

CONSOLIDATED FINANCIAL STATEMENTS
AND REPORTS ON FEDERAL AWARD PROGRAMS

Texas Biomedical Research Institute
Years Ended December 31, 2014 and 2013
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, 2014 and 2013

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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, 2014 and 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 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, 2014 and 2013, 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenditures of federal awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 audits 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 16, 2015, 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.



June 16, 2015

Texas Biomedical Research Institute

Consolidated Balance Sheets

| | December 31 | |
|---|----------------|----------------|
| | 2014 | 2013 |
| Assets | | |
| Cash and cash equivalents | \$ 4,080,325 | \$ 6,486,615 |
| Receivables: | | |
| Accounts receivable | 103,463 | 141,432 |
| Contracts receivable from research projects | 3,207,619 | 1,909,166 |
| Amounts due on authorized grants-in-aid: | | |
| National Institutes of Health | 1,954,764 | 895,392 |
| Other | 756,642 | 631,883 |
| Note receivable from Evestra, Inc. | 50,000 | — |
| Prepaid expenses and supplies | 572,913 | 168,410 |
| Contributions receivable (<i>Note 5</i>) | 2,664,425 | 4,317,895 |
| Assets limited as to use: | | |
| Cash | 7,106,185 | 1,844,862 |
| Investments (<i>Note 2</i>) | 115,847,721 | 115,008,383 |
| Investment in Evestra, Inc. | 2,821,861 | 2,821,861 |
| Funds held in trust by others (<i>Note 3</i>) | 2,229,297 | 2,711,256 |
| The Argyle land, buildings, and equipment (net of accumulated depreciation of \$3,639,832 and \$3,581,629 in 2014 and 2013, respectively) (<i>Note 6</i>) | 3,716,147 | 3,852,415 |
| Property, plant, and equipment: | | |
| Land | 359,959 | 359,959 |
| Buildings and improvements | 79,114,610 | 49,465,305 |
| Fixtures and equipment | 61,895,310 | 79,059,266 |
| | 141,369,879 | 128,884,530 |
| Less allowances for depreciation | 75,292,800 | 86,869,808 |
| | 66,077,079 | 42,014,722 |
| Construction in progress | 669,409 | 23,560,093 |
| | 66,746,488 | 65,574,815 |
| Total assets | \$ 211,857,850 | \$ 206,364,385 |

| | December 31 | |
|--|--|--------------|
| | 2014 | 2013 |
| Liabilities and net assets | | |
| Accounts payable and accrued expenses: | | |
| Trade accounts payable | \$ 3,722,526 | \$ 3,838,275 |
| Accrued wages, vacation, and other liabilities | 3,970,381 | 4,428,346 |
| Post-retirement benefits | 60,409 | 67,032 |
| Unearned contract revenue from research projects | 693,177 | 2,595,221 |
| Amounts unearned on grants-in-aid: | | |
| Advance collections | 1,967,485 | 81,945 |
| Total current liabilities | 10,413,978 | 11,010,819 |
| Long-term debt (<i>Note 8</i>) | 6,345,991 | 2,045,991 |
| Total liabilities | 16,759,969 | 13,056,810 |
| Net assets: | | |
| Unrestricted net assets | 136,587,251 | 131,738,415 |
| Temporarily restricted net assets | 24,560,647 | 27,174,176 |
| Permanently restricted net assets | 33,949,983 | 34,394,984 |
| Total net assets | 195,097,881 | 193,307,575 |
| | | |
| Total liabilities and net assets | <u>\$ 211,857,850</u> <u>\$ 206,364,385</u> | |

See accompanying notes.

Texas Biomedical Research Institute

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

| | December 31 | |
|--|---------------------|---------------|
| | 2014 | 2013 |
| Unrestricted revenues, gains, and other support: | | |
| Grants-in-aid | \$ 34,817,896 | \$ 34,373,523 |
| Contracts | 11,450,614 | 7,397,733 |
| Contributions | 2,520,519 | 2,991,013 |
| Investment income | 1,985,851 | 1,692,756 |
| Net unrealized/realized gain on investments | 1,095,669 | 9,830,421 |
| Acquisition of assets from grants | 1,318,846 | 1,057,154 |
| Gain (loss) on disposition of assets, net | (323,512) | 83,758 |
| Rental income | 89,461 | 205,890 |
| Internal service revenue | 25,170 | 39,315 |
| Oil and gas royalties | 2,926,233 | 2,440,432 |
| Other | 5,213 | 151,578 |
| Unrestricted revenues, gains, and other support | 55,911,960 | 60,263,573 |
| Net assets released from program restrictions | 11,408,604 | 20,952,514 |
| Total unrestricted revenues, gains, and other support | 67,320,564 | 81,216,087 |
| Expenses: | | |
| Direct project costs – grants | 22,034,594 | 22,038,580 |
| Direct project costs – contracts | 5,284,234 | 3,993,840 |
| Internal research | 3,866,799 | 3,110,470 |
| Support services | 7,423,513 | 7,427,238 |
| Research department administration | 2,726,747 | 2,536,974 |
| General and administrative | 21,135,841 | 19,001,323 |
| Total expenses | 62,471,728 | 58,108,425 |
| Net increase in unrestricted net assets attributable to Texas Biomedical Research Institute | \$ 4,848,836 | \$ 23,107,662 |

See accompanying notes.

Texas Biomedical Research Institute

Consolidated Statement of Changes in Net Assets

Year Ended December 31, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|-----------------------|---------------------------|---------------------------|-----------------------|
| Revenues, gains, and other support: | | | | |
| Unrestricted revenues, gains, and other support | \$ 55,911,960 | \$ - | \$ - | \$ 55,911,960 |
| Restricted revenues, gains, and other support: | | | | |
| Contributions | - | 7,284,431 | 36,958 | 7,321,389 |
| Investment income | - | 385,649 | - | 385,649 |
| Net unrealized/realized gain on investments | - | 1,124,995 | - | 1,124,995 |
| Gain on funds held in trust by others | - | - | (481,959) | (481,959) |
| Net assets released from program restrictions | 11,408,604 | (11,408,604) | - | - |
| Total revenues, gains, and other support | 67,320,564 | (2,613,529) | (445,001) | 64,262,034 |
| Expenses: | | | | |
| Unrestricted expenses | 62,471,728 | - | - | 62,471,728 |
| Increase (decrease) in net assets | 4,848,836 | (2,613,529) | (445,001) | 1,790,306 |
| Net assets at the beginning of year | 131,738,415 | 27,174,176 | 34,394,984 | 193,307,575 |
| Net assets at the end of year | <u>\$ 136,587,251</u> | <u>\$ 24,560,647</u> | <u>\$ 33,949,983</u> | <u>\$ 195,097,881</u> |

See accompanying notes.

Texas Biomedical Research Institute

Consolidated Statement of Changes in Net Assets

Year Ended December 31, 2013

| | Unrestricted | Temporarily Restricted | Permanently Restricted | 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) | — | — |
| Total revenues, gains, and other support | 81,216,087 | (13,360,095) | 4,012,689 | 71,868,681 |
| 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>\$ 193,307,575</u> |

See accompanying notes.

Texas Biomedical Research Institute

Consolidated Statements of Cash Flows

| | December 31 | |
|--|--------------|---------------|
| | 2014 | 2013 |
| Operating activities | | |
| Increase in net assets | \$ 1,790,306 | \$ 13,760,256 |
| Adjustments to reconcile increase in net assets to net cash used in by operating activities: | | |
| Depreciation | 6,712,660 | 5,180,885 |
| Net investment income | (4,586,727) | (16,315,765) |
| Oil and gas income | (2,926,233) | (2,440,432) |
| Loss (gain) on the disposition of assets, net | 323,512 | (83,758) |
| Restricted contributions received | (7,321,389) | (6,713,885) |
| Loss (gain) of funds held in trust by others | 481,959 | (97,689) |
| Changes in operating assets and liabilities: | | |
| Receivables | (2,444,620) | (2,656,626) |
| Prepaid expenses and supplies | (404,503) | (8,088) |
| Contribution receivable | 1,653,470 | 2,860,221 |
| Accounts payable and accrued expenses | (573,714) | 4,244,429 |
| Other current liabilities | (23,121) | 1,599,482 |
| Net cash used in operating activities | (7,318,400) | (670,970) |
| Investing activities | | |
| Purchases of plant and equipment | (8,071,577) | (25,064,426) |
| Oil and gas income | 2,926,233 | 2,440,432 |
| Net purchases/sales and realized gains from investments | (1,513,935) | 14,047,588 |
| Note receivable from Evestra, Inc. | (50,000) | - |
| Net cash used in investing activities | (6,709,279) | (8,576,406) |
| Financing activities | | |
| Proceeds from notes payable | 4,300,000 | 2,045,991 |
| Proceeds from restricted contributions received | 7,321,389 | 6,713,884 |
| Net cash provided by financing activities | 11,621,389 | 8,759,875 |
| Decrease in cash and cash equivalents | (2,406,290) | (487,501) |
| Cash and cash equivalents at beginning of year | 6,486,615 | 6,974,116 |
| Cash and cash equivalents at end of year | \$ 4,080,325 | \$ 6,486,615 |
| Supplemental disclosure | | |
| Interest paid | \$ 125,203 | \$ 5,697 |

See accompanying notes.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements

December 31, 2014

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.

Principles of Consolidation

For the year ended December 31, 2014 and 2013, the accompanying 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, 2014 and 2013, all intercompany accounts and transactions have been eliminated in consolidation.

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.

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, 2014 and 2013.

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. A portion of the endowment funds are invested in 12 limited partnerships and 2 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.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

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 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.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

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 \$13,501,304 and \$14,831,678 as of December 31, 2014 and 2013, 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 \$27,725,000. 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, 2014 and 2013, \$5,800,000 and \$1,500,000, 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.

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 \$1,928,407 and \$1,851,292 in 2014 and 2013, respectively.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

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 \$22,411 and \$31,520 were made in 2014 and 2013, 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 2014 or 2013. 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, 2014, there are no uncertain positions taken or expected to be taken. Texas Biomed has recognized no interest or penalties related to 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 2011.

Investment Income

Texas Biomed reports investment income net of applicable management fees. For the years ended December 31, 2014 and 2013, management fees were \$610,800 and \$488,866, respectively.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies (continued)

New Accounting Pronouncement

In April 2015, the FASB issued Accounting Standards Update (ASU) 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification (ASC) 820, *Fair Value Measurement*. Disclosures about investments in certain entities that calculate net asset value per share are limited under ASU 2015-07 to those investments for which the entity has elected to estimate the fair value using the net asset value practical expedient. ASU 2015-07 is effective for entities (other than public business entities) for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. Early adoption is permitted. Management has elected to early adopt ASU 2015-07.

Subsequent Events

Texas Biomed has evaluated subsequent events through June 16, 2015, 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 4 for further discussion. The composition of these securities is set forth as follows:

| | December 31 | |
|---------------------------------|-----------------------|-----------------------|
| | 2014 | 2013 |
| Mutual funds | \$ 52,507,729 | \$ 47,727,592 |
| Cash and cash equivalents | 1,773,616 | 6,405,020 |
| Limited partnerships and trusts | 61,566,376 | 60,875,771 |
| | <u>\$ 115,847,721</u> | <u>\$ 115,008,383</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. Texas Biomed measures the fair value of the limited partnerships and trusts at the net asset values of units held at year-end. The holdings in the limited partnerships and trusts primarily composed of 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:

| | December 31 | |
|---|--------------------|---------------|
| | 2014 | 2013 |
| Dividends and interest earned on investments | \$ 1,608,378 | \$ 1,278,615 |
| Net realized gain on investments reported at fair value | 1,647,322 | 1,412,641 |
| Net unrealized gain on investments reported at fair value | 1,941,827 | 14,113,375 |
| Less investment expenses netted against income | (610,800) | (488,866) |
| Total investment income | \$ 4,586,727 | \$ 16,315,765 |
| Net asset classification of investment income: | | |
| Unrestricted | \$ 3,216,120 | \$ 11,522,230 |
| Temporarily restricted | 1,370,607 | 4,793,535 |
| Total investment income | \$ 4,586,727 | \$ 16,315,765 |

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

2. Investments (continued)

Investments in oil and gas mineral interests are considered other investments and the investments are measured at the lower of cost or fair value. As of December 31, 2014 and 2013, Texas Biomed's investment in oil and gas mineral interests are \$0.

In 2008, Texas Biomed helped create a new for-profit pharmaceutical development corporation named Evestra, Inc. (Evestra). Texas Biomed transferred to Evestra certain equipment, supplies, intellectual property, and a National Institutes of Health (NIH) contract for steroid manufacturing, and the former staff of Texas Biomed's Organic Chemistry Department became employees of Evestra. As of December 31, 2011, Texas Biomed owned a majority 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, as a result of the diminished ownership, Evestra's financial information and operations were not consolidated with Texas Biomed at December 31, 2012 and have not been in subsequent reporting periods. As of December 31, 2014 and 2013, Texas Biomed owns 47.1% of Evestra's common stock and has two voting representatives on Evestra's board. Texas Biomed considers its equity interest in Evestra to be other investments and measures this investment at lower of cost or fair value. As of December 31, 2014 and 2013, Texas Biomed's investment in Evestra is \$2,821,861.

3. Funds Held in Trust by Others

Texas Biomed's interest in funds held in trusts by others is included in net assets for the years ended December 31, 2014 and 2013. These funds are neither in the possession nor under the control of Texas Biomed. Texas Biomed is an income beneficiary of perpetual trusts held by third parties where the trustee has no discretion regarding the income beneficiaries' participation in the trust. Texas Biomed's proportionate share of the fair value of the trust, which approximates the net present value of the estimated future cash flows receivable by Texas Biomed, is reported as an asset and as permanently restricted contribution revenue at the formation of the trust. Annual income distributions from the trusts are recognized as investment income in the appropriate net asset class according to the restrictions of the trust. Changes in

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

3. Funds Held in Trust by Others (continued)

Texas Biomed’s proportionate share of the fair value of the trust are reported as gains or losses on funds held in trust by others in the permanently restricted net asset class.

| | December 31 | |
|---|---------------------|--------------|
| | 2014 | 2013 |
| 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 | \$ 2,229,297 | \$ 2,711,256 |
| Unrealized (loss) gain in Texas Biomed’s 10% interest | (481,959) | \$97,689 |

4. 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

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

4. Fair Value Measurements (continued)

- 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. 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, 2014 and 2013, 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.

| | Fair Value Measurement at December 31, 2014, Using: | | | |
|--|--|---|---|--|
| | December 31, 2014 | 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 | \$ 1,773,616 | \$ 1,773,616 | \$ – | \$ – |
| Mutual funds: | | | | |
| U.S. equities | 12,729,987 | 12,729,987 | – | – |
| International Equities | 7,395,145 | 7,395,145 | – | – |
| U.S. fixed-income securities | 8,675,690 | 8,675,690 | – | – |
| Emerging markets | 19,798,525 | 19,798,525 | – | – |
| | <u>50,372,963</u> | <u>\$ 50,372,963</u> | <u>\$ –</u> | <u>\$ –</u> |
| Investments measured at net asset value: | | | | |
| Limited partnerships and trusts: | | | | |
| U.S. equities | 16,079,536 | | | |
| International equities | 21,709,770 | | | |
| Global fixed-income securities | 4,606,428 | | | |
| Hedge funds | 23,079,024 | | | |
| Total investments at fair value | <u>\$ 115,847,721</u> | | | |
| Funds held in trust by others | <u>\$ 2,229,297</u> | <u>\$ –</u> | <u>\$ –</u> | <u>\$ 2,229,297</u> |

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

4. Fair Value Measurements (continued)

| | Fair Value Measurement at December 31, 2013, Using: | | | |
|--|--|---|---|--|
| | December 31, 2013 | 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 | - | - |
| International 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 | - | - |
| | 54,132,612 | \$ 54,132,612 | \$ - | \$ - |
| Investments measured at net asset value: | | | | |
| Limited partnerships and trusts: | | | | |
| U.S. equities | 15,190,566 | | | |
| International equities | 20,179,246 | | | |
| Global fixed-income securities | 7,311,801 | | | |
| Hedge funds | 18,194,158 | | | |
| Total investments at fair value | \$ 115,008,383 | | | |
| Funds held in trust by others | \$ 2,711,256 | \$ - | \$ - | \$ 2,711,256 |

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.

The fair value of investments in limited partnerships and trusts are measured at the entities' net asset value per share. 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)

4. Fair Value Measurements (continued)

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|----------------------|-------------------------|-------------------------|-----------------------------|
| December 31, 2014 | | | | |
| U.S. equities ^(a) | \$ 16,079,536 | \$ – | Quarterly | 30 days |
| International equities ^(b) | 21,709,770 | – | Monthly | 10 days |
| Global fixed-income securities ^(c) | 4,606,428 | – | Daily–Monthly | 10–15 days |
| Hedge funds ^(d) | 23,079,024 | – | Monthly–Annually | 15–90 days |
| | <u>\$ 65,474,758</u> | <u>\$ –</u> | | |
| December 31, 2013 | | | | |
| U.S. equities ^(a) | \$ 15,190,566 | \$ – | Quarterly | 30 days |
| International equities ^(b) | 20,179,246 | – | Monthly | 10 days |
| Global fixed-income securities ^(c) | 7,311,801 | – | Daily–Monthly | 10–15 days |
| Hedge funds ^(d) | 18,194,158 | – | Monthly–Biannually | 15–90 days |
| | <u>\$ 60,875,771</u> | <u>\$ –</u> | | |

^(a) 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, 2014 and 2013.

^(b) 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, 2014 and 2013.

^(c) 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, 2014 and 2013.

^(d) 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, 2014 and 2013.

Funds held in trust of others were classified as Level 3 because Texas Biomed must rely on the trustee's measurement of fair value of the investments held by the trust. Texas Biomed takes necessary steps to obtain a comfort level with valuation procedures used by the trustee.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

4. 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>Funds Held in Trust by Others</u> |
|---|--|
| Balance, December 31, 2012 | \$ 2,613,567 |
| Unrealized gain included in the consolidated statement of changes in net assets | <u>97,689</u> |
| Balance, December 31, 2013 | 2,711,256 |
| Unrealized loss included in the consolidated statement of changes in net assets | <u>(481,959)</u> |
| Balance, December 31, 2014 | <u><u>\$ 2,229,297</u></u> |

5. Contributions Receivable

As of December 31, 2014 and 2013, Texas Biomed has received unconditional promises totaling \$2,710,931 and \$4,450,599, 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:

| | December 31 | |
|--|-----------------------------------|----------------------------|
| | 2014 | 2013 |
| Less than one year | \$ 1,812,226 | \$ 2,371,050 |
| One to five years | 898,705 | 2,079,549 |
| | <u>2,710,931</u> | <u>4,450,599</u> |
| Less amount to reduce to present value (discount rate of 3.7% and 4.6% in 2014 and 2013, respectively) | 46,506 | 132,704 |
| | <u><u>\$ 2,664,425</u></u> | <u><u>\$ 4,317,895</u></u> |

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

6. 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.

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 years ended December 31, 2014 and 2013, is as follows:

| | <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 | 67,320,986 | 27,174,176 | 34,394,985 | 128,890,147 |
| Contributions | 976,713 | 7,284,431 | 36,958 | 8,298,102 |
| Investment income | 870,798 | 385,649 | – | 1,256,447 |
| Net unrealized/realized gain | 2,205,285 | 1,124,995 | – | 3,330,280 |
| Loss on funds held in trust by others | – | – | (481,960) | (481,960) |
| Net assets released from program restrictions | – | (11,408,604) | – | (11,408,604) |
| Appropriation of endowment assets for expenditure | (3,466,492) | – | – | (3,466,492) |
| Endowment net assets at | | | | |
| December 31, 2014 | <u>\$ 67,907,290</u> | <u>\$ 24,560,647</u> | <u>\$ 33,949,983</u> | <u>\$ 126,417,920</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.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

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

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.

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 \$5,800,000 and \$1,500,000 at December 31, 2014 and 2013, respectively. As of December 31, 2014, all interest due on the loan was paid by Texas Biomed.

Texas Biomedical Research Institute

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

Line of Credit

Texas Biomed has a \$2,000,000 one-year line of credit with a financial institution available through July 20, 2015. The line of credit is extended each year. The amount drawn was \$545,991 as of December 31, 2014 and 2013. 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, 2014, 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.

Reports on Federal Award Programs



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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, 2014, 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 16, 2015.

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 16, 2015



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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, 2014. Texas Biomedical Research Institute's major federal program is 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 its major federal program for the year ended December 31, 2014.

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. 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.

Ernst + Young LLP

June 16, 2015

Texas Biomedical Research Institute

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2014

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Contract/ Grant No. | Pass-Through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|------------------------|---|-------------------------|
| RESEARCH AND DEVELOPMENT CLUSTER | | | | |
| U.S. DEPARTMENT OF DEFENSE (DOD) | | | | |
| Direct programs: | | | | |
| Office of the Secretary of Defense: | | | | |
| 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 | | \$ 368,824 |
| Research on Chemical and Biological Defense Aberdeen Proving Ground, Natick Contracting Division | 12.360 | | | |
| In Vitro and In Vivo Characterization of Filoviruses | | 4352 | | <u>4,387,555</u> |
| Subtotal U.S. Department of Defense direct programs | | | | <u>4,756,379</u> |
| Indirect programs: | | | | |
| <u>Pass-through from Battelle Memorial Institute:</u> | | | | |
| Texas Biomed Filovirus VLP Efficacy GP/NHP | 12.UNKNOWN | 4364 | 341257 | 464,095 |
| U.S. Army Medical Command: | | | | |
| Military Medical Research and Development | 12.420 | | | |
| <u>Pass-through from Henry M Jackson Foundation:</u> | | | | |
| Optimizing the Adaptation of SHIV-E: Re-isolation of an R5-tropic, Pathogenic Virus | | 4423 | 521317896 | 338,209 |
| Office of the Secretary of Defense: | | | | |
| Basic Scientific Research – Combating Weapons of Mass Destruction | 12.351 | | | |
| <u>Pass-through from University of Texas at Austin:</u> | | | | |
| Predictive and Adaptive Response to Emergent and Engineered Biothreats | | 4400 | 746000203 | <u>173,135</u> |
| Subtotal U.S. Department of Defense indirect programs | | | | <u>975,439</u> |
| TOTAL U.S. DEPARTMENT OF DEFENSE | | | | <u>5,731,818</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 |
|--|---------------------------|------------------------|---|-------------------------|
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| Direct programs: | | | | |
| National Institutes of Health (NIH): | | | | |
| Oral Diseases and Disorders Research | 93.121 | | | |
| Do Early Maternal Antibodies Facilitate Oral Transmission of HIV in Infants? | | 4442 | | \$ 641,726 |
| Human Genome Research | 93.172 | | | |
| Wisconsin Center of Excellence in Genomics Science | | 4410 | | 1,346,779 |
| Mental Health Research Grants | 93.242 | | | |
| Genetics of Brain Structure and Function | | 1496 | | 577,657 |
| A Neurobehavioral Family Study of Schizophrenia | | 4126 | | 946 |
| Identification of Novel MicroRNAs Assoc with Brain Structure & Function | | 4232 | | 394,848 |
| 2/2-An Integrative Genetic Investigation of Schizophrenia | | 4298 | | 168,469 |
| Characterization of a Mendelian Form of Psychosis in a Population Isolate | | 4370 | | 493,439 |
| 1/5 – Genetics of Transcriptional Endophenotypes for Schizophrenia | | 4345 | | 283,036 |
| <i>Subtotal direct programs: Mental Health Research Grants</i> | 93.242 | | | <u>1,918,395</u> |
| Research Infrastructure Programs | 93.351 | | | |
| Southwest National Primate Research Center | | 3500 | | 5,439,376 |
| NIH-Owned Chimpanzee Research Resource at the SNPRC | | 4304 | | 1,019,245 |
| Development of a Vaccine to Protect Monkeys from Herpes B Virus Infection | | 4280 | | 63,530 |
| Establishment of a SPF Rhesus Monkey Colony | | 1117 | | 1,528,744 |
| Development of Non-Human Primate Models for PSA Biology Studies | | 4161 | | (6,733) |
| <i>Subtotal direct programs: Research Infrastructure Programs</i> | 93.351 | | | <u>8,044,162</u> |
| National Center for Research Resources | 93.389 | | | |
| Southwest National Primate Research Center | | 3500 | | 5,044,431 |
| Cancer Treatment Research | 93.395 | | | |
| Improved Tumor Targeting of Salmonella VNP20009 via Ice-llama Antibody Guidance | | 4398 | | 226,116 |

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 | 93.837 | | | |
| Genetics of Atherosclerosis in Mexican Americans | | 4097 | | \$ (12,548) |
| Diet and Genotype in Primate Atherosclerosis | | 4106 | | 1,434,926 |
| Identification of Genes Influencing Total Antioxidant Status | | 4114 | | (8,443) |
| Genetic Epidemiology of Chagas Disease Progression | | 4190 | | 92,959 |
| Integrative Genomics of Vanin Gene Expression in Relation to CVD Risk | | 4241 | | 265,099 |
| Whole Genome Sequencing to Identify Causal Genetic Variants Influencing CVD Risk | | 4343 | | 1,344,862 |
| CVD in American Indians Genetics Center | | 4407 | | 556,298 |
| Discovery of Gene Variants and Mechanisms Underlying Salt-Sensitive Hypertension | | 4417 | | 440,622 |
| <i>Subtotal direct programs: Cardiovascular Diseases Research</i> | 93.837 | | | <u>4,113,775</u> |
| Arthritis, Musculoskeletal and Skin Diseases Research | 93.846 | | | |
| Genetics of Bone Structure and Metabolism | | 4195 | | 270,402 |
| Bone Structural Integrity Profiling to Advance Skeletal Genetics and Biomechanics | | 4297 | | 609,325 |
| <i>Subtotal direct programs: Arthritis, Musculoskeletal and Skin Diseases Research</i> | 93.846 | | | <u>879,727</u> |
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | | | |
| Discovery of Functional Variants in Type 2 Diabetes Genes in Mexican Americans | | 4193 | | 177,179 |
| Gene Networks for Differential Risk of Kidney Damage by Long-Term Diabetes | | 4318 | | 294,930 |
| Comprehensive SNP Discovery in SLC249 A Candidate Gene for Uric Acid Nephropathy | | 4355 | | (666) |
| Large-Scale Methylation Profiling in Metabolic Syndrome Phenotypes | | 4242 | | 426,067 |
| A Genetic Study of Blood Metabolites and Their Relationship to Diabetes Risk | | 4421 | | 608,906 |
| <i>Subtotal direct programs: Diabetes, Digestive, and Kidney Diseases Extramural Research</i> | 93.847 | | | <u>1,506,416</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 | | | |
| Antigen Presentation by Epithelial Stem Cells to Promote Life Long Immunity | | 4251 | | \$ 617,718 |
| The Innate Immune Response in the Marmoset Model of GBV-B Infections: A Surrogate | | 4294 | | 469,306 |
| Genetic Analysis of Host Specificity in Schistosoma Mansoni | | 4332 | | 533,585 |
| Efficient Linkage Mapping Methods for Schistosoma Mansoni | | 4357 | | 121,426 |
| Rapid Ligand Pairing Strategy to Simplify Diagnostic Immunoassay Assembly | | 4397 | | 232,671 |
| Optimized Adaptation of Simian-Tropic R5 HIV Clade C to Pig-Tailed Macaques | | 4418 | | 234,012 |
| Vaccination Against Mucosal HIV Clade C Transmission | | 4422 | | 342,256 |
| Infant Immunoprophylaxis Against a Primate Lentivirus | | 4424 | | 437,680 |
| Humoral Correlates of Protection Against HIV | | 4441 | | 597,404 |
| <i>Subtotal direct programs: Allergy, Immunology and Transplantation Research</i> | 93.855 | | | <u>3,586,058</u> |
| Microbiology and Infectious Diseases Research | 93.856 | | | |
| Mapping Drug Resistance Genes in Plasmodium Falciparum | | 1112 | | 700,877 |
| Biomedical Research and Research Training | 93.859 | | | |
| Genetic Analysis of Common Diseases: An Evaluation Functional Characterization of Regulatory Sequence Variants in Complex Diseases | | 1334 | | 608,162 |
| | | 4477 | | 141,118 |
| <i>Subtotal direct programs: Biomedical Research and Research Training</i> | 93.859 | | | <u>749,280</u> |
| Aging Research | 93.866 | | | |
| Genetic Determinants of Human Transcriptional Aging | | 4078 | | 84,333 |
| Vision Research | 93.867 | | | |
| Genetic Epidemiology of Ocular Health and Disease | | 4471 | | <u>451,264</u> |
| Total Direct programs – National Institute of Health (NIH) | | | | <u>29,293,339</u> |
| Total Direct programs – U.S. Department of Health and Human Services | | | | <u>29,293,339</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 |
|--|---------------------------|------------------------|---|-------------------------|
| Indirect programs: | | | | |
| National Institutes of Health (NIH): | | | | |
| Environmental Health | 93.113 | | | |
| <u>Pass-through from Johns Hopkins:</u> Arsenic Exposure, Genetic Determinants and Diabetes Risk in a Family Study | | 4367 | 520595110 | \$ 250,835 |
| Oral Diseases and Disorders Research | 93.121 | | | |
| <u>Pass-through from Wright State University:</u> Genetic Architecture of the Human Dentognathic Complex | | 4181 | 310732831 | 73,285 |
| Human Genome Research | 93.172 | | | |
| <u>Pass-through from University of North Carolina:</u> Genetic Epidemiology of Causal Variants Across the Life Course Phase II | | 4436 | 566172047 | 27,328 |
| Mental Health Research Grants | 93.242 | | | |
| <u>Pass-through from Yale University:</u> Genetics of Brain Structure and Function: Genome-Wide Association | | 4125 | 60646973 | 87,233 |
| <u>Pass-through from Texas Tech University Health Science Center:</u> Population Based Mapping of Schizophrenia Genes | | 4331 | 752668014 | 3,356 |
| <u>Pass-through from NorthShore University:</u> Gene Expression in an African American Schizophrenia Dataset | | 4372 | 362167060 | 120,878 |
| <i>Subtotal indirect programs: Mental Health Research Grants</i> | 93.242 | | | 211,467 |
| 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 | 100,125 |
| Discovery and Applied Research for Technological Innovations to Improve Human Health | 93.286 | | | |
| <u>Pass-through from University of Maryland, Baltimore:</u> Solar-Eclipse Computational Tools for Imaging Genetics | | 4376 | 526002036 | 102,350 |

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 |
|--|---------------------------|------------------------|---|-------------------------|
| Research Infrastructure Programs | 93.351 | | | |
| <u>Pass-through from University of Massachusetts,</u> | | | | |
| <u>Amherst:</u> | | | | |
| Self Injurious Behavior and Primate Well-Being | | 4434 | 043167352 | \$ 49,995 |
| <u>Pass-through from University of Puerto Rico:</u> | | | | |
| Establishment & Maintenance of a Closed CPRC Colony | | 4303 | 660433762 | 21,038 |
| <u>Pass-through from University of Texas Health Science Center at San Antonio (UTHSCSA):</u> | | | | |
| A Novel Mouse Model of Obesity in Pregnancy | | 4476 | 741586031 | 109,213 |
| <u>Pass-through from The Regents of the University of California:</u> | | | | |
| Development of a Pedigreed Baboon Genome Resource | | 4495 | 946036493 | 92,798 |
| <i>Subtotal indirect programs: Research Infrastructure Programs</i> | 93.351 | | | <u>273,044</u> |
| National Center for Research Resources | 93.389 | | | |
| <u>Pass-through from UTHSCSA:</u> | | | | |
| Programming, Maternal Obesity and Overnutrition | | 4269 | 741586031 | 307,114 |
| Developmental Programming by Mismatch of Pre- and Postnatal Nutrition | | 4362 | 741586031 | 268,963 |
| <i>Subtotal indirect programs: National Center for Research Resources</i> | 93.389 | | | <u>576,077</u> |
| Cardiovascular Diseases Research | 93.837 | | | |
| <u>Pass-through from UTHSCSA:</u> | | | | |
| Effects of Chronic Inflammation on Atherosclerosis Outcomes in RA | | 4384 | 741586031 | (41,822) |
| National Institute of Arthritis and Musculoskeletal & Skin Diseases | 93.846 | | | |
| <u>Pass-through from Southwest Research Institute:</u> | | | | |
| The Role of Bone Trait Covariation in Vertebral Fracture Resistance | | 4432 | 741070544 | 210,379 |
| 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 | 34,763 |
| <u>Pass-through from Baylor College of Medicine:</u> | | | | |
| Improving Safety and Efficacy of Gene Therapy with HDAd | | 1463 | 741613878 | 4,044 |
| <u>Pass-through from University of North Carolina:</u> | | | | |
| A Candidate Gene for Uric Acid Nephropathy | | 4435 | 566172047 | 128,537 |
| <i>Subtotal indirect programs: Diabetes, Digestive, and Kidney</i> | 93.847 | | | <u>167,344</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 |
|---|---------------------------|------------------------|---|-------------------------|
| Extramural Research Programs in the Neurosciences and Neurological Disorders: National Institute on Neurological Disorders and Stroke (NINDS) <u>Pass-through from UTHSCSA:</u> Brain MRI and Histopathology of the Epileptic Baboon | 93.853 | 4465 | 741586031 | \$ 12,505 |
| Allergy, Immunology and Transplantation Research <u>Pass-through from Emory University:</u> Dual Vaccine Strategy Against Filovirus Infection <u>Pass-through from UTHSCSA:</u> Identification of Novel Plant-Derived Antimalarial Compounds | 93.855 | 4295 | 580566256 | 340,156 |
| <u>Pass-through from University of Louisville Research Foundation:</u> RC: Bivalent Cross-Protective Arenaviral Vac <u>Pass-through from University of Texas Medical Branch at Galveston (UTMB):</u> Western Regional Center of Excellence for Biodefense and Emerging Infectious | | 4300 | 741586031 | 25,956 |
| <u>Pass-through from Lovelace & Environmental Res Inst:</u> Nonhuman Primate Model for Filirus Vaccine & Efficacy Testing | | 4468 | 611029626 | 63,402 |
| <u>Pass-through from University of California, Santa Cruz:</u> Hybrid Integrated Molecular Analysis (HIMAS) for the Point-to-Care | | 4327 | 746000949 | 71,215 |
| <u>Pass-through from University of Iowa:</u> Filoviral Glycoprotein/Cellular Protein Interactions | | 4351 | 510154068 | 184,923 |
| <i>Subtotal indirect programs: Allergy, Immunology and Transplantation Research</i> | 93.855 | | | 799,034 |
| Microbiology and Infectious Diseases Research <u>Pass-through from SAIC-Frederick, Inc:</u> SAIC 13XS099 | 93.856 | 4403 | 330653185 | 5,175 |
| <u>Pass-through from Battelle Memorial Institute:</u> Efficacy Testing of Filovirus Vaccines in Non- Human Primates | | 4450 | 403732 | 1,955,702 |
| <i>Subtotal indirect programs: Microbiology and Infectious Diseases Research</i> | 93.856 | | | 1,960,877 |

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 | 93.865 | | | |
| <u>Pass-through from University of Texas Medical Branch at Galveston:</u> | | | | |
| Obstetric Pharmacology Research Units Network Center at UTMB-Galveston | | 1408 | 746000949 | \$ 44,583 |
| <u>Pass-through from UTHSCSA:</u> | | | | |
| Mechanisms of Placental, Fetal Brain And renal Outcomes of IUGR – Core B | | 4453 | 741586031 | 190,147 |
| Mechanisms of Placental, Fetal Brain And renal Outcomes of IUGR – Core C | | 4454 | 741586031 | 284,286 |
| Mechanisms of Placental, Fetal Brain And renal Outcomes of IUGR – Project 3 | | 4455 | 741586031 | 86,939 |
| The Disablement Process in Rheumatoid Arthritis | | 4086 | 741586031 | 13,633 |
| <u>Pass-through from The Board of Trustees of the University of Illinois:</u> | | | | |
| Womb to Womb: Programming Reproductive Development in the Female Marmoset Monkey | | 4439 | 376000511 | 26,102 |
| <i>Subtotal indirect programs: Child Health and Human Development Extramural Research</i> | 93.865 | | | <u>645,690</u> |
| Vision Research | 93.867 | | | |
| <u>Pass-through from Oregon Health & Science University:</u> | | | | |
| A Joint Linkage/Association Strategy to Interrogate AMD Genetic Susceptibility | | 4337 | 931176109 | 321,366 |
| <u>Pass-through from UTHSCSA:</u> | | | | |
| The Metabolic Syndrome in Mexican American Children | 93.867 | 4473 | 741586031 | 405 |
| <i>Subtotal indirect programs: Vision Research</i> | | | | <u>321,771</u> |
| Total Indirect programs – National Institute of Health (NIH) | | | | <u>5,690,289</u> |
| TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | <u>34,983,628</u> |
| TOTAL RESEARCH AND DEVELOPMENT CLUSTER | | | | <u>40,715,446</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | | <u>\$ 40,715,446</u> |

Texas Biomedical Research Institute

Notes to Schedule of Expenditures of Federal Awards

December 31, 2014

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 | \$ 34,817,896 |
| Contracts | 11,450,614 |
| | <hr/> |
| | 46,268,510 |
| Less amounts not subject to OMB Circular A-133 | 5,553,064 |
| Total federal award expenditures | <hr/> <hr/> |
| | \$ 40,715,446 |

Texas Biomedical Research Institute

Notes to 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:

| Program Title | Federal CFDA Number | Contract/ Grant Number | Amount Provided to Subrecipients |
|--|------------------------------------|---------------------------------------|---|
| U.S. DEPARTMENT OF DEFENSE | | | |
| Basic Scientific Research – Combating Weapons of Mass Destruction | 12.351 | 4325 | \$ 144,361 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| National Institutes of Health | | | |
| Oral Diseases and Disorders Research | 93.121 | 4442 | 274,738 |
| Human Genome Research | 93.172 | 4410 | 524,230 |
| Mental Health Research Grants | 93.242 | 4232 4370 | 12,063 <u>256,528</u> |
| <i>Subtotal: Mental Health Research Grants</i> | 93.242 | | <u>268,591</u> |
| National Center for Research Resources | 93.389 | 3500 | 17,394 |
| Cardiovascular Diseases Research | 93.837 | 4241 4343 | 44,110 <u>61,318</u> |
| <i>Subtotal: Cardiovascular Diseases Research</i> | 93.837 | | <u>105,428</u> |
| Arthritis, Musculoskeletal and Skin Diseases Research | 93.846 | 4195 4297 | 72,012 <u>501,238</u> |
| <i>Subtotal: Arthritis, Musculoskeletal and Skin Diseases Research</i> | 93.846 | | <u>573,250</u> |

Texas Biomedical Research Institute

Notes to Schedule of Expenditures of Federal Awards (continued)

3. Amounts Provided to Subrecipients (continued)

| Program Title | Federal CFDA Number | Contract/ Grant Number | Amount Provided to Subrecipients |
|---|------------------------------------|---------------------------------------|---|
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | 4193 4242 4318 4421 | \$ 50,584 18,508 74,640 <u>119,381</u> |
| <i>Subtotal: Diabetes, Digestive, and Kidney Diseases Extramural Research</i> | 93.847 | | <u>263,113</u> |
| Allergy, Immunology and Transplantation Research | 93.855 | 4332 4357 4418 | 213,201 79,673 <u>13,379</u> |
| <i>Subtotal: Allergy, Immunology and Transplantation Research</i> | 93.855 | | <u>306,253</u> |
| Microbiology and Infectious Diseases Research | 93.856 | 1112 | 122,364 |
| Biomedical Research and Research Training | 93.859 | 4477 | 6,811 |
| Vision Research | 93.867 | 4471 | <u>99,277</u> |
| TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | <u>2,561,449</u> |
| TOTAL FEDERAL AWARDS TO SUBRECIPIENTS | | | <u><u>\$ 2,705,810</u></u> |

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs

Year Ended December 31, 2014

Section I – Summary of Auditors’ 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? | __ yes | <u>X</u> no |
| Significant deficiency(ies) identified? | __ yes | <u>X</u> none reported |
| Noncompliance material to financial statements noted? | __ yes | <u>X</u> no |

Federal Awards Section

Internal control over major programs:

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

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?

__ yes X no

Identification of Major Programs

| CFDA Number(s) | Name of Federal Program or Cluster |
|----------------|------------------------------------|
|----------------|------------------------------------|

| | |
|--|----------------------------------|
| 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, 93.837, 93.846, 93.847, 93.853, 93.855, 93.856, 93.859, 93.865, 93.866, 93.867 | Research and Development Cluster |
|--|----------------------------------|

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 1,221,463

Auditee qualified as low-risk auditee?

X yes __ no

Texas Biomedical Research Institute

Schedule of Findings and Questioned Costs (continued)

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

No findings were noted.

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

No findings were noted.

Texas Biomedical Research Institute
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2014

Finding: 2013-001

Status: Corrected

About EY

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