

THEISS RESEARCH

Matthew J. Memoli, M.D., M.S.
Acting NIH Director
National Institutes of Health (NIH)
9000 Rockville Pike
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February 10, 2025

We can do it for **15%**.

Dear Dr. Memoli,

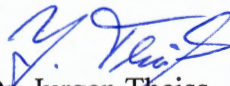
Thank you for compelling employers of NIH-funded research scientists to become more cost-effective by issuing guidance (Notice Number: NOT-OD-25-068)¹ in which you state that from now on NIH will reimburse employers only 15% of their MTDC² for their indirect costs, which are much higher for most employers. Those employers will be struggling to become cost-effective quickly with potentially disastrous consequences for their NIH-funded research scientists. They might be forced to give up their NIH funding and be reassigned to other projects, or be laid off. In contrast, we, Theiss Research, a 501(c)(3) nonprofit research organization, have always been very cost-effective since our foundation in 2006. Cost-effectiveness was in fact one of our founding principles. Hence: **We can do it for 15%**, and we can do it right now!³

We would therefore like to welcome NIH-funded research scientists who are physically located and working at NIH institutes, i.e., collaborative researchers, and whose current employer might be struggling to become cost-effective. We would make them our full-fledged employees, offering our competitive gross pays and benefits to them, and move their NIH award and their visas, if any, from their current employer to us so that they can continue working at NIH institutes⁴. We also would like to welcome NIH-funded research scientists who are not at NIH institutes⁵.

We have experience. We have had 147 federal awards⁶, mainly from the National Institute of Standards and Technology (NIST), that have supported more than 100 of our employees over the years, mainly to work as guest researchers on the NIST campuses in Gaithersburg, MD and Boulder, CO. This means that we have been having a cost-effective partnership with NIST for many years, making us confident to be able to having an equivalent cost-effective partnership with the NIH in the future.

Theiss Research is a well-established and robust 501(c)(3) nonprofit research organization as attested by the reports of the annual Single Audit of Theiss Research⁷. If you think Theiss Research can help NIH-funded research scientists facing an uncertain future due to their struggling employers, then please circulate this letter widely⁸. I am also keen to discuss this with you further.

Yours sincerely,


Dr. Jurgen Theiss

Footnotes:

1: Please see the Attachment “NIH guidance - Notice Number: NOT-OD-25-068.”

2: MTDC = Modified Total Direct Costs as defined by 2 CFR 200.1.

3: We can do it for 15% because, as mentioned above, cost-effectiveness was in fact one of our founding principles. This principle has been making us pause at every step of Theiss Research’s development and think carefully about how to take the next step without compromising on cost-effectiveness. For example, many years ago when we were getting ready to sponsor H-1B visas for some of our employees, we found that law firms would charge up to \$4,000 for obtaining an H-1B visa, which made us decide to develop our own capability in-house of obtaining H-1B visas. Since this decision was made, we have been obtaining H-1B visas for a cost of about \$600, while still maintaining an H-1B visa approval success rate of 100%. It is my opinion that other organization can charge federal agencies for high indirect costs because the federal agencies are willing to pay them and because they face no competition in this regard, giving them no incentive to be cost-effective. Theiss Research wants to be a competitor in this regard, which benefits federal agencies. The Department of Commerce – National Institute of Standards and Technology (NIST) is already benefitting as it has already recognized Theiss Research as a cost-effective partner. I hope the NIH will, too.

4: Welcoming NIH-funded research scientists at Theiss Research would mean transferring their NIH awards, and all their other awards, transferring the employer – employee relationship, and transferring their H-1B, J-1, or O-1 visa, if any, from their current employer to Theiss Research. There are well-established procedures for making these transfers that all parties involved always follow and we also have experience making these transfers.

5: We would also like to welcome NIH-funded researchers who are *not* physically located and working at an NIH institute, but we would first have to assess carefully their exact needs for facilities and equipment to allow us to determine whether we are able to welcome them. Needed facilities and equipment could be provided by Theiss Research or leased from their former employers, with both options requiring evaluation on a case-by-case basis.

6: Please see the Attachment “Extracts from USASpending.gov about Theiss Research.” In order to view directly on USASPENDING.gov the information shown by the extracts and more, please filter for Recipient: Theiss Research or Recipient: F67SDLWMJH17.

7: Please see the Attachment “Report of 2023 Single Audit of Theiss Research.” It states in particular that the Single Audit resulted in *no* financial statement findings and *no* federal award findings and found *no* questioned costs, which are the best possible results of a Single Audit. The report of the 2023 Single Audit and reports of Single Audits of prior years are available on the Federal Audit Clearinghouse at <https://www.fac.gov/>.

8: This letter is also available in electronic form at www.TheissResearch.org to make it easier to circulate it widely.

Attachments:

- NIH guidance - Notice Number: NOT-OD-25-068
- Extracts from USASpending.gov about Theiss Research
- Report of 2023 Single Audit of Theiss Research

Attachment

NIH Guidance
Notice Number: NOT-OD-25-068

The following pages present the NIH Guidance – Notice Number: NOT-OD-25-068. The critical statement

NIH is accordingly imposing a standard indirect cost rate on all grants of 15% pursuant to its 45 C.F.R. 75.414(c) authority.

is made, and highlighted in orange, on page 3 of the guidance.

Supplemental Guidance to the 2024 NIH Grants Policy Statement: Indirect Cost Rates

Notice Number:

NOT-OD-25-068

Key Dates

Release Date:

February 7, 2025

Related Announcements

None

Issued by

Office of The Director, National Institutes of Health ([OD](#))

Purpose

Purpose

The National Institutes of Health (NIH) awards a large number of grants providing substantial federal funding for research purposes. These grants include significant payments for “indirect costs,” defined as “facilities” and “administration.” [45 CFR 75.414\(a\)](#). The “facilities” category is “defined as depreciation on buildings, equipment and capital improvements, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.” *Id.* And the “administration” category is defined as “general administration and general expenses such as the director’s office, accounting, personnel, and all other types of expenditures not listed specifically under one of the subcategories of ‘Facilities’” (including cross allocations from other pools, where applicable). *Id.*

In issuing grants, NIH generally uses the indirect cost rate negotiated by an “agency with cognizance for F&A/indirect cost rate (and other special rate) negotiation.” Grants Policy Statement at IIA-68; *see* 45 C.F.R. 75.414(c)(1). NIH may, however, use “a rate different from the negotiated rate for either a class of Federal awards or a single Federal award.” 45 C.F.R. 75.414(c)(1). NIH may deviate from the negotiated rate both for future grant awards and, in the case of grants to institutions of higher education (“IHEs”), for existing grant awards. *See* [45 CFR Appendix III to Part 75, § C.7.a](#); *see* 45 C.F.R. 75.414(c)(1).

In deviating from the negotiated indirect cost rate, NIH must “implement, and make publicly available, the policies, procedures, and general decision-making criteria that their programs will follow to seek and justify deviations from negotiated rates.” 45 C.F.R. § 75.414(c)(3).

In accordance with 45 CFR 75 and its accompanying appendices, this Guidance implements and makes publicly available NIH’s updated policy deviating from the negotiated indirect cost rate for new grant awards and existing grant awards, effective as of the date of this Guidance’s issuance. Pursuant to this Supplemental Guidance, there will be a standard indirect rate of 15% across all NIH grants for indirect costs in lieu of a separately negotiated rate for indirect costs in every grant.

Providing Indirect Cost Rates that Comport with Market Rates

[NIH's mission](#) is to “seek fundamental knowledge about the nature and behavior of living systems” in order to enhance health, lengthen life, and reduce illness and disability. In furtherance of this mission, NIH spent more than \$35 Billion in Fiscal Year 2023 on almost 50,000 competitive grants to more than 300,000 researchers at more than 2,500 universities, medical schools, and other research institutions across all 50 states and the District of Columbia.[\[1\]](#) Of this funding, approximately \$26 billion went to direct costs for research, while \$9 billion was allocated to overhead through NIH's indirect cost rate.

Although cognizant that grant recipients, particularly “new or inexperienced organizations,” use grant funds to cover indirect costs like overhead, *see* [89 FR 30046–30093](#), NIH is obligated to carefully steward grant awards to ensure taxpayer dollars are used in ways that benefit the American people and improve their quality of life. Indirect costs are, by their very nature, “not readily assignable to the cost objectives specifically benefitted” and are therefore difficult for NIH to oversee. *See* Grants Policy Statement at I-20. Yet the average indirect cost rate reported by NIH has averaged between 27% and 28% over time.[\[2\]](#) And many organizations are much higher—charging indirect rates of over 50% and in some cases over 60%.

Most private foundations that fund research provide substantially lower indirect costs than the federal government, and universities readily accept grants from these foundations. For example, a recent study found that the most common rate of indirect rate reimbursement by foundations was 0%, meaning many foundations do not fund indirect costs whatsoever. In addition, many of the nation's largest funders of research—such as the Bill and Melinda Gates Foundation—have a maximum indirect rate of 15%. And in the case of the Gates Foundation, the maximum indirect costs rate is 10% for institutions of higher education.

A sample list of foundations that provide indirect cost funding and their respective maximum indirect rate is below:[\[3\]](#)

Maximum Indirect Cost Rate	Organizations
10%	<ul style="list-style-type: none"> • Gates Foundation (for institutions of higher education) • Smith Richardson Foundation
12%	<ul style="list-style-type: none"> • Gordon and Betty Moore Foundation • Robert Wood Johnson Foundation
15%	<ul style="list-style-type: none"> • Carnegie Corporation of New York • Chan Zuckerberg Initiative • John Templeton Foundation • Packard Foundation • Rockefeller Foundation (for institutions of higher education)

Indeed, one recent analysis examined what level of indirect expenses research institutions were willing to accept from funders of research. Of 72 universities in the sample, 67 universities were willing to accept research grants that had 0% indirect cost coverage. One university (Harvard University) required 15% indirect cost coverage, while a second (California Institute of Technology) required 20% indirect cost coverage. Only three universities in the sample refused to accept indirect cost rates lower than their federal indirect rate. These universities were the Massachusetts Institute of Technology, the University of

Michigan, and the University of Alabama at Birmingham.

The United States should have the best medical research in the world. It is accordingly vital to ensure that as many funds as possible go towards direct scientific research costs rather than administrative overhead. NIH is accordingly imposing a standard indirect cost rate on all grants of 15% pursuant to its 45 C.F.R. 75.414(c) authority. We note in doing so that this rate is 50% higher than the 10% de minimis indirect cost rate provided in 45 C.F.R. 75.414(f) for NIH grants. We have elected to impose a higher standard indirect cost rate to reflect, among other things, both (1) the private sector indirect cost rates noted above, and (2) the de minimis cost rate of 15% in [2 C.F.R. 200.414\(f\)](#) used for IHEs and nonprofits receiving grants from other agencies.

NIH Implementation

For any new grant issued, and for all existing grants to IHEs retroactive to the date of issuance of this Supplemental Guidance, award recipients are subject to a 15 percent indirect cost rate. This rate will allow grant recipients a reasonable and realistic recovery of indirect costs while helping NIH ensure that grant funds are, to the maximum extent possible, spent on furthering its mission. This policy shall be applied to all current grants for go forward expenses from February 10, 2025 forward as well as for all new grants issued. We will not be applying this cap retroactively back to the initial date of issuance of current grants to IHEs, although we believe we would have the authority to do so under 45 CFR 75.414(c).

[1] NIH, *Budget* (Oct. 3, 2024), <https://www.nih.gov/ABOUT-NIH/WHAT-WE-DO/BUDGET>.

[2] NIH, Fiscal Year 2021 Overview Supplementary Tables at 87, <https://officeofbudget.od.nih.gov/pdfs/FY21/br/5-SupplementaryTables.pdf>.

[3] See Bill & Melinda Gates Found., *Indirect Cost Policy* (Feb. 2017), https://docs.gatesfoundation.org/Documents/Indirect_Cost_Policy.pdf; Smith Richardson Found., *Strategy and Policy Fellows Program*, <https://www.srf.org/wp-content/uploads/2014/04/2021-SPFP-Application-Requirements-and-Proposal-Template.pdf>; Gordon & Betty Moore Found., *Moore Inventor Fellows: 2024-2025 FAQ*, <https://www.moore.org/docs/default-source/moore-inventor-fellows/moore-inventor-fellows-faq.pdf>; Robert Wood Johnson Found., *Policies for Action: Grants FAQs*, https://anr.rwjf.org/templates/external/P4A_FAQS.pdf; Carnegie Corp. of New York, *Grantee FAQs*, https://www.carnegie.org/grants/grantee-faqs/#:~:text=What%20is%20your%20indirect%20cost,think%20tanks%2C%20and%20government%20entities;Chan%20Zuckerberg%20Initiative,Application%20Instructions,https://chanzuckerberg.com/wp-content/uploads/2020/06/CZI_Imaging_Scientists_2_Detailed_Instructions.pdf;John%20Templeton%20Found.,Grant%20FAQ,https://www.templeton.org/grants/grant-faq;The%20Packard%20Found.,Fostering%20Equitable%20Grantmaking%20through%20Indirect%20Cost%20Coverage,https://www.packard.org/insights/perspective/fostering-equitable-grantmaking-through-indirect-cost-coverage/;The%20Rockefeller%20Found.,Guidance%20Preparing%20a%20Project%20Grant%20Budget%20for%20the%20Rockefeller%20Foundation,https://www.rockefellerfoundation.org/wp-content/uploads/2024/06/The-Rockefeller-Foundation-Project-Budget-Guidance-v2024.pdf.

Inquiries

Please direct all inquiries to:

NIH Office of Policy for Extramural Research Administration (OPERA)

Division of Grants Policy

grantspolicy@nih.gov

[Weekly TOC for this Announcement](#)
[NIH Funding Opportunities and Notices](#)

Attachment

Extracts from USASpending.gov about Theiss Research

The following two pages present extracts from USASpending.gov about Theiss Research.

The extracts show in particular that Theiss Research has had 147 grants from federal agencies, with most of them being from the Department of Commerce – National Institute of Standards and Technology (DOC – NIST). More precisely, though not shown, is the fact that the grants Theiss Research receives from DOC-NIST are actually cooperative agreements. Also not shown are the grants and contracts Theiss Research received from nongovernmental organizations.

The extracts also show that Theiss Research has maintained a stable income for the last ten years, which is testament to the fact that Theiss Research is a well-established and robust 501(c)(3) nonprofit research organization.

In order to obtain the above information and more from USASpending.gov directly, the awards on USASpending.gov must be filtered, using Recipient: Theiss Research or Recipient: F67SDLWMJH17.

Advanced Search

Filter by: [Prime Awards and Transactions](#)



Filters

Learn which data elements are associated with certain search filters

Submit

[Reset filters](#)

Keyword

Time Period

Custom dates Fiscal years

START DATE END DATE
mm/dd/yyyy mm/dd/yyyy Add

DATE RANGES
Select a date range Add

Show New Awards Only

Award Type

Agency

Treasury Account Symbol (TAS)

Location

Recipient

UEI: F67SDLWMJH17
Legacy DUNS: 624439563
THEISS RESEARCH Recipient

1 Active Filter:

[Learn how active filters work](#)

RECIPIENT
RECIPIENT | F67SDLWMJH17

Prime Award Results

Contracts 0 Contract IDVs 0 Grants 147 Direct Payments 0 Loans 0 Other 0

Prime Award ID	Recipient Name
70NANB15H051	THEISS RESEARCH
70NANB21H142	THEISS RESEARCH
70NANB18H274	THEISS RESEARCH
70NANB16H306	THEISS RESEARCH
70NANB15H015	THEISS RESEARCH
70NANB19H138	THEISS RESEARCH
70NANB22H101	THEISS RESEARCH
70NANB12H135	THEISS RESEARCH
70NANB16H106	THEISS RESEARCH
70NANB17H294	THEISS RESEARCH

1-100 of 147 results

Rows per page: 100

< 1 2 >

[Data sources and methodology](#)

Feedback

RECIPIENT | F67SDLWMJH17 ✕

- Recipient Type
- Award Amount
- Award ID
- Assistance Listing (CFDA Program)
- Disaster Emergency Fund Code (DEFC) ⓘ
- North American Industry Classification System (NAICS) 📄
- Product or Service Code (PSC) 📄
- Type of Contract Pricing
- Type of Set Aside
- Extent Competed

Submit

Results by Category Awarding Agency ▾



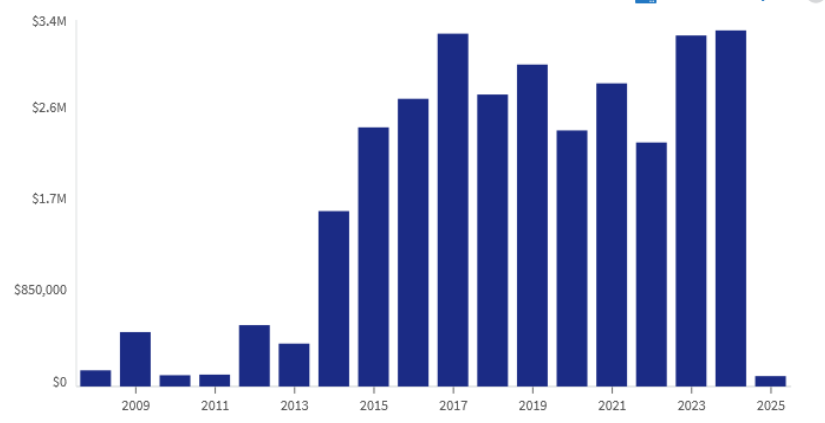
Awarding Agency	Obligations
Department of Commerce (DOC)	\$30,391,857
National Science Foundation (NSF)	\$700,521
Department of Defense (DOD)	\$436,739
National Aeronautics and Space Administration (NASA)	\$82,716

[Data sources and methodology ▾](#)

Results Over Time By Year ▾



[Download data by Year ⓘ](#)



[Data sources and methodology ▾](#)

Attachment

Report on the 2023 Single Audit of Theiss Research

The following is the report of the 2023 Single Audit of Theiss Research. As stated, and highlighted in orange, on its page 10, Theiss Research has been using the 10% de minimis indirect cost rate allowed under the Uniform Guidance. Furthermore, it states on its page 22 that the Single Audit resulted in *no* financial statement findings and *no* federal award findings and found *no* questioned costs. If organizations were given grades on the results of Single Audits, Theiss Research would be given an A+.

Reports of Single Audits of Theiss Research of previous years are available at the Federal Audit Clearinghouse at <https://www.fac.gov/>.

THEISS RESEARCH
FINANCIAL STATEMENTS
DECEMBER 31, 2023



Leaf & Cole, LLP
Certified Public Accountants

**THEISS RESEARCH
FINANCIAL STATEMENTS
DECEMBER 31, 2023**

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Theiss Research

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Theiss Research (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Theiss Research as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Theiss Research, 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 Theiss Research's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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, including omissions, 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 Theiss Research'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 Theiss Research'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 on page 14 is presented for purposes of additional analysis and is not a required part of the 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 also 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2024, on our consideration of Theiss Research'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 Theiss Research'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 Theiss Research's internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
September 26, 2024

**THEISS RESEARCH
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2023**

ASSETS

<u>Assets:</u> (Notes 2 and 4)	
Cash and cash equivalents	\$ 710,965
Accounts receivable	45,344
Government grants receivable	206,050
Prepaid expenses	13,366
Deposits	250
TOTAL ASSETS	\$ <u><u>975,975</u></u>

LIABILITIES AND NET ASSETS

<u>Liabilities:</u> (Note 2)	
Accounts payable and accrued expenses	\$ 13,557
Payroll liabilities	103,973
Total Liabilities	<u>117,530</u>
<u>Commitment and Contingency</u> (Note 7)	
<u>Net Assets:</u> (Notes 2 and 6)	
Without Donor Restrictions	668,203
With Donor Restrictions	190,242
Total Net Assets	<u>858,445</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u><u>975,975</u></u>

The accompanying notes are an integral part of the financial statements.

**THEISS RESEARCH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:			
Governmental grants	\$ 2,536,598	\$ -	\$ 2,536,598
Contract revenue	110,732	-	110,732
Nongovernmental grants	-	68,979	68,979
Interest income	14,746	-	14,746
Other income	790	-	790
Net assets released from restrictions	157,985	(157,985)	-
Total Revenue and Support	<u>2,820,851</u>	<u>(89,006)</u>	<u>2,731,845</u>
Expenses:			
Program Expenses by Funder:			
National Institute of Standards and Technology (NIST)	2,274,832	-	2,274,832
Nongovernmental grants and contract revenue	248,696	-	248,696
National Science Foundation (NSF)	31,166	-	31,166
Other programs	3,780	-	3,780
Total Program Expenses	<u>2,558,474</u>	<u>-</u>	<u>2,558,474</u>
Supporting Services:			
Management and general	209,718	-	209,718
Total Supporting Services	<u>209,718</u>	<u>-</u>	<u>209,718</u>
Total Program and Supporting Services Expenses	<u>2,768,192</u>	<u>-</u>	<u>2,768,192</u>
Change in Net Assets Before Nonoperating Expense	52,659	(89,006)	(36,347)
Nonoperating Expense:			
Return of grant funds	-	(12,717)	(12,717)
Total Nonoperating Expense	<u>-</u>	<u>(12,717)</u>	<u>(12,717)</u>
Change in Net Assets	52,659	(101,723)	(49,064)
Net Assets at Beginning of Year	615,544	291,965	907,509
NET ASSETS AT END OF YEAR	<u>\$ 668,203</u>	<u>\$ 190,242</u>	<u>\$ 858,445</u>

The accompanying notes are an integral part of the financial statements.

**THEISS RESEARCH
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Program Expenses by Funder					Management and General	Total
	NIST	NSF	Nongovernmental Grants and Contracts	Other Programs	Total Program Expenses		
Contract services	\$ -	\$ -	\$ 86,879	\$ -	\$ 86,879	\$ 11,000	\$ 97,879
Employee benefits	391,082	6,369	24,568	3,328	425,347	30,920	456,267
Insurance	-	-	-	-	-	6,738	6,738
Materials and supplies	106	-	-	99	205	2,972	3,177
Miscellaneous administration	18,260	-	-	-	18,260	5,041	23,301
Payroll taxes	143,867	1,782	10,516	353	156,518	11,266	167,784
Printing and postage	-	-	-	-	-	2,911	2,911
Salaries	1,686,261	23,015	126,733	-	1,836,009	138,870	1,974,879
Travel	35,256	-	-	-	35,256	-	35,256
Total Expenses	<u>\$ 2,274,832</u>	<u>\$ 31,166</u>	<u>\$ 248,696</u>	<u>\$ 3,780</u>	<u>\$ 2,558,474</u>	<u>\$ 209,718</u>	<u>\$ 2,768,192</u>

The accompanying notes are an integral part of the financial statements.

THEISS RESEARCH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

Cash Flows From Operating Activities:

Change in net assets	\$ (49,064)
(Increase) Decrease in:	
Accounts receivable	16,215
Nongovernment grants receivable	16,206
Government grants receivable	(58,378)
Prepaid expenses	(2,936)
Increase (Decrease) in:	
Accounts payable and accrued expenses	(6,157)
Payroll liabilities	26,116
Net Cash Used in Operating Activities	<u>(57,998)</u>
Net Decrease in Cash and Cash Equivalents	(57,998)
Cash and Cash Equivalents at Beginning of Year	<u>768,963</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 710,965</u></u>

The accompanying notes are an integral part of the financial statements.

THEISS RESEARCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 1 - Organization:

Theiss Research (“Theiss”) is a corporation organized for charitable purposes on January 31, 2006 under the California Nonprofit Public Benefit Corporation Law.

The primary objectives and purposes of Theiss are (i) to conduct scientific research for public benefit, and (ii) to offer infrastructure that scientists need to conduct scientific research and includes the privilege to submit proposals to federal funding agencies, use computer resources, access to scientific literature and administrative support, and (iii) to develop outreach and educational programs, which includes the establishment of international relations in science.

Theiss’ services are mainly funded through nongovernmental and governmental grants.

Note 2 - Significant Accounting Policies:

Accounting Method

The financial statements of Theiss have been prepared on the accrual basis of accounting, which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations, and not subject to donor (or certain grantor) restrictions.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires—that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled or both.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value, and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy), and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Theiss had no financial instruments at December 31, 2023.

THEISS RESEARCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 2 - Significant Accounting Policies: (Continued)

Allowance for Credit Losses

Theiss recognizes an allowance for credit losses on accounts receivable to represent the net amount expected to be collected as of the statement of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which is based on the expectation as of the statement of financial position date, aging reports and historical information. Accounts receivable are written off when Theiss determines such receivables are deemed uncollectible. Write-offs are recognized as a deduction from the allowance for credit losses. Management believes that all accounts receivable were fully collectible; therefore, no allowance for credit losses on accounts receivable were recorded at December 31, 2023.

Capitalization and Depreciation

Theiss capitalizes all expenditures in excess of \$5,000 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as support with donor restrictions. Absent donor stipulations regarding how those donated assets must be maintained, Theiss reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Theiss reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Depreciation is computed on the straight-line basis over the estimated useful life of the assets.

Maintenance and repairs are charged to operations as incurred.

Property and equipment purchased with federal grant funds are reimbursed at the time of purchase and expensed in accordance with funding guidelines.

Compensated Absences

Accumulated unpaid compensated absences totaling \$103,146 at December 31, 2023 are accrued when incurred, and included in payroll liabilities.

Revenue Recognition

Governmental grants are recognized in the period in which the related work is performed in accordance with the terms of the grant. Governmental grants receivable are recorded when revenue earned under a grant exceeds the cash received. Deferred revenue is recorded when cash received under a grant exceeds the revenue earned.

Contract revenue is recognized in the period in which the related work is performed in accordance with the terms of the contract. Contracts receivable is recorded when revenue earned under a contract exceeds the cash received. Deferred revenue is recorded when cash received under a contract exceeds the revenue earned.

Nongovernmental grants are recognized when the donor makes a promise to give to Theiss that is in substance, unconditional. Nongovernmental grants that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

THEISS RESEARCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 2 - Significant Accounting Policies: (Continued)

Donated Services and Materials

Theiss utilizes the services of a few volunteers throughout the year. This contribution of services by the volunteers is not recognized in the financial statements, unless the services received (a) create or enhance nonfinancial assets, or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services for the year ended December 31, 2023 did not meet the requirements above, therefore no amounts were recognized in the financial statements.

Functional Allocation of Expenses

The costs of providing various services and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Directly identifiable expenses are charged to programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of Theiss. Expenses related to more than one function are charged to programs and supporting services on the basis of time and expense.

Theiss has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance. Due to the use of the 10% de minimis indirect cost rate, the schedule of expenditures of federal awards exceeds the amount expended in the statement of functional expenses.

Income Taxes

Theiss is a public charity and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Theiss believes that it has appropriate support for any tax positions taken, and, as such, does not have any uncertain tax positions that are material to the financial statements. Theiss is not a private foundation.

Theiss' Return of Organization Exempt from Income Tax for the years ended December 31, 2023, 2022, 2021 and 2020 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three-to-four years after the returns were filed.

Concentrations

Credit Risk

Theiss maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Theiss has not experienced any losses in such accounts. Theiss believes it is not exposed to any significant credit risk on cash and cash equivalents.

Contracts Receivable and Revenue

Theiss receives a substantial portion of its funding from governmental grants through direct and subgrantee contracts. Theiss received 99% of its governmental grants revenue from the National Institute of Standards and Technology for the year ended December 31, 2023. Governmental grants receivable from the National Institute of Standards and Technology represent 85% of the governmental grants receivable balance at December 31, 2023.

THEISS RESEARCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 2 - Significant Accounting Policies: (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, Theiss Research considers short-term cash investments purchased with a maturity of twelve months or less to be cash equivalents. Theiss had \$500,000 of cash equivalents at December 31, 2023.

Accounting Pronouncement Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-13, *Financial Instruments – Credit Losses (“Topic 326”)* to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. FASB ASU 2016-13 affects loans, debt securities, accounts receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

The standard requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset.

FASB ASU 2016-13 was adopted January 1, 2023 on a prospective transition approach. With respect to accounts receivables, ASU 2016-13 did not have a material impact on the financial statements.

Subsequent Events

In preparing these financial statements, Theiss has evaluated events and transactions for potential recognition or disclosure through September 26, 2024, the date the financial statements were available to be issued, and concluded that there were no events or transactions that needed to be disclosed.

Note 3 - Liquidity and Availability:

Theiss regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. Theiss considers contributions without donor restrictions, and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations, to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Theiss considers all expenditures related to its ongoing programs, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The table below presents financial assets available for general expenditures within one year at December 31, 2023:

Cash and cash equivalents	\$ 710,965
Accounts receivable	45,344
Governmental grants receivables	<u>206,050</u>
Financial assets available to meet general expenditures within one year	<u>\$ 962,359</u>

Theiss receives contributions with donor restrictions to be used in accordance with the associated purpose restrictions. Theiss must maintain sufficient resources to meet those responsibilities to its donors. As a result, financial assets may not be available for general expenditures within one year.

**THEISS RESEARCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

Note 3 - Liquidity and Availability: (Continued)

Theiss operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

Note 4 - Government Grants Receivable:

Government grants receivable consist of the following at December 31, 2023:

National Institute of Standards and Technology	\$ 175,790
National Science Foundation	<u>30,260</u>
Total	<u>\$ 206,050</u>

Note 5 - Conditional Government Grants:

During the year ended December 31, 2023, Theiss had several conditional grants from two federal agencies for funding in its various programs. These grants do not meet the criteria for revenue recognition in the accompanying statement of activities. Revenue recognition will occur once expenses have been incurred in accordance with the provisions of these grants. Conditional government grants consist of the following at December 31, 2023:

National Institute of Standards and Technology	\$ 2,906,328
National Science Foundation	<u>17,026</u>
Total	<u>\$ 2,923,354</u>

Note 6 - Net Assets With Donor Restrictions:

Net assets with donor restrictions represent contributions received or receivable by Theiss, which are limited in their use by time or donor-imposed restrictions. Net assets with donor restrictions are available for the following purpose at December 31, 2023:

Subject to Expenditure for Specified Purpose:

Future of Life Institute - research of disruptive technology risk reduction policies	\$ 145,525
Future of Life Institute - research on AI Existential Safety	<u>44,717</u>
Total Subject to Expenditure for Specified Purpose	<u>\$ 190,242</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose, or by the occurrence of the passage of time or other events specified by the donors, are as follows for the year ended December 31, 2023:

Purpose Restrictions Accomplished:

John Templeton Foundation - restricted for research on the nature of time	\$ 80,223
Future of Life Institute - research on AI Existential Safety	66,762
Foundational Questions Institute Fund - research on shape dynamics	<u>11,000</u>
Total Net Assets Released From Restrictions	<u>\$ 157,985</u>

THEISS RESEARCH
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

Note 7 - Commitment and Contingency:

Pension Plan

Theiss has a 403(b) salary deferral plan for which all full-time and part-time employees are eligible. Under the plan, employees could contribute and defer taxes on compensation contributed. Theiss provided matching contributions of \$87,150 for the year ended December 31, 2023.

Contract Revenue

Direct and indirect costs incurred by Theiss and reimbursed by federal, state, and local agencies are subject to audit by such agencies. Management believes the results of such audits will not have a material adverse effect on the financial position or results of operations of Theiss.

THEISS RESEARCH
SCHEDULE OF GOVERNMENT CONTRACT EXPENDITURES
BY SOURCE AND OVERHEAD ALLOCATION
FOR THE YEAR ENDED DECEMBER 31, 2023

	Program Expenses by Source of Revenue						Management and General	Total
	NIST	NSF	Nongovernmental Grants and Contracts		Other Programs	Total Program Expenses		
Contract services	\$ -	\$ -	\$ 86,879	\$ -	\$ 86,879	\$ 11,000	\$ 97,879	
Employee benefits	391,082	6,369	24,568	3,328	425,347	30,920	456,267	
Insurance	-	-	-	-	-	6,738	6,738	
Materials and supplies	106	-	-	99	205	2,972	3,177	
Miscellaneous administration	18,260	-	-	-	18,260	5,041	23,301	
Payroll taxes	143,867	1,782	10,516	353	156,518	11,266	167,784	
Printing and postage	-	-	-	-	-	2,911	2,911	
Salaries	1,686,261	23,015	126,733	-	1,836,009	138,870	1,974,879	
Travel	35,256	-	-	-	35,256	-	35,256	
Overhead allocation	192,085	2,632	14,548	319	209,584	(209,584)	-	
Total Expenses	<u>\$ 2,466,917</u>	<u>\$ 33,798</u>	<u>\$ 263,244</u>	<u>\$ 4,099</u>	<u>\$ 2,768,058</u>	<u>\$ 134</u>	<u>\$ 2,768,192</u>	

**THEISS RESEARCH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Federal Grants/Pass -Through Grantor/Program or Cluster Title	Assistance Listing Number	Agency or Pass -Through Number	Passed Through to Subrecipient	Federal Expenditures	Total
<u>Research and Development Cluster:</u>					
U. S. Department of Commerce:					
Direct Programs:					
National Institutes of Standards and Technology					
Measurement and Engineering Research and Standards	11.609	60NANB23D102	\$ -	\$ 39,118	\$ 39,118
		70NANB18H226	-	13,719	13,719
		70NANB19H120	-	98,278	98,278
		70NANB19H152	-	50,089	50,089
		70NANB20H149	-	83,619	83,619
		70NANB20H214	-	21,684	21,684
		70NANB21H059	-	34,394	34,394
		70NANB21H094	-	93,884	93,884
		70NANB21H125	-	105,778	105,778
		70NANB21H142	-	158,364	158,364
		70NANB21H182	-	99,145	99,145
		70NANB22H002	-	148,667	148,667
		70NANB22H028	-	98,346	98,346
		70NANB22H075	-	16,904	16,904
		70NANB22H081	-	172,841	172,841
		70NANB22H088	-	141,016	141,016
		70NANB22H091	-	57,215	57,215
		70NANB22H099	-	180,372	180,372
		70NANB22H101	-	164,592	164,592
		70NANB22H140	-	95,400	95,400
		70NANB22H160	-	13,069	13,069
		70NANB23H031	-	99,091	99,091
		70NANB23H104	-	57,873	57,873
		70NANB23H105	-	72,066	72,066
		70NANB23H106	-	55,191	55,191
		70NANB23H107	-	44,324	44,324
		70NANB23H108	-	41,966	41,966
		70NANB23H110	-	75,548	75,548
		70NANB23H111	-	38,195	38,195
		70NANB23H134	-	52,260	52,260
		70NANB23H167	-	27,339	27,339
		70NANB23H200	-	17,399	17,399
		70NANB23H207	-	8,074	8,074
		70NANB23H257	-	15,995	15,995
		70NANB24H001	-	10,500	10,500
Total Measurement and Engineering Research and Standards			-	2,502,315	2,502,315
Total National Institutes of Standards and Technology			-	2,502,315	2,502,315
Total Direct Programs			-	2,502,315	2,502,315
National Science Foundation:					
Pass-Through Programs From:					
Geosciences	47.050				
Planetary Science Institute		1808-THEISS	-	34,283	34,283
Total Geosciences			-	34,283	34,283
Total Pass-Through Programs			-	34,283	34,283
Total National Science Foundation			-	34,283	34,283
Total Expenditures of Federal Awards			\$ -	\$ 2,536,598	\$ 2,536,598

THEISS RESEARCH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2023

Note 1 - Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Theiss Research under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of Theiss Research, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Theiss Research.

Note 2 - Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Theiss Research has elected to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor's 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 Directors
Theiss Research

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 Theiss Research (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated September 26, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Theiss Research'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 Theiss Research's internal control. Accordingly, we do not express an opinion on the effectiveness of Theiss Research'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 Theiss Research'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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
September 26, 2024



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor's Report on Compliance
For the Major Program and on Internal Control Over
Compliance Required by the Uniform Guidance**

To the Board of Directors
Theiss Research

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Theiss Research's 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 Theiss Research's major federal program for the year ended December 31, 2023. Theiss Research's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Theiss Research complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Theiss Research, 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 the major federal program. Our audit does not provide a legal determination of Theiss Research'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 Theiss Research's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Theiss Research'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 Theiss Research's compliance with the requirements of the 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 Theiss Research'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 Theiss Research'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 Theiss Research'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 Auditor's Responsibilities for the Audit of Compliance section above, and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. 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.

Leaf & Cole LLP

San Diego, California
September 26, 2024

**THEISS RESEARCH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:		<u>Unmodified</u>		
Internal control over financial reporting:				
Material weaknesses identified?	_____	Yes	_____ <u>X</u> _____	No
Significant deficiencies identified?	_____	Yes	_____ <u>X</u> _____	No
Noncompliance material to financial statements noted?	_____	Yes	_____ <u>X</u> _____	No

Federal Awards

Type of auditor's report issued on compliance for the major program:		<u>Unmodified</u>		
Internal control over major program:				
Material weaknesses identified?	_____	Yes	_____ <u>X</u> _____	No
Significant deficiencies identified?	_____	Yes	_____ <u>X</u> _____	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____	Yes	_____ <u>X</u> _____	No

Identification of the major program:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
11.RD and 47.RD	Research and Development Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>750,000</u>
Auditee qualified as low-risk auditee?	_____ <u>X</u> _____ Yes _____ No

Section II - Financial Statement Findings:

None

Section III - Federal Award Findings and Questioned Costs:

None

**THEISS RESEARCH
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023**

There were no findings or questioned costs for the year ended December 31, 2022.