

TEXAS A&M RESEARCH FOUNDATION

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INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

AND

COMPLIANCE REPORTS

AUGUST 31, 2020

TEXAS A&M RESEARCH FOUNDATION
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Ingram, Wallis & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Texas A&M Research Foundation
College Station, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Texas A&M Research Foundation (the "Foundation"), which comprise the statement of net position as of August 31, 2020, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of August 31, 2020, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2020, on our consideration of the Foundation'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 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 Foundation'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 the Foundation's internal control over financial reporting and compliance.

Ongem, Wallis, Company

Bryan, Texas
December 10, 2020

TEXAS A&M RESEARCH FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED AUGUST 31, 2020

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Texas A&M Research Foundation (the Foundation) for the year ended August 31, 2020. The discussion has been prepared by management and should be read in conjunction with the financial statements and notes which follow this section.

The Foundation is a nonprofit scientific research corporation organized to support and advance the research mission of the Texas A&M University System (the System), of which it is a blended component unit for reporting purposes. To enhance this mission, the Foundation pursues opportunities in the areas of grants and contracts when a nonprofit organization is needed and complements the System's teaching, research, and public service goals.

Using the Financial Statements

The Foundation's financial report includes three statements: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) principles. GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a consolidated basis to focus on the reporting entity as a whole, with resources classified for accounting and reporting purposes into the following net position categories:

- Invested in capital assets, net of related debt
- Restricted- non-expendable
- Restricted- expendable
- Unrestricted

Statement of Net Position

The statement of net position presents a snapshot of the financial position at the end of the fiscal year and includes all assets and liabilities of the Foundation. The Statement of Net Position assets and liabilities are presented in the current and non-current format. The difference between the total assets and total liabilities is the net position and is one indicator of the overall condition of the Foundation's financial health. The statement provides a picture of net position and the availability of funds for use by the Foundation.

Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical costs less an allowance for depreciation. For the purpose of distinguishing between current and noncurrent assets and liabilities, current assets and liabilities are those that can be reasonably expected to either generate or use cash, as part of normal business operations, within one year of the financial statement date.

**TEXAS A&M RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2020**

Net position is divided into three major categories. The first category, Net Investment in Capital Assets, provides the equity in property, plant and equipment owned by the Foundation.

The second category, Restricted, is divided into two categories, expendable and non-expendable. Expendable restricted resources are available for use by the Foundation, but must be spent for purposes determined by donors that have placed purpose restrictions on the use of the assets. The corpus of the non-expendable restricted resources is available for investment purposes and the earnings are used to support the designated programs.

The third category, Unrestricted, is available for any lawful purpose. Although Unrestricted Net Position is not subject to externally imposed stipulations, it has been internally designated for initiatives set by the Foundation's management.

A summary of the Foundation's assets, liabilities, and net position at August 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Current Assets	\$ 3,889,426.83	\$ 3,569,998.50
Non Current Assets		
Investments	135,073.64	153,588.63
Assets Held By System Office	8,568,704.17	8,029,579.11
Capital Assets, Net	<u>3,917,702.49</u>	<u>4,268,547.11</u>
Total Assets	<u>16,510,907.13</u>	<u>16,021,713.35</u>
Current Liabilities	<u>5,568,932.32</u>	<u>4,695,515.60</u>
Net Position		
Net Investment in Capital Assets	3,917,702.49	4,268,547.11
Restricted		
Expendable	530,936.63	1,252,089.66
Non-expendable	130,736.45	145,656.69
Unrestricted	<u>6,362,599.24</u>	<u>5,659,904.29</u>
Total Net Position	<u>\$ 10,941,974.81</u>	<u>\$ 11,326,197.75</u>

Total assets increased by \$489,194 or 3% during fiscal year 2020. The increase in total assets in 2020 is primarily due to the increase in unbilled receivables of \$287,493 which is attributable to the increased accounts payable accrual for research expenditures. In addition, there was an increase in Assets Held By System Office of \$539,125 attributable to an unrealized gain in the investment portfolio. The increases were offset by a decrease in capital assets of \$350,845 as the Foundation continues its property removal efforts.

TEXAS A&M RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2020

Total liabilities of \$5.6 million increased \$873,417 or 19% during fiscal year 2020. Current liabilities include accounts payable of \$355,790, amounts due to TAMU System members of \$4.3 million, unearned revenue of \$453,836, and other liabilities of \$423,307. The increase at August 31, 2020 is attributable to a increase in amounts due to TAMU System members due to increased payroll payable on research projects.

Current unearned revenues represent unexpended cash advances received for sponsored programs.

Net position decreased by approximately \$384,223 or 3%, during fiscal year 2020 due to the decrease in revenue from sponsored activity as well as decreased net investment in capital assets.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the Foundation's results of operations. The purpose of this statement is to present the revenues of the Foundation, and the expenses incurred by the Foundation, both operating and nonoperating, and any other revenues and expenses, gains and losses received or spent. The change in total net position as presented on the Statement of Net Position is a result of these activities. A summary of the Foundation's revenues, expenses, and changes in net position for the years ended August 31, 2020 and 2019 is as follows:

**TEXAS A&M RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2020**

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Other Sales of Goods and Services	\$ (55,047.66)	\$ (4,162.74)
Grants and Contracts	61,695,666.81	64,716,591.13
Other Operating Revenue	1,956.07	13,628.60
Total Operating Revenues	<u>61,642,575.22</u>	<u>64,726,056.99</u>
Operating Expenses	<u>63,021,238.80</u>	<u>66,886,805.10</u>
Operating Loss	(1,378,663.58)	(2,160,748.11)
Non-operating Revenues (Expenses)		
Investment Income, Net	1,036,244.28	254,079.05
Interest Expense	(1,621.38)	(21,156.69)
Gain On Sale or Disposal of Capital Assets	21,981.20	6,196.43
Settlement of Claims	0.00	(70,000.00)
Non-operating Expenses, Net	(62,163.46)	(117,802.59)
Total Non-operating Revenues (Expenses)	<u>994,440.64</u>	<u>51,316.20</u>
Change in Net Position	<u>(384,222.94)</u>	<u>(2,109,431.91)</u>
Net Position at Beginning of Year	<u>11,326,197.75</u>	<u>13,435,629.66</u>
Net Position at End of Year	<u>\$ 10,941,974.81</u>	<u>\$ 11,326,197.75</u>

During fiscal year 2020, total operating revenues of \$62 million were received for contracts and grants. This is a decrease of approximately \$3 million from fiscal year 2019. The contracts and grants include federally sponsored contracts and grants. For fiscal year 2020, \$61.4 million was received from federal grants and contracts compared to \$64.4 million for fiscal year 2019. This is a decrease of \$3 million. The decrease is a direct result of management's policy to use the Foundation only for contracts and grants requiring a nonprofit organization receive and manage the award and reduced activity on the International Ocean Discovery Program due to the global pandemic, COVID-19.

The operating loss is affected by Foundation program activities, which are allowed to use balances from prior years. Expenditures in the current year may be more or less than revenues recorded in the same year.

During fiscal year 2020, total nonoperating revenues (expenses) increased approximately \$943,124 due to an increase in investment income and increased gain on sale of capital assets.

Investment income, net of fees, consists of a change in the fair market value of investments, including interest, dividends, and realized and unrealized gains and losses of approximately \$1 million in 2020. This is a increase of approximately \$782,165 when compared to fiscal year 2019. The increase is a result of favorable market conditions.

**TEXAS A&M RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2020**

In fiscal year 2020, operating expenses consists of supplies, services and other operating expenses of \$61.7 million and depreciation expense of \$1.3 million. This represents a decrease of \$3.8 million from fiscal year 2019 where \$65.3 million of supplies, services and other operating expenses and \$1.5 million in depreciation expense were incurred. The decrease in expenses for supplies, services and other operating is a direct result of the decrease in research grant and contract activity caused by the global pandemic. The decrease of approximately \$231,000 in depreciation expense is due to property disposals as well as a large number of assets becoming fully depreciated during the fiscal year.

In addition to their natural classifications, it is also informative to review operating expenses by function. A summary of the Foundation's expenses by functional classification for the years ended August 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Operating Expenses		
Research	\$ 60,904,418.56	\$ 63,967,295.43
Public Service	448,229.40	442,054.78
Student Services	-	(2,276.81)
Institutional Support	359,929.66	940,190.24
Depreciation/Amortization	1,308,661.18	1,539,541.46
Total Operating Expenses	<u>\$ 63,021,238.80</u>	<u>\$ 66,886,805.10</u>

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. This statement presents detailed information on the cash activity during the year. The first section presents operating cash flows and the net cash provided (used) by operating activities. The next section presents the results of non-capital financing activities. The capital and related financing activities section includes cash used for acquisition and construction of capital assets. The investing activities section reports purchases, proceeds, and earnings from investments. The final section is a reconciliation of net cash from operations to operating income (loss).

The statement of cash flows provides additional information on the Foundation's financial results by reporting the major sources and uses of cash. A summary of the statement of cash flows for the years ended August 31, 2020 and 2019 is as follows:

**TEXAS A&M RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2020**

	<u>2020</u>	<u>2019</u>
Cash received from operations	\$ 60,860,059.85	\$ 66,504,887.90
Cash expended from operations	<u>(60,327,276.95)</u>	<u>(65,734,330.27)</u>
Net cash provided by operating activities	532,782.90	770,557.63
Net cash used by non-capital financing activities	(1,621.38)	(567,848.75)
Net cash provided (used) in capital and related financing activities	(997,998.82)	(598,691.38)
Net cash provided by investing activities	<u>445,821.82</u>	<u>533,282.31</u>
Net change in cash and cash equivalents	(21,015.48)	137,299.81
Cash and cash equivalents at beginning of year	<u>2,166,328.24</u>	<u>2,029,028.43</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,145,312.76</u></u>	<u><u>\$ 2,166,328.24</u></u>

During fiscal year 2020, the cash position decreased \$21,015 thus remaining relatively static.

Capital Assets

At August 31, 2020, the Foundation had \$22 million invested in capital assets, net of accumulated depreciation of \$18 million.

At August 31, 2019, the Foundation had \$23 million invested in capital assets, net of accumulated depreciation of \$19 million.

Depreciation expense for the year ended August 31, 2020 and 2019 totaled \$1.3 million and \$1.5 million, respectively. A summary of capital assets, net of accumulated depreciation at fiscal year end is as follows:

	<u>2020</u>	<u>2019</u>
Building and Building Improvements	\$ 1,879,982.86	\$ 1,879,982.86
Facilities and Other Improvements	290,579.76	290,579.76
Furniture and Equipment	19,244,532.59	20,585,336.33
Vehicles, Boats and Aircraft	124,309.66	74,250.16
Computer Software	<u>5,000.00</u>	<u>5,000.00</u>
	21,544,404.87	22,835,149.11
Less: Accumulation Depreciation and Amortization	<u>(17,709,359.10)</u>	<u>(18,649,258.72)</u>
Land and Land Improvements	<u>82,656.72</u>	<u>82,656.72</u>
	<u><u>\$ 3,917,702.49</u></u>	<u><u>\$ 4,268,547.11</u></u>

Capital assets of \$1.1 million were added in 2020. Asset disposals were \$2.4 million in 2020. The asset disposals are a result of the continued efforts to reduce the footprint of the Foundation within the Texas A&M University System.

TEXAS A&M RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2020

Economic Factors That Will Affect the Future

The primary mission of the Foundation is to support the endeavors of externally sponsored programs as a means of enhancing the academic experience of TAMUS faculty, students, and staff. The Foundation, through the TAMU Office of Sponsored Research, offers a full range of pre- and post- award administrative services to support our externally sponsored programs.

Historically, revenue received for providing these services comprised a significant proportion of the operating revenue. In the spring of 2011 the TAMUS Board of Regents adopted a new structure for managing research administration within TAMUS. The Board of Regents consolidated research administration services and established Texas A&M University System Sponsored Research Services (SRS) for this purpose. Currently, operating revenues are based on the proportion of sponsored activity managed through the Foundation. In fiscal year 2020, there were 3 new grant awards and 1 proposal submitted through the Foundation. Given this number of new awards and proposal submissions, we remain on the path to reduce the footprint of the Foundation to meet the goal set forth by the TAMUS Board of Regents.

The largest project currently managed by the Foundation is the International Ocean Discovery Program (IODP) which receives its funding from the National Science Foundation (NSF). The project received a five year extension of the cooperative agreement on October 1, 2019. This five year extension has an average budget of \$70 million and ends September 2024.

Requests for Information

This financial report is designed to provide a general overview of the Foundation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Texas A&M Research Foundation, 400 Harvey Mitchell Parkway South, Suite 300, College Station, Texas 77845.

TEXAS A&M RESEARCH FOUNDATION
STATEMENT OF NET POSITION
AUGUST 31, 2020

	2020
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 2,145,312.76
Receivables, Net	
Federal	862,255.50
Interest and Dividends	102,160.43
Accounts	276,509.71
Due from TAMU System Members	383,923.56
Other	22,862.48
Other Current Assets	96,402.39
Total Current Assets	3,889,426.83
Non-Current Assets	
Restricted	
Investments	135,073.64
Assets Held By TAMU System Office	8,568,704.17
Capital Assets, Non-Depreciable	
Land and Land Improvements	82,656.72
Capital Assets, Depreciable	
Building and Building Improvements	1,879,982.86
Facilities and Other Improvements	290,579.76
Furniture and Equipment	19,244,532.59
Vehicles, Boats and Aircraft	124,309.66
Intangible Capital Assets, Amortized	
Computer Software	5,000.00
Accumulated Depreciation/Amortization	(17,709,359.10)
Total Non-Current Assets	12,621,480.30
Total Assets	\$ 16,510,907.13
Liabilities	
Current Liabilities	
Payables	
Accounts	\$ 355,789.59
Due to TAMU System Members	4,335,999.22
Unearned Revenue	453,835.57
Other Current Liabilities	423,307.94
Total Current Liabilities	5,568,932.32
Total Liabilities	5,568,932.32
Net Position	
Net Investment in Capital Assets	3,917,702.49
Restricted for Education	526,596.25
Endowment and Permanent Funds	
Nonexpendable	130,736.45
Expendable	4,340.38
Unrestricted	6,362,599.24
Total Net Position	10,941,974.81
Total Liabilities and Net Position	\$ 16,510,907.13

TEXAS A&M RESEARCH FOUNDATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2020

	2020
Operating Revenues	
Other Sales of Goods and Services	\$ (55,047.66)
Federal Revenue-Operating	61,416,414.67
Other Grants and Contracts - Operating	279,252.14
Other Operating Revenue	1,956.07
Total Operating Revenues	61,642,575.22
Operating Expenses	
Research	60,904,418.56
Public Service	448,229.40
Institutional Support	359,929.66
Depreciation/Amortization	1,308,661.18
Total Operating Expenses	63,021,238.80
Total Operating Loss	(1,378,663.58)
Nonoperating Revenues (Expenses)	
Investment Income	1,060,513.49
Investment Activities Expense	(24,269.21)
Interest Expense	(1,621.38)
Gain On Sale or Disposal of Capital Assets	21,981.20
Nonoperating Revenues	115,315.51
Nonoperating Expenses	(177,478.97)
Total Nonoperating Revenues	994,440.64
Change in Net Position	(384,222.94)
Net Position at Beginning of Year	11,326,197.75
Net Position at End of Year	\$ 10,941,974.81

TEXAS A&M RESEARCH FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2020

	2020
Cash Flows from Operating Activities	
Proceeds Received From Customers	\$ 459,775.46
Proceeds from Sponsored Programs	60,398,328.32
Proceeds from Other Operating Revenues	1,956.07
Payments to Suppliers for Goods and Services	(59,830,345.90)
Payments for Other Operating Expenses	(496,931.05)
Net Cash Provided by Operating Activities	532,782.90
Cash Flows from Non-Capital Financing Activities	
Payments of Interest	(1,621.38)
Net Cash Used by Non-Capital Financing Activities	(1,621.38)
Cash Flows from Capital and Related Financing Activities	
Proceeds from Sale of Capital Assets	21,981.20
Payments for Additions to Capital Assets	(1,019,980.02)
Net Cash Used by Capital and Related Financing Activities	(997,998.82)
Cash Flows from Investing Activities	
Proceeds from Sales of Investments	18,514.99
Sales & Purchase of Investments Held by TAMU System	377,181.78
Proceeds from Interest and Investment Income	50,125.05
Net Cash Provided by Investing Activities	445,821.82
Increase in Cash & Cash Equivalents	(21,015.48)
Cash & Cash Equivalents, Beginning of Year	2,166,328.24
Cash & Cash Equivalents, End of Year	\$ 2,145,312.76
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	\$ (1,378,663.58)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities	
Depreciation and Amortization	1,308,661.18
Changes in Assets and Liabilities:	
Accounts Receivable, Net	(210,548.74)
Due from TAMU System Members	(14,357.23)
Prepaid Expenses	(45,725.45)
Payables	(408,585.84)
Due to TAMU System Members	1,208,949.42
Unearned Revenue	83,053.14
Deposits	(10,000.00)
Total Adjustments	1,911,446.48
Net Cash Provided By Operating Activities	\$ 532,782.90
Non-Cash Transactions	
Net Change in Fair Value of Investments	\$ 588,488.27
Other - Gain on Disposal of Capital Assets	21,981.20

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Texas A&M Research Foundation (the Foundation) is a non-profit scientific research corporation organized under the laws of the State of Texas and is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (Code). In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Code.

Basis of Accounting

The financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). The Foundation reports as a Business Type Activity and, accordingly, has reported its activities within a single column in the basic financial statements. The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation is incurred. Operating items are distinguished from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with ongoing operations.

Reporting Entity

The Foundation is included as a blended component unit in the combined financial statements of the Texas A&M University System (TAMUS). This determination is based on the close relationship and joint agreements in effect between the Foundation and the TAMUS in regard to research grant/contract administration. In addition, the Foundation's board structure is solely composed of members from TAMUS.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents. The Foundation maintains cash and cash equivalents for the purpose of meeting short-term disbursement requirements.

Investments

Investments are reported at fair value. Fair value is defined as the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date. Measuring fair value requires gathering information, or inputs, about the asset or liability being measured. The fair value hierarchy categorizes the inputs used to measure fair value into

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2020

three levels. Level 1 inputs are quoted prices in active markets for assets or liabilities identical to the ones being measured, Level 2 inputs are observable for similar assets or liabilities, and Level 3 inputs are unobservable inputs.

The notes to the financial statements disclose the input levels used to determine fair value, and also display the deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Current Assets

On the Statement of Net Position, items classified as current are defined as resources expected to be realized or consumed within one year.

Receivables

Receivable balances are grouped into several receivable categories. Accounts receivable reflects amounts owed for goods and services provided. Federal receivables constitutes the amount due from the federal government for services completed on federally sponsored projects. Receivables from Other System Members represents the amount owed from members of the Texas A&M University System for services provided; these are considered related party transactions. Other receivables include items such as travel advances, returned checks, and various items accrued.

Capital Assets

The Foundation follows the practice of capitalizing all expenditures for property, furniture, fixtures and office equipment in excess of \$5,000. The basis of valuation of purchased items is cost and of contributed items is fair value. Depreciation and amortization of all such items is computed on a straight-line basis over the estimated useful lives of the assets, generally, as follows:

Buildings and improvements	10-30 years
Furniture and equipment	4-15 years
Vehicles	5-10 years
Software	5-6 years

Payables

Payable balances are grouped into various payable categories on the Statement of Net Position. Accounts payable represents the liability for the value of assets or services received, as of the date of the financial statements, for which payment is pending.

Due to TAMU System Members

The balance that is classified as Due to TAMU System Members consists of project payroll, indirect costs earned on sponsored projects, and other reimbursements due to members of the Texas A&M University System for related party transactions.

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AUGUST 31, 2020

Revenues and Expenses

Operating revenues include activities such as fees and most federal, state and local grants and contracts. Operating expenses include professional fees and services and materials and supplies.

Nonoperating revenues include activities such as investment income and other revenue sources that are defined as nonoperating revenues by GASB. Nonoperating expenses include activities such as interest and other expenses.

Unearned Revenue

The Foundation records a receivable when revenue is earned but not collected. Unearned revenue is recognized when cash is received prior to revenue recognition, and is considered a liability.

Net Position

Net Position is the difference between assets and liabilities.

Net Investment in Capital Assets

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization.

Restricted Net Position

Restricted net position results when constraints placed on net resources are either externally imposed by grantors, contributors, and the like. When both restricted and unrestricted assets are available for use, restricted resources are used first, then unrestricted resources are used as needed.

Unrestricted Net Position

Unrestricted net position consists of net resources that do not meet the definition of the two preceding categories. Unrestricted net position often has constraints on resources that are imposed by management but can be removed or modified.

Contributions

The Foundation reports gifts of cash and other assets as restricted if they are received with donor restrictions that limit the use of the donated assets. The Foundation has a restricted endowment that can be used for the benefit of the Foundation.

The Tina and Paul Gardner Reveille VII Research Fund, established to support the Texas A&M Department of Small Animal Clinical Sciences (the Department) in the College of Veterinary Medicine and Biomedical Sciences, currently exceeds \$50,000. Therefore, the income earnings will be distributed to the Department to be used exclusively for supporting proposed or on-going

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2020

research projects by interns and Medicine Section residents. Income earnings are reported as expendable as the funds become available for distribution to the Department. The donor requires the corpus to stay intact and unrealized capital gains to be added to the corpus which is carried as a restricted investment.

Concentration of Credit Risk

A significant amount of the Foundation's receivables are due from the Federal government and agencies thereof. Credit risk is based on the good standing of the Federal government.

NOTE 2 – CAPITAL ASSETS

A summary of changes in Capital Assets for the year ended August 31, 2020 is presented below.

Capital Asset Activity	Beginning Balance	Completed CIP	Additions	Deletions	Ending Balance
Business-Type Activities					
Non-Depreciable/Amortizable Assets					
Land and Land Improvements	\$ 82,656.72	\$ -	\$ -	\$ -	\$ 82,656.72
Total Non-Depreciable Assets	82,656.72	-	-	-	82,656.72
Depreciable Assets					
Buildings and Building Improvements	1,879,982.86	-	-	-	1,879,982.86
Facilities and Other Improvements	290,579.76	-	-	-	290,579.76
Furniture and Equipment	20,585,336.33	-	1,085,236.03	(2,426,039.77)	19,244,532.59
Vehicles, Boats and Aircraft	74,250.16	-	50,059.50	-	124,309.66
Total Depreciable Assets	22,830,149.11	-	1,135,295.53	(2,426,039.77)	21,539,404.87
Less Accumulated Depreciation for					
Buildings and Building Improvements	(1,616,747.07)	-	(20,292.00)	-	(1,637,039.07)
Facilities and Other Improvements	-	-	(14,303.76)	-	(14,303.76)
Furniture and Equipment	(16,994,255.31)	-	(1,254,939.43)	2,248,560.80	(16,000,633.94)
Vehicles, Boats and Aircraft	(33,256.34)	-	(19,125.99)	-	(52,382.33)
Total Accumulated Depreciation	(18,644,258.72)	-	(1,308,661.18)	2,248,560.80	(17,704,359.10)
Depreciable Assets, Net	4,185,890.39	-	(173,365.65)	(177,478.97)	3,835,045.77
Intangible Assets - Amortizable					
Computer Software	5,000.00	-	-	-	5,000.00
Total Intangible Assets - Amortizable	5,000.00	-	-	-	5,000.00
Less Accumulated Amortization					
Computer Software	(5,000.00)	-	-	-	(5,000.00)
Total Accumulated Amortization	(5,000.00)	-	-	-	(5,000.00)
Intangible Amortizable Assets, Net	-	-	-	-	-
Business-Type Activities					
Capital Assets, Net	\$ 4,268,547.11	\$ -	\$ (173,365.65)	\$ (177,478.97)	\$ 3,917,702.49

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2020

NOTE 3 – DEPOSITS AND INVESTMENTS

The Foundation’s investment policy is established by management in association with TAMUS and is designed to maximize the generation of current investment income while maintaining a liquid position through short-term investments. The policy states that funds may be invested in U.S. Government obligations, U.S. Government Agency obligations, other government obligations, corporate obligations, equity, international obligations, international equity, certificates of deposit, banker’s acceptances, negotiable certificates of deposit, money market mutual funds, mutual funds, repurchase agreements, venture capital, private equity, hedge funds, Real Estate Investment Trusts (REITS), securities lending, derivatives, timber, bank loans, energy and real estate.

Deposits of Cash In Bank

As of August 31, 2020, the amount of all cash in local banks, petty cash, and current Cash Concentration Pool (CCP) was \$2,145,312.76. This amount is included on the Statement of Net Position as the “Cash and Cash Equivalents” line item in the current assets section. The following table shows the details of the deposits at August 31, 2020:

Current CCP	\$ 1,436,463.33
Local Bank	698,349.43
Petty Cash	<u>10,500.00</u>
	<u><u>\$ 2,145,312.76</u></u>

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the agency will not be able to cover deposits or will not be able to recover collateral securities that are in possession of an outside party. For the deposits in the local bank, the bank provides a surety bond in the amount of \$12.5 million which covers amounts in excess of FDIC coverage. For deposits that are held in the short term CCP, all balances in excess of the FDIC coverage were fully collateralized by pledged securities held in a separate pool by the pledging financial institution, Bank of New York Mellon.

Investments

The Foundation follows the provisions of GASB No. 72 for fair value measurements of financial assets and financial liabilities and for fair value measurements that are recognized or disclosed at fair value in the financial statements on a recurring basis. GASB No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

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NOTES TO FINANCIAL STATEMENTS – CONTINUED
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- Level 1 has been assigned to investments for which quoted prices (unadjusted) are available for identical assets in active markets on the measurement date. These assets include equities (common stock, listed ADR's and listed preferred stock), exchange traded mutual funds, exchange-traded options, money market funds and U.S. Treasury securities.
- Level 2 has been assigned to investments for which there are inputs, other than quoted prices, that are observable for an asset or liability, either directly or indirectly. These assets include cash equivalents, collateralized mortgage obligations, corporate bonds, mortgage-backed securities, municipal bonds, non-exchange traded options, short-term obligations, U.S. agency securities.
- Level 3 has been assigned to assets for which there are unobservable inputs. Examples of these assets are commingled funds.

The net asset value per share (NAV), or its equivalent, may be used for an investment that does not have a readily determined fair value, provided the NAV is calculated consistent with the Financial Accounting Standards Board's (FASB) measurement principles for investment companies. The NAV is commonly used for certain alternative investments (such as private equity funds and hedge funds). The Foundation invests in certain private investments and limited partnerships including hedge funds, private equity, venture capital, natural resources, energy, and real estate. The fair value of these investments is based on the investment manager determined NAV as allowed by the standard. The valuations at the date provided by the investment managers have been adjusted by rolling forward to August 31, 2020 to include the following events: capital contributions or distributions since the investment manager valuation date reported to the Foundation, changes in the composition of assets or liabilities reported by the investment manager since the valuation date of the NAV, and fair value changes of assets or liabilities reported since the investment manager valuation date. In the case of hedge funds, the Foundation has adjusted the reported July 31, 2020 NAV by the estimated performance as of August 31, 2020 as reported by the investment manager (if available) and by capital inflows and outflows since the investment manager valuation date.

Money market funds that maintain a stable \$1.00 share price are reported at amortized cost.

The following tables display the fair value of investments as of August 31, 2020 as reported in the financial statements and detailed by investment type. The investment type table includes categories to show the level of inputs used in determining the fair value of investments.

Investments per Financial Statements

Statement of Net Position	
Non-Current Restricted Investments	\$ 135,073.64
Assets Held by TAMU System Office	8,568,704.17
Total Investments	<u>\$ 8,703,777.81</u>

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2020

Investment Fair Value

Investment Type	Fair Value Hierarchy					
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Amortized Cost	Net Asset Value	Total Fair Value
Texas A&M University System Investment Pool:						
U.S. Treasury Securities	\$ 457,108.45	\$ -	\$ -	\$ -	\$ -	\$ 457,108.45
U.S. Treasury TIPS	31,048.32	-	-	-	-	31,048.32
U.S. Government Agency Obligations	-	472,464.17	-	-	-	472,464.17
Corporate Obligations	-	775,280.19	32,933.82	-	-	808,214.01
Corporate Asset and Mortgage Backed Securities	-	271,879.10	-	-	-	271,879.10
Equity (Domestic)	1,749,527.42	-	-	-	-	1,749,527.42
International Obligations (Govt and Corp)	-	494,003.61	8,192.80	-	-	502,196.41
International Equity	651,329.77	-	-	-	-	651,329.77
Fixed Income Money Market	156,269.73	-	-	-	-	156,269.73
Other Commingled Funds - Fixed Income	84,316.40	-	41,081.85	-	-	125,398.25
International Other Commingled Funds - Equity	654,572.35	-	377,001.08	-	423,414.12	1,454,987.55
Derivatives	-	136.33	-	-	-	136.33
Alternative Investments						
Hedge Funds (Domestic)	-	-	-	-	973,156.60	973,156.60
Hedge Funds (International)	-	-	-	-	888,107.64	888,107.64
Miscellaneous						
Political Subdivisions	-	20,848.37	-	-	-	20,848.37
Other Investments Held:						
General Electric Common Stock	60,864.00	-	-	-	-	60,864.00
Wabtec Common Stock	3,394.05	-	-	-	-	3,394.05
Mutual Funds	70,815.59	-	-	-	-	70,815.59
	\$ 3,919,246.08	\$ 2,034,611.77	\$ 459,209.55	\$ -	\$ 2,284,678.36	\$ 8,697,745.76
Foreign Currency presented as Cash						\$ 2,755.86
Foreign Currency Held as Collateral						138.95
Receivables						
Cash Due From Broker						1,033.64
Int/Dividends Receivable						19,275.01
Foreign Currency Fluctuations - Receivable						239.63
FFX Contract Receivable						11,422.66
Pending Sale						20,952.14
Treasury Futures						915.51
Payables						
Payables for Manager/Custodian Fees						(4,128.35)
Foreign Currency Fluctuations - Payable						(0.07)
FFX Contract Payable						(11,422.66)
Pending Purchase						(33,798.15)
Investment Derivative (Currency Forward)						(91.25)
Treasury Futures						(405.94)
Short Sell Collateral						(138.95)
Negative Cash						(676.70)
Foreign Taxes in Interest and Dividends						(38.39)
Rounding due to allocation						(0.89)
Total Investments						\$ 8,703,777.81

Investments Reported at Net Asset Value (NAV)

Investment Strategy	Fair Value	Redemption				Unfunded Commitment
		Frequency Range Low	Frequency Range High	Notice Period Range Low	Notice Period Range High	
Commingled Funds-International Equity	\$ 423,414.12	Monthly	Monthly	3 days	10 days	\$ -
Hedge Funds (Domestic)	973,156.60	Quarterly	Semi-annually	65 days	2 years	-
Hedge Funds (International)	888,107.64	Quarterly	Semi-annually	65 days	2 years	-
Total	\$ 2,284,678.36					\$ -

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NOTES TO FINANCIAL STATEMENTS – CONTINUED
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Of the total Hedge Fund, \$60,110.39 is invested in an illiquid fund not eligible for redemption, the Frequency and Notice Period ranges for this portion of the Hedge Fund are N/A. The unfunded commitment relates to illiquid portion of the Hedge Fund.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investment policy requires that direct repurchase agreements and security lending transactions be fully collateralized by obligations authorized under the investment policy and such collateral be held by a third party. There was no custodial credit risk related to securities lending or repurchase agreements as of August 31, 2020. The Foundation did not participate in a securities lending program or repurchase agreements during fiscal year 2020.

Foreign investments are administered in book entry form by the TAMUS custodian, Bank of New York (BNY) Mellon Asset Servicing, through a network of international securities depositories and subcustodians. Non-U.S. securities held at international securities depositories are processed through these entities (Euroclear and Clearstream). Securities held at local non-U.S. market depositories are processed through BNY Mellon's subcustodian network. Subcustodians settle transactions based on instructions from BNY Mellon Asset Servicing. BNY Mellon Asset Servicing settles transactions directly in the U.K., the U.S., Germany, the Netherlands, Ireland, Italy, Belgium, the Cayman Islands and the Channel Islands. Funds are received upon the delivery of securities in connection with sale transactions and funds are paid in connection with purchase transactions upon receipt of the securities, unless contrary to market practice or client instruction. In the event that funds are not received or delivered on the settlement date, the settlement "fails." Failed trades are monitored daily, weekly, or monthly (as appropriate) via the applicable custody system to help facilitate resolution in a timely manner. On a daily basis, the subcustodians send a confirmation of settlement to the custodian which is reconciled to the custody system. Subcustodians are evaluated by the custodian prior to selection and reviewed throughout the year to ensure overall service performance is maintained and verify compliance with various regulatory requirements. Subcustodians must meet high standards and have stringent controls. BNY Mellon looks for subcustodians who are leaders in the securities processing industry in their respective countries. Subcustodians are initially selected and annually monitored on operational risk, financial risk, legal/regulatory risk and reputational risk. A full credit review is performed prior to selection and annually thereafter.

Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investments. The Foundation's policy authorizes the utilization of derivatives for the purpose of hedging currency risk, but does not otherwise address foreign currency risk. The exposure to foreign currency risk as of August 31, 2020 is presented on the following page.

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NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2020

Investments Exposed to Foreign Currency Risk

	International Obligations	International Equity	International Equity Mutual Funds	International Equity Commingled Funds	International Alternative Investments
Foreign Currency					
U.S. Dollar Denominated Foreign Securities	\$ 464,472.54	\$ 296,737.19	\$ -	\$ 1,454,987.55	\$ 888,107.64
Argentina Peso	198.56	-	-	-	-
Australian Dollar	-	-	-	-	-
Brazil Real	13,379.08	-	-	-	-
British Pound Sterling	-	57,819.53	-	-	-
Canadian Dollar	6,449.38	6,755.93	-	-	-
Chinese Yuan	1,710.38	-	-	-	-
Danish Krone	-	-	-	-	-
Euro Currency Unit	-	131,142.78	-	-	-
Hong Kong Dollar	-	2,408.85	-	-	-
Indonesian Rupiah	3,586.10	-	-	-	-
Japanese Yen	-	77,147.19	-	-	-
Mexican Peso	12,400.37	4,356.75	-	-	-
New Taiwan Dollar	-	-	-	-	-
New Zealand Dollar	-	-	-	-	-
Norwegian Krone	-	-	-	-	-
Singapore Dollar	-	-	-	-	-
South African Rand	-	-	-	-	-
South Korean Won	-	10,123.48	-	-	-
Swedish Krona	-	5,730.96	-	-	-
Swiss Frank	-	56,697.55	-	-	-
Thailand Baht	-	2,409.56	-	-	-
New Turkish Lira	-	-	-	-	-
Total	\$ 502,196.41	\$ 651,329.77	\$ -	\$ 1,454,987.55	\$ 888,107.64

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The investment policy requires that securities have a long-term rating of B or better at the time of purchase and the fixed income portfolio have an overall credit rating of A or better. Securities using short-term credit ratings must be rated at least A-2, P-2, F-2 or equivalent. As of August 31, 2020, the Foundation's credit quality distribution for securities with credit risk exposure is presented in the following table.

Investment Type	AAA	AA	A	BBB	BB	B	CCC	D	Not Rated
U.S. Government Agency Obligations	\$ 1,496.81	\$ 429,805.67	\$ 5,511.79	\$ 1,726.56	\$ 3,315.92	\$ 1,683.07	\$ -	\$ -	\$ 28,924.35
Corporate Obligations	7,963.69	37,159.33	150,248.45	434,202.45	124,642.64	39,149.44	872.37	-	13,975.64
Corporate Asset and Mortgage Backed Securities	75,650.47	59,208.11	5,668.11	13,667.70	-	144.99	4,357.92	-	113,181.80
International Obligations	12,101.08	30,742.80	69,081.30	190,153.47	112,482.75	14,785.75	-	1,684.56	71,164.70
Fixed Income Money Market and Bond Mutual Fund	156,269.73	-	-	-	-	-	-	-	-
Other Commingled Funds - Fixed Income	-	-	-	-	-	-	-	-	125,398.25
Miscellaneous (municipals and CDs)	-	10,497.64	6,154.93	4,195.80	-	-	-	-	-

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NOTES TO FINANCIAL STATEMENTS – CONTINUED
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Concentration of credit risk is the risk of loss attributable to the magnitude of the investment in a single issuer. As of August 31, 2020, no more than 5% of the the Foundation’s total investments are represented by a single issuer; therefore, concentration of credit risk is immaterial to any single issuer. The investment policy states that no more than 4.9% of the voting stock of any one corporation be owned by the Foundation at any given time.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Duration is the weighted average maturity of an instrument’s cash flows, where the present value of the cash flows serves as the weight, or the measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument’s total present value. The sum of these weighted time periods is the duration of the instrument. Modified duration estimates the sensitivity of the Foundation’s investments to change in interest rates.

Through the investment policy, exposure to fair value losses arising from changing interest rates is managed by requiring fixed income managers to maintain duration of +/- 30% of the effective duration of the appropriate index. In addition, the policy limits the duration of its short-term investment portfolio to a maximum of one year. The Foundation’s investments exposed to interest rate risk as of August 31, 2020 are presented below using the effective duration method.

Investments Exposed to Interest Rate Risk

Investment Types	Effective Duration	Fair Value
U.S. Treasury Securities	3.708	\$ 457,108.45
U.S. Treasury TIPS	22.263	31,048.32
U.S. Government Agency Obligations	1.651	472,464.17
Corporate Obligations	7.062	808,214.01
Corporate Asset and Mortgage Backed Securities	2.133	271,879.10
International Obligations	4.810	502,196.41
Other Commingled Funds - Fixed Income	3.248	125,398.25
Miscellaneous - Political Subdivisions	9.722	20,848.37
 Total		 <u>\$ 2,689,157.08</u>

Derivative Investing

The Texas A&M Research Foundation invests funds in The Texas A&M University System’s (A&M System) investment pools. The A&M System entered into forward currency contracts for the purpose of hedging international currency risk on its non-U.S. dollar denominated investment securities. When entering into a forward currency contract, the A&M System agrees to receive or deliver a fixed quantity of foreign currency for an agreed-upon price on an agreed future date. Investment derivatives expose the A&M System to certain investment related risks. These

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contracts are valued daily and the A&M System’s net equity in the contracts, representing unrealized gain or loss on the contracts, as measured by the differences between the forward foreign exchange rates at the dates of entry into the contracts and the forward rates at the reporting date, is reported on the Statement of Net Position as either an investment derivative or an investment derivative liability.

These investments involve market and/or credit risk in excess of the amount recognized in the consolidated Statement of Net Position. Risks arise from the possibility that counterparties will be unable to meet the terms of their contracts and from movement in currency, securities values and interest rates. The table below summarizes the pending foreign exchange contracts as of August 31, 2020.

Currency	Sell	Buy	Unrealized Gain on Foreign Exchange Contract	Unrealized Loss on Foreign Exchange Contract
Brazilian Real	\$ 6,232.96	\$ -	\$ 136.33	\$ -
Chinese Yuan	1,762.70	-	-	46.80
Euro	115.32	-	-	0.21
Indonesian Rupiah	3,311.67	-	-	44.24
	<u>\$ 11,422.65</u>	<u>\$ -</u>	<u>\$ 136.33</u>	<u>\$ 91.25</u>

The unrealized gains of \$136.33 and unrealized losses of \$91.25 of the open foreign currency exchange contracts as of August 31, 2020 are included in investment income on the Statement of Revenues, Expenses and Changes in Net Position. The foreign currency exchange contracts are traded over-the-counter and categorized as Level 2 in the fair value hierarchy.

The gross counterparty exposure for the A&M System, as of August 31, 2020, is presented in the table below. The A&M System’s policy does not address master netting arrangements and the A&M System is not party to such an arrangement. The A&M System policy does not require collateral or other security for currency forward contracts.

Notional Assets	Notional Liabilities	Assets Fair Value as of August 31, 2020	Liabilities Fair Value as of August 31, 2020	S&P Counterparty Rating
\$ 115.32	\$ 115.53	\$ -	\$ 0.21	AA-
11,307.33	11,262.04	136.33	91.04	A+
<u>\$ 11,422.65</u>	<u>\$ 11,377.57</u>	<u>\$ 136.33</u>	<u>\$ 91.25</u>	

The A&M System has also invested in Treasury futures. To mitigate interest rate risk associated with Treasury futures, the instruments are used only for the purpose of managing interest rate risk in the fixed income portfolios. As of August 31, 2020, the weighted average effective duration for short futures contracts was 7.06 and for long futures contracts was 4.66. Futures contracts expose the A&M System to minimal counterparty risk since they are exchange traded and the exchange’s clearinghouse, as counterparty to all exchange traded futures, guarantees the futures

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against default, therefore, they are not presented in the table above. Futures contracts are marked to market daily; meaning they are valued at the close of business each day and a gain or loss is recorded between the value of the contracts that day and on the previous day. The daily gain or loss difference is referred to as the daily variation margin, which is settled in cash with the broker each morning for the amount of the previous day's mark to market. The amount that is settled in cash with the broker each morning is the fair value of the futures contracts. Exchange traded futures contracts are categorized as Level 1 in the fair value hierarchy. The gains are shown as other receivables and the losses are shown as other liabilities in the Statement of Net Position as summarized in the table below.

	Notional Amount		Assets	Liabilities
	Long	Short		
Treasury Futures	\$ 457,357.17	\$ 262,710.34	\$ 915.51	\$ 405.94
	\$ 457,357.17	\$ 262,710.34	\$ 915.51	\$ 405.94

The Texas A&M Research Foundation invests funds in The Texas A&M University System's (A&M System) investment pools. The A&M System Investment Policy allows investment in certain derivative securities. A derivative security is a financial instrument which derives its value, in whole or part, from another security, currency, commodity or index. The A&M System uses investment derivatives to manage risk in its portfolios. Forward contracts are used to manage transaction or currency exchange risk in purchasing, selling or holding investments and Treasury futures are used to manage interest risk in fixed income portfolios.

The following disclosure summarizes the A&M System's derivative activity as reported in the financial statements.

	Changes in Fair Value		Fair Value as of 8/31/2020		Notional Amount
	Classification	Amount	Classification	Amount	
FX Contracts	Investment Revenue	136.33	Investment	136.33	6,232.96
FX Contracts	Investment Revenue	(91.24)	Other Payable	(91.24)	5,189.69
Treasury Futures	Investment Revenue	459.83	Other Receivable	459.83	434,890.98
Treasury Futures	Investment Revenue	(405.94)	Other Payable	(405.94)	22,466.19
Treasury Futures	Investment Revenue	455.68	Other Receivable	455.68	(262,710.34)

The A&M System did not enter into hedging derivatives in fiscal year 2020.

NOTE 4 – RELATED PARTY TRANSACTIONS

In September 2011 the Foundation began transitioning its research activity to Sponsored Research Services (SRS), a newly created office under The Texas A&M University System (A&M

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System) and an officially acknowledged System member. While the System continues to designate the Foundation as one of the central entities through which System sponsored research grants/contracts are administered, the majority of work, with sponsor approval, will eventually transfer to SRS.

The Foundation also operates as The Texas A&M University System Health Science Center Research Foundation and as Prairie View A&M University Research Foundation. These entities are unincorporated subsidiaries of the Foundation.

In the table below, receipts constitute reimbursed expenses. Disbursements are comprised of salaries, direct costs and indirect cost reimbursements.

The following is a summary of transactions with the System and other related parties for the year ended August 31, 2020:

	<u>Accounts Receivable</u>	<u>Accounts Payable</u>	<u>Receipts</u>	<u>Disbursements</u>
Texas A&M University System				
Administrative and General Offices	\$ -	\$ -	\$ -	\$ 139,108.30
Texas A&M University	368,870.39	4,159,355.09	455,528.95	13,805,299.70
Tarleton State University	-	-	-	-
Prairie View A&M University	-	-	-	-
Texas A&M AgriLife Research	-	175,100.86	5.43	696,230.11
Texas A&M AgriLife Extension	-	-	-	49,302.60
Texas A&M Engineering Extension Service	-	-	-	3,600.00
Texas A&M University at Galveston	-	-	-	-
Texas A&M Forest Service	-	-	-	-
Texas A&M Transportation Institute	15,053.17	-	-	-
Texas A&M University at Corpus Christi	-	-	-	63,194.72
Texas A&M International University	-	-	-	-
Texas A&M University at Kingsville	-	-	-	-
West Texas A&M University	-	-	-	-
Texas A&M Veterinary Medical Diagnostic Laboratory	-	-	-	-
Texas A&M University at Commerce	-	-	-	-
Texas A&M University at Texarkana	-	-	-	-
Texas A&M University Health Science Center	-	1,543.27	-	909,314.75
Texas A&M University System Shared Service Center	-	-	-	46,530.00
Texas A&M Engineering Experiment Station	-	-	-	15,437.47
	<u>\$ 383,923.56</u>	<u>\$ 4,335,999.22</u>	<u>\$ 455,534.38</u>	<u>\$ 15,728,017.65</u>

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2020

NOTE 5– COMMITMENTS AND CONTINGENCIES

Certain costs billed to the U.S. Government are subject to audit and determination of allowance or disallowance in accordance with sponsor contract provisions. In management's opinion there would be an immaterial adverse effect as a result of any such audits.

At August 31, 2020, the Foundation had \$337,539.77 in sponsor owned fixed assets on its fixed asset detail records. Title to these assets remains with the sponsors and therefore the assets are not included in the Foundation's financial statements. The Foundation is responsible for maintaining accountability for these assets during the project's contract period. At the project's conclusion, the assets may be transferred to another active project that needs to utilize the equipment or, in some cases, title may be transferred to the Research Foundation.

On September 29, 2017, the Foundation sold an 8.9 acre tract of undeveloped land located on Graham Road in College Station, Texas. The land was acquired in March 1994 for possible future expansion of the Geochemical and Environmental Research Group (GERG) facilities and subsequently decided the land should be sold to reimburse Texas A&M University and the Foundation for financial assistance previously provided to GERG. The allocation of the net proceeds agreed upon was 62.63% to the University and 37.37% to the Foundation. The amount of \$423,307.94 representing the University's portion of the net proceeds have been accrued for inclusion in the August 31, 2020 financials. However, it may be decided that the funds will be kept at the Foundation for GERG to use for capital facility improvements but there is no agreement in place at this time.

NOTE 6 – INTERNATIONAL OCEAN DISCOVERY PROGRAM (IODP)

On October 1, 2019, the Research Foundation received a continuation of the five year cooperative agreement with NSF as the *JOIDES Resolution Science Operator* for the International Ocean Discovery Program. The cooperative agreement budget is \$70 million per year. Expenditures for IODP for the period ending August 31, 2020 were \$61.1 million. The five-year extension expires September 30, 2024.

NOTE 7 – FEDERAL INCOME TAXES

The Foundation is a tax-exempt non-profit under Internal Revenue Code Section 501(c)(3) for federal income taxes. Therefore, no provision or liability for federal income taxes has been included in the financial statements.

The Foundation believes that its tax position regarding its status as a tax-exempt organization will remain significantly unchanged within the next twelve months.

While the Foundation is not aware of any tax examinations being conducted, tax years 2017 – 2019 remain subject to examination by the United States Internal Revenue Service.

TEXAS A&M RESEARCH FOUNDATION
 NOTES TO FINANCIAL STATEMENTS – CONTINUED
 AUGUST 31, 2020

NOTE 8 – OPERATING LEASES

The Foundation leases consists of document reproduction equipment with monthly payments totaling \$501.13 and leases expiring October 2023.

The following is a combined schedule of minimum future lease payments required under these leases:

2021	6,013.56
2022	4,633.56
2023	4,363.56
2024	502.26
	\$ 15,512.94

Rental and lease expense for the year ended August 31, 2020 amounted to \$356,192.11. Administrative portion of this expense is \$6,621.43; the amount attributable to research activity is \$349,570.68.

NOTE 9 – DONOR RESTRICTED ENDOWMENTS

The purpose of the endowment funds are to provide for the collective investment of all endowment funds held by the Foundation in a fiduciary capacity. The endowment funds are used to provide funding for uses as specified by the donors. Non-expendable endowments are subject to the restriction that the gift instrument be held in perpetuity and that the principal be invested and the income only be utilized. Expendable endowments are subject to use restrictions of the donor.

The endowment funds held by the Foundation are categorized as follows in the Statement of Net Position:

Restricted - non-expendable	\$ 130,736.45
Restricted - expendable	4,340.38
Total	\$ 135,076.83

The Foundation's endowments did not experience net appreciation. Overall, the net depreciation of the Foundation's endowments was \$14,566.83.

NOTE 10 – RISK MANAGEMENT

The Foundation is exposed to various risks of loss related to property – fire, windstorm or other loss of capital assets; general liability – resulting from alleged wrongdoings by individuals; and net income – due to fraud, theft, administrative errors or omissions, and business interruptions. Exposures are managed by the purchase of commercial insurance.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2020

All commercial insurance policies include retention amounts (deductibles) for which the Foundation is responsible and maintains funding reserve. On-going analysis of the risk facing the Foundation results in the continual evaluation of insurance policies purchased.

COMPLIANCE REPORTS



Ingram, Wallis & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Texas A&M Research Foundation
College Station, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Texas A&M Research Foundation (the "Foundation"), which comprise the statement of net position as of August 31, 2020, and the related statement of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the 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 the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bryan, Texas
December 10, 2020

Ingram, Wallis ; Company



Ingram, Wallis & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

The Board of Directors
Texas A&M Research Foundation
College Station, Texas

Report on Compliance for Each Major Federal Program

We have audited the Texas A&M Research Foundation's (the "Foundation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended August 31, 2020. The Foundation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Foundation's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on the Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2020.

Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bryan, Texas
December 10, 2020



Texas A&M Research Foundation
Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2020

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Identifying Number	Total Pass-Through and Expenditure
<u>Highway and Planning Construction Cluster</u>			
<u>Department of Transportation</u>			
Pass Thru From:			
Arizona Department of Transportation			
Highway Planning and Construction	20.205	PO0000014309	(240.56)
Highway Planning and Construction	20.205	TASK MPD0025-15/ADOT11-003006:3	(1,752.45)
Total, Department of Transportation			<u>(1,993.01)</u>
Total, Highway and Planning Construction Cluster			<u>(1,993.01)</u>
<u>Research and Development Cluster</u>			
<u>Department of Transportation</u>			
Pass Thru From:			
NAS-National Cooperative Highway Research Program			
Guidelines for Slope Traversability	20.000	NAS 138 TO O1, HR 16-05	1,903.86
Total, Department of Transportation			<u>1,903.86</u>
<u>National Science Foundation</u>			
Direct Program:			
Geosciences	47.050		61,118,987.26
Biological Sciences	47.074		1,233.92
Total, National Science Foundation			<u>61,120,221.18</u>
<u>Department of Health and Human Services</u>			
Direct Program:			
Training in General, Pediatric, and Public Health Dentistry	93.059		296,282.64
Total, Department of Health and Human Services			<u>296,282.64</u>
Total, Research and Development Cluster			<u>61,418,407.68</u>
Total, Federal Awards Expended			<u>\$ 61,416,414.67</u>

Texas A&M Research Foundation
 Schedule of Expenditures of Federal and State Awards
 For the Year Ended August 31, 2020

Subrecipients

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Total Pass- Through and Expenditure
U.S. Department of Health and Human Services		
Training in General, Pediatric, and Public Health Dentistry	93.059	<u>107,684.55</u>
Totals - U.S. Department of Health and Human Services		<u>107,684.55</u>
Total Amount Provided to Subrecipients		<u><u>107,684.55</u></u>

Texas A&M Research Foundation
 Schedule of Expenditures of Federal and State Awards
 For the Year Ended August 31, 2020

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Identifying Number	Total Pass- Through and Expenditure
<i>State of Texas Research and Development Cluster</i>			
Texas Veterans Commission Fund for Veterans		GT-FVA20-022	119.55
Total, State of Texas Awards Expended			<u>\$ 119.55</u>
Total, Federal and State of Texas Awards Expended			<u><u>\$ 61,416,534.22</u></u>
Summary of American Recovery and Reinvestment Act (ARRA) Funding included above:			
			-
			<u><u>\$ -</u></u>

**TEXAS A&M RESEARCH FOUNDATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE
AWARDS
FOR THE YEAR ENDED AUGUST 31, 2020**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – The accompanying schedule of expenditures of federal and state awards presents all federal and state expenditures of the Texas A&M Research Foundation (the “Foundation”).

Basis of Accounting – The expenditures on the accompanying schedule of expenditures of federal and state awards are presented using the cash basis of accounting. Under the cash basis method of accounting, revenue and expense are recorded in the books of account when received and paid, respectively, without regard to the period to which they apply.

Relationship to Financial Statements – Expenditures of federal and state awards are reported in the Foundation’s financial statements on the accrual basis. Following is a reconciliation between the financial statements and the Schedule of Expenditures of Federal and State Awards as of August 31, 2020.

Total Operating Expense	\$63,021,238.80
Depreciation and Amortization Expense	(1,308,661.18)
Institutional Support	(359,929.66)
Non-federal and state expenditures	(772,394.90)
Research equipment purchased and capitalized during the year	1,013,360.02
Other	<u>(177,078.86)</u>
Total Expenditures per Schedule of Expenditures of Federal and State Awards, August 31, 2020	<u>\$61,416,534.22</u>

Relationship to Federal Financial Reports – Amounts reported in the accompanying schedule of expenditures of federal and state awards agree with the amounts reported in the related federal financial reports in all significant respects.

Indirect Cost Rate – The Foundation has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**TEXAS A&M RESEARCH FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2020**

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements which were required to be reported in accordance with *Government Auditing Standards*.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no Federal award findings and questioned costs which are required to be reported in accordance with the Uniform Guidance.

**TEXAS A&M RESEARCH FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2020
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements which were required to be reported in accordance with *Government Auditing Standards*.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no Federal award findings and questioned costs which are required to be reported in accordance with the Uniform Guidance.