

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION

Texas Biomedical Research Institute  
Years Ended December 31, 2012 and 2011  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Texas Biomedical Research Institute

Consolidated Financial Statements and  
Supplemental Information

Years Ended December 31, 2012 and 2011

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## Report of Independent Auditors

Management and Trustees  
Texas Biomedical Research Institute

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Texas Biomedical Research Institute, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of unrestricted revenues, expenses, and other changes in unrestricted net assets; changes in net assets; and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

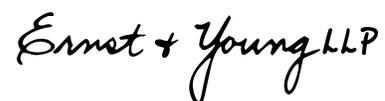
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Texas Biomedical Research Institute as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### **Supplemental Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated June 7, 2013, on our consideration of Texas Biomedical Research Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Texas Biomedical Research Institute's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

June 7, 2013

Texas Biomedical Research Institute

Consolidated Balance Sheets

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 6,974,116	\$ 4,538,731
Receivables:		
Accounts	129,326	461,106
Contracts receivable from research projects	9,596,900	3,163,111
Amounts due on authorized grants-in-aid:		
National Institutes of Health	23,035,153	23,670,245
Other	4,511,047	4,251,326
Prepaid expenses and supplies	160,322	614,023
Contributions receivable ( <i>Note 4</i> )	7,178,116	11,244,877
Assets limited as to use:		
Cash	16,140,953	7,869,806
Investments ( <i>Note 2</i> )	98,444,114	90,383,695
Investment in Evestra, Inc.	2,821,861	—
Funds held in trust by others	2,613,569	2,499,405
The Argyle land, buildings, and equipment (net of accumulated depreciation of \$3,452,195 and \$3,312,283 in 2012 and 2011, respectively) ( <i>Note 5</i> )	3,904,587	4,006,898
Property, plant, and equipment:		
Land	359,959	374,530
Buildings and improvements	48,393,769	47,826,375
Fixtures and equipment	74,511,110	70,941,081
	<b>123,264,838</b>	119,141,986
Less allowances for depreciation	81,818,357	76,529,256
	<b>41,446,481</b>	42,612,730
Construction in progress	4,108,863	1,466,572
	<b>45,555,344</b>	44,079,302
Total assets	<b>\$ 221,065,408</b>	<b>\$ 196,782,525</b>

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Liabilities and net assets</b>		
Accounts payable and accrued expenses:		
Trade accounts	\$           –	\$ 3,433,329
Accrued wages, vacation, and other liabilities	<b>4,022,192</b>	2,889,533
Convertible promissory notes and accrued interest	–	1,952,119
Postretirement benefits	<b>105,530</b>	265,724
Unearned contract revenue from research projects	<b>9,602,515</b>	2,126,078
Amounts unearned on grants-in-aid:		
Advance collections	<b>431,447</b>	90,765
Uncollected authorized grants-in-aid	<b>27,356,405</b>	26,757,436
Total liabilities	<b>41,518,089</b>	37,514,984
Net assets:		
Unrestricted net assets	<b>108,630,753</b>	95,643,073
Temporarily restricted net assets	<b>40,534,270</b>	35,085,994
Permanently restricted net assets	<b>30,382,296</b>	29,709,798
Noncontrolling interest in Evestra, Inc.	–	(1,171,324)
Total net assets	<b>179,547,319</b>	159,267,541

Total liabilities and net assets

**\$ 221,065,408**    **\$ 196,782,525**

*See accompanying notes.*

Texas Biomedical Research Institute

Consolidated Statements of Unrestricted Revenues, Expenses,  
and Other Changes in Unrestricted Net Assets

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
Unrestricted revenues, gains, and other support:		
Grants-in-aid	\$ 35,482,400	\$ 37,914,696
Contracts	5,287,647	4,337,188
Contributions	2,162,223	2,398,323
Investment income	1,548,462	3,794,284
Net unrealized/realized gain (loss) on investments	6,812,458	(2,601,700)
Acquisition of assets from grants	3,879,985	965,481
Gain (loss) on sale of assets, net	568,233	(12,371)
Rental income	204,314	193,419
Internal service revenue	99,393	77,503
Oil and gas royalties	2,771,540	2,816,911
Other	2,563,076	16,071
	<b>61,379,731</b>	49,899,805
Transfers between restricted and unrestricted accounts	–	110,369
Increase in investment in Evestra, Inc. upon deconsolidation	2,568,283	–
Conversion of notes payable to unrestricted net assets	–	4,437,500
Net assets released from program restrictions	5,110,881	3,199,260
Total unrestricted revenues, gains, and other support	<b>69,058,895</b>	57,646,934
Expenses:		
Direct project costs – grants	23,470,035	25,487,492
Direct project costs – contracts	2,877,039	2,321,000
Internal research	2,951,847	3,501,472
Support services	7,318,941	7,500,844
Research department administration	2,304,989	2,288,096
General and administrative	17,148,364	20,576,267
Total expenses	<b>56,071,215</b>	61,675,171
Net increase (decrease) in unrestricted net assets	<b>12,987,680</b>	(4,028,237)
Less net increase in unrestricted net assets attributable to noncontrolling interest in Evestra, Inc.	–	665,117
Net increase (decrease) in unrestricted net assets attributable to Texas Biomedical Research Institute	<b>\$ 12,987,680</b>	\$ (4,693,354)

*See accompanying notes.*

Texas Biomedical Research Institute

Consolidated Statement of Changes in Net Assets

Year Ended December 31, 2012

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Noncontrolling Interest in Evestra, Inc.</b>	<b>Total</b>
Revenues, gains, and other support:					
Unrestricted revenues, gains, and other support	\$ 61,379,731	\$ —	\$ —	\$ —	\$ 61,379,731
Restricted revenues, gains, and other support:					
Contributions	—	7,082,157	558,333	—	7,640,490
Investment income	—	370,334	—	—	370,334
Net unrealized/realized gain on investments	—	3,106,667	—	—	3,106,667
Gain on funds held in trust by others	—	—	114,164	—	114,164
Net assets released from program restrictions	5,110,881	(5,110,881)	—	—	—
Deconsolidation of Evestra, Inc.	2,568,283	—	—	1,171,324	3,739,607
<b>Total revenues, gains, and other support</b>	<b>69,058,895</b>	<b>5,448,277</b>	<b>672,497</b>	<b>1,171,324</b>	<b>76,350,993</b>
Expenses:					
Unrestricted expenses	56,071,215	—	—	—	56,071,215
Increase in net assets	12,987,680	5,448,277	672,497	1,171,324	20,279,778
Net assets at the beginning of year	95,643,073	35,085,994	29,709,798	(1,171,324)	159,267,541
<b>Net assets at the end of year</b>	<b>\$ 108,630,753</b>	<b>\$ 40,534,271</b>	<b>\$ 30,382,295</b>	<b>\$ —</b>	<b>\$ 179,547,319</b>

See accompanying notes.

Texas Biomedical Research Institute  
Consolidated Statement of Changes in Net Assets

Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Noncontrolling Interest in Evestra, Inc.	Total
Revenues, gains, and other support:					
Unrestricted revenues, gains, and other support	\$ 49,366,403	\$ —	\$ —	\$ 533,402	\$ 49,899,805
Restricted revenues, gains, and other support:					
Contributions	—	15,542,153	159,000	—	15,701,153
Investment income	—	455,374	—	—	455,374
Net unrealized/realized loss on investments	—	(1,255,609)	—	—	(1,255,609)
Transfers between restrictions	110,369	(174,660)	64,291	—	—
Conversion of notes payable to unrestricted net assets	2,037,369	—	—	2,400,131	4,437,500
Gain on funds held in trust by others	—	—	148,333	—	148,333
Changes in common stock ownership in Evestra, Inc.	1,015,366	—	—	(1,015,366)	—
Net assets released from program restrictions	3,199,260	(3,199,260)	—	—	—
Total revenues, gains, and other support	55,728,767	11,367,998	371,624	1,918,167	69,386,556
Expenses:					
Unrestricted expenses	60,422,121	—	—	1,253,050	61,675,171
(Decrease) increase in net assets	(4,693,354)	11,367,998	371,624	665,117	7,711,385
Net assets at the beginning of year	100,336,427	23,717,996	29,338,174	(1,836,441)	151,556,156
Net assets at the end of year	\$ 95,643,073	\$ 35,085,994	\$ 29,709,798	\$ (1,171,324)	\$ 159,267,541

*See accompanying notes.*

Texas Biomedical Research Institute  
Consolidated Statements of Cash Flows

	December 31	
	2012	2011
<b>Operating activities</b>		
Increase in net assets	\$ 20,279,778	\$ 7,711,385
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	5,429,013	7,459,681
Accrued interest expense	–	110,449
Net increase due to deconsolidation of Evestra, Inc.	(3,739,607)	–
Net investment income	(11,967,921)	1,308,858
Oil and gas income	(2,771,540)	(2,816,911)
Gain on the sale of assets, net	(568,233)	(12,371)
Conversion of notes payable to unrestricted net assets	–	(4,437,500)
Restricted contributions received	(7,640,490)	(15,701,153)
Gain of funds held in trust by others	(114,164)	(148,333)
Changes in operating assets and liabilities:		
Accounts receivable	331,780	(16,237)
Contracts receivable	(6,725,499)	2,995,652
Grants-in-aid	371,869	9,128,058
Prepaid expenses and supplies	295,921	(286,488)
Contribution receivable	4,066,761	(8,645,870)
Accounts payable and accrued expenses	(2,175,307)	583,725
Postretirement benefits	(160,194)	(65,412)
Unearned contract revenue	7,476,437	(3,269,674)
Advance collections	340,681	7,852
Uncollected grants	598,969	(9,168,026)
Net cash provided by (used in) operating activities	3,328,254	(15,262,315)
<b>Investing activities</b>		
Purchases of plant and equipment	(6,312,463)	(5,758,812)
Oil and gas income	2,771,540	2,816,911
Net purchases/sales and realized gains from investments	(4,493,645)	(614,729)
Elimination of cash held by Evestra, Inc.	(498,791)	–
Net cash used in investing activities	(8,533,359)	(3,556,630)
<b>Financing activities</b>		
Proceeds from restricted contributions received	7,640,490	15,701,153
Net cash provided by financing activities	7,640,490	15,701,153
Increase (decrease) in cash and cash equivalents	2,435,385	(3,117,792)
Cash and cash equivalents at beginning of year	4,538,731	7,656,523
Cash and cash equivalents at end of year	\$ 6,974,116	\$ 4,538,731

*See accompanying notes.*

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements

December 31, 2012

### 1. Significant Accounting Policies

#### Nature of Operations

Creation of Texas Biomedical Research Institute (Texas Biomed) was by trust indenture dated December 16, 1941, and restated November 1, 1993, appointing trustees and specifying the scientific, educational, and charitable purposes of Texas Biomed. Texas Biomed conducts scientific research and educational programs to improve the health of the global community. On February 1, 2011, the organization's name was changed from Southwest Foundation for Biomedical Research to Texas Biomedical Research Institute.

In 2008, Texas Biomed helped create a new for-profit pharmaceutical development corporation named Evestra, Inc. (Evestra). The staff of the organic chemistry department of Texas Biomed and with certain equipment, supplies, intellectual property and a National Institutes of Health (NIH) contract for steroid manufacturing were transferred to Evestra. As of December 31, 2011, Texas Biomed owned a majority stock interest (52.6%) in Evestra and, as a result, Evestra's financial information is consolidated with Texas Biomed's financial information. As of December 31, 2012, Texas Biomed owns 47.8% of Evestra's common stock and therefore no longer owns a majority stock interest in Evestra, and Evestra's financial information and operations are not consolidated with Texas Biomed at December 31, 2013.

#### Principles of Consolidation

For the year ended December 31, 2011, the consolidated financial statements include the accounts of Texas Biomedical Research Institute; the Tom Slick Memorial Trust for Texas Biomedical Research Institute, which is controlled by the Board of Trustees of Texas Biomed; and Evestra, Inc.

For the year ended December 31, 2012, the consolidated financial statements include the accounts of Texas Biomedical Research Institute and the Tom Slick Memorial Trust for Texas Biomedical Research Institute, which is controlled by the Board of Trustees of Texas Biomed.

The Tom Slick Trust is held in the Texas Biomed endowment fund. Each month, in accordance with Texas Biomed's board-adopted spending policy, the Tom Slick Trust contributes 4% of its earnings to Texas Biomed to be used for operations. This 4% is recorded as an expense of the Tom Slick Trust and is included as revenue to Texas Biomed. Upon consolidation, these entries should be completely eliminated. From 2007 through 2011, this amount was not eliminated in the consolidated financial statements. This resulted in a cumulative understatement of total

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### **1. Significant Accounting Policies (continued)**

consolidated unrestricted net assets of \$2,418,862. These prior-year amounts have been eliminated as of December 31, 2012, and are reflected as an increase to other revenue and a decrease to accounts payable. The impact of the unrecorded eliminating entries were not material to any of the prior years' financial statements and the recording of these entries in the current year is not material to the current year financial statements. As of December 31, 2012, all intercompany accounts and transactions have been eliminated in consolidation.

#### **Reclassification of Prior-Year Balances**

Certain prior-year amounts within the consolidated statement of cash flows have been reclassified to conform to the 2012 presentation.

#### **Use of Estimates**

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

#### **Cash and Cash Equivalents**

Cash and cash equivalents include non-interest-bearing and interest-bearing demand deposits, as well as a money market sweep account, which have maturities of less than 90 days.

#### **Contracts and Grants-in-Aid for Research Projects**

Texas Biomed recognizes as receivables amounts awarded by the National Institutes of Health and other organizations for research projects. These receivables reflect amounts expected to be earned within the next grant year. The amounts are treated as unearned revenue until expenditures are made under terms of the awards, at which time revenues are recognized to the extent of agreed participation by the awarding organization.

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### Assets Limited as to Use and Investments

Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, requires that the net appreciation on endowment funds whose income is unrestricted as to use be reported as unrestricted net assets unless such net appreciation has been restricted by the donor or by law. In those cases where a donor has placed specific restrictions on the use of endowment income, any related net appreciation is also subject to the same restriction and is reported as a part of temporarily restricted net assets until such time as the restriction has been met.

#### Assets Limited as to Use and Investments

Realized gains and losses on investments are recognized in the period in which they occur. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in unrestricted net assets unless the income or loss is restricted by donor or law. Market appreciation or decreases on permanently restricted gifts are classified in the accompanying consolidated financial statements as part of unrestricted or temporarily restricted net assets, as stipulated by donor.

The investment objectives for Texas Biomed's endowment funds are to preserve the principal value of the endowment funds in both absolute and real terms, and to maximize over the long term the total rate of return (cash income plus market appreciation) earned by the endowment funds, without assuming an unreasonable degree of risk. Accordingly, the Board of Trustees has adopted a spending formula for determining the maximum that can be expended annually, which is 4% of the trailing 12-quarter rolling average value of the endowment funds computed annually in the years ended December 31, 2012 and 2011.

Assets limited as to use primarily include assets designated for capital expenditures and research, scientific recruitment, and endowment funds by the donor or set aside by the Board of Trustees.

Endowment funds are invested primarily in U.S. equities, global equities, U.S. fixed-income securities, global fixed-income securities, alternative investments, emerging markets equities, cash, and cash equivalents. The vehicles for these investments include purchases of individual stocks, purchases of mutual funds, and investments in limited partnerships and trusts. The basis for the investments is the aggregate fair market value.

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### **1. Significant Accounting Policies (continued)**

A portion of the endowment funds are invested in nine limited partnerships and two trusts. These amounts are recorded at fair value, based on Texas Biomed's applicable ownership percentage in net assets of the limited partnerships and trusts. The investment income or loss, including realized gains and losses, unrealized gains and losses, interest income, and dividend income, from Texas Biomed's investment in these limited partnerships and trusts is included within unrestricted and temporarily restricted investment income and net realized/unrealized gains, in accordance with donor restrictions.

#### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, and that amount is then treated as the basis of the asset. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of changes in net assets as net assets released from program restrictions.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by Texas Biomed has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Texas Biomed in perpetuity. Income from the permanently restricted net assets that can be used for current operations, subject to donor restrictions on use, is reflected as an increase to unrestricted net assets. This accounting policy was also used for the Tom Slick Memorial Trust consistent with the terms of the documents establishing that trust, with income from the permanently restricted corpus being recorded as unrestricted income.

#### **Property, Plant, and Equipment**

Property, plant, and equipment are carried at cost or at estimated fair value on dates contributed.

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

Texas Biomed provides for depreciation and amortization of property, plant, and equipment at amounts calculated to amortize the cost of the assets over their estimated useful lives, using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	15–40 years
Fixtures and equipment	3–8 years

The general policy of Texas Biomed is to relieve property accounts and related allowances for depreciation and amortization for properties retired or otherwise disposed of at amounts included therein for such properties, and any gain or loss resulting therefrom is included in the statements of unrestricted revenues, expenses, and other changes in unrestricted net assets.

Expenditures for maintenance and repairs are charged to costs or expenses; renewals and betterments are capitalized.

Property, plant, and equipment acquired by federal funds are made available for use in other similar federally sponsored projects or programs as workload permits. The property, plant, and equipment acquired with federal funds are subject to use and disposition conditions, including possible repayments to the federal government if assets are disposed of. The amount of total property, plant, and equipment acquired with federal funds, less accumulated depreciation, is \$16,348,397 and \$14,746,456 as of December 31, 2012 and 2011, respectively.

In early 2012, Texas Biomed began construction a new 70,000-square-foot building that will house scientific laboratories, scientific and administrative offices, and space for supporting departments. Total cost of the building is approximately \$27,000,000. Donor pledges, payable over five to seven years, have been received to cover the cost of construction. A \$15,000,000 revolving line of credit was established to borrow the funds required to build the facility now, to be repaid with the future pledge payments. Substantial completion is scheduled for December 2013 with occupancy in the first quarter of 2014. No amount has been drawn on the revolving line of credit as of December 31, 2012.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### Retirement Plan

Texas Biomed's retirement plan is available to all active full-time employees and those who work a minimum of 1,000 hours, immediately upon employment. Contributions to the plan consist of employer payments ranging from 7% to 9% of such employee's base salary up to the maximum amount allowed under Section 401(a)(17) of the Internal Revenue Code (Code) based on years of service. Employees are fully vested after the completion of three years of service. The plan is carried with the Teachers Insurance and Annuity Association and College Retirement Equities Fund and is a defined contribution (money-purchase) plan. Payments to the plan were allocated to the various grants, contracts, and departments of Texas Biomed in the amount of \$1,838,970 and \$1,845,613 in 2012 and 2011, respectively.

Texas Biomed adopted the Supplemental Executive Retirement Plan, a nonqualified defined contribution plan, effective as of January 1, 1999. The plan provides nonqualified deferred compensation benefits for Texas Biomed's president, chief financial officer, and chief scientific officer. The Board of Trustees may designate, from time to time, other selected management or highly compensated employees of Texas Biomed as eligible to participate in the plan. Contributions to the plan consist of employer payments ranging from 7% to 9% of employee compensation over the maximum amount allowed under Section 401(a)(17) of the Code. Employer contributions to the plan of \$28,996 and \$18,843 were made in 2012 and 2011, respectively.

#### Income Taxes

Texas Biomed is exempt from federal income taxes under Section 501(a) of the Code, as an organization described under Section 501(c)(3) of the Code. This status was reaffirmed in the process of converting to a corporation. This exemption does not apply to unrelated business income, as defined by Section 512(a)(1) of the Code, which is subject to federal income tax. Texas Biomed has no internal tax liability results from such unrelated business income in 2012 or 2011. U.S. generally accepted accounting principles require management to evaluate uncertain tax positions taken by Texas Biomed. The financial statement effects of a tax position are recognized when the position is more likely than not, based on its technical merits, to be sustained upon examination by the IRS. Management has analyzed the tax positions taken by Texas Biomed and has concluded that, as of December 31, 2012, there are no uncertain positions taken or expected to be taken. Texas Biomed has recognized no interest or penalties related to

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

uncertain tax positions. Texas Biomed is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Texas Biomed believes it is no longer subject to income tax examinations for years prior to 2008.

#### Investment Income

Texas Biomed reports investment income net of applicable management fees. For the years ended December 31, 2012 and 2011, management fees were \$429,234 and \$345,887, respectively.

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 amended ASC 820, *Fair Value Measurement*, to converge the fair value measurement guidance in U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures (although certain of these disclosures will not be required for nonpublic entities). The amendments are to be applied prospectively and are effective for annual periods beginning after December 15, 2011. Since ASU 2011-04 only affects fair value measurement disclosures, its adoption did not have an effect on Texas Biomed's net assets or its changes in net assets.

### 2. Investments

Investments in equity and debt securities with determinable fair value are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for further discussion. The composition of these securities is set forth as follows:

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
Mutual funds	\$ 32,741,788	\$ 28,381,309
Cash and cash equivalents	6,426,274	5,374,490
Limited partnerships and trusts	59,276,052	56,627,896
	<u>\$ 98,444,114</u>	<u>\$ 90,383,695</u>

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 2. Investments (continued)

Investments traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price.

Limited partnerships and trusts are valued at the net asset values of units held at year-end. Purchases and sales of securities are recorded as of the trade date at cost. Realized gains and losses on sales of securities are determined on the basis of average costs. Interest income is recognized on the accrual basis. Dividend income is recognized on the ex-dividend date.

Texas Biomed holds an equity interest in limited partnerships and trusts that are operated by external investment managers. The holdings in the limited partnerships and trusts primarily comprise publicly traded securities with readily determinable market values. The risks associated with these investments are numerous and include nonregulation risk, managerial risk, minimal liquidity, and limited transparency.

Investment income earned by Texas Biomed and its allocation among net asset classifications are as follows:

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
Dividends and interest earned on investments	<b>\$ 1,551,989</b>	\$ 1,850,565
Net realized gain on investments reported at fair value	<b>792,221</b>	1,285,660
Net unrealized gain (loss) on investments reported at fair value	<b>9,963,267</b>	(2,341,214)
Less investment expenses netted against income	<b>(469,556)</b>	(267,450)
Total investment income	<b><u>\$ 11,837,921</u></b>	<b><u>\$ 527,561</u></b>
Net asset classification of investment income:		
Unrestricted	<b>\$ 8,360,921</b>	\$ 386,756
Temporarily restricted	<b>3,477,000</b>	140,805
Permanently restricted	—	—
Total investment income	<b><u>\$ 11,837,921</u></b>	<b><u>\$ 527,561</u></b>

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### 2. Investments (continued)

Investments in oil and gas mineral interests and common stock of Evestra as of December 31, 2012, are considered other investments and are stated at the lower of cost or fair value. The stated value of the oil and gas mineral interests are \$-0- as of December 31, 2012 and 2011. The investment in Evestra is stated at cost.

### 3. Fair Value Measurements

ASC 820 establishes a framework for measuring fair value. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value which are either observable or unobservable. Observable inputs reflect assumptions that market participants would use in pricing an asset or liability based on market data obtained from independent sources, while unobservable inputs reflect a reporting entity's pricing based upon management's own market assumptions. The fair value hierarchy under ASC 820 consists of the following three levels:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities that are accessible to the reporting entity at the measurement date.

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Observable inputs other than quoted prices that are used in the valuation of the asset or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
- Inputs that are derived principally from or corroborated by observable market data

Level 3 – Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's own judgment about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**3. Fair Value Measurements (continued)**

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following tables present the financial instruments carried at fair value as of December 31, 2012 and 2011, by caption on the consolidated balance sheets and by level in the ASC 820 fair value hierarchy. None of Texas Biomed's holdings are concentrated in one specific industry or investment type.

Asset Class	December 31 2012	Fair Value Measurement at December 31, 2012, Using:		
		Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments:				
Interest-bearing cash	\$ 6,426,274	\$ 6,426,274	\$ -	\$ -
Mutual funds:				
U.S. equities	15,315,601	15,315,601	-	-
U.S. fixed-income securities	13,152,808	13,152,808	-	-
Emerging markets	4,273,379	4,273,379	-	-
Limited partnerships and trusts:				
U.S. equities	18,309,101	-	18,309,101	-
International equities	16,492,716	-	16,492,716	-
Global fixed-income securities	9,254,165	-	9,254,165	-
Hedge funds	15,220,070	-	-	15,220,070
Total investments	98,444,114	39,168,062	44,055,982	15,220,070
Funds held in trust by others	2,613,569	-	-	2,613,569
Total	\$ 101,057,683	\$ 39,168,062	\$ 44,055,982	\$ 17,833,639

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**3. Fair Value Measurements (continued)**

Asset Class	Fair Value Measurement at December 31, 2011, Using:			
	December 31 2011	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments:				
Interest-bearing cash	\$ 5,374,491	\$ 5,374,491	\$ –	\$ –
Mutual funds:				
U.S. equities	13,367,813	13,367,813	–	–
U.S. fixed-income securities	15,013,496	15,013,496	–	–
Limited partnerships and trusts:				
U.S. equities	15,616,024	–	15,616,024	–
International equities	21,727,436	–	21,727,436	–
Global fixed-income securities	8,614,805	–	8,614,805	–
Hedge funds	10,669,630	–	–	10,669,630
Total investments	90,383,695	33,755,800	45,958,265	10,669,630
Funds held in trust by others	2,499,405	–	–	2,499,405
Total	\$ 92,883,100	\$ 33,755,800	\$ 45,958,265	\$ 13,169,035

The valuation methodologies used for instruments measured at fair value as presented in the table above are as follows:

Investments that are valued at quoted prices available in an active market and interest-bearing cash are classified within Level 1 of the valuation hierarchy.

Investments in limited partnerships and trusts valued at the entities' net asset value were classified as Level 2 because substantially all the holdings of each entity are in securities traded in an active market; however, the value of the partnership or trust itself can only be derived based on those holdings in Level 1 investments. The table on the following page includes additional disclosures required by ASC 820 for the fair value measurements of investments in certain entities that calculate fair value based on net asset value per share.

Investments in hedge funds and funds held in trust of others were classified as Level 3 because the value of the partnership or trust itself cannot be determined. These valuations are based on Texas Biomed's deemed portion of net asset value (NAV) of the underlying assets.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 3. Fair Value Measurements (continued)

Texas Biomed must rely on the investment managers to provide accurate pricing and NAV calculations. Texas Biomed takes necessary steps to obtain a comfort level with valuation procedures used by these investment managers.

Limited Partnerships and Trusts	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
<b>December 31, 2012</b>				
U.S. equities <sup>(a)</sup>	\$ 18,309,101	\$ –	Semiannually	30 days
International equities <sup>(b)</sup>	16,492,716	–	Monthly	6–15 days
Global fixed-income securities <sup>(c)</sup>	9,254,164	–	Daily–Monthly	10–15 days
Hedge funds <sup>(d)</sup>	15,220,070	–	Monthly–Biannually	15–90 days
	<u>\$ 59,276,051</u>	<u>\$ –</u>		
<b>December 31, 2011</b>				
U.S. equities <sup>(a)</sup>	\$ 15,616,024	\$ –	Semiannually	30 days
International equities <sup>(b)</sup>	21,727,437	–	Monthly	6–15 days
Global fixed-income securities <sup>(c)</sup>	8,614,805	–	Daily–Monthly	10–15 days
Hedge funds <sup>(d)</sup>	10,669,630	–	Monthly–Biannually	65 days
	<u>\$ 56,627,896</u>	<u>\$ –</u>		

<sup>(a)</sup> U.S. equities include investments in a limited partnership that invests in publicly traded securities in the United States. Management of the partnership has the ability to manage the investment portfolio. The fair values of the investments in this category have been estimated using the asset value per share of the investments at December 31, 2012 and 2011.

<sup>(b)</sup> International equities include investments in a trust and a limited partnership that invest in international securities outside the United States. Management of the trust and partnership manage their respective investment portfolios. The fair values of the investments in this category have been estimated using the net asset value per share of the investments at December 31, 2012 and 2011.

<sup>(c)</sup> Global fixed-income securities include investments in a trust and limited partnership that invest in fixed-income securities such as corporate and government bonds. Management of the trust and partnership manage their respective investment portfolios. The fair value of the investment in this category has been estimated using the net asset value per share of the investment at December 31, 2012 and 2011.

<sup>(d)</sup> Hedge funds include investments in limited partnerships that invest in securities and financial instruments of issuers. Management of the partnerships practice a conservative but flexible form of event-driven investing that favors safer, more predictable transactions while accepting lower expected returns. The fair value of the investments in this category has been estimated using the net asset value per share of the investment at December 31, 2012 and 2011.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**3. Fair Value Measurements (continued)**

**Level 3 Reconciliation**

The changes in assets measured at fair value for which Texas Biomed has used Level 3 inputs to determine fair value are as follows:

	<u>Hedge Funds</u>	<u>Funds Held in Trust by Others</u>
Balance, December 31, 2010	\$ 3,631,816	\$ 2,351,073
Total (loss) gain included in the consolidated statement of changes in net assets	(362,186)	148,332
Purchases	8,400,000	—
Sales	(1,000,000)	—
Balance, December 31, 2011	10,669,630	2,499,405
Total gain included in the consolidated statement of changes in net assets	<b>1,270,440</b>	<b>114,164</b>
Purchases	<b>3,280,000</b>	—
Balance, December 31, 2012	<b><u>\$ 15,220,070</u></b>	<b><u>\$ 2,613,569</u></b>

**4. Contributions Receivable**

As of December 31, 2012 and 2011, Texas Biomed has received unconditional promises totaling \$7,314,033 and \$11,730,500, respectively. Unconditional promises are unrestricted or temporarily restricted by donors for capital construction, research, or faculty recruitment, and permanently restricted as endowment funds. The amounts are recorded at the present value of estimated future cash flows. Contributions receivable are due as follows at December 31:

	<u>2012</u>	<u>2011</u>
Less than one year	\$ 3,245,300	\$ 4,266,000
One to five years	4,068,734	7,464,500
	<b>7,314,034</b>	11,730,500
Less amount to reduce to present value (discount rate of 3.8% in 2012)	<b>135,917</b>	485,623
	<b><u>\$ 7,178,117</u></b>	<b><u>\$ 11,244,877</u></b>

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 5. The Argyle Land, Buildings, and Equipment

Land, buildings, and equipment not used in the research operations of Texas Biomed are identified separately and valued at cost. Currently, this is limited to property leased to The Argyle Club (The Argyle).

The Argyle is a nonprofit organization operated as a social welfare organization. Membership in The Argyle requires initial and annual contributions to Texas Biomed. Texas Biomed leases a building, its contents, surrounding land, and a parking lot to The Argyle for a monthly rental of \$6,000.

#### 6. Funds Held in Trust by Others

Texas Biomed's interest in funds held in trust by others is included in net assets for the years ended December 31, 2012 and 2011. These funds are neither in the possession nor under the control of Texas Biomed. Despite these limitations, these funds cannot be used for any other purpose than to support Texas Biomed and are now included in Texas Biomed's assets in accordance with ASC 958-30, *Not-for-Profit Entities – Split-Interest Agreements*.

	<b>Texas Biomed's Interest in Principal of Trust at December 31 2012 (Market Value)</b>	<b>Income Earned by Texas Biomed During the Year Ended December 31 2012</b>
Ruth Chapman Cowles and Andrew G. Cowles Memorial Trust:		
Texas Biomed has a 10% interest in the income generated from this perpetual trust. The income from the trust is to be used primarily for postdoctoral fellowships.	\$ 2,613,569	\$ 114,164

Income from the fund held in trust by others is included in unrestricted net assets based on the original terms of the gift.

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

### **7. Endowment Funds and Funds Functioning as Endowments**

Texas Biomed holds donor-restricted and Board-designated endowment funds established primarily to fund specified activities for and within Texas Biomed and the research community as a whole. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Uniform Prudent Management of Institutional Funds Act provides statutory guidelines for management, investment, and expenditure of endowment funds held by charitable organizations, which apply in the absence of explicit donor stipulations. The intent of Texas Biomed is to preserve the historic dollar value of original permanently restricted gifts.

Texas Biomed classifies the historic value of donor-restricted gifts to be held in perpetuity as permanently restricted net assets. The remaining accumulated earnings of the donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**7. Endowment Funds and Funds Functioning as Endowments (continued)**

Activity of endowments and funds functioning as endowments for the fiscal years ended December 31, 2012 and 2011, is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at				
December 31, 2010	\$ 53,442,852	\$ 23,717,996	\$ 29,338,174	\$ 106,499,022
Contributions	502,488	15,542,152	159,000	16,203,640
Investment income	899,517	455,375	–	1,354,892
Net unrealized/realized gain	(577,508)	(1,255,609)	–	(1,833,117)
Transfers between temporarily restricted and permanently restricted accounts	–	(64,291)	64,291	–
Gain on funds held in trust by others	–	–	148,333	148,333
Net assets released from program restrictions	–	(3,309,629)	–	(3,309,629)
Appropriation of endowment assets for expenditure	(2,775,375)	–	–	(2,775,375)
Other deductions	(859,304)	–	–	(859,304)
Endowment net assets at				
December 31, 2011	<u>\$ 50,632,670</u>	<u>\$ 35,085,994</u>	<u>\$ 29,709,798</u>	<u>\$ 115,428,462</u>

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

**7. Endowment Funds and Funds Functioning as Endowments (continued)**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at				
December 31, 2011	\$ 50,632,670	\$ 35,085,994	\$ 29,709,798	\$ 115,428,462
Contributions	541,315	7,082,157	558,333	8,181,805
Investment income	671,224	370,333	-	1,041,557
Net unrealized/realized gain	6,040,074	2,135,141	-	8,175,215
Gain on funds held in trust by others	-	-	114,164	114,164
Net assets released from program restrictions	-	(4,139,355)	-	(4,139,355)
Appropriation of endowment assets for expenditure	(2,159,360)	-	-	(2,159,360)
Other deductions	(1,600,000)	-	-	(1,600,000)
Endowment net assets at				
December 31, 2012	<u>\$ 54,125,923</u>	<u>\$ 40,534,270</u>	<u>\$ 30,382,295</u>	<u>\$ 125,042,488</u>

Texas Biomed has adopted investment and spending policies for endowment assets reflecting a disciplined, consistent management philosophy that accommodates reasonable and probable events. Preservation of capital and return on investment are of primary importance. The primary investment objective is to preserve financial assets generated through donor gifts, so that the proceeds may be distributed for the purposes intended by the donors and to the benefit of Texas Biomed, at a level of risk deemed acceptable by the Board of Trustees.

To satisfy its long-term rate-of-return objectives, Texas Biomed relies on an investment policy outlined by its Investment Committee, which includes a desired mix of international and U.S. bonds, stocks, alternative investments, and cash and cash equivalents. Texas Biomed, at the direction of its Investment Committee, rebalances the portfolio periodically to maintain the desired distribution of assets within each asset class.

Texas Biomed has adopted spending policies allowing endowment funds to be utilized only in accordance with the purposes established by the donor or Board of Trustees designation.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### **8. Long-Term Debt**

##### **Evestra Convertible Promissory Notes and Accrued Interest**

In 2008, Evestra raised \$4,350,000 through the issuance of convertible promissory notes (First Notes) of which \$500,000 were held by Texas Biomed and \$3,850,000 were held by external parties. The First Notes matured 30 months after issuance and accrued simple interest at 10% per annum. Interest payable at December 31, 2011, was \$105,000. In 2011, the Executive Committee of the Board of Trustees elected to convert the First Notes held by Texas Biomed into Evestra common stock. In addition, \$3,550,000 of the First Notes were also converted to Evestra common stock by external parties in 2011 and an additional \$100,000 converted in 2012.

In 2009, Evestra received cash proceeds of \$1,200,000 through the additional issuance of convertible promissory notes that are held by external parties (Second Notes). The Second Notes matured on April 30, 2012, and accrued simple interest at 10% per annum. Total interest payable for the Second Notes at December 31, 2011, was \$347,119.

In 2011, Evestra received cash proceeds of \$750,000 through the additional issuance of convertible promissory notes to Texas Biomed (Third Notes). The Third Notes accrued simple interest at 4% per annum. Total interest payable for the Third Notes at December 31, 2011, was \$14,548. The fair value of all of the promissory notes and accrued interest was \$1,952,119 at December 31, 2011.

In 2012, the Executive Committee of the Board of Trustees elected to convert all outstanding Second and Third Notes held by Texas Biomed into Evestra common stock.

As of December 31, 2012, Texas Biomedical Research Institute has reduced its investment in Evestra to 47.8% and is no longer the majority shareholder.

##### **Line of Credit**

Texas Biomed has a \$2,000,000 line of credit available through August 2013. No amount has been drawn as of December 31, 2012 or 2011.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### **9. Contingencies**

Texas Biomed is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Texas Biomed's consolidated financial position.

#### **10. Subsequent Events**

Texas Biomed has evaluated subsequent events through June 7, 2013, the date the accompanying consolidated financial statements were available to be issued.

# Supplemental Information

Texas Biomedical Research Institute

Consolidating Balance Sheet

December 31, 2012

	<b>Texas Biomedical Research Institute</b>	<b>Tom Slick Memorial Trust</b>	<b>Evestra, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 6,974,116	\$ -	\$ -	\$ -	\$ 6,974,116
Receivables:					
Accounts	129,326	20,883,972	-	(20,883,972)	129,326
Contracts receivable from research projects	9,596,900	-	-	-	9,596,900
Amounts due on authorized grants-in-aid:					
National Institutes of Health	23,035,153	-	-	-	23,035,153
Other	4,511,047	-	-	-	4,511,047
Prepaid expenses and supplies	160,322	-	-	-	160,322
Contributions receivable	7,178,116	-	-	-	7,178,116
Assets limited as to use:					
Cash	16,089,409	51,544	-	-	16,140,953
Investments	98,444,114	-	-	-	98,444,114
Investment in Evestra, Inc.	2,821,861	-	-	-	2,821,861
Funds held in trust by others	2,613,569	-	-	-	2,613,569
The Argyle land, buildings, and equipment (net of accumulated depreciation of \$3,452,195)	3,904,587	-	-	-	3,904,587
Property, plant, and equipment:					
Land	359,959	-	-	-	359,959
Buildings and improvements	48,393,769	-	-	-	48,393,769
Fixtures and equipment	74,511,110	-	-	-	74,511,110
	123,264,838	-	-	-	123,264,838
Less allowances for depreciation	81,818,357	-	-	-	81,818,357
	41,446,481	-	-	-	41,446,481
Construction n progress	4,108,863	-	-	-	4,108,863
	45,555,344	-	-	-	45,555,344
Total assets	<u>\$221,013,864</u>	<u>\$ 20,935,516</u>	<u>\$ -</u>	<u>\$ (20,883,972)</u>	<u>\$ 221,065,408</u>

	<b>Texas Biomedical Research Institute</b>	<b>Tom Slick Memorial Trust</b>	<b>Evestra, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Liabilities and net assets</b>					
Accounts payable and accrued expenses:					
Trade accounts	\$ 15,034,417	\$ –	\$ –	\$ (15,034,417)	\$ –
Accrued wages, vacation, and other liabilities	4,022,192	–	–	–	4,022,192
Postretirement benefits	105,530	–	–	–	105,530
Unearned contract revenue from research projects	9,602,515	–	–	–	9,602,515
Amounts unearned on grants-in-aid:					
Advance collections	431,447	–	–	–	431,447
Uncollected authorized grants-in-aid	27,356,405	–	–	–	27,356,405
<b>Total liabilities</b>	<b>56,552,506</b>	<b>–</b>	<b>–</b>	<b>(15,034,417)</b>	<b>41,518,089</b>
Net assets:					
Unrestricted net assets	104,473,838	10,006,470	–	(5,849,555)	108,630,753
Temporarily restricted net assets	40,534,270	–	–	–	40,534,270
Permanently restricted net assets	19,453,250	10,929,046	–	–	30,382,296
<b>Total net assets</b>	<b>164,461,358</b>	<b>20,935,516</b>	<b>–</b>	<b>(5,849,555)</b>	<b>179,547,319</b>
<b>Total liabilities and net assets</b>	<b>\$221,013,864</b>	<b>\$ 20,935,516</b>	<b>\$ –</b>	<b>\$ (20,883,972)</b>	<b>\$221,065,408</b>

Texas Biomedical Research Institute

Consolidating Balance Sheet

December 31, 2011

	<b>Texas Biomedical Research Institute</b>	<b>Tom Slick Memorial Trust</b>	<b>Evestra, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 4,039,939	\$ -	\$ 498,792	\$ -	\$ 4,538,731
Receivables:					
Accounts	461,106	19,153,077	-	(19,153,077)	461,106
Contracts receivable from research projects	3,163,111	-	-	-	3,163,111
Amounts due on authorized grants-in-aid:					
National Institutes of Health	23,378,535	-	291,710	-	23,670,245
Other	4,247,824	-	3,502	-	4,251,326
Prepaid expenses and supplies	456,243	-	157,780	-	614,023
Contributions receivable	11,244,877	-	-	-	11,244,877
Assets limited as to use:					
Cash	7,841,514	28,292	-	-	7,869,806
Investments	90,383,695	-	-	-	90,383,695
Investment in Evestra, Inc.	2,691,861	-	-	(2,691,861)	-
Funds held in trust by others	2,499,405	-	-	-	2,499,405
The Argyle land, buildings, and equipment (net of accumulated depreciation of \$3,312)	4,006,898	-	-	-	4,006,898
Property, plant, and equipment:					
Land	374,530	-	-	-	374,530
Buildings and improvements	47,826,375	-	-	-	47,826,375
Fixtures and equipment	70,750,939	-	190,142	-	70,941,081
	118,951,844	-	190,142	-	119,141,986
Less allowances for depreciation	76,417,067	-	112,189	-	76,529,256
	42,534,777	-	77,953	-	42,612,730
Construction in progress	1,466,572	-	-	-	1,466,572
	44,001,349	-	77,953	-	44,079,302
<b>Total assets</b>	<b>\$198,416,357</b>	<b>\$ 19,181,369</b>	<b>\$ 1,029,737</b>	<b>\$ (21,844,938)</b>	<b>\$ 196,782,525</b>

	<b>Texas Biomedical Research Institute</b>	<b>Tom Slick Memorial Trust</b>	<b>Evestra, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Liabilities and net assets</b>					
Accounts payable and accrued expenses:					
Trade accounts	\$ 14,226,222	\$ –	\$ 91,768	\$ (10,884,661)	\$ 3,433,329
Accrued wages, vacation, and other liabilities	2,855,938	–	33,595	–	2,889,533
Convertible promissory notes and accrued interest	–	–	3,375,000	(1,422,881)	1,952,119
Postretirement benefits	265,724	–	–	–	265,724
Unearned contract revenue from research projects	2,126,078	–	–	–	2,126,078
Amounts unearned on grants-in-aid:					
Advance collections	90,765	–	–	–	90,765
Uncollected authorized grants-in-aid	26,757,436	–	–	–	26,757,436
<b>Total liabilities</b>	<b>46,322,163</b>	<b>–</b>	<b>3,500,363</b>	<b>(12,307,542)</b>	<b>37,514,984</b>
Net assets:					
Unrestricted net assets	98,227,448	8,252,323	(1,299,302)	(9,537,396)	95,643,073
Temporarily restricted net assets	35,085,994	–	–	–	35,085,994
Permanently restricted net assets	18,780,752	10,929,046	–	–	29,709,798
Noncontrolling interest in Evestra, Inc.	–	–	(1,171,324)	–	(1,171,324)
<b>Total net assets</b>	<b>152,094,194</b>	<b>19,181,369</b>	<b>(2,470,626)</b>	<b>(9,537,396)</b>	<b>159,267,541</b>
<b>Total liabilities and net assets</b>	<b>\$198,416,357</b>	<b>\$ 19,181,369</b>	<b>\$ 1,029,737</b>	<b>\$ (21,844,938)</b>	<b>\$ 196,782,525</b>

Texas Biomedical Research Institute

Consolidating Statement of Unrestricted Revenues, Expenses,  
and Other Changes in Unrestricted Net Assets

Year Ended December 31, 2012

	<b>Texas Biomedical Research Institute</b>	<b>Tom Slick Memorial Trust</b>	<b>Evestra, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
Unrestricted revenues, gains, and other support:					
Grants-in-aid	\$ 35,482,400	\$ -	\$ -	\$ -	\$ 35,482,400
Contracts	5,287,647	-	-	-	5,287,647
Contributions	2,162,223	-	-	-	2,162,223
Investment income	1,315,798	232,664	-	-	1,548,462
Net unrealized/realized loss on investments	5,747,392	1,568,424	-	(503,358)	6,812,458
Acquisition of assets from grants	3,879,985	-	-	-	3,879,985
Gain on sale of assets, net	568,233	-	-	-	568,233
Rental income	204,314	-	-	-	204,314
Internal service revenue	99,393	-	-	-	99,393
Oil and gas royalties	2,273,376	1,640,142	-	(1,141,978)	2,771,540
Other	144,214	-	-	2,418,862	2,563,076
Unrestricted revenues, gains, and other support	57,164,975	3,441,230	-	773,526	61,379,731
Transfers between restricted and unrestricted accounts	-	-	-	-	-
Increase in investment in Evestra, Inc. upon deconsolidation	2,568,283	-	-	-	2,568,283
Net assets released from program restrictions	5,110,881	-	-	-	5,110,881
Total unrestricted revenues, gains, and other support	64,844,139	3,441,230	-	773,526	69,058,895
Expenses:					
Direct project costs – grants	23,470,035	-	-	-	23,470,035
Direct project costs – contracts	2,877,039	-	-	-	2,877,039
Internal research	2,951,847	-	-	-	2,951,847
Support services	7,318,941	-	-	-	7,318,941
Research department administration	2,304,989	-	-	-	2,304,989
General and administrative	17,106,615	1,687,083	-	(1,645,334)	17,148,364
Total expenses	56,029,466	1,687,083	-	(1,645,334)	56,071,215
Net increase in unrestricted net assets	\$ 8,814,673	\$ 1,754,147	\$ -	\$ 2,418,860	\$ 12,987,680

## Texas Biomedical Research Institute

### Consolidating Statement of Unrestricted Revenues, Expenses, and Other Changes in Unrestricted Net Assets

Year Ended December 31, 2011

	<b>Texas Biomedical Research Institute</b>	<b>Tom Slick Memorial Trust</b>	<b>Evestra, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
Unrestricted revenues, gains, and other support:					
Grants-in-aid	\$ 37,056,379	\$ –	\$ 858,317	\$ –	\$ 37,914,696
Contracts	4,078,281	–	258,907	–	4,337,188
Contributions	2,398,323	–	–	–	2,398,323
Investment income	5,518,916	266,653	6,513	(1,997,798)	3,794,284
Net unrealized/realized loss on investments	(2,438,225)	(163,475)	–	–	(2,601,700)
Acquisition of assets from grants	965,481	–	–	–	965,481
Loss on sale of assets, net	(12,371)	–	–	–	(12,371)
Rental income	193,419	–	–	–	193,419
Internal service revenue	77,503	–	–	–	77,503
Oil and gas royalties	833,661	1,983,250	–	–	2,816,911
Other	14,724	–	1,347	–	16,071
Unrestricted revenues, gains, and other support	48,686,091	2,086,428	1,125,084	(1,997,798)	49,899,805
Transfers between restricted and unrestricted accounts	110,369	–	–	–	110,369
Conversion of notes payable to unrestricted net assets	–	–	5,062,500	(625,000)	4,437,500
Net assets released from program restrictions	3,199,260	–	–	–	3,199,260
Total unrestricted revenues, gains, and other support	51,995,720	2,086,428	6,187,584	(2,622,798)	57,646,934
Expenses:					
Direct project costs – grants	25,098,826	–	388,666	–	25,487,492
Direct project costs – contracts	2,321,000	–	–	–	2,321,000
Internal research	2,853,769	–	647,703	–	3,501,472
Support services	7,500,844	–	–	–	7,500,844
Research department administration	2,288,096	–	–	–	2,288,096
General and administrative	18,511,840	1,985,252	1,606,639	(1,527,464)	20,576,267
Total expenses	58,574,375	1,985,252	2,643,008	(1,527,464)	61,675,171
Net (decrease) increase in unrestricted net assets	(6,578,655)	101,176	3,544,576	(1,095,334)	(4,028,237)
Less net increase in unrestricted net assets attributable to noncontrolling interest in Evestra, Inc.	–	–	665,117	–	665,117
Net (decrease) increase in unrestricted net assets attributable to Texas Biomedical Research Institute	\$ (6,578,655)	\$ 101,176	\$ 2,879,459	\$ (1,095,334)	\$ (4,693,354)

Texas Biomedical Research Institute

Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2012

	<b>Texas Biomedical Research Institute</b>	<b>Tom Slick Memorial Trust</b>	<b>Evestra, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
Unrestricted net assets:					
Total unrestricted revenues, gains, and other support	\$57,164,975	\$ 3,441,230	\$ -	\$ 773,526	\$ 61,379,731
Transfers between restricted and unrestricted accounts	-	-	-	-	-
Net assets released from program restrictions	5,110,881	-	-	-	5,110,881
Deconsolidation of Evestra, Inc.	-	-	2,470,626	1,268,981	3,739,607
Total revenues	62,275,855	3,441,230	2,470,626	2,042,507	70,230,219
Unrestricted expenses	56,029,467	1,687,082	-	(1,645,334)	56,071,215
Net change in unrestricted net assets and noncontrolling interest	6,246,390	1,754,147	2,470,626	3,687,841	14,159,004
Temporarily restricted net assets:					
Contributions	7,082,157	-	-	-	7,082,157
Investment income	370,334	-	-	-	370,334
Net unrealized/realized gain on investments	3,106,667	-	-	-	3,106,667
Transfers from temporarily restricted to permanently restricted accounts	-	-	-	-	-
Net assets released from program restrictions	(5,110,881)	-	-	-	(5,110,881)
Increase in temporarily restricted net assets	5,448,277	-	-	-	5,448,277
Permanently restricted net assets:					
Contributions	558,333	-	-	-	558,333
Funds held in trust by others	114,164	-	-	-	114,164
Transfers between permanently and temporarily restricted accounts	-	-	-	-	-
Increase in permanently restricted net assets	672,497	-	-	-	672,497
Increase (decrease) in net assets	12,367,164	1,754,147	2,470,626	3,687,841	20,279,778
Net assets at the beginning of year	152,094,194	19,181,369	(2,470,626)	(9,537,396)	159,267,541
Net assets at the end of year	\$ 164,461,358	\$ 20,935,516	\$ -	\$ (5,849,555)	\$ 179,547,319

Texas Biomedical Research Institute

Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2011

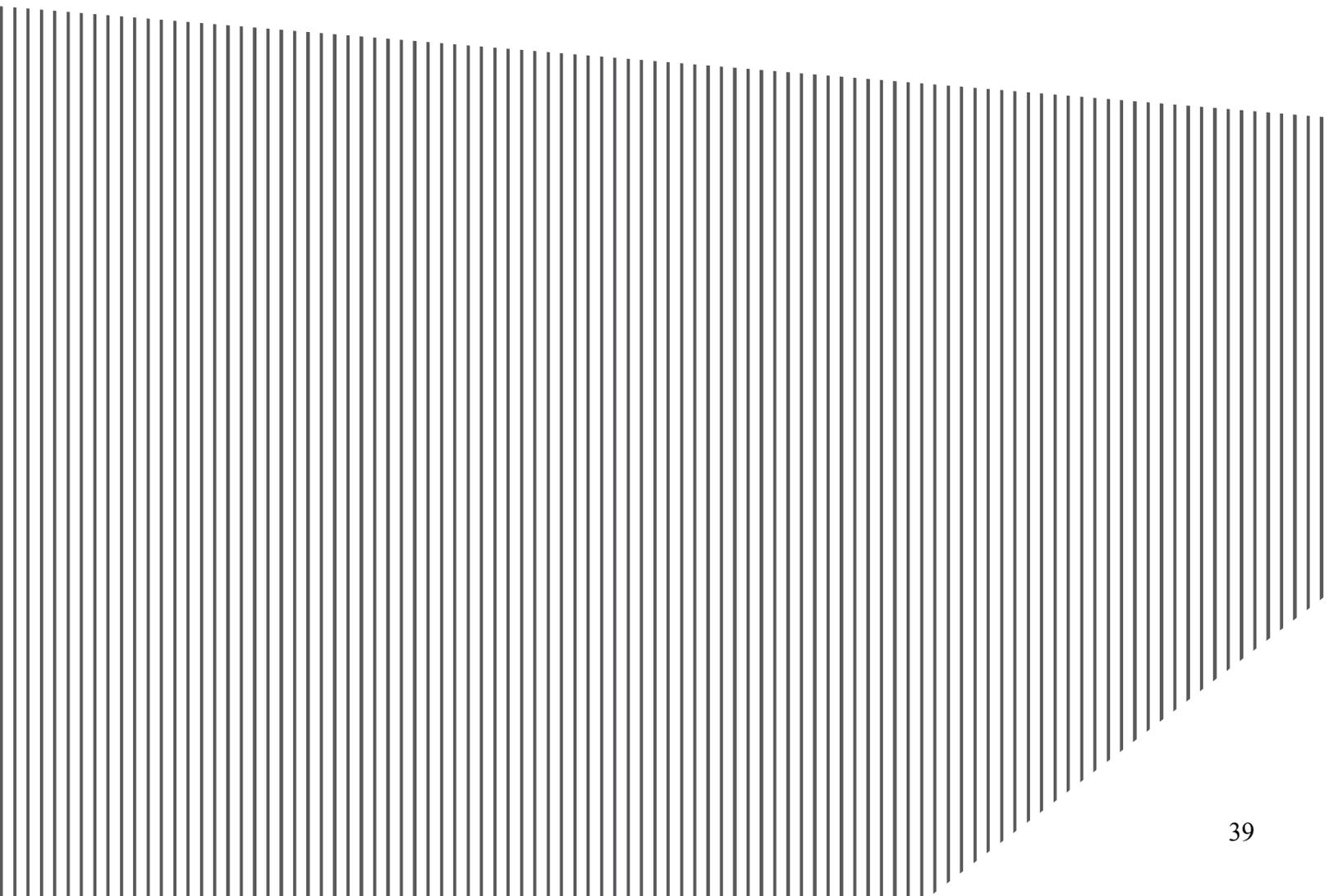
	<b>Texas Biomedical Research Institute</b>	<b>Tom Slick Memorial Trust</b>	<b>Evestra, Inc.</b>	<b>Eliminations</b>	<b>Total</b>
Unrestricted net assets:					
Total unrestricted revenues, gains, and other support	\$ 48,686,091	\$ 2,086,428	\$ 1,125,084	\$ (1,997,798)	\$ 49,899,805
Transfers between restricted and unrestricted accounts	110,369	-	-	-	110,369
Conversion of notes payable to unrestricted net assets	-	-	5,062,500	(625,000)	4,437,500
Net assets released from program restrictions	3,199,260	-	-	-	3,199,260
Total revenues	51,995,720	2,086,428	6,187,584	(2,622,798)	57,646,934
Unrestricted expenses	58,574,375	1,985,252	2,643,008	(1,527,464)	61,675,171
Net change in unrestricted net assets	(6,578,655)	101,176	3,544,576	(1,095,334)	(4,028,237)
Temporarily restricted net assets:					
Contributions	15,542,153	-	-	-	15,542,153
Investment income	455,374	-	-	-	455,374
Net unrealized/realized loss on investments	(1,255,609)	-	-	-	(1,255,609)
Transfers from temporarily restricted to permanently restricted accounts	(64,291)	-	-	-	(64,291)
Net assets released from program restrictions	(3,309,629)	-	-	-	(3,309,629)
Increase in temporarily restricted net assets	11,367,998	-	-	-	11,367,998
Permanently restricted net assets:					
Contributions	159,000	-	-	-	159,000
Funds held in trust by others	148,333	-	-	-	148,333
Transfers between permanently and temporarily restricted accounts	64,291	-	-	-	64,291
Increase in permanently restricted net assets	371,624	-	-	-	371,624
Increase (decrease) in net assets	5,160,967	101,176	3,544,576	(1,095,334)	7,711,385
Net assets at the beginning of year	146,933,227	19,080,193	(6,015,202)	(8,442,062)	151,556,156
Net assets at the end of year	<u>\$152,094,194</u>	<u>\$ 19,181,369</u>	<u>\$ (2,470,626)</u>	<u>\$ (9,537,396)</u>	<u>\$ 159,267,541</u>

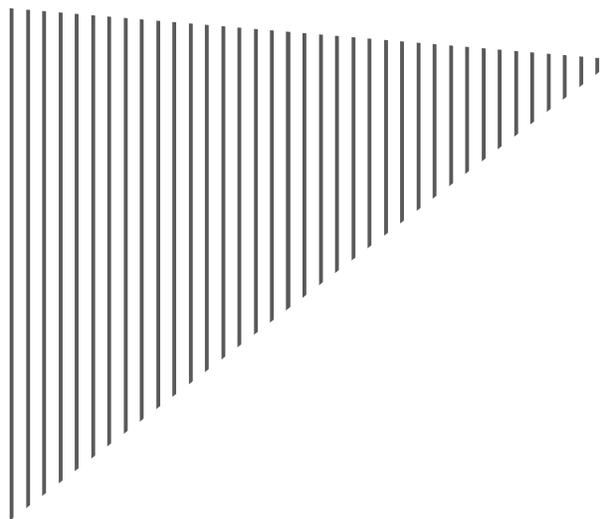
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REPORTS ON FEDERAL AWARD PROGRAMS

Texas Biomedical Research Institute  
Year Ended December 31, 2012

Ernst & Young LLP



Texas Biomedical Research Institute

Reports on Federal Award Programs

Year Ended December 31, 2012

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

Management and Trustees  
Texas Biomedical Research Institute

We have audited, in accordance with auditing standards generally accepted in the United States 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 Biomedical Research Institute, which comprise the consolidated statement of financial position as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 7, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Texas Biomedical Research Institute's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Texas Biomedical Research Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of Texas Biomedical Research Institute's internal control.

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

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

## **Compliance and Other Matters**

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

## **Purpose of This Report**

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

*Ernst + Young LLP*

June 7, 2013

## Report of Independent Auditors on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Management and Trustees  
Texas Biomedical Research Institute

### Report on Compliance for Each Major Federal Program

We have audited Texas Biomedical Research Institute's compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Texas Biomedical Research Institute's major federal programs for the year ended December 31, 2012. Texas Biomedical Research Institute's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of Texas Biomedical Research Institute's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Texas Biomedical Research Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Texas Biomedical Research Institute's compliance.

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

In our opinion, Texas Biomedical Research Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

#### **Report on Internal Control Over Compliance**

Management of Texas Biomedical Research Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Texas Biomedical Research Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Texas Biomedical Research Institute's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of Texas Biomedical Research Institute as of and for the year ended December 31, 2012, and have issued our report thereon dated June 7, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Ernst + Young LLP*

June 25, 2013

# Texas Biomedical Research Institute

## Schedule of Expenditures of Federal Awards

Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Grant No.	Pass-Through Entity Identifying Number	Federal Expenditures
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>				
<b>U.S. DEPARTMENT OF DEFENSE (DOD)</b>				
<b>Direct programs:</b>				
<b>Office of the Secretary of Defense:</b>				
Basic Scientific Research – Combating Weapons of Mass Destruction:				
Identification of broad spectrum targets for therapeutic intervention against Crimean Congo, Ebola and Lassa hemorrhagic fever virus infection by high throughput siRNA screening				
	12.351	4325		\$ 521,096
<b>Department of Navy, Office of the Chief of Naval Research:</b>				
USA Med Research ACQ Activity:				
Hemorrhage and Lower Body Negative Pressure (LBNP) Studies in Non-Human Primates				
	12.420	4258		176,330
<b>Department of the Army U.S. Army Contracting Command</b>				
Aberdeen proving ground natick contracting Division				
In vitro and in vivo Characterization of Filoviruses				
	12.UNKNOWN	4352		613,011
<i>Subtotal U.S. Department of Defense direct programs</i>				1,310,437
<b>Indirect programs:</b>				
<b>U.S. Army Medical Command</b>				
Military Medical Research and Development:				
<u>Pass-through from Aduro Biotech:</u>				
Molecular Switch Vaccines for Biodefense, Cancer, and Infectious Disease				
	12.420	4240	943348934	(18,844)
<u>Pass-through from Operational Technologies Corporation:</u>				
Testing of 5 Species of Rickettsiae/Phase 2 SBIR				
	12.420	4290	742406648	28,314
<i>Subtotal indirect programs: U.S. Army Medical Command</i>				9,470
<b>U.S. Army Medical Research Acquisition Activity</b>				
<u>Pass-through from Oxygen Biotherapeutics, Inc:</u>				
Blood platelet count response to two doses of Oxycyte in baboons with and without systemic inflammation				
	12.UNKNOWN	4361		559
<b>U.S. Department of Defense</b>				
<u>Pass-through from Batelle (DoD):</u>				
Texas Biomed Filovirus VLP Efficacy GP/NHP				
	12.UNKNOWN	4364		335,656

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Grant No.	Pass-Through Entity Identifying Number	Federal Expenditures
<b>Office of the Secretary of Defense:</b>				
Basic, Applied, and Advanced Research in Science and Engineering:				
Other:				
<u>Pass-through from Peregrine Pharmaceuticals, Inc.:</u>				
Anti-PS Antibodies as Therapeutics for HFV Infections	12.300	4148	953698422	\$ (12,272)
<u>Pass-through from SRI International:</u>				
Broad-Spectrum Agents for Prophylaxis and Treatment Against Bacterial Threat	12.UNKNOWN	4146	941160950	665
<u>Pass-through from University of Texas at Austin (DTRA):</u>				
Predictive and Adaptative Response to Emergent and Engineered Biothreats	12.UNKNOWN	4354	746000203	115,060
<i>Subtotal indirect programs: Office of the Secretary of Defense</i>				103,453
<b>Subtotal U.S. Department of Defense indirect programs</b>				449,138
<b>TOTAL U.S. DEPARTMENT OF DEFENSE</b>				\$ 1,759,575
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<b>Direct programs:</b>				
<b>National Institutes of Health (NIH):</b>				
Mental Health Research Grants:				
Genetics of brain structure and function	93.242	1496		\$ 187,640
Quantitative trait locus mapping in human pedigrees	93.242	1994		156,495
A neurobehavioral family study of schizophrenia	93.242	4126		
Identification of Novel MicroRNAs Assoc with Brain Structure & Function	93.242	4232		571,964
2/2-An Integrative Genetic Investigation of Schizophrenia	93.242	4298		245,159
Characterization of a Mendelian Form of Psychosis in a Population Isolate	93.242	4370		4,976
1/5 – Genetics of Transcriptional Endophenotypes for Schizophrenia	93.242	4345		82,733
<i>Subtotal direct programs: Mental Health Research Grants</i>				1,248,967
Office of the Director, National Institutes of Health:				
30 <sup>th</sup> Annual Symposium on Nonhuman Primate Models for AIDS	93.310	4356		75,000
Office of the Director, National Institutes of Health:				
Research Infrastructure Program	93.351	4304		1,169,206

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Grant No.	Pass-Through Entity Identifying Number	Federal Expenditures
Office of the Director, National Institutes of Health (OD, NIH):				
Establishment of a SPF rhesus monkey colony	93.389	1117		\$ 686,414
Southwest Regional Primate Research Center	93.389	3500		9,190,016
Development of Nonhuman Primate Models for PSA Biology Studies	93.389	4161		99,886
Development of a Vaccine to Protect Monkeys from Herpes B Virus Infection	93.389	4280		172,205
<i>Subtotal direct programs: Office of the Director, National Institutes of Health (OD, NIH)</i>				10,148,521
Cardiovascular Diseases Research:				
Strong heart family study	93.837	1107		209,809
Genetics of coronary artery disease in Alaska natives	93.837	1457		191,528
Genetic of infection and its relationship with CVD risk	93.837	1498		98,899
Genetics of Atherosclerosis in Mexican Americans	93.837	4097		2,230,635
Diet and genotype in primate atherosclerosis	93.837	4106		3,830,138
Identification of Genes Influencing Total Antioxidant Status	93.837	4114		613,387
Integrative Genomics of Vanin Gene Expression in Relation to CVD Risk	93.837	4241		274,460
Whole Genome Sequencing to Identify Causal Genetic Variants Influencing CVD Risk	93.837	4343		175,119
Genetic Epidemiology of Chagas Disease Progression	93.837	4190		912,894
<i>Subtotal direct programs: Cardiovascular Diseases Research</i>				8,536,869
Blood Diseases Resources Research:				
Genetic Analysis of Idiopathic Thrombosis	93.839	4064		2
Arthritis, Musculoskeletal and Skin Diseases Research:				
Genetics of Bone Structure and Metabolism	93.846	4195		839,489
Bone Structural Integrity Profiling to Advance Skeletal Genetics and Biomechanics	93.846	4297		563,007
<i>Subtotal direct programs: Arthritis and Musculoskeletal and Skin Disease Research</i>				1,402,496
Diabetes, Digestive, and Kidney Diseases Extramural Research:				
Identification of Regulatory Variants in Novel Candidate Genes for Diabetes	93.847	4028		226,063
Genetics of Gallbladder Disease in Mexican Americans	93.847	4116		217,478
Discovery of Functional Variants in Type 2 Diabetes Genes in Mexican Americans	93.847	4193		1,238,271
Gene Networks for Differential Risk of Kidney Damage by Long-Term Diabetes	93.847	4318		477,984
Comprehensive SNP Discovery in SLC249 A Candidate Gene for Uric Acid Nephropathy	93.847	4355		72,297
Large-Scale Methylation Profiling in Metabolic Syndrome Phenotypes	93.847	4242		593,919
<i>Subtotal direct programs: Diabetes, Digestive, and Kidney Diseases Extramural Research</i>				2,826,012

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Grant No.	Pass-Through Entity Identifying Number	Federal Expenditures
Allergy, Immunology and Transplantation Research: Copy Number Variation in Malaria Parasite Antigen Presentation by Epithelial Stem Cells to Promote Life Long Immunity	93.855	4017		\$ 181,442
The Innate Immune Response in the Marmoset Model of GBV-B Infections: A Surrogate	93.855	4251		1,165,806
Genetic Analysis of Host Specificity in Schistosoma mansoni	93.855	4294		474,340
Receptor Trafficking in Entry of Murine Leukemia Viruses	93.855	4332		453,961
Therapy of Denuue with Modified Antibodies in Humanized Mice	93.855	4340		185,974
Efficient Linkage Mapping Methods for Schistosoma mansoni	93.855	4353		183,698
	93.855	4357		<u>44,046</u>
<i>Subtotal direct programs: Allergy, Immunology and Transplantation Research</i>				<u>2,689,267</u>
Microbiology and Infectious Disease Research: A genome scan for susceptibility to helminthic infection	93.856	1104		(8)
Mapping drug resistance genes in plasmodium falciparum	93.856	1112		590,014
TB vaccine development in nonhuman primate model	93.856	1456		<u>127,412</u>
<i>Subtotal direct programs: Microbiology and Infectious Diseases Research</i>				<u>717,418</u>
Biomedical Research and Research Training: Genetic analysis of common diseases: an evaluation	93.859	1334		578,328
Nanoparticle Analysis of Enveloped Virus Entry Pathways	93.859	4346		<u>83,658</u>
<i>Subtotal direct programs: Biomedical Research and Research Training</i>				<u>661,986</u>
Child Health and Human Development Extramural Research: Identification of pre-eclampsia susceptibility genes	93.865	1502		<u>572</u>
Aging Research: Genetic Determinants of Human Transcriptional Aging	93.866	4078		<u>421,930</u>
Trans-NIH Recovery Act Research Support: (ARRA) A neurobehavioral family study of schizophrenia	93.701	4126		438,941
(ARRA) Southwest regional primate research center	93.701	3500		
(ARRA) Establishment SPF Rhesus Macaque	93.701	1117		
(ARRA) Expression-Based Empirical Candidate Genes Influencing Body Mass Index	93.701	4196		145,478
(ARRA) Epithelial Cells as Mucosal Adjuvant for Life Long Immunity	93.701	4194		(82,700)

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Grant No.	Pass-Through Entity Identifying Number	Federal Expenditures
(ARRA) Mapping drug resistance genes in plasmodium falciparum	93.701	1112		\$ 23,310
<i>Subtotal other direct programs: Trans-NIH Recovery Act Research Support:</i>				<u>525,029</u>
<b>Total Direct programs – National Institute of Health (NIH)</b>				<u>30,423,275</u>
<b>Centers for Disease Control and Prevention (CDC):</b> Safety, immunogenicity and efficacy of WNV and other flavivirus DNA vaccine candidates in non-human primates	93.200	1449		<u>(5,794)</u>
<b>Total Direct programs – U.S. Department of Health and Human Services</b>				<u>30,417,481</u>
<b>Indirect programs:</b>				
<b>National Institutes of Health (NIH):</b>				
National Institute of Environmental Health Sciences <u>Pass-through from Johns Hopkins:</u> Arsenic Exposure, Genetic Determinants and Diabetes Risk in a family study	93.113	4367	520595110	<u>37,965</u>
Oral Diseases and Disorders Research: <u>Pass-through from Wright State University:</u> Genetic Architecture of the Human Dentognathic Complex	93.121	4181	310732831	138,853
<u>Pass-through from Seattle Biomedical Research Institute(SBRI)</u> Factors Influencing Oral Transmission of SIV	93.121	4071	910961784	<u>46,592</u>
<i>Subtotal indirect programs: Oral Diseases and Disorders Research</i>				<u>185,445</u>
Human Genome Research: National Heart, Lung, and Blood Institute (NHGRI) <u>Pass-through from University of North Carolina</u> Genetic Epidemiology of Causal Variants Across the Life Course	93.172	4119	566172047	<u>145,137</u>
Research Related to Deafness and Communication Disorders: <u>Pass-through from University of Texas at San Antonio (UTSA)</u> Effect of aging on evoked otoacoustic emissions in the common marmosets	93.173	4124	741717115	<u>8,374</u>

# Texas Biomedical Research Institute

## Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Grant No.	Pass-Through Entity Identifying Number	Federal Expenditures
Mental Health Research Grants:				
<u>Pass-through from Yale University:</u>				
Genetics of Brain Structure and Function: Genome-Wide Association	93.242	4125	60646973	\$ 220,543
<u>Pass-through from Tx Tech University Health Science Cntr</u>				
Population based mapping of Schizophrenia Genes	93.242	4331	752668014	12,831
<u>Pass-through from NorthShore University:</u>				
Gene Expression in an African American Schizophrenia Dataset	93.242	4372	362167060	22,202
<i>Subtotal indirect programs: Mental Health Research Grants</i>				255,576
Alcohol Research Programs:				
<u>Pass-through from Research Foundation of State University of New York:</u>				
Collaborative study of the genetics of alcoholism	93.273	1072	141368361	98,379
Drug Abuse and Addiction Research Programs:				
<u>Pass-through from University of Connecticut Health Center:</u>				
Genetics of Cocaine Dependence	93.279	4091	521725543	21,679
National Institute of Biomedical Imaging and Bioengineering:				
<u>Pass-through from Yale University</u>				
Molecular and Cellular Transport in Mucus	93.286	4189	60646973	171,370
<u>Pass-through from University of Maryland, Baltimore</u>				
Solar-Eclipse Computational Tools for Imaging Genetics	93.286	4376	526002036	4,554
<i>Subtotal indirect programs: National Institute of Biomedical Imaging and Bioengineering</i>				175,924
Office of the Director, NIH:				
<u>Pass-through from UTHSCSA:</u>				
Developmental Programming, Maternal Obesity and Overnutrition	93.389	4269	741586031	436,395
Developmental Programming by Mismatch of Pre- and Postnatal Nutrition	93.389	4362	741586031	4,490
<u>Pass-through from University of Puerto Rico:</u>				
Establishment & Maintenance of a Closed CPRC Colony	93.389	4303	660433762	15,706
<u>Pass-through from President&amp;Fellows of Harvard College</u>				
Self-Injurious Behavior and Primate Well- being	93.389	4326	042103580	48,466
<i>Subtotal indirect programs: Office of the Director, NIH</i>				505,057

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Grant No.	Pass-Through Entity Identifying Number	Federal Expenditures
Cardiovascular Diseases Research:				
<u>Pass-through from UTHSCSA</u>				
Effects of Chronic Inflammation on Atherosclerosis Outcomes in RA	93.837	4094	741586031	\$ 36,876
<u>Pass-through from University of North Carolina</u>				
Comprehensive Mapping of a Blood Pressure QTL on Chromosome 17	93.837	4128	566172047	<u>53,335</u>
<i>Subtotal indirect programs: Cardiovascular Diseases Research</i>				<u>90,211</u>
Diabetes, Digestive, and Kidney Diseases Extramural Research:				
<u>Pass-through from UTHSCSA:</u>				
NIDDM susceptibility genes in Mexican Americans	93.847	1497	741586031	40,799
Type 2 Diabetes gene discovery linked to 3p in Hispanics	93.847	4029	741586031	203
Identification of Prediabetes Genes by Expression Linkage Analysis	93.847	4149	741586031	81,176
Developmental Programming of Post-Natal Pancreatic Islet Function	93.847	4248	741586031	(415)
<u>Pass-through from Baylor College of Medicine:</u>				
Improving safety and efficacy of gene therapy with HDAd	93.847	1463	741613878	119,289
Obesity and Diabetes Familial Risk in Hispanic Children	93.847	4175	741613878	318,368
<u>Pass-through from Medical College of Wisconsin</u>				
Candidate Genes Affecting Adolescent Metabolic Syndrome	93.847	4035	390806261	78,803
<u>Pass-through from The University of Oklahoma Health Sciences Center</u>				
Telomere Attrition and Diabetes Risk in American Indians	93.847	4319	73-6017987E8	<u>44,010</u>
<i>Subtotal indirect programs: Diabetes, Digestive, and Kidney Diseases Extramural Research</i>				<u>682,233</u>
Allergy, Immunology and Transplantation Research:				
<u>Pass-through from Baylor College of Medicine:</u>				
Replicative fitness of SIV variants	93.855	1480	741613878	36,219
<u>Pass-through from Emory University:</u>				
Novel Vaccine Strategies Against Ebola Virus	93.855	4104	580566256	5,697
<u>Pass-through from University of Maryland:</u>				
Recombinant Yellow Fever 17D-Lassa Vaccine	93.855	4108	426002036	(26,221)
<u>Pass-through Crucell Holland B.V. (Netherlands)</u>				
Advanced Development of Multivalent Filovirus (Ebola and Marburg) Hemorrhagic Fever Vaccine	93.855	4173		1,473,682
<u>Pass-through from Microbiotix, Inc.</u>				
Carbocyclic Nucleosides as Therapeutics for Ebola Infections	93.855	4212	061538344	(3,693)

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/Grant No.	Pass-Through Entity Identifying Number	Federal Expenditures
<u>Pass-through from Emory University</u> Dual Vaccine Strategy Against Filovirus Infection	93.855	4295	1580566256	\$ 126,004
<u>Pass-through from Planet Biotechnology</u> Rabbit B. anthracis Challenge Study	93.855	4296	770392393	(1)
<u>Pass-through from UTHSCSA:</u> Identification of Novel Plant-derived Antimalarial Compounds	93.855	4300	741586031	105,092
<u>Pass-through from Research Institute at Nationwide Children's Hospital</u> Children's Hospital HCV-specific T Cell Response	93.855	4302	1316056230	181,393
<u>Pass-through from Fisher BioServices</u> Efficacy of MVA-BN-Marv Vaccine	93.855	4301	541348241	541,742
<u>Pass-through from UTMB</u> Western Regional Center of Excellence for Biodefense and Emerging Infectious	93.855	4327	746000949	101,097
<u>Pass-through from Lovelace &amp; Environmental Res Inst</u> Nonhuman Primate Model for Filovirus Vaccine & Efficacy Testing	93.855	4351	510154068	334,303
Allergy, Immunology and Transplantation Research: <u>Pass-through from Luminex Corporation</u> Systems for rapid development of high sensitivity multiplex assays for biothreat agents	93.855	4341	742747608	299,987
<u>Pass-through from University of California, Santa Cruz</u> Hybrid Integrated Molecular Analysis (HIMAS) for the Point-to-care	93.855	4358	941539563	16,791
<u>Pass-through from Luminex Corporation</u> Systems for rapid development of high sensitivity multiplex assays for biothreat	93.855	4363	742747608	93,013
<u>Pass-through from University of Iowa:</u> Filoviral glycoprotein/cellular protein interactions	93.855	4369	426004813	7,272
<u>Pass-through from UTHSCSA:</u> Development of a Novel HIV Approach using Chimeric SIV/Varicella Virus	93.855	4371	741586031	1,724
<i>Subtotal indirect programs: Allergy, Immunology and Transplantation Research</i>				3,294,101
Microbiology and Infectious Diseases Research: Nationwide's <u>Pass-through from Microbiotix, Inc</u> Developing small molecule therapeutics for Ebola hemorrhagic fever Virus	93.856	4360	741109630	67,464

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Grant No.	Pass-Through Entity Identifying Number	Federal Expenditures
Child Health and Human Development Extramural Research: <u>Pass-through from University of Texas Medical Branch at Galveston:</u> Obstetric Pharmacology Research Units Network Center at UTMB-Galveston	93.865	1408	746000949	\$ 2,621
<u>Pass-through from University of Minnesota</u> The Genetics of Infant Growth and Later Obesity	93.865	4027	416007513	9,486
<u>Pass-through from UTHSCSA:</u> Nutrient Restriction: Placental and Fetal Brain Renal Outcomes and Mechanisms	93.865	4063	741586031	63,536
The Disablement Process in Rheumatoid Arthritis	93.865	4086	741586031	10,047
<u>Pass-through from Wright State University</u> Genetic Somatic and Maturational Influences on Pediatric Skeletal Health	93.865	4260	310732831	99,831
<u>Pass-through from Medical College of Wisconsin</u> Validation and Application of Technologies for Large Scale Epigenetic Profiling to Study Environment-Gene Interaction	93.865	4292	390806261	4,376
<i>Subtotal indirect programs: Child Health and Human Development Extramural Research</i>				189,897
Vision Research: National Eye Institute (NEI) <u>Pass-through from Oregon Health &amp; Science University:</u> A joint linkage/association Strategy to interrogate AMD genetic susceptibility	93.867	4337	931176109	535,364
Trans-NIH Recovery Act Research Support: <u>Pass-through from Johns Hopkins</u> (ARRA) 1/5: Family-based Genome-wide Methylation Scan in Schizophrenia	93.701	4209	520595110	11,266
<u>Pass-through from Sepulveda Research Corporation:</u> (ARRA) Mechanisms of Race-Based Differences in Factor VIII Immunogenicity in Hemophilia	93.701	4235	954246275	196,094
<u>Pass-through from NorthShore University</u> (ARRA) Joint Mapping of Genome-Wide Gene Expression & Assoc in a Schizophrenia Dataset	93.701	4216	364191793	110,936
<u>Pass-through from Trinity University:</u> (ARRA) Macrostructural and Microstructural Analysis of the Primate Corpus Callosum (150 CB)	93.701	4261	741109633	19,288
<i>Subtotal indirect programs: Trans-NIH Recovery Act Research Support</i>				337,584
<b>Total Indirect programs – National Institute of Health (NIH)</b>				6,630,390

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Contract/ Grant No.	Pass-Through Entity Identifying Number	Federal Expenditures
<b>Total U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				<u>\$ 37,047,871</u>
<b>TOTAL RESEARCH AND DEVELOPMENT CLUSTER</b>				<u>38,807,446</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u><u>\$ 38,807,446</u></u>

# Texas Biomedical Research Institute

## Notes to Schedule of Expenditures of Federal Awards

December 31, 2012

### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Texas Biomedical Research Institute (Texas Biomed) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

### 2. Reconciliation to Financial Statements

Texas Biomed recognizes revenues from grants and contracts at the time eligible direct and indirect costs are incurred under terms of the awards and recognized as expenditures. Revenue recognized from expenditure of federal awards is reconciled to Texas Biomed's consolidated statement of unrestricted revenues, expenses, and other changes in unrestricted net assets as follows:

Revenues reported in Texas Biomed's consolidated financial statements:	
Grants in aid	\$ 35,482,400
Contracts	<u>5,287,647</u>
	40,770,047
Less amounts of nonfederal awards	<u>1,962,601</u>
Total federal award expenditures	<u><u>\$ 38,807,446</u></u>

Texas Biomedical Research Institute

Notes to Schedule of Expenditures of Federal Awards (continued)

**3. Subrecipients**

Of the federal expenditures presented in the schedule, Texas Biomed provided federal awards to subrecipients as follows:

<b>Program Title</b>	<b>Contract/ Grant Number</b>	<b>Federal CFDA Number</b>	<b>Amount Provided to Subrecipients</b>
Therapeutic Intervention Crimean Congo Ebola Lasso	4325	12.300	\$ 295,136
Genetics of brain structure and function	1496	93.242	8
Identification of Novel MicroRNAs Assoc with Brain Structure and Function	4232	93.242	24,066
Mapping Methods for Specificity in Schistosoma	4357	93.242	14,863
Southwest regional primate research center	3500	93.389	46,638
Genetics of atherosclerosis	4097	93.837	17,473
Strong heart family study	1107	93.837	822
Genetic epidemiology of chagas	4190	93.837	158,771
Investigative genomics of vanin gene expression in relation to CVD risk	4241	93.837	54,251
Bone structural integrity profiling to advance skeletal genetics and biomechanics	4297	93.846	354,572
Genetics of bone structure and metabolism	4195	93.846	202,470
Gene networks of differential risk of kidney damage by long-term diabetes	4318	93.847	23,374

Texas Biomedical Research Institute

Notes to Schedule of Expenditures of Federal Awards (continued)

**3. Subrecipients (continued)**

<b>Program Title</b>	<b>Contract/ Grant Number</b>	<b>Federal CFDA Number</b>	<b>Amount Provided to Subrecipients</b>
D of functional variants in type 2 diabetes genes in Mexican Americans	4193	93.847	\$ 134,699
Genetics of gallbladder disease	4116	93.847	49,515
Identification of regulatory variants in novel candidate genes for diabetes	4028	93.847	15,416
Large-scale methylation profiling in metabolic syndrome phenotypes	4242	93.847	13,751
Copy number variation in malaria parasite	4017	93.855	66,967
Genetic Analysis of Host	4332	93.855	160,004
Mapping drug resistant genes in plasmodium falciparum	1112	93.856	83,116
Therapy of Dengue with defied antibodies	4353	93.865	15,930
			<u>\$ 1,731,842</u>

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs

Year Ended December 31, 2012

**Part I—Summary of Auditor’s Results**

**Financial Statements Section**

Type of auditor’s report issued (unmodified, qualified, adverse or disclaimer):

Unmodified

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Internal control over financial reporting:

Material weakness(es) identified?	_____ <b>yes</b>	_____ <b>X</b>	_____ <b>no</b>
Significant deficiency(ies) identified?	_____ <b>yes</b>	_____ <b>X</b>	_____ <b>none reported</b>
Noncompliance material to financial statements noted?	_____ <b>yes</b>	_____ <b>X</b>	_____ <b>no</b>

**Federal Awards Section**

Internal control over major programs:

Material weakness(es) identified?	_____ <b>yes</b>	_____ <b>X</b>	_____ <b>no</b>
Significant deficiency(ies) identified?	_____ <b>yes</b>	_____ <b>X</b>	_____ <b>none reported</b>

Type of auditor’s report issued on compliance for major programs (unmodified, qualified, adverse or disclaimer):

Unmodified

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Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?

_____ <b>yes</b>	_____ <b>X</b>	_____ <b>no</b>
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Texas Biomedical Research Institute

Notes to Schedule of Expenditures of Federal Awards (continued)

**Part I—Summary of Auditor’s Results - continued**

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
12.300, 12.351, 12.420, 12.UNKNOWN, 93.113, 93.121, 93.172, 93.173, 93.200, 93.242, 93.273, 93.279, 93.286, 93.310, 93.351, 93.389, 93.701, 93.837, 93.839, 93.846, 93.847, 93.855, 93.856, 93.859, 93.865, 93.866, 93.867	Research and Development Cluster

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Dollar threshold used to distinguish between Type A and Type B programs: \$ 1,310,437

Auditee qualified as low-risk auditee?  X  yes   No

**Part II—Financial Statement Findings Section**

No findings were noted for the year ended December 31, 2012

**Part III—Federal Award Findings and Questioned Costs Section**

No findings were noted for the year ended December 31, 2012

Texas Biomedical Research Institute

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2012

**Finding 2010-01 – Reporting – Section 1512 reporting**

During 2011, the Chief Financial Officer facilitated staff implementation of processes to ensure adequate documentation is prepared and retained for the quarterly Section 1512 reporting and that Section 1512 reports are reviewed for accuracy prior to submission.

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