

CONSOLIDATED FINANCIAL STATEMENTS  
AND REPORTS ON FEDERAL AWARD PROGRAMS

Texas Biomedical Research Institute  
Years Ended December 31, 2013 and 2012  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

Texas Biomedical Research Institute  
Consolidated Financial Statements  
and Reports on Federal Award Programs  
Years Ended December 31, 2013 and 2012

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## Report of Independent Auditors

The 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, 2013 and 2012, 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, 2013 and 2012, 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.

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

In accordance with *Government Auditing Standards*, we also have issued our report dated June 13, 2014, 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.

*Ernst + Young LLP*

June 13, 2014

Texas Biomedical Research Institute

Consolidated Balance Sheets

	December 31	
	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 6,486,615	\$ 6,974,116
Receivables:		
Accounts receivable	141,432	129,326
Contracts receivable from research projects	1,909,166	436,595
Amounts due on authorized grants-in-aid:		
National Institutes of Health	895,392	161,319
Other	631,883	194,005
Prepaid expenses and supplies	168,410	160,322
Contributions receivable ( <i>Note 4</i> )	4,317,895	7,178,116
Assets limited as to use:		
Cash	1,844,862	16,140,953
Investments ( <i>Note 2</i> )	115,008,383	98,444,114
Investment in Evestra, Inc.	2,821,861	2,821,861
Funds held in trust by others	2,711,256	2,613,569
The Argyle land, buildings, and equipment (net of accumulated depreciation of \$3,581,629 and \$3,452,195 in 2013 and 2012, respectively) ( <i>Note 5</i> )	3,852,415	3,904,587
Property, plant, and equipment:		
Land	359,959	359,959
Buildings and improvements	49,465,305	48,393,769
Fixtures and equipment	79,059,266	74,511,110
	128,884,530	123,264,838
Less allowances for depreciation	86,869,808	81,818,357
	42,014,722	41,446,481
Construction in progress	23,560,093	4,108,863
	65,574,815	45,555,344
Total assets	\$ 206,364,385	\$ 184,714,227

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Liabilities and net assets</b>		
Accounts payable and accrued expenses:		
Trade accounts payable	\$ 3,838,275	\$ –
Accrued wages, vacation, and other liabilities	4,428,346	4,022,192
Post-retirement benefits	67,032	105,530
Unearned contract revenue from research projects	2,595,221	995,259
Amounts unearned on grants-in-aid:		
Advance collections	81,945	2,723
Uncollected authorized grants-in-aid	–	41,204
Total current liabilities	<b>11,010,819</b>	5,166,908
Long-term debt	<b>2,045,991</b>	–
Total liabilities	<b>13,056,810</b>	5,166,908
Net assets:		
Unrestricted net assets	131,738,415	108,630,753
Temporarily restricted net assets	27,174,176	40,534,271
Permanently restricted net assets	34,394,984	30,382,295
Total net assets	<b>193,307,575</b>	179,547,319
Total liabilities and net assets	<b>\$ 206,364,385</b>	<b>\$ 184,714,227</b>

*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>2013</b>	<b>2012</b>
Unrestricted revenues, gains, and other support:		
Grants-in-aid	\$ 34,373,523	\$ 35,482,400
Contracts	7,397,733	5,287,647
Contributions	2,991,013	2,162,223
Investment income	1,692,756	1,548,462
Net unrealized/realized gain (loss) on investments	9,830,421	6,812,458
Acquisition of assets from grants	1,057,154	3,879,985
Gain on sale of assets, net	83,758	568,233
Rental income	205,890	204,314
Internal service revenue	39,315	99,393
Oil and gas royalties	2,440,432	2,771,540
Other	151,578	2,563,076
Unrestricted revenues, gains, and other support	<b>60,263,573</b>	61,379,731
Increase in investment in Evestra, Inc. upon deconsolidation	–	2,568,283
Net assets released from program restrictions	<b>20,952,514</b>	5,110,881
Total unrestricted revenues, gains, and other support	<b>81,216,087</b>	69,058,895
Expenses:		
Direct project costs – grants	22,038,580	23,470,035
Direct project costs – contracts	3,993,840	2,877,039
Internal research	3,110,470	2,951,847
Support services	7,427,238	7,318,941
Research department administration	2,536,974	2,304,989
General and administrative	19,001,323	17,148,364
Total expenses	<b>58,108,425</b>	56,071,215
Net increase in unrestricted net assets attributable to Texas Biomedical Research Institute	<b>\$ 23,107,662</b>	\$ 12,987,680

*See accompanying notes.*

Texas Biomedical Research Institute

Consolidated Statement of Changes in Net Assets

Year Ended December 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Non-controlling Interest in Evestra, Inc.	Total
Revenues, gains, and other support:					
Unrestricted revenues, gains, and other support	\$ 60,263,573	\$ -	\$ -	\$ -	\$ 60,263,573
Restricted revenues, gains, and other support:					
Contributions	-	2,798,884	3,915,000	-	6,713,884
Investment income	-	288,585	-	-	288,585
Net unrealized/realized gain on investments	-	4,504,950	-	-	4,504,950
Gain on funds held in trust by others	-	-	97,689	-	97,689
Net assets released from program restrictions	20,952,514	(20,952,514)	-	-	-
<b>Total revenues, gains, and other support</b>	<b>81,216,087</b>	<b>(13,360,095)</b>	<b>4,012,689</b>	<b>-</b>	<b>71,868,681</b>
Expenses:					
Unrestricted expenses	58,108,425			-	58,108,425
Increase (decrease) in net assets	23,107,662	(13,360,095)	4,012,689		13,760,256
Net assets at the beginning of year	108,630,753	40,534,271	30,382,295	-	179,547,319
Net assets at the end of year	<u>\$ 131,738,415</u>	<u>\$ 27,174,176</u>	<u>\$ 34,394,984</u>	<u>\$ -</u>	<u>\$ 193,307,575</u>

See accompanying notes.



Texas Biomedical Research Institute

Consolidated Statement of Changes in Net Assets

Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Non-controlling Interest in Evestra, Inc.	Total
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
Total revenues, gains, and other support	69,058,895	5,448,277	672,497	1,171,324	76,350,993
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
Net assets at the end of year	<u>\$ 108,630,753</u>	<u>\$ 40,534,271</u>	<u>\$ 30,382,295</u>	<u>\$ -</u>	<u>\$ 179,547,319</u>

See accompanying notes.

Texas Biomedical Research Institute  
Consolidated Statements of Cash Flows

	December 31	
	2013	2012
<b>Operating activities</b>		
Increase in net assets	\$ 13,760,256	\$ 20,279,778
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation	5,180,885	5,429,013
Net increase due to deconsolidation of Evestra, Inc.	–	(3,739,607)
Net investment income	(16,315,765)	(11,967,921)
Oil and gas income	(2,440,432)	(2,771,540)
Gain on the sale of assets, net	(83,758)	(568,233)
Restricted contributions received	(6,713,885)	(7,640,490)
Gain of funds held in trust by others	(97,689)	(114,164)
Changes in operating assets and liabilities:		
Receivables	(2,656,626)	2,387,870
Prepaid expenses and supplies	(8,088)	295,921
Contribution receivable	2,860,221	4,066,761
Accounts payable and accrued expenses	4,244,429	(2,175,307)
Other current liabilities	1,599,482	(153,827)
Net cash (used in) provided by operating activities	(670,970)	3,328,254
<b>Investing activities</b>		
Purchases of plant and equipment	(25,064,426)	(6,312,463)
Oil and gas income	2,440,432	2,771,540
Net purchases/sales and realized gains from investments	14,047,588	(4,493,645)
Elimination of cash held by Evestra, Inc.	–	(498,791)
Net cash used in investing activities	(8,576,406)	(8,533,359)
<b>Financing activities</b>		
Proceeds from notes payable	2,045,991	–
Proceeds from restricted contributions received	6,713,884	7,640,490
Net cash provided by financing activities	8,759,875	7,640,490
(Decrease) increase in cash and cash equivalents	(487,501)	2,435,385
Cash and cash equivalents at beginning of year	6,974,116	4,538,731
Cash and cash equivalents at end of year	\$ 6,486,615	\$ 6,974,116

*See accompanying notes.*

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements

December 31, 2013

### **1. Significant Accounting Policies**

#### **Nature of Operations**

The 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 was consolidated with Texas Biomed's financial information. As of December 31, 2012, Texas Biomed owned 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, 2012. As of December 31, 2013, Texas Biomed owns 47.1% of Evestra's common stock.

#### **Principles of Consolidation**

For the year ended December 31, 2013 and 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. As of December 31, 2013 and 2012, all intercompany accounts and transactions have been eliminated in consolidation.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

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

##### **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**

As of January 1, 2013, Texas Biomed recognizes grants receivable when grant-in-aid revenue is recognized, as expenditures are incurred under the terms of the award to the extent of agreed participation by the awarding organization. Prior to January 1, 2013, Texas Biomed recognized receivables amounts awarded by the National Institutes of Health and other organizations for research projects which reflected amounts awarded for the next grant year. The amounts were treated as unearned revenue until expenditures were made under terms of the awards, at which time revenues were recognized to the extent of agreed participation by the awarding organization. The change in the recognition of receivables was facilitated by the implementation of the grants accounting system, which made information available to accurately recognize and bill revenue immediately as qualifying expenditures were incurred. Certain amounts previously reported amounts of December 31, 2012 for the following accounts have been reclassified to conform to the current receivables policy.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

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

	<b>December 31, 2012</b>		
	<b>As Previously Reported</b>	<b>Amounts Reclassified</b>	<b>As Reported Herein</b>
<b>Consolidated balance sheet accounts</b>			
Contracts receivable from research projects	\$ 9,596,900	\$ (9,160,305)	\$ 436,595
Amounts due on authorized grants-in-aid:			
National Institutes of Health	23,035,153	(22,873,834)	161,319
Other	4,511,047	(4,317,042)	194,005
 Total assets	 221,065,408	 (36,351,181)	 184,714,227
 Unearned contract revenue from research projects	 9,602,515	 (8,607,256)	 995,259
Amounts unearned on grants-in-aid:			
Advance collections	431,447	(428,724)	2,723
Uncollected authorized grants-in-aid	27,356,405	(27,315,201)	41,204
 Total liabilities	 41,518,089	 (36,351,181)	 5,166,908
 Unrestricted net assets	 108,630,753	 –	 108,630,753
 Total net assets	 179,547,319	 –	 179,547,319
 Total liabilities and net assets	 221,065,408	 (36,351,181)	 184,714,227
	<b>Year Ended December 31, 2012</b>		
	<b>As Previously Reported</b>	<b>Amounts Reclassified</b>	<b>As Reported</b>
<b>Consolidated statements of cash flows</b>			
Changes in operating assets and liabilities:			
Receivables	\$ (6,021,850)	\$ 8,409,720	\$ 2,387,870
Other current liabilities	8,255,893	(8,409,720)	(153,827)

# Texas Biomedical Research Institute

## Notes to Consolidated Financial Statements (continued)

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

#### **Assets Limited as to Use and Investments**

Net appreciation on endowment funds whose income is unrestricted as to use should 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.

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, 2013 and 2012.

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 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 \$14,831,678 and \$16,348,397 as of December 31, 2013 and 2012, respectively.

In early 2012, Texas Biomed began construction on a new 70,000-square-foot building that houses scientific laboratories, scientific and administrative offices, and space for supporting departments. The building was occupied in February 2014. Total cost of the building is approximately \$26,000,000. 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. As of December 31, 2013 and 2012, \$1,500,000 and \$0, respectively has been drawn on the revolving line of credit (see Note 8).

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 \$1,851,292 and \$1,838,970 in 2013 and 2012, 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 \$31,520 and \$28,996 were made in 2013 and 2012, 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 2013 or 2012. 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, 2013, 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 2010.

#### Investment Income

Texas Biomed reports investment income net of applicable management fees. For the years ended December 31, 2013 and 2012, management fees were \$445,120 and \$429,234, respectively.

#### Subsequent Events

Texas Biomed has evaluated subsequent events through June 13, 2014, the date the accompanying consolidated financial statements were available to be issued.

### 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>2013</b>	<b>2012</b>
Mutual funds	\$ 47,727,592	\$ 32,741,788
Cash and cash equivalents	6,405,020	6,426,274
Limited partnerships and trusts	60,875,771	59,276,052
	<u>\$ 115,008,383</u>	<u>\$ 98,444,114</u>

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.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### 2. Investments (continued)

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>2013</b>	<b>2012</b>
Dividends and interest earned on investments	<b>\$ 1,278,615</b>	\$ 1,551,989
Net realized gain on investments reported at fair value	<b>1,412,641</b>	792,221
Net unrealized gain on investments reported at fair value	<b>14,113,375</b>	9,963,267
Less investment expenses netted against income	<b>(488,866)</b>	(469,556)
Total investment income	<b><u>\$ 16,315,765</u></b>	<b><u>\$ 11,837,921</u></b>
Net asset classification of investment income:		
Unrestricted	<b>\$ 11,522,230</b>	\$ 8,360,920
Temporarily restricted	<b>4,793,535</b>	3,477,001
Total investment income	<b><u>\$ 16,315,765</u></b>	<b><u>\$ 11,837,921</u></b>

Investments in oil and gas mineral interests and common stock of Evestra as of December 31, 2013, are considered other investments and are stated at the lower of cost or fair value. The stated values of the oil and gas mineral interests are \$0 as of December 31, 2013 and 2012. The investment in Evestra is stated at cost.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

#### **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, 2013 and 2012, 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 2013	Fair Value Measurement at December 31, 2013, 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	\$ 6,405,020	\$ 6,405,020	\$ -	\$ -
Mutual funds:				
U.S. equities	24,261,351	24,261,351	-	-
U.S. equities	7,019,624	7,019,624	-	-
U.S. fixed-income securities	8,224,873	8,224,873	-	-
Emerging markets	8,221,744	8,221,744	-	-
Limited partnerships and trusts:				
U.S. equities	15,190,566	-	15,190,566	-
International equities	20,179,246	-	20,179,246	-
Global fixed-income securities	7,311,801	-	7,311,801	-
Hedge funds	18,194,158	-	-	18,194,158
Total investments	115,008,383	54,132,612	42,681,613	18,194,158
Funds held in trust by others	2,711,256	-	-	2,711,256
Total	\$ 117,719,639	\$ 54,132,612	\$ 42,681,613	\$ 20,905,414

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

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

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

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.

## Texas Biomedical Research Institute

### Notes to Consolidated Financial Statements (continued)

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

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 of the net asset value (NAV) are based on Texas Biomed's ability to redeem the investment according to the redemption frequency of each investment. 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, 2013</b>				
U.S. equities <sup>(a)</sup>	\$ 15,190,566	\$ –	Quarterly	30 days
International equities <sup>(b)</sup>	20,179,246	–	Monthly	10 days
Global fixed-income securities <sup>(c)</sup>	7,311,801	–	Daily-Monthly	10–15 days
Hedge funds <sup>(d)</sup>	18,194,158	–	Monthly–Biannually	15–90 days
	<u>\$ 60,875,771</u>	<u>\$ –</u>		
<b>December 31, 2012</b>				
U.S. equities <sup>(a)</sup>	\$ 18,309,101	\$ –	Quarterly	30 days
International equities <sup>(b)</sup>	16,492,716	–	Monthly	6–15 days
Global fixed-income securities <sup>(c)</sup>	9,254,165	–	Daily-Monthly	10–15 days
Hedge funds <sup>(d)</sup>	15,220,070	–	Monthly–Biannually	15-90 days
	<u>\$ 59,276,052</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, 2013 and 2012.

<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, 2013 and 2012.

<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, 2013 and 2012.

<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, 2013 and 2012.

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:

	<b>Hedge Funds</b>	<b>Funds Held in Trust by Others</b>
Balance, December 31, 2011	\$ 10,669,630	\$ 2,499,405
Total gain included in the consolidated statement of changes in net assets	1,270,440	114,162
Purchases	3,280,000	—
Balance, December 31, 2012	15,220,070	2,613,567
Total gain included in the consolidated statement of changes in net assets	<b>2,012,088</b>	<b>97,689</b>
Purchases	<b>962,000</b>	—
Balance, December 31, 2013	<b>\$ 18,194,158</b>	<b>\$ 2,711,256</b>

**4. Contributions Receivable**

As of December 31, 2013 and 2012, Texas Biomed has received unconditional promises totaling \$4,450,599 and \$7,314,033, 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:

	<b>2013</b>	<b>2012</b>
Less than one year	\$ 2,371,050	\$ 3,245,300
One to five years	2,079,549	4,068,734
	<b>4,450,599</b>	7,314,034
Less amount to reduce to present value (discount rate of 4.6% and 3.8% in 2013 and 2012, respectively)	<b>132,704</b>	135,918
	<b>\$ 4,317,895</b>	<b>\$ 7,178,116</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, 2013 and 2012. 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.

	<b>Texas Biomed’s Interest in Principal of Trust at December 31 2013 (Market Value)</b>	<b>Income Earned by Texas Biomed During the Year Ended December 31 2013</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.	\$ 2,711,256	\$ 97,689

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.

Activity of endowments and funds functioning as endowments for the years ended December 31, 2013 and 2012, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at				
December 31, 2011	\$ 52,991,047	\$ 35,085,994	\$ 29,709,798	\$ 117,786,839
Contributions	974,479	7,082,157	558,333	8,614,969
Investment income	903,888	370,334	-	1,274,222
Net unrealized/realized gain	7,457,032	3,106,667	-	10,563,699
Gain on funds held in trust by others	-	-	114,164	114,164
Net assets released from program restrictions	-	(5,110,881)	-	(5,110,881)
Appropriation of endowment assets for expenditure	(2,662,717)	-	-	(2,662,717)
Other deductions	(1,600,000)	-	-	(1,600,000)
Endowment net assets at				
December 31, 2012	<u>\$ 58,063,729</u>	<u>\$ 40,534,271</u>	<u>\$ 30,382,295</u>	<u>\$ 128,980,295</u>

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at				
December 31, 2012	\$ 58,063,729	\$ 40,534,271	\$ 30,382,295	\$ 128,980,295
Contributions	917,022	2,798,884	3,915,001	7,630,907
Investment income	702,490	288,585	-	991,075
Net unrealized/realized gain	10,819,740	4,504,950	-	15,324,690
Gain on funds held in trust by others	-	-	97,689	97,689
Net assets released from program restrictions	-	(20,952,514)	-	(20,952,514)
Appropriation of endowment assets for expenditure	(3,181,995)	-	-	(3,181,995)
Endowment net assets at December 31, 2013	<u>\$ 67,320,986</u>	<u>\$ 27,174,176</u>	<u>\$ 34,394,985</u>	<u>\$ 128,890,147</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**

On October 12, 2012, Texas Biomed entered into a declining revolving promissory note (“the note”) with a financial institution. The note is a declining revolving line of credit in which the principle may not exceed the following:

1. Fifteen million and no/100 dollars (\$15,000,000) for the period from October 12, 2012 until and including October 11, 2014.
2. Twelve million and no/100 dollars (\$12,000,000) for the period from October 12, 2014 until and including October 11, 2015.
3. Nine million and no/100 dollars (\$9,000,000) for the period from October 12, 2015 until and including October 11, 2016.
4. Five million and no/100 dollars (\$5,000,000) for the period from October 12, 2016 until and including October 12, 2017.

The note bears interest at 2.4% and has a maturity date of October 12, 2017. The unpaid principle balance was \$1,500,000 and \$0 at December 31, 2013 and 2012, respectively. As of December 31, 2013, all interest due on the loan was paid by Texas Biomed.

#### **Line of Credit**

Texas Biomed has a \$2,000,000 one-year line of credit with a financial institution available through July 21, 2014. The line of credit is extended each year. The amount drawn was \$545,991 and \$0 as of December 31, 2013 and 2012, respectively. The interest rate is variable based on changes in the London Interbank Offered Rate (LIBOR) for one (1) month as quoted in the most recently published issue of The Wall Street Journal. As of December 31, 2013, all interest due on the line of credit was paid by Texas Biomed.

#### **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.



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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 balance sheet as of December 31, 2013, 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 year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 13, 2014.

### **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 13, 2014



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## Report of Independent Auditors on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance and Report on Schedule of Expenditures of Federal Awards Required by 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, 2013. 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, 2013.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs and summarized in the table below. Our opinion on each major federal program is not modified with respect to these matters.

<b>Finding No.</b>	<b>CFDA No.</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2013-001	Various	Research and Development Cluster	Equipment and Real Property Management

Texas Biomedical Research Institute’s response to the noncompliance findings identified in our audit are described in the accompanying Texas Biomedical Research Institute’s schedule of findings and questioned costs. Texas Biomedical Research Institute’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs and summarized in the table below that we consider to be significant deficiencies.

<b>Finding No.</b>	<b>CFDA No.</b>	<b>Program (or Cluster) Name</b>	<b>Compliance Requirement</b>
2013-001	Various	Research and Development Cluster	Equipment and Real Property Management

Texas Biomedical Research Institute’s response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Texas Biomedical Research Institute’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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, 2013, and have issued our report thereon dated June 13, 2014, 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 expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Ernst + Young LLP*

June 30, 2014

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2013

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>U.S. Army Medical Command</b>				
Military Medical Research and Development Hemorrhage and Lower Body Negative Pressure (LBNP) Studies in Non-Human Primates	12.420			
		4258		\$ 17,669
<b>Office of the Secretary of Defense</b>				
Basic Scientific Research - Combating Weapons of Mass Destruction	12.351			
Identification of broad spectrum targets for therapeutic intervention against Crimean Congo, Ebola and Lassa hemorrhagic fever virus infection by high throughput siRNA screening		4325		527,671
Research on Chemical and Biological Defense Aberdeen Proving Ground, Natick Contracting Division In vitro and in vivo Characterization of Filoviruses	12.360			
		4352		<u>1,828,101</u>
<b>Subtotal U.S. Department of Defense direct programs</b>				<u>2,373,441</u>
<b>Indirect programs:</b>				
<b>U.S. Department of Defense</b>				
<u>Pass-through from Batelle (DoD):</u>				
Texas Biomed Filovirus VLP Efficacy GP/NHP	12.UNKNOWN	4364		942,890
<i>Subtotal indirect programs: U.S. Department of Defense</i>				<u>942,890</u>
<b>Office of the Secretary of Defense:</b>				
Basic Scientific Research - Combating Weapons of Mass Destruction	12.351			
<u>Pass-through from University of Texas at Austin (DTRA):</u>				
Predictive and Adaptative Response to Emergent and Engineered Biothreats		4354	746000203	78,686
Predictive and Adaptative Response to Emergent and Engineered Biothreats		4400	746000203	<u>377,463</u>
<i>Subtotal indirect programs: Basic Scientific Research - Combating Weapons of Mass Destruction</i>				<u>456,149</u>
<b>Subtotal U.S. Department of Defense indirect programs</b>				<u>1,399,039</u>
<b>TOTAL U.S. DEPARTMENT OF DEFENSE</b>				<u>3,772,480</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
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
<b>Direct programs:</b>				
<b>National Institutes of Health (NIH):</b>				
Oral Diseases and Disorders Research	93.121			
Do Early Maternal Antibodies Facilitate Oral Transmission of HIV in Infants?			4442	\$ 10,799
<i>Subtotal direct programs: Oral Diseases and Disorders Research</i>				<u>10,799</u>
Human Genome Research	93.172			
Wisconsin Center of Excellence in Genomics Science			4410	604,068
<i>Subtotal direct programs: Human Genome Research</i>				<u>604,068</u>
Mental Health Research Grants	93.242			
Genetics of brain structure and function			1496	457,777
A neurobehavioral family study of schizophrenia			4126	225,836
Identification of Novel MicroRNAs Assoc with Brain Structure & Function			4232	481,196
2/2-An Integrative Genetic Investigation of Schizophrenia			4298	370,394
Characterization of a Mendelian Form of Psychosis in a Population Isolate			4370	478,714
1/5 - Genetics of Transcriptional Endophenotypes for Schizophrenia				530,764
<i>Subtotal direct programs: Mental Health Research Grants</i>	93.242			<u>2,544,681</u>
Research Infrastructure Programs	93.351			
NIH-Owned Chimpanzee Research Resource at the SNPRC			4304	1,278,439
Development of a Vaccine to Protect Monkeys from Herpes B Virus Infection			4280	70,825
Establishment of a SPF rhesus monkey colony			1117	793,201
Development of Nonhuman Primate Models for PSA Biology Studies			4161	102,529
<i>Subtotal direct programs: Research Infrastructure Programs</i>	93.351			<u>2,244,994</u>
National Center for Research Resources	93.389			
Southwest National Primate Research Center			3500	7,139,582
Improvement of Non-human Primate Group Housing			4239	224,262
<i>Subtotal direct programs: National Center for Research Resources</i>	93.389			<u>7,363,844</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
Cancer Treatment Research	93.395			
Improved Tumor Targeting of Salmonella VNP20009 via Ice-Ilama Antibody Guidance		4398		\$ 97,598
<i>Subtotal direct programs: Cancer Treatment Research</i>				<u>97,598</u>
Cardiovascular Diseases Research	93.837			
Strong heart family study		1107		103,989
Genetics of Atherosclerosis in Mexican Americans		4097		1,360,671
Diet and genotype in primate atherosclerosis		4106		2,351,678
Identification of Genes Influencing Total Antioxidant Status		4114		523,036
Genetic Epidemiology of Chagas Disease Progression		4190		434,087
Integrative Genomics of Vanin Gene Expression in Relation to CVD Risk		4241		649,243
Whole Genome Sequencing to Identify Causal Genetic Variants Influencing CVD Risk		4343		1,700,140
CVD in American Indians Genetics Center		4407		298,409
Discovery of Gene Variants and Mechanisms Underlying Salt-Sensitive Hypertension		4417		132,744
<i>Subtotal direct programs: Cardiovascular Diseases Research</i>	93.837			<u>7,553,997</u>
Arthritis, Musculoskeletal and Skin Diseases Research	93.846			
Genetics of Bone Structure and Metabolism		4195		617,485
Bone Structural Integrity Profiling to Advance Skeletal Genetics and Biomechanics		4297		820,600
<i>Subtotal direct programs: Arthritis, Musculoskeletal and Skin Diseases Research</i>	93.846			<u>1,438,085</u>
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			
Identification of Regulatory Variants in Novel Candidate Genes for Diabetes		4028		119,815
Genetics of Gallbladder Disease in Mexican American		4116		(8,050)
Discovery of Functional Variants in Type 2 Diabetes Genes in Mexican Americans		4193		738,953
Gene Networks for Differential Risk of Kidney Damage by Long-Term Diabetes		4318		431,679
Comprehensive SNP Discovery in SLC249 A Candidate Gene for Uric Acid Nephropathy		4355		476,183
Large-Scale Methylation Profiling in Metabolic Syndrome Phenotypes		4242		388,023
A Genetic Study of Blood Metabolites and Their Relationship to Diabetes Risk.		4421		150,475
<i>Subtotal direct programs: Diabetes, Digestive, and Kidney Diseases Extramural Research</i>	93.847			<u>2,297,078</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
Allergy, Immunology and Transplantation Research	93.855			
Mapping drug resistance genes in plasmodium falciparum		1112		\$ 596,857
Copy Number Variation in Malaria Parasite		4017		2,565
Antigen Presentation by Epithelial Stem Cells to Promote Life Long Immunity		4251		808,576
The Innate Immune Response in the Marmoset Model of GBV-B Infections: A Surrogate		4294		563,655
Genetic Analysis of Host Specificity in Schistosoma mansoni		4332		517,440
Receptor Trafficking in Entry of Murine Leukemia Viruses		4340		105,761
Efficient Linkage Mapping Methods for Schistosoma mansoni		4357		242,718
Rapid Ligand Pairing Strategy to Simplify Diagnostic Immunoassay Assembly		4397		194,338
Optimized Adaptation of Simian-tropic R5 HIV Clade C to Pig-tailed Macaques		4418		29,073
Vaccination against mucosal HIV clade C transmission		4422		179,469
Infant Immunoprophylaxis against a Primate Lentivirus		4424		8,375
Humoral Correlates of Protection Against HIV		4441		11,027
<i>Subtotal direct programs: Allergy, Immunology and Transplantation Research</i>	93.855			3,259,854
Biomedical Research and Research Training	93.859			
Genetic analysis of common diseases: an evaluation		1334		405,431
Nanoparticle Analysis of Enveloped Virus Entry Pathways		4346		76,319
<i>Subtotal direct programs: Biomedical Research and Research Training</i>	93.859			481,750
Aging Research	93.866			
Genetic Determinants of Human Transcriptional Aging		4078		238,250
<b>Total Direct programs – National Institute of Health (NIH)</b>				28,134,998
<b>Total Direct programs – U.S. Department of Health and Human Services</b>				28,134,998

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>Indirect programs:</b>				
<b>National Institutes of Health (NIH):</b>				
Environmental Health	93.113			
<u>Pass-through from Johns Hopkins:</u>				
Arsenic Exposure, Genetic Determinants and Diabetes Risk in a family study		4367	520595110	\$ 137,821
<i>Subtotal indirect programs: Environmental Health</i>				<u>137,821</u>
Oral Diseases and Disorders Research	93.121			
<u>Pass-through from Wright State University:</u>				
Genetic Architecture of the Human Dentognathic Complex		4181	310732831	244,424
<i>Subtotal indirect programs: Oral Diseases and Disorders Research</i>				<u>244,424</u>
Human Genome Research	93.172			
<u>Pass-through from University of North Carolina</u>				
Genetic Epidemiology of Causal Variants Across the Life Course		4119	566172047	71,409
Genetic Epidemiology of Causal Variants Across the Life Course Phase II		4436	566172047	1,444
<i>Subtotal indirect programs: Human Genome Research</i>	93.172			<u>72,853</u>
Mental Health Research Grants	93.242			
<u>Pass-through from Yale University:</u>				
Genetics of Brain Structure and Function: Genome-Wide Association		4125	60646973	445,685
<u>Pass-through from Tx Tech University Health Science Cntr</u>				
Population based mapping of Schizophrenia Genes		4331	752668014	28,442
<u>Pass-through from NorthShore University:</u>				
Gene Expression in an African American Schizophrenia Dataset		4372	362167060	125,837
<i>Subtotal indirect programs: Mental Health Research Grants</i>	93.242			<u>599,964</u>
Alcohol Research Programs	93.273			
<u>Pass-through from Research Foundation of State     University of New York:</u>				
Collaborative study of the genetics of alcoholism		1072	141368361	101,211
<i>Subtotal indirect programs: Alcohol Research Programs</i>				<u>101,211</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
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			
<u>Pass-through from Yale University:</u> Molecular and Cellular Transport in Mucus		4189	060646973	\$ 100,661
<u>Pass-through from University of Maryland, Baltimore:</u> Solar-Eclipse Computational Tools for Imaging Genetics		4376	526002036	<u>92,131</u>
<i>Subtotal indirect programs: Discovery and Applied Research for Technological Innovations to Improve Human Health</i>	93.286			<u>192,792</u>
Research Infrastructure Programs	93.351			
<u>Pass-through from University of Massachusetts, Amherst:</u> Self Injurious Behavior and Primate Well-Being		4434	043167352	23,695
<u>Pass-through from University of Puerto Rico:</u> Establishment & Maintenance of a Closed CPRC Colony	-	4303	660433762	<u>5,230</u>
<i>Subtotal indirect programs: Research Infrastructure Programs</i>	93.351			<u>28,925</u>
National Center for Research Resources	93.389			
<u>Pass-through from UTHSCSA:</u> Programming, Maternal Obesity and Overnutrition Developmental Programming by Mismatch of Pre- and Postnatal Nutrition		4269	741586031	325,885
		4362	741586031	476,955
<u>Pass-through from President &amp; Fellows of Harvard College:</u> Self-Injurious Behavior and Primate Well-being	-	4326	042103580	<u>26,547</u>
<i>Subtotal indirect programs: National Center for Research Resources</i>	93.389			<u>829,387</u>
Trans-NIH Recovery Act Research Support	93.701			
<u>Pass-through from Trinity University:</u> (ARRA) Macrostructural and Microstructural Ananalysis of the Primate Corpus Callosum (150 CB)		4261	741109633	<u>20,506</u>
<i>Subtotal indirect programs: Trans-NIH Recovery Act Research Support</i>				<u>20,506</u>
Cardiovascular Diseases Research	93.837			
<u>Pass-through from UTHSCSA:</u> Effects of Chronic Inflammation on Atherosclerosis Outcomes in RA		4384	741586031	<u>93,077</u>
<i>Subtotal indirect programs: Cardiovascular Diseases Research</i>				<u>93,077</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
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847			
<u>Pass-through from UTHSCSA:</u>				
Identification of Prediabetes Genes by Expression Linkage Analysis		4149	741586031	\$ 30,250
<u>Pass-through from Baylor College of Medicine:</u>				
Improving safety and efficacy of gene therapy with HDA <sup>d</sup>		1463	741613878	2,998
Obesity and Diabetes Familial Risk in Hispanic Children		4175	741613878	64,500
<u>Pass-through from University of North Carolina</u>				
A Candidate Gene for Uric Acid Nephropathy		4435	566172047	20,116
<i>Subtotal indirect programs: Diabetes, Digestive, and Kidney</i>	93.847			<u>117,864</u>
Allergy, Immunology and Transplantation Research	93.855			
<u>Pass-through from Emory University</u>				
Dual Vaccine Strategy Against Filovirus Infection		4295	580566256	701,530
<u>Pass-through from UTHSCSA:</u>				
Identification of Novel Plant-derived Antimalarial Compounds		4300	741586031	111,943
<u>Pass-through from Research Institute at Nationwide     Children's Hospital</u>				
Children's Hospital HCV-specific T Cell Response		4302	1316056230	107,614
<u>Pass-through from UTMB</u>				
Western Regional Center of Excellence for Biodefense and Emerging Infectious		4327	746000949	21,693
<u>Pass-through from Lovelace &amp; Environmental Res Inst</u>				
Nonhuman Primate Model for Filirus Vaccine & Efficacy Testing		4351	510154068	1,022,389
<u>Pass-through from University of California, Santa Cruz</u>				
Hybrid Integrated Molecular Analysis (HIMAS) for the Point-to-care		4358	941539563	60,398
<u>Pass-through from University of Iowa:</u>				
Filoviral glycoprotein/cellular protein interactions		4369	426004813	58,313
<u>Pass-through from UTHSCSA:</u>				
Development of a Novel HIV Approach using Chimeric SIV/Varicella Virus		4371	741586031	48,170
<i>Subtotal indirect programs: Allergy, Immunology and     Transplantation Research</i>	93.855			<u>2,132,050</u>
Microbiology and Infectious Diseases Research	93.856			
<u>Pass-through from SAIC-Frederick, Inc</u>				
SAIC 13XS099		4403	330653185	73,553
<i>Subtotal indirect programs: Microbiology and Infectious     Diseases Research</i>				<u>73,553</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
Child Health and Human Development Extramural Research <u>Pass-through from University of Texas Medical Branch at Galveston:</u>	93.865			
Obstetric Pharmacology Research Units Network Center at UTMB-Galveston		1408	746000949	\$ 61,957
<u>Pass-through from UTHSCSA:</u>				
Nutrient Restriction: Placental and Fetal Brain Renal Outcomes and Mechanisms		4063	741586031	82,359
The Disablement Process in Rheumatoid Arthritis		4086	741586031	9,583
<u>Pass-through from Wright State University</u>				
Genetic Somatic and Maturation Influences on Pediatric Skeletal Health		4260	310732831	85,322
<i>Subtotal indirect programs: Child Health and Human Development Extramural Research</i>	93.865			<u>239,221</u>
Vision Research	93.867			
<u>Pass-through from Oregon Health &amp; Science University:</u>				
A joint linkage/association strategy to interrogate AMD genetic susceptibility		4337	931176109	117,212
<b>Total Indirect programs – National Institute of Health (NIH)</b>				<u>5,000,860</u>
<b>Total U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				<u>33,135,858</u>
<b>TOTAL RESEARCH AND DEVELOPMENT CLUSTER</b>				<u>36,908,338</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<u>\$ 36,908,338</u>

# Texas Biomedical Research Institute

## Notes to Schedule of Expenditures of Federal Awards

December 31, 2013

### 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	\$ 34,373,523
Contracts	<u>7,397,733</u>
	41,771,256
Less amounts not subject to OMB Circular A-133	<u>4,862,918</u>
Total federal award expenditures	<u>\$ 36,908,338</u>

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

**3. Amounts Provided to Subrecipients**

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

<b>Program Title</b>	<b>Federal CFDA Number</b>	<b>Contract/ Grant Number</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. DEPARTMENT OF DEFENSE</b>			
Basic and Applied Scientific Research	12.351	4325	\$ 241,454
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<b>National Institutes of Health</b>			
Human Genome Research	93.172	4410	252,737
Mental Health Research Grants	93.242	4232	18,478
		4370	229,702
<i>Subtotal: Mental Health Research Grants</i>	<i>93.242</i>		<i>248,180</i>
National Center for Research Resources	93.389	3500	18,438
Cardiovascular Diseases Research	93.837	4097	30,152
		4190	90,009
		4241	231,851
		4343	27,247
<i>Subtotal: Cardiovascular Diseases Research</i>	<i>93.837</i>		<i>379,259</i>
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	4195	136,814
		4297	625,903
<i>Subtotal: Arthritis, Musculoskeletal and Skin Diseases Research</i>	<i>93.846</i>		<i>762,717</i>

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards (continued)

**3. Amounts Provided to Subrecipients (continued)**

<b>Program Title</b>	<b>Federal CFDA Number</b>	<b>Contract/ Grant Number</b>	<b>Amount Provided to Subrecipients</b>
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	4193 4242 4318 4355	\$ 132,472 15,412 107,145 23,139
<i>Subtotal: Diabetes, Digestive, and Kidney Diseases Extramural Research</i>	<i>93.847</i>		<u>278,168</u>
Allergy, Immunology and Transplantation Research	93.855	1112 4332 4357	53,363 233,162 83,809
<i>Subtotal: Allergy, Immunology and Transplantation Research</i>	<i>93.855</i>		<u>370,334</u>
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>2,309,833</u>
<b>TOTAL FEDERAL AWARDS TO SUBRECIPIENTS</b>			<u><u>\$ 2,551,287</u></u>

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs

Year Ended December 31, 2013

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

**Financial Statements Section**

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

Unmodified

Internal control over financial reporting:

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

**Federal Awards Section**

Internal control over major programs:

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

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

Unmodified

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

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

Schedule of Findings and Questioned Costs (continued)

**Part I – Summary of Auditor’s Results (continued)**

<u>CFDA number(s)</u>	<u>Name of federal program or cluster</u>
12.351, 12.360, 12.420, 12.UNKNOWN, 93.113, 93.121, 93.172, 93.242, 93.273, 93.286, 93.351, 93.389, 93.395, 93.701, 93.837, 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: \_\_\_\_\_ \$ 1,107,250

Auditee qualified as low-risk auditee?        X   yes      \_\_\_\_\_ No

**Part II – Financial Statement Findings Section**

No financial statement findings were noted for the year ended December 31, 2013.

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

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

**Finding 2013-001**

Federal program information:

Research and Development Cluster

Criteria or specific requirement (including statutory, regulatory or other citation):

**Equipment and Real Property Management**

In accordance with 2 CFR Section 215.34(f)(3), codified by the U.S. Department of Health and Human Services (HHS) at 45 CFR Section 74.34 (f)(3), a recipient shall take a physical inventory of equipment and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

Condition:

Texas Biomedical Research Institute did not perform a physical inventory of federally funded equipment within the past two years. Also, two equipment items could not be specifically identified by management for our observation.

Questioned costs:

\$0

Context:

Texas Biomedical Research Institute performed its most recent physical inventory of federally funded equipment in 2011. As of December 31, 2013, a physical inventory of equipment had not been performed.

Seven equipment items from the federal equipment listing as of December 31, 2013, including five equipment additions from prior years and two equipment additions from 2013, were selected for testing by observation. Of the seven equipment items, two items, with a combined net book value of \$28,378, could not be specifically identified by management for our observation.



Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

Effect:

Misappropriation or loss of equipment purchased with federal funds could occur when physical inventories are not performed every two years in accordance with federal requirements. As noted above, Texas Biomedical Research Institute was unable to locate two of seven equipment items for our observation.

Cause:

Proper controls were not implemented to perform the required physical inventories every two years in accordance with federal requirements.

Recommendation:

Texas Biomed should perform and document a physical inventory observation of federally funded equipment every two years.

Views of responsible officials  
and planned corrective actions:

Texas Biomed hired an Oracle Fixed Asset Expert to perform a physical inventory of fixed assets and make recommendations on improving internal controls. The expert started with Texas Biomed June 17, 2014, and we expect her to finish the procedure before the end of August 2014. In the future, Texas Biomed will perform a physical inventory of fixed assets every two years in accordance with 2 CFR Section 215.34(f)(3), codified by the U.S. Department of Health and Human Services (HHS) at 45 CFR Section 74.34 (f)(3).

Responsible Official: Keith Davis, Chief Financial Officer  
Implementation Date: June 2014 through August 2014

Texas Biomedical Research Institute  
Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2013

No prior audit findings were noted.

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