

**Texas Heart Institute**

Consolidated Financial Statements  
and Single Audit Reports  
for the year ended December 31, 2021

# Texas Heart Institute

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**Independent Auditors' Report**

To the Board of Trustees of  
Texas Heart Institute:

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the financial statements of Texas Heart Institute, which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Texas Heart Institute as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Texas Heart Institute and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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 Texas Heart Institute's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the

override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Texas Heart Institute's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Texas Heart Institute's ability to continue as a going concern for a reasonable period of time.

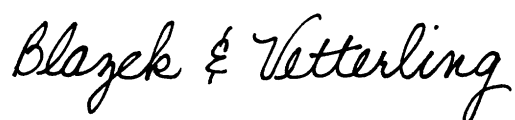
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the schedule of expenditures of federal awards for the year ended December 31, 2021 as required by Title 2 U. S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### **Report Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2022 on our consideration of Texas Heart Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Texas Heart Institute's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Texas Heart Institute's internal control over financial reporting and compliance.



August 18, 2022

# Texas Heart Institute

## Consolidated Statements of Financial Position as of December 31, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents ( <i>Notes 3 and 4</i> )	\$ 3,164,797	\$ 6,962,863
Accounts receivable:		
Program	2,114,015	1,772,560
Rent	158,647	61,701
Operating contributions receivable:		
Government grants	1,257,381	474,468
Other	366,803	150,871
Prepaid expenses and other assets	793,628	421,388
Investments ( <i>Note 4</i> )	158,986,089	112,062,253
Beneficial interest in funds held by affiliates ( <i>Notes 4 and 5</i> )	95,444,454	89,979,528
Pension assets ( <i>Note 6</i> )	739,138	
Contributions receivable restricted for endowment funds	600,000	800,000
Property and equipment, net ( <i>Note 7</i> )	<u>21,627,839</u>	<u>22,996,829</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 285,252,791</u></b>	<b><u>\$ 235,682,461</u></b>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 875,401	\$ 819,552
Payable to CHI St. Luke's Health System ( <i>Note 5</i> )	1,952,249	1,337,746
Accrued payroll expenses	1,233,283	1,079,430
Refundable advances:		
Paycheck Protection Program ( <i>Note 2</i> )		2,351,900
Government grants	1,054,661	999,152
Deferred revenue	1,747,821	1,454,145
Pension obligations ( <i>Note 6</i> )		<u>126,583</u>
Total liabilities	<u>6,863,415</u>	<u>8,168,508</u>
Commitments and contingencies ( <i>Notes 11 and 13</i> )		
Net assets:		
Without donor restrictions	131,566,287	94,504,840
With donor restrictions ( <i>Notes 9 and 10</i> )	<u>146,823,089</u>	<u>133,009,113</u>
Total net assets	<u>278,389,376</u>	<u>227,513,953</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 285,252,791</u></b>	<b><u>\$ 235,682,461</u></b>

*See accompanying notes to consolidated financial statements.*

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# Texas Heart Institute

## Consolidated Statement of Activities for the year ended December 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Contributions from affiliates ( <i>Note 5</i> )	\$ 13,182,732		\$ 13,182,732
Government grants ( <i>Note 11</i> )		\$ 6,528,563	6,528,563
Other	29,475,978	1,544,359	31,020,337
Program revenue:			
Patient services	8,747,061		8,747,061
Research contracts	2,509,570		2,509,570
Tuition fees	407,933		407,933
Conference and training fees	149,451		149,451
Net investment return	10,693,458	20,303,172	30,996,630
Rental income	314,000		314,000
Other income	24,960		24,960
	<u>65,505,143</u>	<u>28,376,094</u>	<u>93,881,237</u>
Net assets released from restrictions:			
Program expenditures	<u>14,562,118</u>	<u>(14,562,118)</u>	
Total	<u>80,067,261</u>	<u>13,813,976</u>	<u>93,881,237</u>
EXPENSES:			
Program services:			
Cardiovascular research	19,429,858		19,429,858
Patient services	12,047,401		12,047,401
Cardiovascular education	567,475		567,475
School of perfusion	472,490		472,490
Total program services	32,517,224		32,517,224
Management and general	10,713,747		10,713,747
Fundraising	456,564		456,564
Total expenses	<u>43,687,535</u>		<u>43,687,535</u>
CHANGES IN NET ASSETS BEFORE PENSION LIABILITY ADJUSTMENTS			
	36,379,726	13,813,976	50,193,702
Other pension-related changes ( <i>Note 6</i> )	<u>681,721</u>		<u>681,721</u>
CHANGES IN NET ASSETS	37,061,447	13,813,976	50,875,423
Net assets, beginning of year	<u>94,504,840</u>	<u>133,009,113</u>	<u>227,513,953</u>
Net assets, end of year	<u>\$ 131,566,287</u>	<u>\$ 146,823,089</u>	<u>\$ 278,389,376</u>

*See accompanying notes to consolidated financial statements.*

# Texas Heart Institute

## Consolidated Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Contributions from affiliates ( <i>Note 5</i> )	\$ 13,028,361		\$ 13,028,361
Government grants ( <i>Note 11</i> )		\$ 3,835,795	3,835,795
Other	1,602,286	994,633	2,596,919
Program revenue:			
Patient services	1,946,918		1,946,918
Research contracts	1,989,410		1,989,410
Tuition fees	362,867		362,867
Conference and training fees	194,765		194,765
Net investment return	9,688,309	16,076,276	25,764,585
Rental income	263,233		263,233
Other income	17,917		17,917
Total revenue	29,094,066	20,906,704	50,000,770
Net assets released from restrictions:			
Program expenditures	10,366,276	(10,366,276)	
Total	39,460,342	10,540,428	50,000,770
EXPENSES:			
Program services:			
Cardiovascular research	18,793,555		18,793,555
Patient services	3,460,277		3,460,277
Cardiovascular education	618,757		618,757
School of perfusion	440,856		440,856
Total program services	23,313,445		23,313,445
Management and general	8,279,720		8,279,720
Fundraising	467,769		467,769
Total expenses	32,060,934		32,060,934
CHANGES IN NET ASSETS BEFORE PENSION LIABILITY ADJUSTMENTS			
	7,399,408	10,540,428	17,939,836
Other pension-related changes ( <i>Note 6</i> )	(109,522)		(109,522)
CHANGES IN NET ASSETS	7,289,886	10,540,428	17,830,314
Net assets, beginning of year	87,214,954	122,468,685	209,683,639
Net assets, end of year	\$ 94,504,840	\$ 133,009,113	\$ 227,513,953

*See accompanying notes to consolidated financial statements.*

## Texas Heart Institute

### Consolidated Statements of Functional Expenses for the years ended December 31, 2021 and 2020

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2021 TOTAL</u>
Personnel	\$ 21,788,933	\$ 6,065,996	\$ 349,717	\$ 28,204,646
Facilities expense (Note 5)	3,503,051	1,158,997	28,154	4,690,202
Supplies	3,019,277	409,663	5,744	3,434,684
Purchased services	1,659,174	1,118,481	65,877	2,843,532
Professional costs	677,015	1,651,656		2,328,671
Depreciation	<u>1,869,774</u>	<u>308,954</u>	<u>7,072</u>	<u>2,185,800</u>
Total expenses	<u>\$ 32,517,224</u>	<u>\$ 10,713,747</u>	<u>\$ 456,564</u>	<u>\$ 43,687,535</u>

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2020 TOTAL</u>
Personnel	\$ 15,012,771	\$ 4,921,083	\$ 343,278	\$ 20,277,132
Facilities expense (Note 5)	2,776,575	793,718	34,586	3,604,879
Supplies	2,143,610	282,647	28,099	2,454,356
Purchased services	1,250,050	717,732	50,694	2,018,476
Professional costs	332,006	1,268,189		1,600,195
Depreciation	<u>1,798,433</u>	<u>296,351</u>	<u>11,112</u>	<u>2,105,896</u>
Total expenses	<u>\$ 23,313,445</u>	<u>\$ 8,279,720</u>	<u>\$ 467,769</u>	<u>\$ 32,060,934</u>

See accompanying notes to consolidated financial statements.



## Texas Heart Institute

### Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020

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	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 50,875,423	\$ 17,830,314
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Contributions restricted for endowment funds	(101)	(26,761)
Contributed investments	(27,648,366)	
Depreciation	2,185,800	2,105,896
Net realized and unrealized gain on investments	(17,101,488)	(15,124,817)
Change in value of beneficial interest in funds held by affiliates	(11,700,370)	(9,339,363)
Changes in operating assets and liabilities:		
Accounts receivable	(438,401)	(84,856)
Operating contributions receivable	(998,845)	926,782
Prepaid expenses and other assets	(372,240)	(207,613)
Accounts payable and accrued expenses	55,849	335,419
Payable to CHI St. Luke's Health System	614,503	(651,209)
Accrued payroll expenses	153,853	293,580
Refundable advances	(2,296,391)	2,240,883
Deferred revenue	293,676	(165,126)
Pension assets and obligations	<u>(865,721)</u>	<u>(69,025)</u>
Net cash used by operating activities	<u>(7,242,819)</u>	<u>(1,935,896)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(16,002,649)	(21,904,351)
Proceeds from sale of investments and distributions	33,235,872	24,706,647
Change in money market mutual funds held as investments	(13,171,761)	284,148
Purchase of property and equipment	<u>(816,810)</u>	<u>(1,385,069)</u>
Net cash provided by investing activities	<u>3,244,652</u>	<u>1,701,375</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for endowment funds	<u>200,101</u>	<u>213,853</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,798,066)</b>	<b>(20,668)</b>
Cash and cash equivalents, beginning of year	<u>6,962,863</u>	<u>6,983,531</u>
Cash and cash equivalents, end of year	<u>\$ 3,164,797</u>	<u>\$ 6,962,863</u>

*See accompanying notes to consolidated financial statements.*

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## Texas Heart Institute

Notes to Consolidated Financial Statements for the years ended December 31, 2021 and 2020

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### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Texas Heart Institute (THI) is a Texas nonprofit organization founded by Dr. Denton A. Cooley in 1962 to reduce the devastating toll of cardiovascular disease through innovative programs in research, education, and improved patient care. Basic and clinical research is performed in all specialties of cardiovascular disease, including cardiology, cardiovascular surgery, anesthesiology, pathology, and cardiothoracic transplantation. Education involves the training of medical residents and fellows in cardiovascular specialties, as well as continuing education for medical doctors and educational information for the public.

Cardiopulmonary Perfusion Associates (CPPA) is a Texas nonprofit corporation. CPPA trains and grants post baccalaureate certificates of completion in the field of cardiopulmonary perfusion technology.

Texas Heart Medical Group (THMG) is a Texas nonprofit corporation formed in September 2020. The sole member of THMG is THI. THMG is a multi-cultural clinical practice specializing in comprehensive cardiovascular care with a mission to promote wellness and longevity while providing the highest quality medical care in a sophisticated and welcoming patient-oriented atmosphere.

Basis of consolidation – These consolidated financial statements include the assets, liabilities, net assets and activities of THI, CPPA and THMG (collectively the Institute). All significant intercompany balances and transactions have been eliminated in consolidation.

Federal income tax status – THI, CPPA and THMG are each exempt from federal income tax under §501(c)(3) of the Internal Revenue Code (the Code).

Cash equivalents include highly liquid financial instruments with original maturities of three months or less, except that such instruments held for long-term investment are grouped with investments.

Contributions receivable that are due within one year are reported at net realizable value. Amounts expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows, if material. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contributions revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a donor-by-donor analysis of balances. At December 31, 2021, all contributions receivable are expected to be collected within one year.

Investments in marketable securities are reported at fair value. Investments in equities which do not have a readily determinable fair value and do not qualify for the practical expedient are reported at cost or at estimated fair value if an other-than-temporary impairment has occurred. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Beneficial interest in funds held by affiliates is reported at the estimated fair value of the Institute's share of the fund assets. Changes in the fair value of beneficial interest are reported with net investment return in the consolidated statement of activities.

Property and equipment are reported at cost if purchased or at fair value at the date of gift if donated. The Institute capitalizes property and equipment that have a cost or fair value of \$5,000 or greater and an estimated useful life of more than one year. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from 5 to 50 years.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before the Institute is entitled to receive or retain funding. Conditional contributions are recognized in the same manner when the conditions have been met. Funding received before conditions are met is reported as refundable advances.

Program revenue is derived from patient services, research contracts, tuition fees, and conference and training fees. The nature of these services does not give rise to contract costs, refunds, warranties or other related obligations. The Institute does not require collateral, does not provide financing, and amounts billed are generally due upon receipt of invoice.

*Patient services* – Revenue is recognized at the time the services are provided. These amounts are due from patients and third-party payors and include variable considerations such as explicit and implicit price concessions. Explicit price concessions include contractual adjustments provided to patients and third-party payors. Implicit price concessions include discounts provided to self-pay, uninsured patients or other payors and adjustments resulting from payor billing review. Amounts are generally billed at time of service. Subsequent changes to the estimate of the transaction price are recorded to patient service revenue in the year of change. The Institute had no material adjustments related to subsequent changes in the estimate of the transaction price for the years reported.

*Research contracts* – Revenue is recognized over time as performance obligations are met using the input method based on the labor hours expended and third-party costs incurred in relation to total estimated costs. Estimates of research contracts revenue and costs are monitored over the lives of the contracts, and recorded revenues and cost estimates are subject to revision as the contracts progress. Amounts are billed as work progresses in accordance with agreed-upon terms, either at periodic intervals or upon achievement of milestones. Accounts receivable represent contract payments due for completed performance obligations. Payments collected but not yet recognized as revenue are reported as deferred revenue.

Patient service accounts receivable consist of amounts due from patients and third-party payors and are based on amounts that reflect the consideration to which the Institute expects to be entitled in exchange for physician services provided. Reimbursement rates for private pay are based on established rates of THMG. Reimbursement rates from government programs are established by the appropriate governmental agency and are standard across all providers adjusted for the regional wage index. Reimbursement rates from commercial health insurers are individually negotiated with each payor.

The percentage mix of revenue from patients and third-party payors at December 31 are as follows:

	<u>2021</u>	<u>2020</u>
Commercial insurance carriers and self-pay	71%	66%
Medicare	<u>29%</u>	<u>34%</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>

An allowance for uncollectible accounts is established for patient accounts in which there has been an adverse change in the patient's or third-party payors' ability to pay. Accounts are written off after all collection efforts have been exhausted and the account is deemed uncollectible.

The percentage mix of receivables from patients and third-party payors at December 31 are as follows:

	<u>2021</u>	<u>2020</u>
Commercial insurance carriers and self-pay	74%	62%
Medicare	26%	37%
Medicaid	<u>0%</u>	<u>1%</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>

*Tuition fees* – The Institute School of Perfusion Technology offers a post-baccalaureate certificate in perfusion technology. The 18-month course trains students to use the cardiopulmonary bypass machine and other equipment associated with open heart surgery. New classes begin every 6 months in January and July. Revenue is recognized ratably over time as services are provided. All performance obligations related to tuition fees are satisfied within the 18-month course period. Tuition fees are due before the class begins. Revenue from tuition fees collected in advance are deferred and recognized ratably over the course period. All performance obligations are expected to be fulfilled within 12 months of year end.

*Conference and training fees* – The Institute offers conferences and training classes for continuing medical education. Revenue from conferences and training classes is recognized at a point in time when the conference or class occurs.

Accounts receivable and contract liabilities related to fees and program revenue at December 31 are as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Accounts receivable:			
Patient services	\$1,190,734	\$867,152	
Research contracts	\$682,026	\$679,808	\$1,611,678
Conference and training fees	\$241,255	\$225,600	\$125,000
Contract liabilities:			
Deferred revenue – research contracts	\$1,653,154	\$1,316,645	\$1,565,104
Deferred revenue – tuition fees	\$94,667	\$137,500	\$54,167

The Institute has no contract assets at December 31, 2021, 2020, or 2019.

Rental income is recognized ratably over the term of the lease.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and facility costs are allocated based on head count.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts reported as revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The Institute is required to adopt this ASU for fiscal year 2022. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

## NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31 comprise of the following:

	<u>2021</u>	<u>2020</u>
Financial assets:		
Cash and cash equivalents	\$ 3,164,797	\$ 6,962,863
Accounts receivable	2,272,662	1,834,261
Operating contributions receivable	1,624,184	625,339
Investments	158,986,089	112,062,253
Beneficial interest in funds held by affiliates	95,444,454	89,979,528
Contributions receivable restricted for endowment funds	<u>600,000</u>	<u>800,000</u>
Total financial assets	262,092,186	212,264,244
Less financial assets not available for general expenditure:		
Beneficial interest in funds held by affiliates	(95,444,454)	(89,979,528)
Donor-restricted endowment funds	(44,927,461)	(36,896,218)
Donor-restricted funds not expected to be used within one year	<u>(5,316,861)</u>	<u>(5,124,209)</u>
Total financial assets available for general expenditure	<u>\$ 116,403,410</u>	<u>\$ 80,264,289</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Institute considers all expenditures related to its ongoing program activities, as well as the conduct of services undertaken to support those activities, to be general expenditures. As part of the Institute's liquidity management, financial assets have been structured to be available as its general expenditures, liabilities, and other obligations become due by maintaining a significant portion of its assets in cash and investments.

The Institute received a \$2,351,900 Paycheck Protection Program (PPP) loan through the U. S. Small Business Administration in April 2020. In July 2021, the Institute was notified that the loan had been fully forgiven and it was recognized as a government grant contribution in fiscal year 2021.

### NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2021</u>	<u>2020</u>
Demand deposits	\$ 2,618,142	\$ 5,080,214
Money market mutual funds	<u>546,655</u>	<u>1,882,649</u>
Total cash and cash equivalents	<u>\$ 3,164,797</u>	<u>\$ 6,962,863</u>

Bank deposits exceed the federally insured limit per depositor per institution.

### NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following:

	<u>2021</u>	<u>2020</u>
Common stock	\$ 102,743,105	\$ 68,251,632
Mutual funds	28,623,700	13,247,712
Exchange-traded funds	14,939,558	13,001,895
Corporate bonds	9,417,250	9,328,990
Government agency securities and U. S. Treasury notes	3,262,476	3,232,024
Private equity funds, at cost	<u>5,000,000</u>	<u>5,000,000</u>
Total investments	<u>\$ 158,986,089</u>	<u>\$ 112,062,253</u>

Private equity funds consist of the Institute's \$5 million private equity investment in 666,667 shares of Series B Preferred Stock of Miromatrix Medical, Inc. (Miromatrix) purchased in May 2014. Miromatrix became a publicly-traded entity in 2021 and the Institute's Preferred Stock was converted to common shares at a 1:1 ratio.

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.

- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stock:				
Information technology	\$ 25,672,087			\$ 25,672,087
Industrials	23,050,914			23,050,914
Health care	13,774,604			13,774,604
Financials	11,892,478			11,892,478
Consumer discretionary	4,816,713			4,816,713
Communication services	4,660,722			4,660,722
Consumer staples	4,485,432			4,485,432
Consumer cyclical	4,240,477			4,240,477
Consumer defensive	3,878,642			3,878,642
Materials	3,250,341			3,250,341
Energy	2,225,740			2,225,740
Utilities	621,965			621,965
Real estate	172,990			172,990
Money market mutual funds	16,418,479			16,418,479
Exchange-traded funds:				
Large-cap	5,378,542			5,378,542
International large-cap	4,473,458			4,473,458
Mid-cap	3,376,930			3,376,930
Small-cap	1,710,628			1,710,628
Equity mutual funds:				
Market neutral	3,196,593			3,196,593
Long/short	2,704,736			2,704,736
Diversified emerging markets	2,616,900			2,616,900
Commodities	1,849,065			1,849,065
Nontraditional bonds	1,162,895			1,162,895
Managed futures	675,032			675,032
Corporate bonds:				
Domestic		\$ 8,812,702		8,812,702
International		604,548		604,548
Government agency securities		2,526,286		2,526,286
U. S. Treasury notes	736,190			736,190
Investments measured at fair value	147,042,553	11,943,536		158,986,089
Money market mutual funds held as cash equivalents	546,655			546,655
Beneficial interest in funds held by affiliates			\$ 95,444,454	95,444,454
Total assets measured at fair value	<u>\$ 147,589,208</u>	<u>\$ 11,943,536</u>	<u>\$ 95,444,454</u>	<u>\$ 254,977,198</u>

Assets measured at fair value at December 31, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Common stock:				
Information technology	\$ 19,762,635			\$ 19,762,635
Industrials	5,798,507			5,798,507
Health care	8,613,189			8,613,189
Financials	9,950,130			9,950,130
Consumer discretionary	4,335,402			4,335,402
Communication services	4,060,479			4,060,479
Consumer staples	3,651,855			3,651,855
Consumer cyclical	3,784,281			3,784,281
Consumer defensive	3,228,456			3,228,456
Materials	2,681,422			2,681,422
Energy	1,539,928			1,539,928
Utilities	531,174			531,174
Real estate	314,174			314,174
Money market mutual funds	3,246,718			3,246,718
Exchange-traded funds:				
Large-cap	4,847,747			4,847,747
International large-cap	3,715,295			3,715,295
Mid-cap	2,881,157			2,881,157
Small-cap	1,557,696			1,557,696
Equity mutual funds:				
Market neutral	2,551,895			2,551,895
Long/short	2,237,232			2,237,232
Diversified emerging markets	1,476,423			1,476,423
Commodities	2,192,332			2,192,332
Nontraditional bonds	961,432			961,432
Managed futures	581,680			581,680
Corporate bonds:				
Domestic		\$ 8,419,147		8,419,147
International		909,843		909,843
Government agency securities		2,649,978		2,649,978
U. S. Treasury notes	582,046			582,046
Investments measured at fair value	95,083,285	11,978,968		107,062,253
Money market mutual funds held as cash equivalents	1,882,649			1,882,649
Beneficial interest in funds held by affiliates			\$ 89,979,528	89,979,528
Total assets measured at fair value	<u>\$ 96,965,934</u>	<u>\$ 11,978,968</u>	<u>\$ 89,979,528</u>	<u>\$ 198,924,430</u>

Valuation methods used for assets measured at fair value are as follows:

- *Common stock* and *exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Mutual funds* are valued at the daily closing price as reported by the funds.



- *Corporate bonds and government agency securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas to calculate fair values.
- *U. S. Treasury notes* are valued using prices obtained from active market maker and inter-dealer brokers on a daily basis.
- *Beneficial interest in funds held by affiliates* are valued based on the Institute’s percentage ownership in the fair value of the underlying assets of the funds managed by the affiliates.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institute believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in the fair value of Level 3 assets consist of the following:

	HELD BY <u>SLHS</u>	HELD BY <u>CHI</u>	BENEFICIAL INTEREST IN FUNDS HELD BY AFFILIATES
Balance at January 1, 2020	\$ 12,238,072	\$ 72,738,727	\$ 84,976,799
Distributions	(458,002)	(3,878,632)	(4,336,634)
Change in value of beneficial interest in funds held by affiliates	<u>1,384,745</u>	<u>7,954,618</u>	<u>9,339,363</u>
Balance at December 31, 2020	13,164,815	76,814,713	89,979,528
Distributions	(470,610)	(5,764,834)	(6,235,444)
Change in value of beneficial interest in funds held by affiliates	<u>1,709,306</u>	<u>9,991,064</u>	<u>11,700,370</u>
Balance at December 31, 2021	<u>\$ 14,403,511</u>	<u>\$ 81,040,943</u>	<u>\$ 95,444,454</u>

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

**NOTE 5 – TRANSACTIONS WITH CATHOLIC HEALTH INITIATIVES AND CHI ST. LUKE’S HEALTH – BAYLOR ST. LUKE’S MEDICAL CENTER**

*Conditional Contribution* – The Institute entered into a Mission Support Agreement, effective December 2013, with Catholic Health Initiatives (CHI), a Colorado nonprofit corporation. CHI is a Catholic health care system dedicated to transforming health care delivery and building healthier communities and is the sole corporate member of St. Luke’s Health System Corporation (SLHS), a Texas nonprofit corporation, which comprises an expansive health care network throughout the Houston-Baytown-Huntsville, Texas area that includes CHI St. Luke’s Health – Baylor St. Luke’s Medical Center (SLMC). The purpose of the agreement is to collaborate for the purpose of furthering the development and success of the Institute’s mission to reduce the devastating toll of cardiovascular disease through innovative programs in research, education, and improved patient care, and CHI’s commitment to improving the health of the people in communities it serves. The agreement governs the financial support provided by CHI to the Institute and the initial term ends on December 31, 2023.

At December 31, 2021, the Institute has a \$24 million conditional contribution from CHI for financial support. The contribution is contingent upon the Institute meeting certain financial and operational objectives, recruiting research staff, and purchasing research equipment. Annual support of \$12 million, adjusted for inflation, may be recognized through fiscal year 2023 as contribution revenue each year if the conditions are met.

*Beneficial Interest in Funds Held by Affiliates* – In 2006, SLHS received \$10 million from a foundation for the support and benefit of the Institute. These funds are held and invested by SLHS and the income from the investment portfolio is distributed by SLHS annually. In the event the investment portfolio yield does not permit a minimum distribution of 4% on an annualized basis, the corpus of the gift is to be invaded to permit this minimum distribution to the Institute.

In 2013, a tax-exempt foundation made a gift in the amount of \$50 million for the benefit of the Institute. The gifted funds have been and continue to be held by CHI pursuant to the donor's stated intention that CHI use the gifted funds to support and benefit THI as long as such entity remains affiliated with SLHS. The terms of the gift provide that the gifted funds are not intended to be held by CHI as an endowment for THI, but rather are to be disbursed and deployed by CHI to support the Institute.

*Other Transactions with Affiliates* – The Institute and SLMC jointly own the Denton A. Cooley Building, an approximately 310,000 square foot cardiovascular center. The Institute occupies approximately 43% of the building. SLMC pays facility operations expenses on behalf of the Institute and the Institute reimburses SLMC quarterly for expenses paid on its behalf. At December 31, 2021 and 2020, \$1,952,249 and \$1,337,746, respectively, are payable to SLMC for expenses paid on behalf of the Institute.

The Institute leases space from SLMC for the purposes of furthering its mission. Rent expense was \$1,277,430 in 2021 and \$890,330 in 2020.

## **NOTE 6 – PENSION PLAN**

The Institute's retirement plan (the Plan) is a noncontributory, cash balance defined benefit pension plan covering substantially all employees of the Institute. The Institute makes annual contributions to the Plan to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. The Plan was frozen effective September 30, 2015.

The Plan obtained its latest determination letter on October 13, 2011, in which the Internal Revenue Service (IRS) stated that the Plan and related trust, as then designed, were in compliance with the applicable requirements of the Code and, therefore, exempt from taxation. Subsequent to this determination by the IRS, the Plan was amended to freeze the grandfathered benefit accrual formula. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. However, Plan management believes that the Plan and related trust are currently designed and being operated in compliance with the applicable requirements of the Code and therefore believes that the Plan, as amended, is qualified and the related trust is tax-exempt.

The assets of the Plan are not segregated by subsidiary for plan valuation or payment of benefits and should not be construed as being segregated among the subsidiaries. The accounting and valuation for the Plan are determined by prescribed accounting and actuarial methods that consider a number of assumptions and estimates. The selection of appropriate assumptions and estimates is significant due to the long-term period over which benefits will be considered. The most sensitive assumptions in using actuarial methods to value the Institute's pension obligations and determine the related expense amounts are discount rates, expected long-term investment returns on Plan assets and future salary increases.

Additionally, other assumptions made with respect to retirement ages, mortality and employee turnover affect the valuations. Actual results and future changes in these assumptions could result in future costs significantly different than those recorded in the results of operations.

The following table sets forth the Plan's funded status, factors assumed, and amounts as of the measurement date of December 31, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Changes in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 8,455,891	\$ 8,072,993
Service cost	41,000	45,000
Interest cost on projected benefit obligation	185,592	244,135
Actuarial (gain) loss	(350,331)	581,825
Benefits paid from Plan assets	(262,105)	(447,901)
Administrative expenses paid	<u>(43,514)</u>	<u>(40,161)</u>
Projected benefit obligation, end of year	<u>8,026,533</u>	<u>8,455,891</u>
Change in Plan assets:		
Fair value of Plan assets, beginning of year	8,329,308	7,877,385
Actual return of Plan assets	516,982	774,985
Employer contributions	225,000	165,000
Benefits paid	(262,105)	(447,901)
Administrative expenses paid	<u>(43,514)</u>	<u>(40,161)</u>
Fair value of Plan assets, end of year	<u>8,765,671</u>	<u>8,329,308</u>
Unfunded (over funded) status	<u>\$ (739,138)</u>	<u>\$ 126,583</u>
Amounts recognized in the consolidated statement of financial position:		
Pension assets (obligation)	<u>\$ 739,138</u>	<u>\$ (126,583)</u>
Amounts recognized in the consolidated statement of activities:		
Pension costs included in personnel expenses	<u>\$ (71,284)</u>	<u>\$ (13,547)</u>
Components of net periodic benefit cost:		
Service cost	\$ 41,000	\$ 45,000
Interest cost on projected benefit obligation	185,592	244,135
Expected return on Plan assets	(341,795)	(343,356)
Recognized net actuarial loss	<u>43,919</u>	<u>40,674</u>
Net periodic benefit cost	<u>\$ (71,284)</u>	<u>\$ (13,547)</u>

The estimated net loss that will be amortized from net assets into net periodic benefit cost over the next fiscal year will be based on the average expected future service of Plan participants. There is no estimated prior service credit that will be amortized from net assets into net periodic benefit cost over the next fiscal year.

Other pension-related changes are as follows:

	<u>2021</u>	<u>2020</u>
Net (gain) loss arising during the year	\$ (525,518)	\$ 150,196
Amortization of net actuarial gain	(43,919)	(40,674)
Interest cost	185,592	
Amortization of net loss	43,919	
Expected return on plan assets	<u>(341,795)</u>	<u>                    </u>
Other pension-related changes	<u>\$ (681,721)</u>	<u>\$ 109,522</u>

Weighted-average assumptions used to determine benefit obligations for the Plan measurement date:

	<u>2021</u>	<u>2020</u>
Discount rate	2.76%	2.35%
Rate of compensation return	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost for the Plan measurement date:

Discount rate	2.35%	3.25%
Expected return on Plan assets	4.35%	4.65%
Rate of compensation return	N/A	N/A

The Plan's expected return on assets is derived from a review of the Plan's asset allocation strategy, anticipated long-term performance of individual asset classes, risks and correlations of asset classes, and general economic conditions of the investment marketplace.

The assets of the Plan by weighted-average asset allocation categories are as set forth in the following table:

	<u>2021</u>	<u>2020</u>
Asset category:		
Mutual funds	12%	12%
Common collective trusts	<u>88%</u>	<u>88%</u>
Total	<u>100%</u>	<u>100%</u>

The Plan's general investment objective is to achieve attractive long-term total return from income and growth of capital over a full market cycle, with a low to moderate level of risk, through investments in a well-diversified portfolio of equity, fixed-income, and short-term liquid securities.

Plan assets measured at fair value at December 31, 2021 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity mutual funds:				
High yield bond	\$ 365,719			\$ 365,719
Global real estate	186,340			186,340
Infrastructure	184,955			184,955
Large value exchange-traded funds	<u>302,178</u>			<u>302,178</u>
Total assets measured at fair value	<u>\$ 1,039,192</u>	<u>\$ 0</u>	<u>\$ 0</u>	1,039,192
Plan assets measured at net asset value as practical expedient:				
Collective trust funds				<u>7,726,479</u>
Total Plan assets measured at fair value				<u>\$ 8,765,671</u>

Plan assets measured at fair value at December 31, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity mutual funds:				
High yield bond	\$ 349,488			\$ 349,488
Global real estate	173,582			173,582
Infrastructure	170,872			170,872
Large value exchange-traded funds	<u>283,423</u>			<u>283,423</u>
Total assets measured at fair value	<u>\$ 977,365</u>	<u>\$ 0</u>	<u>\$ 0</u>	977,365
Plan assets measured at net asset value as practical expedient:				
Collective trust funds				<u>7,351,943</u>
Total Plan assets measured at fair value				<u>\$ 8,329,308</u>

The collective trust funds have no redemption restrictions; however, should the Plan initiate a full redemption of the collective trust funds, the investment advisor reserves the right to temporarily delay withdrawal from the funds. There were no unfunded commitments at December 31, 2021.

Valuation methods used for Plan assets measured at fair value are as follows:

- *Mutual funds* are valued at the daily closing price as reported by the funds.
- *Exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Collective trust funds* are valued at net asset value (NAV) of the shares held by the Plan. The NAV is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund, less liabilities.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

The Institute expects to contribute \$180,000 to the Plan in fiscal year 2022.

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid as follows:

2022	\$1,074,168
2023	\$1,035,646
2024	\$897,484
2025	\$792,717
2026	\$484,362
2027 to 2031	\$1,864,675

## NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2021</u>	<u>2020</u>
Building	\$ 46,155,436	\$ 46,155,436
Furniture and equipment	18,986,150	18,456,400
Leasehold improvements	537,680	537,680
Software	635,602	387,361
Artwork	89,840	89,840
Construction in progress	<u>38,820</u>	<u>          </u>
Total property and equipment, at cost	66,443,528	65,626,717
Accumulated depreciation	<u>(44,815,689)</u>	<u>(42,629,888)</u>
Property and equipment, net	<u>\$ 21,627,839</u>	<u>\$ 22,996,829</u>

## NOTE 8 – RETIREMENT PLAN

THI has a tax-sheltered annuity plan (the TSA Plan) established under §403(b) of the Code. Under the terms of the TSA Plan, THI matches 50% of employees' contributions for amounts contributed by employees up to a maximum of 3% of employees' wages. Employees are fully vested in their own contributions and become 100% vested in the employer's matching contributions after completing three years of service. Vested service is based on 1,000 hours or more of paid service during each year. THI contributed to the TSA Plan approximately \$433,000 in 2021 and \$276,000 in 2020.

Additionally, THMG has a defined contribution plan established under §401(k) of the Code for its employees, other than excluded employees defined by the plan document. Employees are eligible to make salary deferrals immediately. Participants are eligible to receive a discretionary employer matching contribution equal to 50% of the salary deferral up to 6% of the employees' compensation, if employed as of the last day of the plan year up to the maximum limitation under the Code. Additionally, THMG may make a discretionary employer profit sharing contribution to those employed the last day of the plan year. Employee contributions vest immediately. Employer contributions vest after three years of service. THMG contributed approximately \$134,000 and \$4,600 to the plan in 2021 and 2020, respectively.

## NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Cardiovascular excellence, research, prevention services and education	\$ 81,040,942	\$ 76,814,712
O’Quinn James T. Willerson Chair	7,201,756	6,582,408
O’Quinn O. H. Frazier Chair	7,201,756	6,582,407
Center for Women’s Heart and Vascular	4,113,422	3,471,151
Stem cell research	581,213	599,249
Regenerative cardiovascular research	497,532	761,662
Other	<u>892,204</u>	<u>1,160,435</u>
Total subject to expenditure for specified purpose	<u>101,528,825</u>	<u>95,972,024</u>
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	<u>366,803</u>	<u>140,871</u>
Endowments:		
Subject to spending policy and appropriation:		
Stem cell research	14,975,585	12,241,332
Artificial heart research and development	8,805,950	7,307,703
General endowment funds	8,620,722	7,268,304
Cardiovascular surgical research with a focus on children	5,350,918	4,373,944
Huffington Foundation Bicentennial Endowment Fund	5,236,609	4,121,040
Cardiology research	1,323,259	1,081,658
Annual cardio symposium	<u>614,418</u>	<u>502,237</u>
Total endowments	<u>44,927,461</u>	<u>36,896,218</u>
Total net assets with donor restrictions	<u>\$ 146,823,089</u>	<u>\$ 133,009,113</u>

## NOTE 10 – ENDOWMENT FUNDS

THI Foundation endowment was established to provide long-term support for operations. Donor-restricted endowment funds are maintained in accordance with explicit donor stipulations and are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). TUPMIFA provides guidelines about what constitutes prudent spending and explicitly requires consideration of preservation of the fund. The Board of Trustees of THI Foundation has interpreted TUPMIFA as requiring a focus on the entirety of donor-restricted endowment funds, including original gift amounts and net appreciation, allowing THI Foundation to appropriate for expenditure or accumulate as much of an endowment fund as considered prudent for the uses, benefits, purposes, and duration for which the fund was established, subject to explicit donor stipulations.

As a result of this interpretation, THI Foundation classifies contributions to an endowment plus any donor-stipulated accumulations as *net assets with donor restrictions* required to be maintained in perpetuity. This amount is not reduced by investment losses or by appropriation and spending. The portion of the endowment not required to be maintained in perpetuity is also classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any.

An endowment fund is *underwater* if the fair value of the fund's investments falls below the amount required to be maintained in perpetuity because of declines in the fair value of investments and/or continued appropriation and spending in accordance with prudent spending. There were no such deficiencies at December 31, 2021 and 2020.

### Investment Objectives and Spending Policy

THI Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that THI Foundation must hold in perpetuity or for a donor-specified period.

To satisfy its long-term objectives, THI Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints. The investment policy allows for approximately 70% of endowment investments to be invested in equities with the balance invested in fixed-income securities.

Changes in the donor-restricted endowment funds are as follows:

	<u>WITH DONOR RESTRICTIONS</u>		
	<u>ACCUMULATED</u>	<u>REQUIRED TO BE</u>	
	<u>NET INVESTMENT</u>	<u>MAINTAINED</u>	
	<u>RETURN</u>	<u>IN PERPETUITY</u>	<u>TOTAL</u>
Endowment net assets, December 31, 2019	\$ 11,543,760	\$ 19,165,607	\$ 30,709,367
Contributions		26,761	26,761
Net investment return	5,973,013	763,900	6,736,913
Distributions	<u>(576,823)</u>		<u>(576,823)</u>
Endowment net assets, December 31, 2020	<u>16,939,950</u>	<u>19,956,268</u>	<u>36,896,218</u>
Contributions		101	101
Net investment return	7,487,233	1,115,569	8,602,802
Distributions	<u>(571,660)</u>		<u>(571,660)</u>
Endowment net assets, December 31, 2021	<u>\$ 23,855,523</u>	<u>\$ 21,071,938</u>	<u>\$ 44,927,461</u>

### NOTE 11 – GOVERNMENT GRANTS

Government grants recognized are as follows:

	<u>2021</u>	<u>2020</u>
Federal government grants:		
U. S. Department of Health and Human Services	\$ 2,438,817	\$ 2,039,650
U. S. Department of Defense	164,074	96,276
National Science Foundation	44,377	70,496
National Aeronautics and Space Administration	<u>2,914</u>	<u>19,629</u>
Total federal government grants	2,650,182	2,226,051
U. S. Small Business Administration – PPP loan forgiveness	2,351,900	
State government grants – State of Texas General Appropriations Act	<u>1,526,481</u>	<u>1,609,744</u>
Total government grants	<u>\$ 6,528,563</u>	<u>\$ 3,835,795</u>



Government grant contracts are recognized as contributions that are derived from cost-reimbursable federal and other government contracts, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Institute has incurred expenditures in compliance with specific contract provisions. The Institute was awarded cost-reimbursable grants of approximately \$1.2 million that have not been recognized at December 31, 2021 because qualifying expenditures have not yet been incurred or the contracts stipulate these qualifying expenditures have not been approved by the government audit compliance officials as reimbursable amounts.

The Institute receives grants from federal and state government funding sources that require fulfillment of certain conditions as set forth in the related contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by the Institute with the terms of the contracts. Management believes such disallowances, if any, would not be material to the Institute's financial position or changes in net assets.

#### **NOTE 12 – RELATED PARTY TRANSACTIONS**

A trustee of the Institute is a partner in a law firm that provides legal services to the Institute. Fees paid by the Institute to this firm totaled approximately \$171,000 in 2021 and \$190,000 in 2020.

#### **NOTE 13 – COMMITMENTS**

Pursuant to a Sub-License agreement effective October 1, 2013 between Miromatrix and the Institute, both parties agreed to sub-license certain patents and patent applications, as described in the agreement. Under terms of the Sub-License agreement, Miromatrix shall pay to the Institute a royalty of 5% of the net sales price from commercial sales of specific products by Miromatrix or its affiliates, while the Institute shall pay to Miromatrix a royalty of 10% of the net sales price from commercial sales of specific products by the Institute or its affiliates or sub-licensees, as defined by the agreement. No amounts were received or paid under this Sub-License agreement in fiscal years 2021 or 2020.

#### **NOTE 14 – SUBSEQUENT EVENTS**

During June 2022, the Institute and CHI each delivered notice to the other of its election to terminate the Mission Support Agreement at the end of its initial term on December 31, 2023. In such notices of termination, the Institute and CHI each expressed its intention to enter into discussions with the other regarding arrangements between them to be effective following December 31, 2023. CHI provided approximately \$13.2 million of support to the Institute in fiscal year 2021 under the current Mission Support Agreement.

Management has evaluated subsequent events through August 18, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than as disclosed above, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

## Texas Heart Institute

### Schedule of Expenditures of Federal Awards for the year ended December 31, 2021

<u>GRANTOR</u>	<u>Assistance</u>	<u>Contract Number</u>	<u>Award</u>	<u>Federal</u>	<u>Subrecipient</u>
<u>Pass-through Grantor</u>	<u>Listing</u>	<u>or Pass-through</u>	<u>Amount</u>	<u>Expenditures</u>	<u>Expenditures</u>
<u>Program Title &amp; Period</u>	<u>Number</u>	<u>Grantor Number</u>			
U. S. DEPARTMENT OF DEFENSE					
Passed through University of Miami:					
Military Medical Research and Development					
A Phase 2B Multicenter Study of the Comparative Efficacy and Safety of					
Transendocardial of MSC in Patients with Nonischemic Dilated Cardiomyopathy					
#1	05/01/20 – 04/30/22	12.420	OS00000031	\$330,975	\$ 152,274
Military Medical Research and Development					
A Phase IIb, Randomized, Placebo-Controlled, Multicenter Study of The					
Comparative Efficacy and Safety of Allogeneic Mesenchymal Stem Cells					
in Non-Ischemic Dilated Cardiomyopathy Patients (DCM-II)					
#2	05/01/21 – 04/30/22	12.420	SA0000931	N/A	<u>9,049</u>
Total U. S. Department of Defense					<u>161,323</u>
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION					
Passed through Brigham and Women’s Hospital, Inc.:					
Space Operations					
Sex- and ApoE-Specific Late CNS and Cardiovascular Effects of Space Radiation					
#3	06/01/21 – 05/31/22	43.007	119422	\$36,535	<u>2,914</u>
Total National Aeronautics and Space Administration					<u>2,914</u>
NATIONAL SCIENCE FOUNDATION					
Passed through William Marsh Rice University:					
Computer and Information Science and Engineering					
Collaborative Research: Patient Specific Multisite Pacing of					
Diseased Human Heart					
#4	10/01/20 – 09/30/21	47.070	R3H831	\$84,714	28,715
#5	10/01/21 – 09/30/22	47.070	R3H831	\$80,260	<u>15,662</u>
Total National Science Foundation					<u>44,377</u>
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Passed through 7 Hills Pharma, LLC:					
Cancer Treatment Research					
Development of 7HP349, an Oral Integrin Activator to Enhance					
Therapeutic Responses to Immune Checkpoint Inhibitors					
#6	09/11/20 – 08/31/21	93.395	1R44CA250646-01A1	\$82,758	68,394

(continued)

# Texas Heart Institute

Schedule of Expenditures of Federal Awards for the year ended December 31, 2021 *(continued)*

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

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES *(continued)*

Passed through 7 Hills Pharma, LLC:

	Cancer Treatment Research				
	Development of 7HP349, an Oral Integrin Activator to Enhance				
	Therapeutic Responses to Immune Checkpoint Inhibitors				
#7	09/01/21 – 08/31/22	93.395	1R44CA250646-02	\$82,758	<u>24,387</u>
Total 93.395					<u>92,781</u>

Direct:

	Cardiovascular Diseases Research				
	Hippo and WNT Signaling in Cardiac Regeneration				
#8	01/01/21 – 12/31/21	93.837	5R01HL127717-06	\$588,686	467,680
	Cardiovascular Diseases Research				
	Leadless Wirelessly Powered Pacemaker for Multi-Chamber				
	Pacing Using Miniaturized Pacing and Sensing Node				
#9	08/01/20 – 07/31/21	93.837	5R01HL144683-02	\$575,514	408,245
#10	08/01/21 – 07/31/22	93.837	5R01HL144683-03	\$593,955	307,070
	Cardiovascular Diseases Research				
	Using a Cardiac Microtissue System to Evaluate and Replicate				
	Clinical Therapy Responses using Patient Cell-Derived Exosomes				
#11	05/01/20 – 04/30/22	93.837	5R21HL144244-02	\$203,750	137,516
	Cardiovascular Diseases Research				
	Development of a Fully-Implantable Ventricular Assist Device				
	for Neonates and Children with Heart Failure – with Magnetic				
	Levitation to Improve Hemocompatibility				
#12	08/01/20 – 06/30/21	93.837	1R01HL153538-01	\$747,630	274,312
#13	07/01/21 – 06/30/22	93.837	5R01HL153538-02	\$640,106	345,336

Passed through Texas A&M Engineering Experiment Station:

	Cardiovascular Diseases Research				
	The Effect of Systematic Hypertension on Prognosis of				
	Understanding, Prediction and Therapy Evaluation				
#14	04/01/21 – 03/31/22	93.837	M2001900	\$24,999	17,432

Passed through 7 Hills Pharma, LLC:

	Cardiovascular Diseases Research				
	A Small Molecule Integrin Activator to Enhance Cord Blood Transplant				
#15	03/15/20 – 02/28/21	93.837	2R42HL129612-02	\$267,918	19,908
#16	03/01/21 – 02/28/22	93.837	2R42HL129612-03	\$267,918	192,567

*(continued)*

## Texas Heart Institute

Schedule of Expenditures of Federal Awards for the year ended December 31, 2021 *(continued)*

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

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES *(continued)*

Passed through Baylor College of Medicine:

Cardiovascular Diseases Research					
Molecular Physiology of the Cardiovascular System					
#17 06/24/21 – 06/23/22	93.837	T32-HL007676-30	\$70,798	34,764	

Passed through Bivacor, Inc.:

Cardiovascular Diseases Research					
Urgent and Unmet Need for a Long-Term Solution for Increasing Pediatric					
Heart-Failure Population: BiVACOR Rotary Total Artificial Heart					
#18 08/05/21 – 07/31/22	93.837	1R44HL156370-01	\$42,832	30,190	
Total 93.837				2,235,020	502,810

Passed through Aviara Pharmaceutical, Inc.:

Diabetes, Digestive, and Kidney Diseases Extramural Research					
Selective Targeting of High Affinity Alpha4 Integrins as a Safe					
Treatment Strategy for IBD					
#19 09/16/20 – 09/15/22	93.847	1R41DK127869-01	\$128,501	82,728	

Direct:

Extramural Research Programs in the Neurosciences and Neurological Disorders					
A Patient-Specific Analysis Framework for Assessing Stroke Risk in					
Pediatric Moyamoya Disease					
#20 09/30/19 – 08/31/21	93.853	5R03NS110442-02	\$81,500	28,288	
Total U. S. Department of Health and Human Services				2,438,817	502,810
TOTAL FEDERAL AWARDS				\$ 2,647,431	\$ 502,810

Research and Development Cluster:

12.420	Military Medical Research and Development	\$	161,323
43.007	Space Operations		2,914
47.070	Computer and Information Science and Engineering		44,377
93.395	Cancer Treatment Research		92,781
93.837	Cardiovascular Diseases Research		2,235,020
93.847	Diabetes, Digestive, and Kidney Diseases		
	Extramural Research		82,728
93.853	Extramural Research Programs in the Neurosciences		
	and Neurological Disorders		28,288
Total Research and Development Cluster		\$	2,647,431

*See accompanying note to schedule of expenditures of federal awards.*

## Texas Heart Institute

Note to Schedule of Expenditures of Federal Awards for the year ended December 31, 2021

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### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U. S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Federal expenditures include allowable costs funded by federal grants. Allowable costs are subject to the cost principles of the Uniform Guidance and include both costs that are capitalized and costs that are recognized as expenses in the Institute’s financial statements in conformity with generally accepted accounting principles. The Institute does not utilize the 10% de minimus indirect rate, but uses a rate equal to or less than the indirect rate approved by the U. S. Department of Health and Human Services.

Because the schedule presents only a selected portion of the operations of THI, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Institute.

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**Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

To the Board of Trustees of  
Texas Heart Institute:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Texas Heart Institute (THI), which comprise the consolidated statement of financial position as of December 31, 2021 and the related consolidated statements of activities, of functional expenses, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 18, 2022.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered THI'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 THI's internal control. Accordingly, we do not express an opinion on the effectiveness of THI's internal control.

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

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether THI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Blazek & Vetterling*

August 18, 2022

**Independent Auditors' Report on Compliance for Each Major  
Federal Program and Report on Internal Control Over  
Compliance Required by the Uniform Guidance**

To the Board of Trustees of  
Texas Heart Institute:

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Texas Heart Institute's (THI) 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 THI's major federal programs for the year ended December 31, 2021. THI'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, THI complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

***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 THI 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 THI'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 THI'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 THI'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 THI'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 THI'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 THI'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 THI'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.

*Blazek & Vetterling*

August 18, 2022

# Texas Heart Institute

## Schedule of Findings and Questioned Costs for the year ended December 31, 2021

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### Section I – Summary of Auditors’ Results

#### Financial Statements

Type of auditors’ report issued:  unmodified  qualified  adverse  disclaimer

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Noncompliance material to the financial statements noted?  yes  no

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?  yes  none reported

Type of auditors’ report issued on compliance for major programs:  unmodified  qualified  adverse  disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?  yes  no

Identification of major programs:

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

12.420	Military Medical Research and Development
43.007	Space Operations
47.070	Computer and Information Science and Engineering
93.395	Cancer Treatment Research
93.837	Cardiovascular Diseases Research
93.847	Diabetes, Digestive, and Kidney Diseases Extramural Research
93.853	Extramural Research Programs in the Neurosciences and Neurological Disorders

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee?  yes  no

### Section II – Financial Statement Findings

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

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

There were no findings for federal awards required to be reported in accordance with 2 CFR §200.516(a).

### Summary Schedule of Prior Audit Findings

The following audit finding for the year ended December 31, 2020, is required to be reported in accordance with 2 CFR §200.511.

**Finding #2020-001** – Material Weakness and Other Non-Compliance

***Condition and context:*** During our testing of 4 transactions subject to procurement, we noted 1 lab supply vendor with aggregate expenditures greater than \$10,000 with no contemporaneous documentation for procurement rationale. This finding occurred in fiscal year 2019 as finding #2019-005.

***Recommendation:*** Provide additional training on maintenance of documentation of procurement decisions in accordance with THI's procurement policy reflecting the rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

***Planned corrective action:*** Management has started providing training on the documentation of procurement decisions and will continue training going forward. A new Purchasing Manager was hired in 2021 and has started reviewing every purchase to ensure the required documentation is provided before the procurement proceeds. The Purchasing Manager will also ensure that additional documentation is obtained for vendors as they exceed the micro-purchase aggregate spending threshold.

***Management's 2021 follow-up response:*** Action plan is complete.