

TEXAS A&M RESEARCH FOUNDATION

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INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

AND

COMPLIANCE REPORTS

AUGUST 31, 2023

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 Audit of the Financial Statements

Opinions

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, 2023, 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, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation as of August 31, 2023, and the respective 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's

ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation'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 the Foundation'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.

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 is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Foundation's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic 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 20, 2023, 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 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 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.

Ingram. Wallis + Company, P.C.

Bryan, Texas
December 20, 2023

TEXAS A&M RESEARCH FOUNDATION MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) FOR THE YEAR ENDED AUGUST 31, 2023

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, 2023. 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, 2023**

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, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Current Assets	\$ 7,039,303.24	\$ 4,658,282.68
Non Current Assets		
Investments	239,462.24	162,248.29
Assets Held By System Office	7,220,938.60	6,674,522.95
Capital Assets, Net	<u>2,692,349.52</u>	<u>2,834,916.60</u>
Total Assets	<u>17,192,053.60</u>	<u>14,329,970.52</u>
Current Liabilities	<u>7,945,179.38</u>	<u>5,087,808.65</u>
Net Position		
Net Investment in Capital Assets	2,692,349.52	2,834,916.60
Restricted		
Expendable	323,528.82	319,175.34
Non-expendable	236,769.54	156,994.13
Unrestricted	<u>5,994,226.34</u>	<u>5,931,075.80</u>
Total Net Position	<u>\$ 9,246,874.22</u>	<u>\$ 9,242,161.87</u>

Total assets increased by \$2,862,083 or 20% during fiscal year 2023. The increase in total assets in 2023 is primarily due to the increase in Federal Receivables of \$2,593,507. In addition, there was decrease in capital assets of \$142,567 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, 2023**

Total liabilities of \$7.94 million increased \$2,857,371 or 56% during fiscal year 2023. Current liabilities include accounts payable of \$3,147,467, amounts due to TAMU System members of \$3.9 million, and unearned revenue of \$840,128. The increase at August 31, 2023 is attributable to an increase in amounts due to vendors resulting from increased accounts payable on research projects.

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

Net position increased by approximately \$4,712, over the balance reported at August 31, 2022.

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, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Operating Revenues		
Other Sales of Goods and Services	\$ 315,652.20	\$ 365,824.71
Grants and Contracts	79,914,224.15	72,634,576.18
Other Operating Revenue	0.00	183.80
Total Operating Revenues	<u>80,229,876.35</u>	<u>73,000,584.69</u>
Operating Expenses	<u>81,048,794.86</u>	<u>73,733,102.67</u>
Operating Loss	(818,918.51)	(732,517.98)
Non-operating Revenues (Expenses)		
Investment Income, Net	712,325.76	(1,500,688.88)
Gain On Sale or Disposal of Capital Assets	11,342.31	15,174.39
Non-operating Expenses, Net	99,962.79	(131,398.30)
Total Non-operating Revenues (Expenses)	<u>823,630.86</u>	<u>(1,616,912.79)</u>
Change in Net Position	<u>4,712.35</u>	<u>(2,349,430.77)</u>
Net Position at Beginning of Year	<u>9,242,161.87</u>	<u>11,591,592.64</u>
Net Position at End of Year	<u>\$ 9,246,874.22</u>	<u>\$ 9,242,161.87</u>

TEXAS A&M RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2023

During fiscal year 2023, total operating revenues of \$80.2 million were received for contracts and grants. This is an increase of approximately \$7.2 million from fiscal year 2022. The contracts and grants include federally sponsored contracts and grants. For fiscal year 2023, \$79.4 million was received from federal grants and contracts compared to \$72.5 million for fiscal year 2022. This is an increase of \$6.9 million. The increase is due primarily to the increased activity on the International Ocean Discovery Program due to the ending of the global pandemic, COVID-19 as well as increased activity on awards received from the U.S. Department of Education.

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 2023, total nonoperating revenues (expenses) increased approximately \$2.4 million mainly due to an increase in investment income.

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 and was approximately \$700,000 in 2023. This is an increase of approximately \$2.2 million when compared to fiscal year 2022. The increase is a result of more favorable market conditions.

In fiscal year 2023, operating expenses consists of supplies, services and other operating expenses of \$80.1 million and depreciation expense of \$900,000. This represents an increase of \$7.3 million from fiscal year 2022 where \$72.7 million of supplies, services and other operating expenses and \$1 million in depreciation expense were incurred. The increase in expenses for supplies, services and other operating is a direct result of the increase in research grant and contract activity. The decrease of approximately \$98,774 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, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Operating Expenses		
Research	\$ 79,433,181.38	\$ 72,236,222.15
Public Service	97,570.49	89,419.35
Institutional Support	611,589.44	402,233.57
Depreciation/Amortization	906,453.55	1,005,227.60
Total Operating Expenses	<u>\$ 81,048,794.86</u>	<u>\$ 73,733,102.67</u>

**TEXAS A&M RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2023**

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, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Cash received from operations	\$ 79,233,436.65	\$ 72,261,435.17
Cash expended from operations	<u>(78,716,731.72)</u>	<u>(71,816,880.19)</u>
Net cash provided by operating activities	516,704.93	444,554.98
Net cash provided by non-capital financing activities	157,101.81	-
Net cash used in capital and related financing activities	(809,683.18)	(616,466.54)
Net cash provided by investing activities	<u>88,696.16</u>	<u>505,412.13</u>
Net change in cash and cash equivalents	(47,180.28)	333,500.57
Cash and cash equivalents at beginning of year	<u>1,887,240.44</u>	<u>1,553,739.87</u>
Cash and cash equivalents at end of year	<u>\$ 1,840,060.16</u>	<u>\$ 1,887,240.44</u>

During fiscal year 2023, the cash position decreased by \$47,180 primarily due to the increase in payments for other operating expenses.

Capital Assets

At August 31, 2023, the Foundation had \$15.5 million invested in capital assets, net of accumulated depreciation of \$12.8 million.

At August 31, 2022, the Foundation had \$16 million invested in capital assets, net of accumulated depreciation of \$13 million.

Depreciation expense for the year ended August 31, 2023 and 2022 totaled \$906,454 and \$1 million, respectively. A summary of capital assets, net of accumulated depreciation at fiscal year end is as follows:

**TEXAS A&M RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2023**

	<u>2023</u>	<u>2022</u>
Building and Building Improvements	\$ 2,503,648.27	\$ 1,879,982.86
Facilities and Other Improvements	290,579.76	290,579.76
Furniture and Equipment	12,500,993.37	13,677,138.92
Vehicles, Boats and Aircraft	119,309.66	124,309.66
Computer Software	-	5,000.00
	15,414,531.06	15,977,011.20
Less: Accumulated Depreciation and Amortization	(12,804,838.26)	(13,395,021.32)
Land and Land Improvements	82,656.72	82,656.72
Construction in Progress	-	170,270.00
	\$ 2,692,349.52	\$ 2,834,916.60

Capital assets of \$821,025.49 were added in 2023. Asset disposals were \$1.5 million in 2023. The asset disposals are a result of the continued efforts to reduce the footprint of the Foundation within the Texas A&M University System.

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 2023, there were 3 new grant awards and no proposals 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.

TEXAS A&M RESEARCH FOUNDATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2023

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, 2023

	2023
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 1,840,060.16
Receivables, Net	
Federal	4,874,075.22
Accounts	1,918.75
Due from TAMU System Members	244,590.68
Other	25,141.09
Other Current Assets	53,517.34
Total Current Assets	7,039,303.24
Non-Current Assets	
Restricted	
Investments	239,462.24
Assets Held By TAMU System Office	7,220,938.60
Capital Assets, Non-Depreciable	
Land and Land Improvements	82,656.72
Capital Assets, Depreciable	
Building and Building Improvements	2,503,648.27
Facilities and Other Improvements	290,579.76
Furniture and Equipment	12,500,993.37
Vehicles, Boats and Aircraft	119,309.66
Accumulated Depreciation/Amortization	(12,804,838.26)
Total Non-Current Assets	10,152,750.36
Total Assets	\$ 17,192,053.60
Liabilities	
Current Liabilities	
Payables	
Accounts	\$ 3,147,467.26
Due to TAMU System Members	3,957,584.13
Unearned Revenue	840,127.99
Total Current Liabilities	7,945,179.38
Total Liabilities	7,945,179.38
Net Position	
Net Investment in Capital Assets	2,692,349.52
Restricted for Education	320,836.12
Endowment and Permanent Funds	
Nonexpendable	236,769.54
Expendable	2,692.70
Unrestricted	5,994,226.34
Total Net Position	9,246,874.22
Total Liabilities and Net Position	\$ 17,192,053.60

See auditor's report and accompanying notes to financial statements.

TEXAS A&M RESEARCH FOUNDATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
AUGUST 31, 2023

	2023
Operating Revenues	
Other Sales of Goods and Services	\$ 315,652.20
Federal Revenue-Operating	79,369,321.21
Other Grants and Contracts - Operating	544,902.94
Total Operating Revenues	80,229,876.35
Operating Expenses	
Research	79,433,181.38
Public Service	97,570.49
Institutional Support	611,589.44
Depreciation/Amortization	906,453.55
Total Operating Expenses	81,048,794.86
Total Operating Loss	(818,918.51)
Nonoperating Revenues (Expenses)	
Investment Income	732,756.47
Investment Activities Expense	(20,430.71)
Gain On Sale or Disposal of Capital Assets	11,342.31
Nonoperating Revenues	327,372.20
Nonoperating Expenses	(227,409.41)
Total Nonoperating Revenues	823,630.86
Change in Net Position	4,712.35
Net Position at Beginning of Year	9,242,161.87
Net Position at End of Year	\$ 9,246,874.22

See auditor's report and accompanying notes to financial statements.

TEXAS A&M RESEARCH FOUNDATION
STATEMENT OF CASH FLOWS
AUGUST 31, 2023

	2023
Cash Flows from Operating Activities	
Proceeds Received From Customers	\$ 556,693.14
Proceeds from Sponsored Programs	78,676,743.51
Payments to Suppliers for Goods and Services	(78,599,548.35)
Payments for Other Operating Expenses	(117,183.37)
Net Cash Provided by Operating Activities	516,704.93
Cash Flows From Noncapital Financing Activities	
Proceeds From Other Noncapital Financing Activities	157,101.81
Net Cash Provided By Noncapital Financing Activities	157,101.81
Cash Flows from Capital and Related Financing Activities	
Proceeds from Sale of Capital Assets	11,342.31
Payments for Additions to Capital Assets	(821,025.49)
Net Cash Used by Capital and Related Financing Activities	(809,683.18)
Cash Flows from Investing Activities	
Sales & Purchase of Investments Held by TAMU System	(97,347.98)
Proceeds from Interest and Investment Income	186,044.14
Net Cash Provided by Investing Activities	88,696.16
Decrease in Cash & Cash Equivalents	(47,180.28)
Cash & Cash Equivalents, Beginning of Year	1,887,240.44
Cash & Cash Equivalents, End of Year	\$ 1,840,060.16
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities	
Operating Loss	\$ (818,918.51)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities	
Depreciation and Amortization	906,453.55
Changes in Assets and Liabilities:	
Accounts Receivable, Net	(2,423,721.98)
Prepaid Expenses	(4,478.86)
Payables	2,041,519.82
Due to TAMU System Members	193,098.41
Unearned Revenue	622,752.50
Total Adjustments	1,335,623.44
Net Cash Provided By Operating Activities	\$ 516,704.93
Non-Cash Transactions	
Net Change in Fair Value of Investments	\$ 588,789.90
Other - Gain on Disposal of Capital Assets	11,342.31

See auditor's report and accompanying notes to financial statements.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2023

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

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

being measured. The fair value hierarchy categorizes the inputs used to measure fair value into 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.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

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

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

will be distributed to the Department to be used exclusively for supporting proposed or on-going 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, 2023 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
Construction in Progress	170,270.00	(170,270.00)			-
Total Non-Depreciable Assets	252,926.72	(170,270.00)	-	-	82,656.72
Depreciable Assets					
Buildings and Building Improvements	1,879,982.86	-	623,665.41		2,503,648.27
Facilities and Other Improvements	290,579.76	-			290,579.76
Furniture and Equipment	13,677,138.92	-	367,630.47	(1,543,776.02)	12,500,993.37
Vehicles, Boats and Aircraft	124,309.66	-		(5,000.00)	119,309.66
Total Depreciable Assets	15,972,011.20	-	991,295.88	(1,548,776.02)	15,414,531.06
Less Accumulated Depreciation for					
Buildings and Building Improvements	(1,670,158.93)	-	(22,850.47)		(1,693,009.40)
Facilities and Other Improvements	(40,719.84)	-	(13,208.04)		(53,927.88)
Furniture and Equipment	(11,587,255.93)	-	(851,148.96)	1,486,636.61	(10,951,768.28)
Vehicles, Boats and Aircraft	(91,886.62)	-	(19,246.08)	5,000.00	(106,132.70)
Total Accumulated Depreciation	(13,390,021.32)	-	(906,453.55)	1,491,636.61	(12,804,838.26)
Depreciable Assets, Net	2,581,989.88	-	84,842.33	(57,139.41)	2,609,692.80
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	\$ 2,834,916.60	\$ (170,270.00)	\$ 84,842.33	\$ (57,139.41)	\$ 2,692,349.52

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

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, 2023, the amount of all cash in local banks, petty cash, and current Cash Concentration Pool (CCP) was \$1,840,060.16. 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, 2023:

Current CCP	\$ 1,130,070.01
Local Bank	699,490.15
Petty Cash	10,500.00
	<u>\$ 1,840,060.16</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:

- 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

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

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 Governmental Accounting Standards Board’s (GASB) 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, 2023 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, 2023 NAV by the estimated performance as of August 31, 2023 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, 2023 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	\$ 239,462.24
Assets Held by TAMU System Office	7,220,938.60
Total Investments	<u>\$ 7,460,400.84</u>

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

Investment Fair Value

Investment Type	Fair Value Hierarchy					
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Amortized Cost	NAV	Total
Texas A&M University System Investment Pool:						
U.S. Treasury Securities	\$ 439,527.84	\$ -	\$ -	\$ -	\$ -	\$ 439,527.84
U.S. Treasury TIPS	5,217.39	-	-	-	-	5,217.39
U.S. Government Agency Obligations (Ginnie Mae, Fannie Corporate Obligations	-	505,548.04	-	-	-	505,548.04
Corporate Asset and Mortgage Backed Securities	-	682,919.64	31,476.16	-	-	714,395.80
Equity (Domestic)	-	268,527.63	-	-	-	268,527.63
International Obligations (Govt and Corp)	1,391,709.96	-	-	-	-	1,391,709.96
International Equity	-	327,169.30	22,573.38	-	-	349,742.68
Fixed Income Money Market and Bond Mutual Funds	659,407.00	-	-	-	-	659,407.00
Other Commingled Funds - Fixed Income	105,792.00	-	-	-	-	105,792.00
International Other Commingled Funds - Equity	24,481.32	-	22,515.87	-	-	46,997.19
Alternative Investments	491,635.12	-	300,761.07	-	279,991.13	1,072,387.32
Hedge Funds - Domestic	-	-	-	-	973,368.26	973,368.26
Hedge Funds - International	-	-	-	-	653,155.47	653,155.47
Political Subdivisions	-	16,065.93	-	-	-	16,065.93
Other Investments Held:						
General Electric Common Stock	165,532.00	-	-	-	-	165,532.00
Wabtec Common Stock	5,738.52	-	-	-	-	5,738.52
Mutual Funds	68,191.72	-	-	-	-	68,191.72
	\$ 3,357,232.87	\$ 1,800,230.54	\$ 377,326.48	\$ -	\$ 1,906,514.86	\$ 7,441,304.75
Foreign Currency presented as Cash						6,842.74
Cash						(65.46)
Receivables						
Other Receivable - Cash Due From Broker						1,267.60
Int'Dividends Receivable						25,249.51
Investment Trade Receivable - FFX Contract Receivable						1,180.28
Investment Trade Receivable - Pending Sale						2,370.42
Other Receivable - Treasury Futures						1,034.69
Payables						
Manager Fees						(2,931.24)
Foreign Currency Fluctuations						(11.98)
FFX Contract Payable						(1,180.28)
Pending Purchase						(13,906.89)
Treasury Futures						(710.82)
Foreign Taxes in Interest and Dividends						(42.34)
Rounding due to allocation						(0.14)
Total Investments						\$ 7,460,400.84

Investments Reported at Net Asset Value (NAV)

Investment Strategy	Fair Value	Redemption				
		Frequency Range Low	Frequency Range High	Notice Period Range Low	Notice Period Range High	Unfunded Commitment
Commingled Funds-International Equity	\$ 279,991.13	Monthly	Monthly	3 days	10 days	\$ -
Hedge Funds (Domestic)	973,368.26	Quarterly	Semi-annually	65 days	1.75 years	-
Hedge Funds (International)	653,155.47	Quarterly	Semi-annually	65 days	1.75 years	-
Total	\$ 1,906,514.86					\$ -

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

Of the total Hedge Fund, \$40,705.82 is invested in an illiquid fund not eligible for redemption. The Frequency and Notice Period ranges for this portion of the Hedge Fund are not applicable. The illiquid portion of the Hedge Funds is fully funded.

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, 2023. The Foundation did not participate in a securities lending program or repurchase agreements during fiscal year 2023.

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, 2023 is presented on the following page.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

Investments Exposed to Foreign Currency Risk

	International Obligations	International Equity	International Equity Commingled Funds	International Alternative Investments
Foreign Currency				
U.S. Dollar Denominated Foreign Securities	\$ 330,443.76	\$ 302,647.19	\$ 1,072,387.32	\$ 653,155.47
Brazil Real	-	11,589.69	-	-
British Pound Sterling	-	38,444.10	-	-
Canadian Dollar	-	4,024.84	-	-
Euro Currency Unit	-	149,780.03	-	-
Hong Kong Dollar	-	18,228.56	-	-
Indonesian Rupiah	5,152.74	-	-	-
Japanese Yen	-	73,664.36	-	-
Mexican Peso	14,146.18	-	-	-
Singapore Dollar	-	6,645.20	-	-
South Korean Won	-	15,582.34	-	-
Swedish Krona	-	2,606.58	-	-
Swiss Frank	-	36,194.11	-	-
Total	<u>\$ 349,742.68</u>	<u>\$ 659,407.00</u>	<u>\$ 1,072,387.32</u>	<u>\$ 653,155.47</u>

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, 2023, 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	Not Rated
U.S. Government Agency Obligations	\$ 536.34	\$ 489,145.67	\$ 3,884.84	\$ 4,880.18	\$ 600.21	\$ 640.78	\$	\$ 5,860.02
Corporate Obligations	1,955.08	26,592.09	156,949.86	361,024.06	105,849.06	44,646.48		17,379.17
Corporate Asset and Mortgage Backed Securities	100,632.90	38,432.15	12,028.64	11,677.92	1,497.96	856.32	364.65	103,037.09
International Obligations	16,565.59	1,399.95	57,474.36	153,515.20	54,825.40	21,301.16	1,319.95	43,341.07
Fixed Income Money Market and Bond Mutual Fund	105,792.00							
Other Commingled Funds - Fixed Income								46,997.19
Miscellaneous (municipals and CDs)		6,522.44	4,336.40					5,207.09
Total	<u>\$ 225,481.91</u>	<u>\$ 562,092.30</u>	<u>\$ 234,674.10</u>	<u>\$ 531,097.36</u>	<u>\$ 162,772.63</u>	<u>\$ 67,444.74</u>	<u>\$ 1,684.60</u>	<u>\$ 221,821.63</u>

Concentration of credit risk is the risk of loss attributable to the magnitude of the investment in a single issuer. As of August 31, 2023, 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.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

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, 2023 are presented below using the effective duration method.

Investments Exposed to Interest Rate Risk

Investment Types	Effective Duration	Fair Value
U.S. Treasury Securities	7.486	\$ 439,527.84
U.S. Treasury TIPS	8.728	5,217.39
U.S. Government Agency Obligations	5.385	505,548.04
Corporate Obligations	4.977	714,395.80
Corporate Asset and Mortgage Backed Securities	2.058	268,527.63
International Obligations	3.943	349,742.68
Other Commingled Funds - Fixed Income	2.310	46,997.19
Miscellaneous - Political Subdivisions	5.876	16,065.93
 Total		 <u>\$ 2,346,022.50</u>

Derivative Investing

The Texas A&M Research Foundation invests funds in The Texas A&M University System's (A&M System) investment pools. During fiscal year 2023, 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 a certain future date. These 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 recognized on the Statement of Revenues,

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

Expenses, and Changes in Net Position as investment income or loss. The unrealized gain on open foreign currency exchange contracts is reported as an investment derivative and the unrealized loss is included with trade payables. The foreign currency forwards are traded over-the-counter and categorized as Level 2 of the fair value hierarchy. As of August 31, 2023, the A&M System did not hold any open foreign currency contract derivatives.

The A&M System has also invested in Treasury futures. The instruments are used only for the purpose of managing interest rate risk in the fixed income portfolios. As of August 31, 2023, the weighted average effective duration for short futures contracts was 4.18 years and for long futures contracts was 4.63 years. 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 against default. 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. The gains are reported as trade receivables and the losses are reported as trade payables in the Statement of Net Position. Exchange-traded futures contracts are categorized as Level 1 on the fair value hierarchy. The table below summarizes Research Foundation's pro rata notional value and fair values of the futures as of August 31, 2023.

	Notional Amount			
	Long	Short	Assets	Liabilities
Treasury Futures	\$ 152,473.93	\$ 113,737.37	\$ 1,034.69	\$ 710.82
	<u>\$ 152,473.93</u>	<u>\$ 113,737.37</u>	<u>\$ 1,034.69</u>	<u>\$ 710.82</u>

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 from another security, currency, commodity or index. Investment derivatives are used to manage transaction, interest rate, or currency exchange risk in purchasing, selling or holding investments.

The following disclosure summarizes Research Foundation's pro rata derivative activity as reported in the financial statements. Exchange traded futures contracts are categorized as Level 1 of the fair value hierarchy.

	Changes in Fair Value		Fair Value as of 8/31/2023		Notional Amount
	Classification	Amount	Classification	Amount	
Treasury Futures	Investment Revenue	(710.82)	Other Payable	(710.82)	(113,737.37)
Treasury Futures	Investment Revenue	1,034.69	Other Receivable	1,034.69	152,473.93

The A&M System did not enter into hedging derivatives in fiscal year 2023.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

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 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.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

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, 2023:

	<u>Accounts Receivable</u>	<u>Accounts Payable</u>	<u>Receipts</u>	<u>Disbursements</u>
Texas A&M University System				
Administrative and General Offices	\$ -	\$ 1,785.52	\$ -	\$ 109,675.21
Texas A&M University	244,590.68	3,808,796.77	468,481.91	17,608,761.23
Tarleton State University	-	-	-	-
Prairie View A&M University	-	-	-	-
Texas A&M AgriLife Research	-	147,001.84	-	378,537.29
Texas A&M AgriLife Extension Service	-	-	-	-
Texas A&M Engineering Extension Service	-	-	-	-
Texas A&M University at Galveston	-	-	-	-
Texas A&M Forest Service	-	-	-	-
Texas A&M Transportation Institute	-	-	-	-
Texas A&M University at Corpus Christi	-	-	-	-
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	-	-	-	-
Texas A&M University System Shared Service Center	-	-	-	24,301.75
Texas A&M Engineering Experiment Station	-	-	-	46,179.51
	<u>\$ 244,590.68</u>	<u>\$ 3,957,584.13</u>	<u>\$ 468,481.91</u>	<u>\$ 18,167,454.99</u>

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

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, 2023, the Foundation had \$142,199.30 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.

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, 2023 were \$73 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 2020 – 2022 remain subject to examination by the United States Internal Revenue Service.

NOTE 8 – 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. The expendable portion of the funds is distributed annually to the Texas A&M Department of Small Animal Clinical Sciences for research expenses by new researchers in the department. The entire distribution may be spent by the department for the research, excluding expenditures of travel and equipment. Expendable endowments are subject to use restrictions of the donor.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2023

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

Restricted - non-expendable	\$ 236,769.54
Restricted - expendable	<u>2,692.70</u>
Total	<u>\$ 239,462.24</u>

The Foundation's endowments net appreciation was \$77,213.95 for fiscal year 2023 and is reported in net position as restricted–non-expendable.

NOTE 9 – 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.

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, 2023, 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 20, 2023.

Report on 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) 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-01 that we consider to be a material weakness.

Report on 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 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*.

Foundation's Response to Findings

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

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.

Ingram, Wallis + Company, P.C.

Bryan, Texas
December 20, 2023



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

Opinion on Each Major Federal Program

We have audited the Texas A&M Research Foundation's (the "Foundation") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended August 31, 2023. The Foundation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, 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 each of its major federal programs for the year ended August 31, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Foundation's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Foundation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Foundation's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Foundation'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 the Foundation'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 the Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to

identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Ingram, Wallis + Company, P.C.

Bryan, Texas
December 20, 2023

TEXAS A&M RESEARCH FOUNDATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDING AUGUST 31, 2023

Federal Grantor/Pass Through Grantor Program Title	Federal Assistance Listing Number	Total Pass-Through and Expenditure
<u>Research and Development Cluster</u>		
<u>National Science Foundation</u>		
Direct Program:		
Geosciences	47.050	72,972,000.13
Total, National Science Foundation		<u>72,972,000.13</u>
<u>Department of Education</u>		
Direct Program:		
Education Innovation and Research (Formerly Investing in Investing in Innovation (i3) Fund)	84.411	3,873,061.35
Total, Department of Education		<u>3,873,061.35</u>
Total, Research and Development Cluster		<u>76,845,061.48</u>
Total, Federal Awards Expended		<u>\$ 76,845,061.48</u>

TEXAS A&M RESEARCH FOUNDATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING AUGUST 31, 2023

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting – The expenditures of the accompanying schedule of expenditures of federal 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 awards are reported in the Foundation’s financial statement on the accrual basis. Following is a reconciliation between the financial statements and the Schedule of Expenditures of Federal Awards as of August 31, 2023.

Total Operating Expenses	\$ 81,048,794.86
Depreciation and Amortization Expenses	(906,453.55)
Institutional Support (Admin and Facilities)	(611,589.44)
Research equipment purchased and capitalized during the year	367,630.08
Non-Federal Expenditures	138,221.70
Other	<u>(3,191,542.17)</u>
Total Expenditures per Schedule of Expenditures of Federal Awards, August 31, 2023	<u>\$ 76,845,061.48</u>

Subrecipients - The Foundation provided no federal funds to subrecipients in the year ending August 31, 2023.

Relationship to Federal Financial Reports – Amounts reported in the accompanying schedule of expenditures of federal 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
FOR THE YEAR ENDED AUGUST 31, 2023**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: *unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X no
- Noncompliance material to financial
statements noted? yes X no

Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X no

Type of auditors’ report issued on compliance for major federal program: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) of the Uniform Guidance? yes X no

Identification of major federal program:

N/A	Research and Development Cluster
<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>

Dollar threshold used to distinguish between Federal type A and Federal type B programs: \$2,305,352

Auditee qualified as low-risk auditee? X yes no

**TEXAS A&M RESEARCH FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2023**

SECTION II – FINANCIAL STATEMENT FINDINGS

2023-01 Accrued Expenses

Criteria: In accordance with generally accepted accounting principles, research goods/supplies received in fiscal year 2023 but not paid for should be reported in accounts payable .

Condition: We noted that the Foundation did not make an adjustment to record all fiscal year 2023 expenses paid in October and November 2023 in accounts payable at August 31, 2023. This resulted in accounts payable, research expenses, unbilled receivables, and grant revenue being understated by \$2,524,260.

Cause: This finding appears to have been an oversight of Foundation personnel.

Effect: Accounts payable, research expenses, unbilled receivables, and grant revenue were understated by \$2,524,260.

Questioned Costs: This finding did not result in any questioned costs.

Context: We vouched payments made in September-November 2023 meeting our testing scope to vendor invoices. For six of the payments, the expenses were for fiscal year 2023 but were not accrued at August 31, 2023.

Recommendation: We recommend the Foundation ensures all adjustments are made for accounts payable as part of its year-end adjustments.

Management's Response: Management agrees with the finding.

Corrective Action Planned: Going forward the Texas A&M Research Foundation will ensure that year-end adjustments include all accounts payable attributed to the period. The person responsible for this is Evan Bryant.

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, 2023
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.