

TEXAS A&M RESEARCH FOUNDATION

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INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

SUPPLEMENTAL INFORMATION

AND

COMPLIANCE REPORTS

AUGUST 31, 2015 AND 2014

TEXAS A&M RESEARCH FOUNDATION
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Ingram, Wallis & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Texas A&M Research Foundation
College Station, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Texas A&M Research Foundation (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of August 31, 2015 and 2014, and the related statements of activities 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of August 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information on pages 20-24 is presented for purposes of additional analysis and is not a required part of the financial statements of the Foundation. The accompanying schedule of expenditures of federal and state awards, as required by 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2016, on our consideration of the Foundation'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 the Foundation's internal control over financial reporting and compliance.

Bryan, Texas
May 20, 2016

Ingram, Wallis & Company

TEXAS A&M RESEARCH FOUNDATION
Statements of Financial Position
August 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 9,339,294.91	\$ 12,017,905.18
Accounts and interest receivable, net	2,207,351.74	3,458,031.59
Due from A&M University, et. al.		
Accounts Receivable	564,418.76	787,239.55
Unbilled receivable on research contracts in progress	3,535,541.02	4,028,327.03
Inventories and prepaid expenses	103,253.92	83,119.39
Work in progress - equipment	1,628,784.47	1,436,093.12
Office and technical equipment	43,369,561.72	43,759,417.21
Software	113,887.93	177,232.05
Buildings and land	2,155,511.93	2,135,694.84
Less accumulated amortization and depreciation	(36,616,745.02)	(36,981,961.01)
Investment in mutual funds	63,243.11	70,406.84
Investment in corporate stock	238,272.00	249,408.00
Total assets	<u>\$ 26,702,376.49</u>	<u>\$ 31,220,913.79</u>
Liabilities and Net Assets		
Accounts payable	\$ 1,211,700.10	\$ 1,463,264.30
Accrued liabilities	-	24.70
Deferred revenues	2,459,587.19	2,927,982.61
Due to A&M University, et.al.		
Accounts payable	170,974.32	464,517.88
Salary and wages	3,512,419.48	5,820,923.24
Indirect costs	2,946,901.45	3,351,205.64
Accrued vacation payable	88,747.90	113,357.36
Total liabilities	<u>10,390,330.44</u>	<u>14,141,275.73</u>
Net Assets		
Unrestricted	16,010,530.94	16,759,823.22
Temporarily restricted	4,380.10	3,473.18
Permanently restricted	297,135.01	316,341.66
Total net assets	<u>16,312,046.05</u>	<u>17,079,638.06</u>
Total liabilities and net assets	<u>\$ 26,702,376.49</u>	<u>\$ 31,220,913.79</u>

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

TEXAS A&M RESEARCH FOUNDATION
Statements of Activities
For the Years Ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted Net Assets		
Revenues and Gains		
Revenue for sponsored research	\$ 102,997,750.01	\$ 119,427,436.40
Other acquisitions	2,421,498.09	22,126.73
Investment income	935,186.01	771,145.54
Unrealized gain (loss) on investment	(849,600.14)	608,811.82
Assets released from restrictions	<u>3,144.00</u>	<u>2,093.00</u>
Total Revenues and Gains	105,507,977.97	120,831,613.49
Expenses		
Supporting services	1,633,677.81	2,101,458.77
Sponsored research expense	101,724,261.06	119,401,170.29
Contributions	3,144.00	2,093.00
Disposition of equipment	289,790.00	284,361.43
Depreciation and amortization expense	<u>2,606,397.38</u>	<u>2,580,999.68</u>
Total Expenses	<u>106,257,270.25</u>	<u>124,370,083.17</u>
Change in unrestricted net assets	<u>(749,292.28)</u>	<u>(3,538,469.68)</u>
Temporarily Restricted Net Assets		
Investment income	4,050.92	3,286.12
Assets released from restrictions	<u>(3,144.00)</u>	<u>(2,093.00)</u>
Change in temporarily restricted net assets	<u>906.92</u>	<u>1,193.12</u>
Permanently Restricted Net Assets		
Donation	-	6,735.00
Unrealized gain (loss) on investments	<u>(19,206.65)</u>	<u>32,923.14</u>
Change in permanently restricted net assets	<u>(19,206.65)</u>	<u>39,658.14</u>
Change in net assets	<u>(767,592.01)</u>	<u>(3,497,618.42)</u>
Net assets at beginning of year	<u>17,079,638.06</u>	<u>20,577,256.48</u>
Net assets at end of year	<u>\$ 16,312,046.05</u>	<u>\$ 17,079,638.06</u>

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

TEXAS A&M RESEARCH FOUNDATION
Statements of Cash Flows
For the Years Ended August 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (767,592.01)	\$ (3,497,618.42)
Adjustments to reconcile change in net assets to cash used by operating activities:		
Other acquisitions	(2,421,498.09)	(22,126.73)
Disposition of equipment	289,790.00	284,361.43
Unrealized (gain) loss on mutual funds	8,070.65	(5,659.14)
Unrealized (gain) loss on investment in corporate stock	11,136.00	(27,264.00)
Depreciation	2,606,397.38	2,580,999.68
Net change in accounts and interest receivable	1,473,500.64	2,404,664.45
Net change in unbilled receivable on research accounts	492,786.01	4,777,091.21
Net change in inventories and prepaid expenses	(20,134.53)	148,079.79
Net change in deferred revenue	(468,395.42)	338,155.07
Net change in accounts payable	(251,564.20)	(3,861,787.85)
Net change in accrued liabilities	(24.70)	24.70
Net change in due to TAMUS	(3,006,351.51)	(5,869,426.73)
Net change in accrued vacation	(24,609.46)	(24,483.57)
Net cash used by operating activities	<u>(2,078,489.24)</u>	<u>(2,774,990.11)</u>
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(599,214.11)	(817,855.38)
Purchase of mutual funds	(4,050.92)	(10,021.12)
Proceeds from sale of mutual funds	3,144.00	2,093.00
Net cash used by investing activities	<u>(600,121.03)</u>	<u>(825,783.50)</u>
Net decrease in cash and cash equivalents	(2,678,610.27)	(3,600,773.61)
Cash and cash equivalents at beginning of year	12,017,905.18	15,618,678.79
Cash and cash equivalents at end of year	\$ <u>9,339,294.91</u>	\$ <u>12,017,905.18</u>

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

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization

The Texas A&M Research Foundation (Foundation) is a non-profit scientific research corporation organized under the laws of the State of Texas and is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (Code). In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Code.

Financial Statements

The financial statements of the Foundation have been prepared on the accrual basis of accounting and report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. In addition, the Foundation is required to present a statement of cash flows.

Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED:

Compensated Absences

The Foundation accrues a liability for vested vacation time which employees are entitled to receive upon request or termination of employment.

Contributions

The Foundation reports gifts of cash and other assets as restricted if they are received with donor restrictions that limit the use of the donated assets. The Foundation has a restricted endowment that can be used for the benefit of the Foundation.

The Tina and Paul Gardner Reveille VII Research Fund, established to support the Texas A&M Department of Small Animal Clinical Sciences (the Department) in the College of Veterinary Medicine and Biomedical Sciences, currently exceeds \$50,000. Therefore, the income earnings will be distributed to the Department to be used exclusively for supporting proposed or on-going research projects by interns and Medicine Section residents. Income earnings are reported as temporarily restricted investments and transfer to unrestricted investments as funds become available for distribution to the Department. The donor requires the corpus to stay intact and unrealized capital gains to be added to the corpus which is carried as a restricted investment.

Concentration of Credit Risk

A significant amount of the Foundation's receivables are due from the Federal government and agencies thereof. Credit risk is based on the good standing of the Federal government.

Property, Plant and Equipment

The Foundation follows the practice of capitalizing all expenditures for property, furniture, fixtures and office equipment in excess of \$5,000. The basis of valuation of purchased items is cost and of contributed items is fair value. Depreciation or amortization of all such items is computed on a straight-line basis over the estimated useful lives of the assets generally as follows:

Furniture and equipment	5-10	years
Vehicles	5	years
Buildings and improvements	20-31.5	years
Software	5-6	years

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 2 – CASH AND INVESTMENTS:

Substantially all cash, except for working cash accounts, is deposited with the Foundation's depository bank in interest bearing accounts or is invested. The Foundation's investment policy is established by management and is designed to maximize the generation of current investment income while maintaining a liquid position through short-term investments. The policy states that funds may currently be invested in:

Certificates of Deposit, with maturities not to exceed 24 months, issued by a State or National bank and insured by the FDIC, or its successor, or secured (collateralized) by surety bond, or pledged securities. Collateral held by a third party will have a market value of not less than the principal amounts of the certificates.

Repurchase Agreements, with maturities not to exceed 7 days, secured by U.S. Treasury Securities or other government agency securities. Collateral must be held by a third party. All agreements will be in compliance with Federal Reserve Bank guidelines.

Money Market Funds must be registered with the Securities and Exchange Commission and be no-load funds. Funds may be invested or withdrawn daily. In addition, any money market fund utilized by the Foundation must meet the investment objectives listed above and may not contain in its portfolio investments in high risk investment instruments such as derivative products, venture capital, or futures contracts, etc.

Cash Concentration Pool offered by The Texas A&M University System. Investments in the Cash Concentration Pool will be limited to such investments as are eligible under The Texas A&M University System Investment Policy as adopted and amended from time to time by the Board of Regents of The Texas A&M University System.

Interest bearing bank accounts in federally insured savings and loan associations, and State and National banks. If the deposits exceed the amount insured by the Federal Savings and Loan Insurance Corporation, the Federal Deposit Insurance Corporation or their successors, pledged securities or a surety bond must be obtained. The pledged collateral must be held by a third party, and at all times will have a market value of not less than the principal amounts deposited.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 2 – CASH AND INVESTMENTS – CONTINUED:

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist primarily of cash and cash equivalents and investments. The Foundation has placed its cash and cash equivalents with high credit quality financial institutions and with The Texas A&M University System Treasury Office.

The Foundation's cash and cash equivalents do not represent a significant concentration of credit risk as the bank provides a surety bond for amounts in excess of FDIC coverage. Other cash and cash equivalents and investments do not represent a significant concentration of credit risk due to the diversification of the investments made by The Texas A&M University System Treasury Office and other financial institutions on behalf of the Foundation. The fair values of cash and cash equivalents approximate cost because of the immediate short term maturity of these financial instruments. Investments are stated at fair value.

The Foundation had the following cash equivalents and investments as of August 31, 2015:

	<u>Carrying Amount</u>	<u>Unrestricted Investment Return</u>	<u>Temporarily Restricted Investment Return</u>	<u>Permanently Restricted Investment Return</u>
<u>Unrestricted:</u>				
Cash Concentration Pool	\$7,877,425.45			
Investment income		\$924,813.10		
Unrealized gain (loss)		(849,600.14)		
Wells Fargo InvestAccount	856,917.39			
Merrill Lynch Governmental Fund	990,244.80	1,613.05		
Producers Cooperative		23.86		
<u>Temporarily Restricted:</u>				
Tina and Paul Gardner				
Reveille VII Research Fund	4,380.10			
Investment income			\$4,050.92	
<u>Permanently Restricted:</u>				
9600 Shares of General				
Electric Common Stock	238,272.00	8,736.00		
Unrealized gain (loss)				(\$11,136.00)
Tina and Paul Gardner				
Reveille VII Research Fund	58,863.01			
Unrealized gain (loss)				(8,070.65)

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 2 – CASH AND INVESTMENTS – CONTINUED:

The Foundation had the following cash equivalents and investments as of August 31, 2014:

	<u>Carrying Amount</u>	<u>Unrestricted Investment Return</u>	<u>Temporarily Restricted Investment Return</u>	<u>Permanently Restricted Investment Return</u>
<u>Unrestricted:</u>				
Cash Concentration Pool	\$10,179,221.93			
Investment income		\$762,053.37		
Unrealized gain		608,811.82		
Wells Fargo InvestAccount	987,755.23			
Merrill Lynch Governmental Fund	838,631.75	840.17		
Producers Cooperative		92.00		
<u>Temporarily Restricted:</u>				
Tina and Paul Gardner				
Reveille VII Research Fund	3,473.18			
Investment income			\$3,286.12	
<u>Permanently Restricted:</u>				
9600 Shares of General				
Electric Common Stock	249,408.00	8,160.00		
Unrealized gain				\$27,264.00
Tina and Paul Gardner				
Reveille VII Research Fund	66,933.66			
Unrealized gain				5,659.14

NOTE 3 – FAIR VALUE MEASUREMENTS:

Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 3 – FAIR VALUE MEASUREMENTS -CONTINUED:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2015 and 2014.

Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 3 – FAIR VALUE MEASUREMENTS -CONTINUED:

The Foundation had the following assets at fair value as of August 31, 2015:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income funds	\$ 21,266.95	\$ -	\$ -	\$ 21,266.95
Equities	41,574.30	-	-	41,574.30
Other funds	401.86	-	-	401.86
Total mutual funds	63,243.11	-	-	63,243.11
Common stocks:				
General Electric	238,272.00	-	-	238,272.00
Total assets at fair value	\$ 301,515.11	\$ -	\$ -	\$ 301,515.11

The Foundation had the following assets at fair value as of August 31, 2014:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income funds	\$ 24,009.22	\$ -	\$ -	\$ 24,009.22
Equities	46,036.79	-	-	46,036.79
Other funds	360.83	-	-	360.83
Total mutual funds	70,406.84	-	-	70,406.84
Common stocks:				
General Electric	249,408.00	-	-	249,408.00
Total assets at fair value	\$ 319,814.84	\$ -	\$ -	\$ 319,814.84

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 4 – RELATED PARTY TRANSACTIONS:

In September 2011 the Foundation began transitioning its research activity to Sponsored Research Services (SRS), a newly created office under The Texas A&M University System (System) and an officially acknowledged System member. While the System continues to designate the Foundation as one of the central entities through which System sponsored research grants/contracts are administered, the majority of work, with sponsor approval, will eventually transfer to SRS.

The Foundation also operates as The Texas A&M University System Health Science Center Research Foundation and as Prairie View A&M University Research Foundation. These entities are unincorporated subsidiaries of the Foundation.

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TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 4 – RELATED PARTY TRANSACTIONS - CONTINUED:

In the following tables receipts constitute reimbursed expenses. Disbursements are comprised of salaries, direct costs and indirect cost reimbursements.

The following is a summary of transactions with the System and other related parties for the year ended August 31, 2015:

	<u>Accounts Receivable</u>	<u>Accounts Payable</u>	<u>Receipts</u>	<u>Disbursements</u>
Texas A&M System				
Administrative and				
General Offices	\$ -	\$ 36,653.81	\$ 603,578.18	\$ 265,492.43
Texas A&M University	208,939.22	4,246,459.12	348,209.75	23,183,057.02
Tarleton State University	-	8,426.64	-	134,045.67
Prairie View A&M University	-	73,939.72	-	561,453.26
Texas AgriLife Research	245.68	1,403,801.46	1,480.59	7,441,163.34
Texas AgriLife Extension Service	-	9,586.78	-	61,090.32
Texas Engineering				
Experiment Station	4,734.15	84,773.31	36,218.37	405,022.97
Texas Engineering				
Extension Service	-	10,000.00	-	6,825.00
Texas A&M University				
at Galveston	-	67,420.66	-	445,728.76
Texas Forest Service	-	-	-	-
Texas Transportation Institute	531.50	362,491.69	3,656.90	2,517,357.77
Texas A&M University				
at Corpus Christi	9,907.29	38,429.85	-	210,048.94
Texas A&M International				
University	-	-	-	10,008.50
Texas A&M University				
at Kingsville	-	-	-	1,092.54
West Texas A&M University	-	-	-	-
Texas Veterinary Medical				
Diagnostic Laboratory	-	-	-	-
Texas A&M University				
at Commerce	-	-	-	14,682.80
Texas A&M University				
at Texarkana	378.77	-	-	21,180.25
Texas A&M University				
Health Science Center		259,425.51	1,081.08	2,899,742.44
Texas A&M University System				
Sponsored Research Services	339,682.15	24,048.20	-	386,155.05
Electric Power Research Institute	-	4,838.50	-	-
	<u>\$ 564,418.76</u>	<u>\$ 6,630,295.25</u>	<u>\$ 994,224.87</u>	<u>\$38,564,147.06</u>

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 4 – RELATED PARTY TRANSACTIONS - CONTINUED:

The following is a summary of transactions with the System and other related parties for the year ended August 31, 2014:

	<u>Accounts Receivable</u>	<u>Accounts Payable</u>	<u>Receipts</u>	<u>Disbursements</u>
Texas A&M System				
Administrative and				
General Offices	\$ 7,809.24	\$ 50,845.66	\$ 1,457,011.31	\$ 300,706.37
Texas A&M University	88,050.61	5,492,843.70	557,165.89	30,604,636.67
Tarleton State University	-	37,831.26	-	113,640.72
Prairie View A&M University	-	174,219.05	35,307.00	948,566.54
Texas AgriLife Research	35,703.88	2,070,010.45	-	9,974,196.82
Texas AgriLife Extension Service	-	7,974.89	3,593.46	82,517.25
Texas Engineering				
Experiment Station	5,338.50	49,067.60	218,387.57	732,116.96
Texas Engineering				
Extension Service	-	-	-	14,750.00
Texas A&M University				
at Galveston	-	127,189.43	-	797,402.04
Texas Forest Service	-	-	-	-
Texas Transportation Institute	3,683.66	503,296.12	9,296.03	4,194,770.57
Texas A&M University				
at Corpus Christi	42,899.86	23,424.64	-	264,740.10
Texas A&M International				
University	-	10,000.00	-	64,949.11
Texas A&M University				
at Kingsville	-	2,185.08	-	21,358.30
West Texas A&M University	-	-	-	46,572.53
Texas Veterinary Medical				
Diagnostic Laboratory	-	-	-	1,006.40
Texas A&M University				
at Commerce	-	10,427.71	-	29,685.53
Texas A&M University				
at Texarkana	378.77	41,173.89	-	46,875.18
Texas A&M University				
Health Science Center	147.98	864,505.00	392.21	6,273,215.30
Texas A&M University System				
Sponsored Research Services	603,227.05	166,813.78	-	1,050,492.84
Electric Power Research Institute	-	4,838.50	-	-
	<u>\$ 787,239.55</u>	<u>\$ 9,636,646.76</u>	<u>\$ 2,281,153.47</u>	<u>\$55,562,199.23</u>

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 5 – BUILDINGS AND FACILITIES:

The Foundation owns a building and facilities located in College Station, Texas, which are used in the Geochemical and Environmental Research Group operations. Research projects are charged an off-campus indirect cost rate in addition to a direct charge for the use of this facility that is returned to building operations in the facilities account.

NOTE 6 – COMMITMENTS AND CONTINGENCIES:

Certain costs billed to the U.S. Government are subject to audit and determination of allowance or disallowance in accordance with sponsor contract provisions. In management's opinion there would be an immaterial adverse effect as a result of any such audits.

At August 31, 2015, the Foundation had \$1,563,068.21 (\$24,269,851.66 in 2014) in sponsor owned fixed assets on its fixed asset detail records. Title to these assets remains with the sponsors and therefore the assets are not included in the Foundation's financial statements.

The Foundation is responsible for maintaining accountability for these assets during the project's contract period. At the project's conclusion, the assets may be transferred to another active project that needs to utilize the equipment or, in some cases, title may be transferred to the Research Foundation.

NOTE 7 – INTEGRATED OCEAN DRILLING PROGRAM (IODP)

Expenditures for IODP for the period ending August 31, 2015 were \$57.4 million. The National Science Foundation (NSF) approved an extension of the existing program to which the Research Foundation was a subcontract of Consortium for Ocean Leadership to September 30, 2014 and the Research Foundation closed out the contract in June 2015.

On October 1, 2014, the Research Foundation began a five year cooperative agreement with NSF as the *JOIDES Resolution Science Operator* for the International Ocean Discovery Program. The cooperative agreement budget is \$66 million per year.

As part of the cooperative agreement, the Research Foundation received title to the NSF funded equipment that has been utilized in the IODP program since the 1980's. NSF approved the transfer of title of the equipment on February 4, 2015. An appraisal was obtained by an independent appraiser to determine the fair value of this equipment and was completed in March 2016. The fair value of the assets as of February 4, 2015 is \$2,265,345.91. Items that did not meet the capitalization threshold deemed to be expendable supplies were valued at \$370,154.85.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 8 – DISPOSITION OF EQUIPMENT:

As a result of assets discarded, donated to Members of The Texas A&M University System, or transferred to other institutions, the Foundation's disposition of equipment for fiscal year 2015 was \$289,790.00 compared to \$284,361.43 for fiscal year 2014.

	<u>FY15</u>	<u>FY14</u>
Discarded	\$ 75,585.19	\$ 166,875.77
Donated/transferred	<u>214,204.81</u>	<u>117,485.66</u>
Disposition of equipment	<u>\$ 289,790.00</u>	<u>\$ 284,361.43</u>

NOTE 9 – FEDERAL INCOME TAXES:

On September 1, 2009, the Foundation adopted the provisions of ASC 740, *Income Taxes*, as amended by FASB in September 2009. The Foundation evaluates its uncertain tax positions using the provisions of ASC 450, *Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax provision or for all uncertain tax positions in the aggregate could differ from the amount recognized.

Interest and penalties associated with uncertain tax positions are recognized as components of federal income tax expense. As noted above, the Foundation is a tax-exempt non-profit organization; therefore, no provision or liability for federal income taxes has been included in the financial statements.

The Foundation believes that its tax position regarding its status as a tax-exempt organization will remain significantly unchanged within the next twelve months.

While the Foundation is not aware of any tax examinations being conducted, tax years 2012 – 2014 remain subject to examination by the United States Internal Revenue Service.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

The Foundation has evaluated subsequent events through May 20, 2016, the date which the financial statements were available to be issued.

TEXAS A&M RESEARCH FOUNDATION
NOTES TO FINANCIAL STATEMENTS – CONTINUED
AUGUST 31, 2015 and 2014

NOTE 11 – TRANSITION OF THE FOUNDATION:

In the spring of 2011 The Texas A&M University System Board of Regents (The System) adopted a new structure for managing research administration within The System. The Board of Regents consolidated research administration services and established Texas A&M University System Sponsored Research Services (SRS) for this purpose. The consolidation of research administration services has had a significant impact on the role of the Texas A&M Research Foundation (Foundation), although it continues to operate as an independent 501(c)(3) organization. The focus of the change was to combine the operations of the Foundation into the overall operations of SRS. The Foundation's bylaws were revised to reflect the impact of this organizational change.

Staff from System member offices and the Foundation merged into a single office located at 400 Harvey Mitchell Parkway South, College Station, Texas. All but 16 current Foundation employees transitioned from Foundation employment to System employment. The remaining 16 employees were designated as "near retirement" and remained Foundation employees. As of August 31, 2015, there were 9 employees remaining. However, it is planned that the Foundation will not have any employees after August 31, 2016.

While most proposals are currently submitted in the name of the System member, researchers will be able to use the Foundation to submit proposals in the name of the Foundation when a nonprofit organization is needed. The Foundation will function more as a financial tool within SRS. The Foundation continues to work with sponsors to transfer active awards to the System members. It is estimated that it could take as long as three years to transition all of the research accounts currently administered by the Foundation to SRS. Research expenditures on the Foundation books have begun to decrease as new awards are set up on the System member books. In fiscal year 2015 approximately 205 research accounts were either transferred to SRS or terminated based on the research account's end date.

The System expects the establishment of SRS and the consolidation of research administration will enhance sponsored research services by applying best practices under a common management and training function housed at a central location. The full implementation is expected to reduce research administration cost at the System and position all System members for the growth of their research enterprises.

SUPPLEMENTAL INFORMATION

TEXAS A&M RESEARCH FOUNDATION
Supplemental Schedule of Combined Statement of Activities
For the Year Ended August 31, 2015

	Administrative	Service Facilities	Subtotal	Sponsored Research	Texas A&M University et al	Subtotal	Endowment	Property, Plant, and Equipment	Total
Support and revenue:									
Net revenue for sponsored research	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Indirect costs:									
Charges on research projects	33,654.56	-	33,654.56	90,713,923.74	10,922,068.43	101,635,992.17	-	-	101,669,646.73
Charges for services and facilities provided	361,557.05	363,580.93	725,137.98	-	-	-	-	-	725,137.98
Administrative cost allowance	36,166.00	-	36,166.00	-	-	-	-	-	36,166.00
Investment income	935,186.01	-	935,186.01	-	-	-	4,050.92	-	939,236.93
Unrealized gain (loss) on investments	(849,600.14)	-	(849,600.14)	-	-	-	(19,206.65)	-	(868,806.79)
Other	196,644.45	-	196,644.45	370,154.85	-	370,154.85	-	-	566,799.30
Assets released from restrictions	3,144.00	-	3,144.00	-	-	-	(3,144.00)	-	-
Total support and revenue	716,751.93	363,580.93	1,080,332.86	91,084,078.59	10,922,068.43	102,006,147.02	(3,144.00)	-	103,068,180.15
Expenses:									
Research	-	-	-	80,193,670.72	-	80,193,670.72	-	-	80,193,670.72
Indirect	-	-	-	10,608,521.91	-	10,608,521.91	-	-	10,608,521.91
Contributions	3,144.00	-	3,144.00	-	-	-	-	-	3,144.00
Supporting services	1,236,746.93	396,930.88	1,633,677.81	-	10,922,068.43	10,922,068.43	-	-	12,555,746.24
Depreciation and amortization	-	-	-	-	-	-	-	-	2,606,397.38
Total expenses and losses	1,239,890.93	396,930.88	1,636,821.81	90,802,192.63	10,922,068.43	101,724,261.06	-	2,606,397.38	105,967,480.25
Excess (deficiency) of support and revenue over (under) expenses	(523,139.00)	(33,349.95)	(556,488.95)	281,885.96	-	281,885.96	(18,299.73)	(2,606,397.38)	(2,899,300.10)
Net assets at beginning of year	5,819,080.73	173,804.47	5,992,885.20	240,461.81	-	240,461.81	319,814.84	10,526,476.21	17,079,638.06
Transfers:									
Equipment acquisition from current funds	-	(19,817.09)	(19,817.09)	(579,397.02)	-	(579,397.02)	-	599,214.11	-
Other acquisitions	-	-	-	-	-	-	-	2,421,498.09	2,421,498.09
Disposition of equipment	-	-	-	-	-	-	-	(289,790.00)	(289,790.00)
Net assets at end of year	\$ 5,295,941.73	\$ 120,637.43	\$ 5,416,579.16	\$ (57,049.25)	\$ -	\$ (57,049.25)	\$ 301,515.11	\$ 10,651,001.03	\$ 16,312,046.05

TEXAS A&M RESEARCH FOUNDATION
Supplemental Schedule of Supporting Services
Unrestricted - Administration
For the Year Ended August 31, 2015

	General	Backlog	Reserve	Other	Total
Revenue and Gains:					
Indirect costs charged on research projects	\$ 33,654.56	\$ -	\$ -	\$ -	\$ 33,654.56
Charges for services and facilities provided	361,127.05	-	-	430.00	361,557.05
Administrative cost allowance	23,146.24	-	-	13,019.76	36,166.00
Investment income	-	96,406.31	-	838,779.70	935,186.01
Reimbursements	-	-	-	176,244.56	176,244.56
Other revenue	16,124.64	-	-	4,275.25	20,399.89
Unrealized gain (loss) on investments	-	-	-	(849,600.14)	(849,600.14)
Assets released from restriction	-	-	-	3,144.00	3,144.00
Total revenue	<u>434,052.49</u>	<u>96,406.31</u>	<u>-</u>	<u>186,293.13</u>	<u>716,751.93</u>
Expenses:					
Salaries	543,699.05	-	-	(24,609.46)	519,089.59
Payroll taxes and insurance	126,861.76	-	-	-	126,861.76
Printing and reproduction	2,355.60	-	-	-	2,355.60
Supplies	117.64	-	-	-	117.64
Rent	8,231.40	-	-	-	8,231.40
Travel-administrative	3,351.06	-	-	1,609.47	4,960.53
Professional fees	(31,860.03)	-	-	6,399.25	(25,460.78)
Other services	233,272.72	-	-	16,501.94	249,774.66
Maintenance and repairs	7,845.00	-	-	-	7,845.00
Insurance - general	-	-	20,172.00	-	20,172.00
Project losses	-	-	33,008.03	-	33,008.03
Dues, subscriptions & training	9,870.00	-	-	-	9,870.00
Other	972.71	2,938.44	-	74,579.65	78,490.80
Interest expense	-	-	-	465.82	465.82
Contributions	-	-	-	3,144.00	3,144.00
Other research support	-	-	-	200,964.88	200,964.88
Total expenses	<u>904,716.91</u>	<u>2,938.44</u>	<u>53,180.03</u>	<u>279,055.55</u>	<u>1,239,890.93</u>
Change in net assets	(470,664.42)	93,467.87	(53,180.03)	(92,762.42)	(523,139.00)
Net assets at beginning of year	(63,430.25)	897,114.99	928,087.38	4,057,308.61	5,819,080.73
Transfers:					
Cash transfers	<u>(33,263.38)</u>	<u>108.18</u>	<u>33,008.03</u>	<u>147.17</u>	<u>-</u>
Net assets at end of year	<u>\$ (567,358.05)</u>	<u>\$ 990,691.04</u>	<u>\$ 907,915.38</u>	<u>\$ 3,964,693.36</u>	<u>\$ 5,295,941.73</u>

TEXAS A&M RESEARCH FOUNDATION
Supplemental Schedule of Supporting Services
Unrestricted - Service Facilities
For the Year Ended August 31, 2015

	<u>GERG Operations</u>
Revenue:	
Charges for services and facilities provided	\$ 363,580.93
Total revenue	<u>363,580.93</u>
Expenses:	
Salaries and wages	123,923.18
Payroll taxes and insurance	39,979.15
Retirement contributions	6,432.79
Fuel	219.17
Stores and supplies	254.86
Repairs and replacements	51,277.30
Insurance	20,007.00
Communications	6,914.80
Other	5,151.64
Indirect costs	30,834.29
Utilities	<u>111,936.70</u>
Total expenses	<u>396,930.88</u>
Change in net assets	(33,349.95)
Net assets at beginning of year	173,804.47
Transfers:	
Equipment acquisitions transferred to property, plant and equipment	<u>(19,817.09)</u>
Net assets at end of year	<u>\$ 120,637.43</u>

TEXAS A&M RESEARCH FOUNDATION
Endowment
Statement of Activity
For the Year Ended August 31, 2015

	William B. Clayton Memorial	Temporarily Restricted Tina and Paul Gardner Reveille VII Research Fund	Permanently Restricted Tina and Paul Gardner Reveille VII Research Fund	Total
Donations	\$ -	\$ -	\$ -	\$ -
Investment income	-	4,050.92	-	4,050.92
Unrealized loss on investments	(11,136.00)	-	(8,070.65)	(19,206.65)
Assets released from restriction	<u>-</u>	<u>(3,144.00)</u>	<u>-</u>	<u>(3,144.00)</u>
Total revenue	<u>(11,136.00)</u>	<u>906.92</u>	<u>(8,070.65)</u>	<u>(18,299.73)</u>
Net assets at beginning of year	<u>249,408.00</u>	<u>3,473.18</u>	<u>66,933.66</u>	<u>319,814.84</u>
Net assets at end of year	<u>\$ 238,272.00</u>	<u>\$ 4,380.10</u>	<u>\$ 58,863.01</u>	<u>\$ 301,515.11</u>

TEXAS A&M RESEARCH FOUNDATION
Schedule of Changes in Property, Plant and Equipment
For the Year Ended August 31, 2015

Property, Plant and Equipment						
	<u>August 31, 2014</u>	<u>Additions/ Purchases</u>	<u>Deletions</u>	<u>Reclassifications</u>	<u>August 31, 2015</u>	
Equipment	\$ 43,737,290.48	\$ 395,431.85	\$ 3,198,059.25	\$ 22,126.73	\$ 40,956,789.81	
Work in Progress	1,436,093.12	192,691.35	-	-	1,628,784.47	
Software	177,232.05	-	63,344.12	-	113,887.93	
Buildings and land	<u>2,135,694.84</u>	<u>11,090.91</u>	<u>-</u>	<u>-</u>	<u>2,146,785.75</u>	
Total	47,486,310.49	599,214.11	3,261,403.37	22,126.73	44,846,247.96	
Other acquisitions	<u>22,126.73</u>	<u>2,421,498.09</u>	<u>-</u>	<u>(22,126.73)</u>	<u>2,421,498.09</u>	
	<u>\$ 47,508,437.22</u>	<u>\$ 3,020,712.20</u>	<u>\$ 3,261,403.37</u>	<u>\$ -</u>	<u>\$ 47,267,746.05</u>	

Accumulated Amortization and Depreciation						
	<u>August 31, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclassifications</u>	<u>August 31, 2015</u>	
Equipment	\$ 35,401,366.96	\$ 2,561,241.34	\$ 2,908,269.25	\$ -	\$ 35,054,339.05	
Software	177,232.05	-	63,344.12	-	113,887.93	
Buildings and land	<u>1,403,362.00</u>	<u>45,156.04</u>	<u>-</u>	<u>-</u>	<u>1,448,518.04</u>	
	<u>\$ 36,981,961.01</u>	<u>\$ 2,606,397.38</u>	<u>\$ 2,971,613.37</u>	<u>\$ -</u>	<u>\$ 36,616,745.02</u>	

COMPLIANCE REPORTS



Ingram, Wallis & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Texas A&M Research Foundation
College Station, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Texas A&M Research Foundation (the "Foundation") (a nonprofit organization), which comprise the statement of financial position as of August 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 20, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 results of that testing, and not to provide an opinion on the effectiveness of the Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bryan, Texas
May 20, 2016

Ingram, Wallis, Company



Ingram, Wallis & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Directors
Texas A&M Research Foundation
College Station, Texas

Report on Compliance for Each Major Federal Program

We have audited the Texas A&M Research Foundation's (the "Foundation") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended August 31, 2015. The Foundation's major federal program is identified in the summary of auditors' 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 the Foundation's major federal program 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 of America; 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 the Foundation'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 the major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on the Major Federal Program

In our opinion, the Foundation 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 August 31, 2015.

Report on Internal Control Over Compliance

Management of the Foundation 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 the Foundation'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 the Foundation's internal control over compliance.

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

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

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

Bryan, Texas
May 20, 2016

Dungan, Walker & Company

Texas A&M Research Foundation
Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2015

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Identifying Number	Total Pass-Through and Expenditure
<u>Research and Development Cluster</u>			
<u>Department of Agriculture</u>			
Direct Program:			
Grants for Agricultural Research, Special Research Grants	10.200		\$ 1,040.59
Higher Education - Graduate Fellowships Grant Program	10.210		14,102.76
Consumer Data and Nutrition Research	10.253		(0.63)
Integrated Programs	10.303		103,619.95
Organic Agriculture Research and Extension Initiative	10.307		196,510.59
Specialty Crop Research Initiative	10.309		1,363,914.47
Agriculture and Food Research Initiative (AFRI)	10.310		2,723,162.10
Scientific Cooperation and Research	10.961		1,082.88
Pass Thru From:			
Michigan State University			
Rosbreed: Enabling Marker Assisted Breeding in Rosaceae	10.000	61-4296H	2,008.69
St. Edward's University			
Hispanic Serving Institutions Education Grants	10.223	1001151	63,966.74
Kansas State University			
Integrated Programs	10.303	S11059 (P 2010-51110-21083)	13,001.30
Oklahoma State University			
Integrated Programs	10.303	AB-5-67490-TAMU-RF	27,757.98
Center for Research on the Changing			
Agriculture and Food Research Initiative (AFRI)	10.310	TAMRF-30213 (2011-657003-30213)	25,782.74
University of California-Davis			
Agriculture and Food Research Initiative (AFRI)	10.310	201015739-02	8,096.91
University of Delaware			
Agriculture and Food Research Initiative (AFRI)	10.310	25606 (2011-67003-30342)	135,684.93
University of Florida-Gainesville			
Agriculture and Food Research Initiative (AFRI)	10.310	UF11099 (2011-68002-30185)	521,320.73
University of Georgia			
Agriculture and Food Research Initiative (AFRI)	10.310	RD317100/4784286 (2011-68003-30012)	101,940.47
Total, Department of Agriculture			<u>5,302,993.20</u>
<u>Department of Commerce</u>			
Direct Program:			
Integrated Ocean Observing System (IOOS)	11.012		1,789,078.41
Climate and Atmospheric Research	11.431		125,105.72
Applied Meteorological Research	11.468		55,136.49
Center for Sponsored Coastal Ocean Research Coastal Ocean Program	11.478		48,819.80
Total, Department of Commerce			<u>2,018,140.42</u>
<u>Department of Defense</u>			
Direct Program:			
RFQ - Army Research Laboratory	12.000	W911QX-10-C-0003	6,807.88
Basic and Applied Scientific Research	12.300	N00014-11-1-0672	3,248.75
Basic and Applied Scientific Research	12.300	N00014-11-1-0712	61,365.61
Basic and Applied Scientific Research	12.300	N00014-12-1-0785	187,616.47
Military Medical Research and Development	12.420	W81XWH-09-1-0188	(447.25)
Military Medical Research and Development	12.420	W81XWH-10-1-0255	7,103.93
Military Medical Research and Development	12.420	W81XWH1120166	644,851.96
DOD, NDEP, DOTC-Stem Education Outreach Implementation	12.560	W913E5-13-C-0002	12,590.23
Air Force Defense Research Sciences Program	12.800	FA9550-11-1-0223	24,013.53
Mathematical Sciences Grants Program	12.901	H98230-12-1-0258, P0001	6,521.04
Pass Thru From:			
Leidos, Inc.			
Science Applications International Corporation Mentor Protege			
Program with Cambridge	12.000	P010111883	20,759.45
University of Texas-Austin			
Basic and Applied Scientific Research	12.300	UTA09-000726	62,188.76
Florida A&M University			
Military Medical Research and Development	12.420	FAMU PROJECT #003333 SUB C-3503	63,627.67

Texas A&M Research Foundation
Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2015

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Identifying Number	Total Pass-Through and Expenditure
University of Texas-HSC-San Antonio			
Military Medical Research and Development	12.420	127561 126994	84,566.96
Total, Department of Defense			1,184,814.99
<u>Department of Interior</u>			
Direct Program:			
Technical Science-Analytical Service	15.000	F12PC00007/F15PC00122	9,502.17
Pass Thru From:			
CSA International, Inc.			
Exploration and Research of Mid-Atlantic Deepwater Hard Bottom			
Habitats and Shipwrecks with Emphasis on Canyons and Coral	15.000	CSA JOB #2314	38,613.13
Total, Department of Interior			48,115.30
<u>Department of State</u>			
Direct Program:			
RDT&E of Vehicle Anti-Ram Barriers	19.000	S-DSASD-10-CA-201	33,222.69
General Department of State Assistance	19.700		750,730.67
Total, Department of State			783,953.36
<u>Department of Transportation</u>			
Direct Program:			
Transportation Planning, Research and Education	20.931		43,522.29
Pass Thru From:			
Battelle Memorial Institute			
UPA Evaluation	20.000	600112-15	129,790.35
Evaluation of Pedestrians Safety Engineering Countermeasures at			
Urban and Suburban Midblock Crossing Locations	20.000	601119-1	182,357.02
International Border Crossing Electronic Screening System for			
Trucks and Buses	20.000	US001-0000276212	(639.25)
Evaluation of Safety Treatments for Pedestrian Crossing: Pedestrian			
Hybrid Beacon, Rectangular Rapid Flashing Beacon	20.000	US001-601119-3	169,373.79
Iteris			
NHI Operations Courses (Iteris IDIQ)	20.000	22J09NHI (DOTFHWA6108D0036)	563.32
Leidos, Inc.			
Evaluation of Enhanced Treatments of Curve Signage on Rural Two-			
Lane Highways	20.000	P010052675 - R15	201.30
Highway Safety Visibility Program (HSVP) Outreach, Technical			
Assistance, and Rulemaking	20.000	P010052675 R6 T-11-002	22,832.27
Deployment of Detection-Control System (D-CS) Algorithm Into			
Different Signal Controller Platforms - for Independent Third	20.000	P010052675-R10	23,286.57
Rumble Strip Implementation on Two-Lane Two-Way Roads,			
Technical Support Assistance	20.000	P010052675-R13	19,431.15
Roadway Data Extraction Technical Assistance Program			
(RDETAP)(under SAIC BA 99-652)	20.000	P010052675-R14	48,751.97
Scale and Scope of Highway Safety Manual Implementation in the			
Project Development Process	20.000	P010052675-R18	34,762.68
Railway-Highway Crossing Action Plan and Project Prioritization			
Noteworthy-Practices	20.000	P010052675-R19	32,231.23
Roundabouts Peer-to-Peer Program	20.000	P010052675-R2, T-10-005	1,687.87
Traffic Signal Controller Logic Enhancements to Support Vehicle to			
Infrastructure (V2I) Safety	20.000	P010052675-R20	26,740.79
Evaluation of the Tapco Sequential Dynamic Curve Warning System	20.000	P010052675-R5, T-11-005	18,669.29
Technical Services Support - Guidance on Traffic Control Devices	20.000	P010052675-R9	23,921.21
NAS-National Cooperative Highway Res Pgm			
Quantifying the Influence of Geosynthetics on Pavement			
Performance	20.000	HR 01-50, TO 5, NAS 128	260,434.02
Testing of Cable Median Barrier in a Narrow Ditch	20.000	HR 22-14(004)	17,630.40
Properties of Foamed Asphalt for Warm Mix Asphalt Applications	20.000	HR9-53; NAS 138, TO 21	53,172.23
Placement of Traffic Barriers on Roadside and Median Slopes	20.000	NAS 128, NO 7 / HR22-22(002)	61,090.18
Guidelines for Slope Traversability	20.000	NAS 138 TO 19 / HR 17-55	248,744.31
Guidelines for Cost Effective Safety Treatments of Roadside Ditches	20.000	NAS 138 TO 01, HR 16-05	27,072.53

Texas A&M Research Foundation
Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2015

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Identifying Number	Total Pass-Through and Expenditure
Traffic Control Device Guidelines for Curves	20.000	NAS 138 TO22 HR 03 106 SUB0000078	38,993.15
Effective Project Scoping Practices to Improve On-Time and On-Budget Delivery of Highway Projects	20.000	NAS 138 TO23 HR 08-88	30,484.69
Work Zone Crash Characteristics and Countermeasure Guidance	20.000	NAS 138 TP24 HR 17-61	99,538.80
Long-Range Strategic Issues Affecting Preservation, Maintenance, and Renewal of Highway Infrastructure	20.000	NAS 138, TO 07, HR 20-83(003)	12,778.69
Guidelines for Nighttime Visibility of Overhead Guide Signs	20.000	NAS 138, TO#12, HR 05-20	101,775.78
Design Guidelines for TL-3 Through TL-5 Roadside Barrier Systems	20.000	NCHRP 22-20(002)	113,211.19
Placed on Mechanically Stabilized Earth (MSE) Retaining Walls	20.000	NCHRP 9-52	171,148.15
Short-Term Laboratory Conditioning of Asphalt Mixtures	20.000		
NAS-NRC			
Integrating MTS Commerce Data with Multimodal Freight	20.000	SUB0000020; NAS 138, TO 17	5,835.52
Transportation Performance Measures to Support MTS Maintenance			
Institute of Transportation Engineers			
Highway Research and Development Program	20.200	ITE-00-21.14 TASK 6	3,272.56
Leidos, Inc.			
Highway Research and Development Program	20.200	P010052675 - R17 / T-14-005	23,795.10
Minnesota Department of Transportation			
Highway Research and Development Program	20.200	99007, 1	(116.17)
Western Research Institute			
Highway Research and Development Program	20.200	TTI000	170,163.25
Rutgers University			
Public Transportation Research, Technical Assistance, and Training	20.514	4165 PO#S1418972 430264	12,620.19
Total, Department of Transportation			2,229,128.42
<u>National Aeronautics and Space Administration</u>			
Direct Program:			
Participation in GPM Intersatellite Calibration and Radar Enhanced			
Radiometer Algorithm Working Groups	43.000	NNX10AG79G	4,058.42
Measurements of Cloud Radiative Impact on the Climate Using			
Calipso, Cloudsat, and Other A-Train Sensors	43.000	NNX10AM27G	20,900.12
Midlevel Cloud Characterization Using A-Train Observations and			
the GISS GCM	43.000	NNX10AP06G	54,620.09
Science	43.001		484,583.06
Pass Thru From:			
California Institute of Technology			
Investigation of the Properties of Martian Atmospheric Dust and Its			
Effect on the Illumination of the Martian Surface	43.000	1242728	18,859.09
Spitzer-Hetdex Exploratory Large Area (SHELA) Survey	43.000	RAS 1439010	469.92
Lockheed Martin Space Operations			
Lockheed Martin Space Operations	43.000	4101005763/BBM004CH9	1,165,708.68
Malin Space Science Systems			
Atmospheric Imaging Investigation for the Mars Science Laboratory			
Imaging Science Team	43.000	11-0156 (NMO710846)	88,457.95
Space Telescope Science Institute			
Cosmic Assembly Near-IR Deep Extragalactic Survey (CANDELS) -			
I	43.000	HST-GO-12060.047-A	34,183.30
Super-Group 1120-1202: A Unique Laboratory for Tracing Galaxy			
Evolution in an Assembling Cluster	43.000	HST-GO-12470.01-A	13,168.99
Galaxy Assembly at High Densities: HST Dissection of a Cluster	43.000	HST-GO-12590.001-A	21,865.65
Total, Department of National Aeronautics and Space Administration			1,906,875.27
<u>National Science Foundation</u>			
Direct Program:			
Engineering Grants	47.041		174,830.09
Mathematical and Physical Sciences	47.049		1,399,951.37
Geosciences	47.050		53,398,308.73
Computer and Information Science and Engineering	47.070		42,335.54
Biological Sciences	47.074		1,280,801.85
Social, Behavioral, and Economic Sciences	47.075		104,426.22

Texas A&M Research Foundation
Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2015

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Identifying Number	Total Pass-Through and Expenditure
Education and Human Resources	47.076		697,949.36
Office of Cyberinfrastructure	47.080		219,908.28
Trans-NSF Recovery Act Research Support-RECOVERY	47.082		147.28
Pass Thru From:			
Princeton University			
Engineering Grants	47.041	00001214	86,117.12
Case Western Reserve			
Mathematical and Physical Sciences	47.049	RES504475;114064 (PHY-0919261)	5,704.49
Rice University			
Mathematical and Physical Sciences	47.049	R3C75E	40,377.68
Consortium for Ocean Leadership, Inc			
Geosciences	47.050	JSC 4-02	4,700,296.11
Geosciences	47.050	T339A13	162.70
Geosciences	47.050	T341A13	4,174.05
Geosciences	47.050	T343A13	5,359.58
Geosciences	47.050	T346A13	1,440.54
Geosciences	47.050	T347A13	9,907.13
Geosciences	47.050	T350A13	7,968.61
Regents of the University of California			
Geosciences	47.050	20091128101	174,823.88
Regents of the University of California			
Biological Sciences	47.074	S-000500 (EF-1115144)	80,050.95
Colorado State University			
Social, Behavioral, and Economic Sciences	47.075	G-3003-1	75,140.18
Total, National Science Foundation			62,510,181.74
<u>Environmental Protection Agency</u>			
Direct Program:			
Gulf of Mexico Program	66.475		13,158.86
Pass Thru From:			
Texas State University			
Science to Achieve Results (STAR) Research Program	66.509	8000001508.1A	2,565.36
Total, Environmental Protection Agency			15,724.22
<u>Department of Energy</u>			
Direct Program:			
Office of Science Financial Assistance Program-RECOVERY	81.049		110,142.72
Office of Science Financial Assistance Program	81.049		1,061,159.60
Pass Thru From:			
Louisiana State University			
Office of Science Financial Assistance Program	81.049	41922	87,977.45
Michigan State University			
Office of Science Financial Assistance Program	81.049	61-3242 TAM	3,279.90
University of California-Berkeley			
Office of Science Financial Assistance Program	81.049	00006785 (DE-SCOOO1015)	5,040.42
Total, Department of Energy			1,267,600.09
<u>Department of Education</u>			
Direct Program:			
Fund for the Improvement of Postsecondary Education	84.116		3,677.92
Education Research, Development and Dissemination	84.305		176,091.93
School Leadership	84.363		377,852.11
Total, Department of Education			557,621.96

Texas A&M Research Foundation
Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2015

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Identifying Number	Total Pass-Through and Expenditure
<u>Department of Health and Human Services</u>			
Direct Program:			
Public Health Emergency Preparedness	93.069		310,376.25
Environmental Health	93.113		28,658.08
Centers for Research and Demonstration for Health Promotion	93.135		466,064.84
Mental Health Research Grants	93.242		3,442.54
Alcohol Research Programs	93.273		22,518.05
Drug Abuse and Addiction Research Programs	93.279		162,338.71
Minority Health and Health Disparities Research	93.307		44,903.65
National Center for Research Resources	93.389		327,794.55
Cancer Cause and Prevention Research	93.393		546,088.65
Cancer Treatment Research	93.395		201,148.82
Cancer Biology Research	93.396		302,798.19
Health Information Technology Regional Extension Centers Program-			
RECOVERY	93.718		1,024,638.81
Cardiovascular Diseases Research	93.837		111,991.60
Extramural Research Programs in the Neurosciences and			
Neurological Disorders	93.853		702,807.00
Allergy and Infectious Diseases Research	93.855		2,656,713.81
Biomedical Research and Research Training	93.859		2,899,054.04
Child Health and Human Development Extramural Research	93.865		87,538.78
Aging Research	93.866		46,569.09
Grants for Primary Care Training and Enhancement	93.884		116,645.68
Pass Thru From:			
University of Texas-Arlington			
Oral Diseases and Disorders Research	93.121	26-1601-6162	280.60
University of Texas - Health Sci-Houston			
Public Health Training Centers Program	93.249	0007939A	2,214.00
University of Washington			
Cardiovascular Diseases Research	93.837	725280	(7,996.83)
Washington University, St. Louis			
Cardiovascular Diseases Research	93.837	PO NO.2911033P, WU-11-71	981,277.94
Dartmouth College			
Biomedical Research and Research Training	93.859	1278	3,801.46
Biomedical Research and Research Training	93.859	1279	30,786.79
University of Illinois			
Biomedical Research and Research Training	93.859	2009-01303-02	101,018.10
University of Texas-San Antonio			
PHFP Geriatric Education Centers	93.969	15169/156490	26,767.03
Total, Department of Health and Human Services			<u>11,200,240.23</u>
<u>Department of Homeland Security</u>			
Direct Program:			
Development of Multi-Component Vaccines for African Swine Fever	97.000	HSHQDC-11-C-00116	31,227.40
Total, Department of Homeland Security			<u>31,227.40</u>
Total, Federal Awards Expended			<u>\$ 89,056,616.60</u>

Texas A&M Research Foundation
Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2015

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Identifying Number	Total Pass- Through and Expenditure
<i>State of Texas Research and Development Cluster</i>			
Cancer Prevention Research Institute of Texas		RP100203	(395.97)
Cancer Prevention Research Institute of Texas		RP110036	(300.69)
Cancer Prevention Research Institute of Texas		RP110555	39,622.97
Total, State of Texas Awards Expended			<u>\$ 38,926.31</u>
Total, Federal and State of Texas Awards Expended			<u>\$ 89,095,542.91</u>

Summary of American Recovery and Reinvestment Act (ARRA) Funding included above:

National Science Foundation	\$ 147.28
U.S. Department Health and Human Services	1,024,638.81
U.S. Department of Energy	110,142.72
	<u>\$ 1,134,928.81</u>

Texas A&M Research Foundation
Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2015

Subrecipients	CFDA Number	Total Pass- Through and Expenditure
Federal Grantor/Pass Through Grantor Program Title		
U.S. Department of Agriculture		
Grants for Agricultural Research, Special Research Grants	10.200	\$ 1,040.59
Higher Education - Graduate Fellowships Grant Program	10.210	12,249.40
Integrated Programs	10.303	64,719.89
Specialty Crop Research Initiative	10.309	729,653.85
Agriculture and Food Research Initiative (AFRI)	10.310	1,443,772.48
Totals - U.S. Department of Agriculture		<u>2,251,436.21</u>
U.S. Department of Commerce		
Integrated Ocean Observing System (IOOS)	11.012	855,392.28
Totals - U.S. Department of Commerce		<u>855,392.28</u>
U.S. Department of Defense		
Basic and Applied Scientific Research	12.300	82,878.39
Military Medical Research and Development	12.420	141,444.47
Totals - U.S. Department of Defense		<u>224,322.86</u>
U.S. Department of Transportation		
Effective Project Scoping Practices to Improve On-Time and On-Budget Delivery of Highway Projects	20.000	12,668.50
Evaluation of Pedestrians Safety Engineering Countermeasures at Urban and Suburban Midblock Crossing Locations	20.000	140,778.00
Guidelines for Cost Effective Safety Treatments of Roadside Ditches	20.000	15,011.00
Guidelines for Nighttime Visibility of Overhead Guide Signs	20.000	23,838.00
Long-Range Strategic Issues Affecting Preservation, Maintenance, and Renewal of Highway Infrastructure	20.000	3,311.77
Properties of Foamed Asphalt for Warm Mix Asphalt Applications	20.000	49,672.80
Quantifying the Influence of Geosynthetics on Pavement	20.000	79,578.68
Short-Term Laboratory Conditioning of Asphalt Mixtures	20.000	44,192.92
Testing of Cable Median Barrier in a Narrow Ditch	20.000	7,111.93
Traffic Control Device Guidelines for Curves	20.000	36,335.53
Work Zone Crash Characteristics and Countermeasure Guidance	20.000	79,635.47
Highway Research And Development Program	20.200	93,629.50
Totals - U.S. Department of Transportation		<u>585,764.10</u>
National Aeronautics and Space Administration		
Lockheed Martin Space Operations	43.000	1,002,331.36
Science	43.001	46,807.88
Totals - National Aeronautics and Space Administration		<u>1,049,139.24</u>
National Science Foundation		
Biological Sciences	47.074	114,661.50
Totals - National Science Foundation		<u>114,661.50</u>
U.S. Department of Energy		
Office of Science Financial Assistance Program	81.049	34,605.17
Totals - U.S. Department of Energy		<u>34,605.17</u>
U.S. Department of Education		
Education Research, Development and Dissemination	84.305	81,775.17
School Leadership	84.363	168,874.69
Totals - U.S. Department of Education		<u>250,649.86</u>
U.S. Department of Health and Human Services		
Public Health Emergency Preparedness	93.069	28,785.96
Centers for Research and Demonstration for Health Promotion	93.135	35,153.71
Mental Health Research Grants	93.242	364.36
Minority Health and Health Disparities Research	93.307	20,432.47
Allergy and Infectious Diseases Research	93.855	1,038,166.65
Biomedical Research and Research Training	93.859	777,362.11
Totals - U.S. Department of Health and Human Services		<u>1,900,265.26</u>
Total Amount Provided to Subrecipients		<u>\$ 7,266,236.48</u>

**TEXAS A&M RESEARCH FOUNDATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL
AND STATE AWARDS
FOR THE YEAR ENDED AUGUST 31, 2015**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General – The accompanying schedule of expenditures of federal and state awards presents all federal and state expenditures of the Texas A&M Research Foundation (the “Foundation”).

Basis of Accounting – The expenditures on the accompanying schedule of expenditures of federal and state awards are presented using the cash basis of accounting. Under the cash basis method of accounting, revenue and expense are recorded in the books of account when received and paid, respectively, without regard to the period to which they apply.

Relationship to Financial Statements – Expenditures of federal and state awards are reported in the Foundation’s financial statements on the accrual basis. Following is a reconciliation between the financial statements and the Schedule of Expenditures of Federal and State Awards as of August 31, 2015.

Sponsored research expense in Statement of Activities, August 31, 2015	\$101,724,261.06
Non-federal/non State of Texas expenditures	(11,917,834.09)
Research equipment purchased and capitalized during the year	406,522.76
Work in progress additions	192,691.35
Other	<u>(1,310,098.17)</u>
Total Expenditures per Schedule of Expenditures of Federal and State Awards, August 31, 2015	<u>\$89,095,542.91</u>

Relationship to Federal and State Financial Reports – Amounts reported in the accompanying schedule of expenditures of federal and state awards agree with the amounts reported in the related federal and state financial reports in all significant respects.

**TEXAS A&M RESEARCH FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2015**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: *unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X reported
none
- Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal program:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X reported
none

Type of auditors’ report issued on compliance for major federal program: *unmodified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes X no

Identification of major federal program:

N/A	Research and Development Cluster
CFDA Number(s)	Name of Federal Program or Cluster

Dollar threshold used to distinguish between Federal type A and Federal type B programs: n/a – only R&D

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no Federal award findings and questioned costs which are required to be reported in accordance with Section 510(a) of Circular A-133.

**TEXAS A&M RESEARCH FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2015
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

FINANCIAL STATEMENT FINDINGS

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

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2014-001 Noncompliance with FFATA Reporting Requirements

CFDA No: 11.012

Program Title: Integrated Ocean Observing System

Agency: Department of Commerce - NOAA

Federal Award No: NA11NOS0120024

Federal Award Year: 6/1/11-5/31/16

Subaward: S140203 – Mote Marine Laboratory

S140223 – University of Southern Mississippi

Criteria: The OMB Circular A-133 Compliance Supplement requires that all subawards greater than or equal to \$25,000 and signed after 10/1/10 be reported on FSRS.gov.

Condition: The reporting on FSRS.gov must be done no later than the last day of the month following the month in which the subaward was made.

Questioned Costs: This finding did not result in any questioned costs.

Context: It was noted that subaward agreements S140203 in the amount of \$25,000 and S140223 in the amount of \$89,488 were not reported on FSRS.gov. We inquired of staff regarding these reports and they confirmed that the subawards were not reported on a timely basis. The subawards were reported on FSRS.gov on 9/30/14.

Effect: The overall effect is that these subawards were not reported on FSRS.gov in accordance with A-133 Compliance Supplement reporting deadlines.

Cause: The subaward agreements were not adequately reviewed to ensure reporting requirements were filled out correctly on the agreements and to ensure that the reporting was completed.

Recommendation: We recommend that an employee be designated to review the reporting requirements noted on subaward agreements to ensure that they are filled out correctly and to ensure that all the reporting is done in a timely manner.

Response & Planned Corrective Action: Management has implemented a procedure where the Intermediate Accountant reviews all subawards for reporting requirements, completion, and documentation of the reports in a timely manner.

Status: As noted above, the subawards in question were later reported on FSRS.gov. The requirement to test for FFATA reporting has been removed from the 2015 Compliance Supplement.

2014-002 Cost Share Tracking and Reporting

CFDA No: 20.200

Program Title: Highway Research and Development Program

Agency: Department of Transportation – Federal Highway Administration

Pass-through Entity: Western Research Institute

Subaward No.: TTI000

Federal Award No.: 2010-51181-21064 (prime)

Federal Award Year: 12/26/06-12/31/14

Criteria: Per the terms of the subcontract agreement, the subcontract includes a minimum 20 percent matching contribution to the total costs invoiced on the subcontract. The most recent modification to the subcontract signed October 20, 2014, included a cost share requirement of \$2,269,112. Cost share is to be reported to Western Research Institute quarterly.

Condition: The duties for tracking cost share are tasked with the cost share group of the organization. On this project they were responsible for tracking all cost share, including that reported to them by subrecipients.

Questioned Costs: This finding did not result in any questioned costs. Staff has recorded corrections.

Context: During the review of the activity in the cost share tracking system for this award, it was noted that amounts recorded as cost share by the staff member were actually the amounts of the direct expenditures reported on the subrecipients' invoice rather than the amount that each subrecipient was reporting as cost share on the invoice. In addition, there were instances of not reviewing an invoice to determine if cost share had been reported by the subrecipient.

Effect: This resulted in the cost share for the period 9/1/13-8/31/14 being overstated by approximately \$182,000 and quarterly reports being submitted to Western Research Institute in error.

Cause: The staff member assigned to this project was not adequately trained in the tasks he was expected to do nor was there any evidence of review of his work by a senior staff member.

Recommendation: We recommend that the cost share group provide adequate training of its staff members and ensure that the work of each individual is reviewed. Staff also needs to file a corrected report with Western Research Institute prior to the end of the period of performance.

Response & Planned Corrective Action: Management is reviewing ongoing projects to verify that the entries made by the part time staff member were accurate. Additionally, all projects have been reassigned to a full time member of the cost share monitoring group for monitoring and reporting. Full time staff members are provided initial training by a mentor and have their work reviewed for up to six months. Continuing education training is also provided to full time staff members at regularly scheduled training sessions each month. The report for Western Research Institute will be corrected and resubmitted prior to the end date of the project.

Status: As noted in management's corrective action plan, the report for Western Research Institute was to be corrected and resubmitted prior to the end date of the project. The period of performance ended June 30, 2015. The final cost share report was submitted July 28, 2015. Upon further review, it was noted that the corrections had not been accounted for in the final cost share report submitted. Following our discussions, cost share staff agreed that the corrections had not been submitted to the sponsor. The report was corrected and resubmitted to Western Research Institute in October 2015. The sponsor will now be submitting a revised financial report to the Federal Highway Administration (FHWA). Project is closed. No further reports are to be submitted.