification Number – 1U19AI171443-01</p> <p>\$3,863 – Assistance Listing Number 93.855 (COVID-19), Award Identification Number – 1U19AI171403-01</p> <p>\$3,863 – Assistance Listing Number 93.855 (COVID-19), Award Identification Number – 1U19AI171110-01</p> <p>\$1,909 – Assistance Listing Number 93.855, Award Identification Number – 5R01AI134240-05</p> <p>\$2,520 – Assistance Listing Number 93.855, Award Identification Number – 5R01AI134245-07</p>

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-002 – Procurement and Suspension and Debarment (continued)

Questioned costs (continued) \$18,404 – Assistance Listing Number 93.855 (COVID-19), Award Identification Number – 5R01AI170197-02

\$24,693 – Assistance Listing Number 93.855, Award Identification Number – 1R21AI170148-01

\$3,863 – Assistance Listing Number 93.RD NIAID Centers of Excellence for Influenza Research and Response, Award Identification Number – 75N93021C00014

Questioned costs were computed by using the total small purchase procurements that were not supported by adequate documentation regarding the history of the procurement, including the rationale of the procurement.

Context EY selected and tested 15 procurements over \$10,000 with expenditures totaling \$3,304,871 from a population of 86 procurements over \$10,000 with expenditures totaling \$5,901,397 charged to the Research and Development cluster during the year ended December 31, 2023.

For 4 procurements with expenditures in the amounts of \$12,715, \$10,119, \$27,795, and \$24,693, Texas Biomed did not obtain quotes or document sole source justification or the history of the procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

For 1 procurement with expenditures in the amount of \$19,315, Texas Biomed did not adequately document the history of the procurement, specifically the reason for the contractor selection, since the contractor selected did not provide the lowest quote.

We consider the expenditures related to these procurements to be questioned costs due to lack of required supporting documentation for the procurements, as noted above.

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-002 – Procurement and Suspension and Debarment (continued)

Identification as a repeat finding, if applicable	This is not a repeat finding.
Recommendation	Texas Biomed should retain written documentation for procurements, documenting the history of the procurement prior to the procurement of goods or services including, but not limited to, the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
Views of responsible officials	Management agrees with the finding and will implement corrective action to ensure controls are in place to retain the required written documentation for procurements.

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-003 – Special Tests and Provisions – Wage Rate Requirements

Identification of the federal program	U.S. Department of Commerce Economic Development Cluster Assistance Listing Number 11.307 Economic Adjustment Assistance Federal Award Number – 08-79-05441 Award Period – 7/12/2021 – 7/11/2026
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).”

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-003 – Special Tests and Provisions – Wage Rate Requirements (continued)

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

Per the May 2023 OMB Compliance Supplement, “All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 3141–3144, 3146, and 3147. Nonfederal entities shall include in their construction contracts subject to the Wage Rate Requirements (which still may be referenced as the Davis-Bacon Act) a provision that the contractor or subcontractor comply with those requirements and the DOL regulations (29 CFR Part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the nonfederal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6; the A-102 Common Rule (section 36(i)(5)); OMB Circular A-110 (2 CFR Part 215, Appendix A, Contract Provisions); 2 CFR Part 176, Subpart C; and 2 CFR section 200.326). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (OMB No. 1235-0008).”

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-003 – Special Tests and Provisions – Wage Rate Requirements (continued)

Condition	Texas Biomed did not obtain the required weekly certified payrolls from contractors and subcontractors for each week in which work was performed. Texas Biomed did not include the required provision that the contractor or subcontractor comply with the wage rate requirements in 1 of 5 selected construction contracts.
Cause	Texas Biomed did not have effective internal controls and procedures in place to ensure Texas Biomed complied with wage rate requirements.
Effect or potential effect	Texas Biomed did not comply with the wage rate requirements noted above. As a result, Texas Biomed did not have the ability to review required certified payroll reports to ensure contractors and subcontractors are paying prevailing wage rates.
Questioned costs	None.
Context	<p>EY selected and tested 5 of 28 contractors and subcontractors in relation to the Economic Development Cluster.</p> <p>For 3 contractors/subcontractors, Texas Biomed did not obtain certified payrolls. For 2 contractors/subcontractors, Texas Biomed obtained minimal certified payrolls which did not cover the period in which work was performed.</p> <p>Texas Biomed did not include the required provision that the contractor or subcontractor comply with the wage rate requirements in 1 of 5 selected construction contracts.</p> <p>All of the expenditures for the Economic Development Cluster were for construction costs, including the \$4,000,000 federal grant and Texas Biomed's \$6,000,000 match.</p>
Identification as a repeat finding, if applicable	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 2023-003 – Special Tests and Provisions – Wage Rate Requirements (continued)

Recommendation	We recommend Texas Biomed design and implement internal controls to ensure weekly certified payrolls are obtained from contractors and subcontractors and the required wage rate provisions are included in contracts for federally funded construction grants, as required.
Views of responsible officials	Management agrees with the finding and will implement controls to ensure compliance with Wage Rate Requirements.

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-004 – Reporting

Identification of the federal program	U.S. Department of Commerce Economic Development Cluster Assistance Listing Number 11.307 Economic Adjustment Assistance Federal Award Number – 08-79-05441 Award Period – 7/12/2021 – 7/11/2026
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).”
Criteria or specific requirement (including statutory, regulatory, or other citation) (continued)	According to the Economic Development Administration (EDA) Reporting Requirements document provided by Texas Biomed, “The Recipient shall submit a Quarterly Progress Report on a quarterly basis for the periods ending March 31, June 30, September 30, and December 31, or any portion thereof. Each Quarterly Progress Report must be submitted in accordance with the deadlines outlined in the specific award conditions, or, where not otherwise specified, Quarterly Progress Reports will be due on a quarterly basis not later than January 31, April 30, July 31, and October 31 for the immediate previous quarter.”

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

Finding 2023-004 – Reporting (continued)

Condition	Texas Biomed submitted 2 of 3 quarterly progress reports to EDA after the due dates.		
Cause	Texas Biomed did not have effective internal controls and procedures in place to ensure Texas Biomed submitted quarterly progress reports by the due dates.		
Effect or potential effect	Texas Biomed did not comply with progress reporting due dates.		
Questioned costs	None.		
Context	EY selected and tested all 3 quarterly progress reports submitted to EDA during the year. 2 quarterly progress reports were submitted late, as follows:		
	Quarterly Report	Due Date	Date Submitted
	Quarter Ended 3/31/2023	4/30/2023	6/26/2023
	Quarter Ended 6/30/2023	7/31/2023	8/7/2023
Identification as a repeat finding, if applicable	This is not a repeat finding.		
Recommendation	We recommend Texas Biomed design and implement internal controls to ensure progress reports are submitted by the required due dates.		
Views of responsible officials	Management agrees with the finding and will implement corrective action to ensure reports are submitted timely.		

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Summary Schedule of Prior Audit Findings

Year Ended December 31, 2023

2022

Finding 2022-001 – Subrecipient Monitoring

Condition: 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.

Status: Resolved in 2023.

Finding 2022-002 – Cash Management – Pass-Through Entities

Condition: 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).

Status: In-progress. See finding 2023-001.

2021

There were no findings in 2021.



Corrective Action Plan

Year Ended December 31, 2023

Finding 2023-001 – Cash Management – Pass-Through Entities

Condition: Texas Biomed Research Institute (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. In 5 instances, Texas Biomed paid subrecipients after 30 days of receipt of the request for reimbursement from the subrecipient, resulting in noncompliance with 2 CFR 200.305(b)(3).

Corrective Action Plan: Effective June 1, 2023 Texas Biomed implemented enhanced controls to ensure timely entry of subrecipient invoices into the financial system and timely approvals by Principal Investigators (PIs) of invoices. While these controls were operating effectively after the implementation date, turnover within the Accounts Payable team had not been anticipated and led to delayed payment processing.

In mid-2024, Texas Biomed implemented a new electronic AP/invoice system as part of a comprehensive Enterprise Resource Planning system (and associated supporting systems) conversion to enhance efficiencies and functionality. With implementation of new systems, control enhancements enabled by the systems were implemented. This included setting up subawards as Purchase Orders, which enabled automation of a previously manual process to secure PI approval of invoices. Accounts Payable staff have been trained on how to properly enter subaward invoices into the system to trigger electronic routing to the PI for approval. While these steps will streamline the approval process, a further mitigating control will be implemented, with Accounts Payable staff periodically tracking approvals of pending subrecipient invoices and notifying the appropriate Sponsored Program Administrator for follow up with PIs in the event of delayed approvals.

Responsible Parties: Eva Zepeda, Director, Finance; Michelle Hyde, Controller

Completion Date: September 30, 2024



Finding 2023-002 – Procurement and Suspension and Debarment

Condition: Texas Biomed did not maintain records for procurements sufficient to detail the history of procurement, including the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

Corrective Action Plan: Texas Biomed has detailed procurement policies in place that outline requirements relative to expenditures on federal awards. Historically, training of new employees in Purchasing and employees in other departments with purchasing-related responsibilities was provided periodically. Turnover in 2023 affecting the Purchasing department led to a failure to ensure adequate training was provided such that compliance responsibilities were clearly understood.

With the implementation of a new P2P system in Q3 2024, training has been updated for the new system and will incorporate reminders of compliance requirements for federal awards. Separate trainings are planned for September 2024 for Purchasing staff and for staff in other departments involved in the purchasing process. Training will include requirements to obtain and document multiple quotes for purchases over \$10,000 and to document sole source justification when there are no other viable suppliers for a purchase. Purchasing staff will review requisitions to ensure the appropriate documentation is saved with the Purchase Order in the purchasing system. Any new employees or temporary workers in the Purchasing department will be trained on the requirements before they are allowed to begin processing purchase requisitions.

Responsible Parties: Eva Zepeda, Director, Finance; Patricia Thompson, Assistant Director, Materials Management

Completion Date: September 30, 2024



Finding 2023-003 – Special Tests and Provisions – Wage Rate Requirements

Condition: Texas Biomed did not obtain the required weekly certified payrolls from contractors and subcontractors for each week in which work was performed. Texas Biomed did not include the required provision that the contractor or subcontractor comply with the wage rate requirements in 1 of 5 selected construction contracts.

Corrective Action Plan: The award subject to this finding was a novel award for Texas Biomed and, therefore, controls relative to the wage rate requirements were not in place. Texas Biomed relied on the general contractor awarded the construction project to facilitate compliance with the special tests and provisions; however, failed to validate that certified payrolls were provided as required. Texas Biomed has since implemented enhanced procedures and controls.

Purchasing will ensure contracts subject to Davis Bacon Act requirements will clearly outline the responsibilities of the general contractor, as well as requiring flow down to subcontractors. For the Animal Care Complex project partially funded by the EDA award, Purchasing will request certified payrolls dating back to the start of the project from the contractor and subcontractors. Certified Payrolls will only be accepted via DOL form WH347.

Texas Biomed has engaged an external project management firm to support extensive new construction underway or soon to commence on Texas Biomed's campus. The consultant, as part of the scope of their engagement, will serve as the first reviewer of invoices and pay apps, and payment requests will not progress without their approval. The review will include verification of inclusion of necessary certified payrolls. Documentation will be saved in a shared Dropbox folder, where Texas Biomed Facilities personnel will review and sign off on the cover letter from the consultant, verifying Texas Biomed's review of the necessary certified payrolls at that time. When the pay app is entered by Texas Biomed Accounts Payable in the automated system for invoice payment, the payment request will automatically route to a designated Texas Biomed Facilities staff member. This second staff member will provide a final review of the certified payrolls as a condition for approving the invoice for payment. Both Facilities staff members will have access to the certified payrolls and approval at each step will signify the necessary documentation has been received. If there is a lack of proper documentation, Facilities personnel will alert Accounts Payable of the reason for delay. Facilities personnel will follow up with the project management consultant and contractor to request additional backup when necessary.

Bruce Edwards

Executive Vice President for Finance & Administration, CFO

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**TEXAS BIOMEDICAL
RESEARCH INSTITUTE**

Responsible Parties: Amber Garcia, Facilities Operations Coordinator; Mike Merz, Principal Engineer; Patricia Thompson, Assistant Director, Materials Management

Completion Date: December 31, 2024



Finding 2023-004 – Reporting

Condition: Texas Biomed submitted 2 of 3 quarterly progress reports to EDA after the due dates.

Corrective Action Plan: Texas Biomed agrees with late progress report submissions, though did obtain a letter from the EDA Project Manager confirming the EDA reviewed and accepted all required 2023 progress reports and that Texas Biomed was compliant with all reporting requirements in 2023.

The late progress report submissions were a result of the consecutive departure of two senior Sponsored Program Administrators in early 2023 that had been assigned responsibility of submitting the EDA project deliverables. Their consecutive departure left a gap in oversight of the deliverable submission due to the manual tracking of such.

As of June 2024, the EDA has implemented an online award management portal, EDGE, that sends automated notices/reminders in advance of reporting deliverable due dates, as well as past due notices for unsubmitted deliverables. Multiple Texas Biomed administrators have been assigned points of contact and recipients of these notices from EDGE. The points of contact include, Director, Assistant Director, and a post-award administrator in Sponsored Programs Administration (SPA), in addition to the Controller in the department of Finance. Additionally, the post-award administrator assigned to the EDA project(s) will add an Outlook calendar reminder/due date for deliverables that will include the Project Director, Assistant Director (SPA) and themselves to provide ample notice for preparation and submission of deliverables in a timely manner.

Responsible Parties: Eduardo Meza, Director, Sponsored Programs Administration; Pamela Futch, Assistant Director, Post-Award, Sponsored Programs Administration

Completion Date: September 30, 2024