TEXAS A&M RESEARCH FOUNDATION

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INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

SUPPLEMENTAL INFORMATION

AND

COMPLIANCE REPORTS

AUGUST 31, 2017 AND 2016

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, 2017 and 2016, 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.

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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, 2017 and 2016, 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 accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 December 6, 2017, 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
December 6, 2017

Ingram, Wallis & Company

TEXAS A&M RESEARCH FOUNDATION
Statements of Financial Position
August 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	$ 8,560,594.14	$ 9,918,096.02
Accounts and interest receivable, net	669,984.23	1,044,314.11
Due from A&M University, et. al.		
Accounts Receivable	161,281.12	220,588.51
Unbilled receivable on research contracts in progress	1,957,514.65	1,956,167.06
Inventories and prepaid expenses	119,861.63	61,953.88
Work in progress - equipment	-	461,070.00
Office and technical equipment	28,620,292.80	29,714,019.31
Software	5,000.00	5,000.00
Buildings and land	2,185,286.20	2,185,286.20
Less accumulated amortization and depreciation	(23,954,816.29)	(24,347,596.77)
Investment in mutual funds	72,084.03	69,295.37
Investment in corporate stock	235,680.00	299,904.00
Total assets	$ 18,632,762.51	$ 21,588,097.69
Liabilities and Net Assets		
Accounts payable	$ 1,352,540.79	$ 1,205,925.26
Accrued liabilities	750,000.00	328.90
Deferred revenues	393,699.52	1,441,407.78
Due to A&M University, et.al.		
Accounts payable	18,301.40	57,807.60
Salary and wages	1,784,144.22	2,394,049.93
Indirect costs	1,428,474.41	1,964,561.86
Total liabilities	5,727,160.34	7,064,081.33
Net Assets		
Unrestricted	12,597,838.14	14,154,816.99
Temporarily restricted	2,912.29	3,984.78
Permanently restricted	304,851.74	365,214.59
Total net assets	12,905,602.17	14,524,016.36
Total liabilities and net assets	$ 18,632,762.51	$ 21,588,097.69

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, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Revenues and Gains		
Revenue for sponsored research	$ 77,447,957.00	$ 84,254,480.92
Investment income	195,410.69	180,092.08
Unrealized gain (loss) on investment	547,023.45	167,579.08
Assets released from restrictions	3,326.00	3,837.00
Total Revenues and Gains	78,193,717.14	84,605,989.08
Supporting services	1,341,708.57	1,483,973.60
Sponsored research expense	76,013,448.93	82,816,815.53
Contributions	3,326.00	3,837.00
Disposition of equipment	67,813.17	437,184.06
Depreciation and amortization expense	2,324,399.32	3,199,526.26
Total Expenses	79,750,695.99	87,941,336.45
Change in unrestricted net assets	(1,556,978.85)	(3,335,347.37)
Temporarily Restricted Net Assets		
Investment income	2,253.51	3,441.68
Assets released from restrictions	(3,326.00)	(3,837.00)
Change in temporarily restricted net assets	(1,072.49)	(395.32)
Permanently Restricted Net Assets		
Donation	-	5,956.00
Unrealized gain (loss) on investments	(60,362.85)	62,123.58
Change in permanently restricted net assets	(60,362.85)	68,079.58
Change in net assets	(1,618,414.19)	(3,267,663.11)
Net assets at beginning of year	14,524,016.36	17,791,679.47
Net assets at end of year	$ 12,905,602.17	$ 14,524,016.36

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, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ (1,618,414.19)	$ (3,267,663.11)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Disposition of equipment	67,813.17	437,184.06
Unrealized (gain)/loss on mutual funds	(3,861.15)	(491.58)
Unrealized (gain)/loss on investment in corporate stock	64,224.00	(61,632.00)
Depreciation	2,324,399.32	3,199,526.26
Change in operating assets and liabilities:		
Accounts and interest receivable	433,637.27	1,506,867.88
Unbilled receivable on research accounts	(1,347.59)	1,579,373.96
Inventories and prepaid expenses	(57,907.75)	41,300.04
Deferred revenue	(1,047,708.26)	461,454.01
Accounts payable	146,615.53	(5,774.84)
Accrued liabilities	749,671.10	328.90
Due to TAMUS	(1,185,499.36)	(2,213,875.86)
Accrued vacation	-	(88,747.90)
Net cash provided (used) by operating activities	(128,377.91)	1,587,849.82
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(1,230,196.46)	(1,003,488.03)
Purchase of mutual funds	(2,253.51)	(9,397.68)
Proceeds from sale of mutual funds	3,326.00	3,837.00
Net cash used by investing activities	(1,229,123.97)	(1,009,048.71)
Net increase (decrease) in cash and cash equivalents	(1,357,501.88)	578,801.11
Cash and cash equivalents at beginning of year	9,918,096.02	9,339,294.91
Cash and cash equivalents at end of year	$ 8,560,594.14	$ 9,918,096.02

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

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED:

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

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.

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, 2017:

	Carrying Amount	Unrestricted Investment Return	Temporarily Restricted Investment Return	Permanently Restricted Investment Return
Unrestricted:				
Cash Concentration Pool	$7,816,209.90			
Investment income		$182,270.57		
Unrealized gain (loss)		547,023.45		
Wells Fargo InvestAccount	718,627.69			
Merrill Lynch Governmental Fund	46,925.95	4,012.04		
Producers Cooperative		8.08		
Temporarily Restricted:				
Tina and Paul Gardner				
Reveille VII Research Fund	2,912.29			
Investment income			$2,253.51	
Permanently Restricted:				
9600 Shares of General				
Electric Common Stock	235,680.00	9,120.00		
Unrealized gain (loss)				($64,224.00)
Tina and Paul Gardner				
Reveille VII Research Fund	69,171.74			
Unrealized gain (loss)				3,861.15

NOTE 2 – CASH AND INVESTMENTS – CONTINUED:

The Foundation had the following cash equivalents and investments as of August 31, 2016:

	Carrying Amount	Unrestricted Investment Return	Temporarily Restricted Investment Return	Permanently Restricted Investment Return
Unrestricted:				
Cash Concentration Pool	$8,206,626.13			
Investment income		$168,590.97		
Unrealized gain (loss)		167,579.08		
Wells Fargo InvestAccount	1,613,385.63			
Merrill Lynch Governmental Fund	192,913.31	2,669.11		
Producers Cooperative		20.00		
Temporarily Restricted:				
Tina and Paul Gardner				
Reveille VII Research Fund	3,984.78			
Investment income			$3,441.68	
Permanently Restricted:				
9600 Shares of General				
Electric Common Stock	299,904.00	8,832.00		
Unrealized gain (loss)				$61,632.00
Tina and Paul Gardner				
Reveille VII Research Fund	65,310.59			
Unrealized gain (loss)				491.58

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:

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, 2017 and 2016.

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.

NOTE 3 – FAIR VALUE MEASUREMENTS -CONTINUED:

The Foundation had the following assets at fair value as of August 31, 2017:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income funds	$ 24,858.98	$ -	$ -	$ 24,858.98
Equities	44,407.89	-	-	44,407.89
Other funds	2,817.16	-	-	2,817.16
Total mutual funds	72,084.03	-	-	72,084.03
Common stocks:				
General Electric	235,680.00	-	-	235,680.00
Total assets at fair value	$ 307,764.03	$ -	$ -	$ 307,764.03

The Foundation had the following assets at fair value as of August 31, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Fixed income funds	$ 20,662.59	$ -	$ -	$ 20,662.59
Equities	42,426.89	-	-	42,426.89
Other funds	6,205.89	-	-	6,205.89
Total mutual funds	69,295.37	-	-	69,295.37
Common stocks:				
General Electric	299,904.00	-	-	299,904.00
Total assets at fair value	$ 369,199.37	$ -	$ -	$ 369,199.37

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.

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, 2017:

	Accounts Receivable	Accounts Payable	Receipts	Disbursements
Texas A&M System Administrative and General Offices	$ -	$ -	$ -	$ 167,111.00
Texas A&M University	159,813.39	2,809,230.01	426,052.44	15,470,426.54
Tarleton State University	-	-	-	-
Prairie View A&M University	-	32,472.61	-	153,492.62
Texas AgriLife Research	-	327,227.17	-	2,846,150.16
Texas AgriLife Extension Service	-	-	-	-
Texas A&M Engineering Experiment Station	1,467.73	-	359.74	50,386.13
Texas A&M Engineering Extension Service	-	-	-	-
Texas A&M University at Galveston	-	-	-	82,565.84
Texas Forest Service	-	-	-	-
Texas Transportation Institute	-	49,951.81	-	1,463,490.13
Texas A&M University at Corpus Christi	-	-	-	21,580.82 -
Texas A&M International University	-	-	-	-
Texas A&M University at Kingsville	-	-	-	-
West Texas A&M University	-	-	-	-
Texas Veterinary Medical Diagnostic Laboratory	-	-	-	- -
Texas A&M University at Commerce	-	-	-	-
Texas A&M University at Texarkana	-	-	-	-
Texas A&M University Health Science Center	-	12,038.43	-	437,420.78
	$ 161,281.12	$ 3,230,920.03	$ 426,412.18	$20,692,624.02

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, 2016:

	Accounts Receivable	Accounts Payable	Receipts	Disbursements
Texas A&M System Administrative and General Offices	$ 3,990.24	$ 3,990.24	$ 340,083.79	$ 161,826.14
Texas A&M University	216,238.53	3,415,263.69	571,938.98	18,032,308.06
Tarleton State University	-	-	-	4,213.32
Prairie View A&M University	-	36,919.88	-	188,163.38
Texas AgriLife Research	-	547,518.57	245.68	4,747,237.25
Texas AgriLife Extension Service	-	-	-	16,302.82
Texas A&M Engineering Experiment Station	359.74	4,233.36	18,620.03	173,730.72
Texas A&M Engineering Extension Service	-	-	-	20,500.00
Texas A&M University at Galveston	-	50,940.36	-	130,460.30
Texas Forest Service	-	-	-	-
Texas Transportation Institute	-	239,961.83	531.50	1,651,081.36
Texas A&M University at Corpus Christi	-	4,242.33	-	179,590.18
Texas A&M International University	-	-	-	-
Texas A&M University at Kingsville	-	-	-	-
West Texas A&M University	-	-	-	-
Texas Veterinary Medical Diagnostic Laboratory	-	-	-	-
Texas A&M University at Commerce	-	-	-	-
Texas A&M University at Texarkana	-	-	-	-
Texas A&M University Health Science Center	-	113,349.13	-	1,406,416.57
	$ 220,588.51	$ 4,416,419.39	$ 931,419.98	$26,711,830.10

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, 2017, the Foundation had $748,726.25 ($1,090,626.66 in 2016) 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, 2017 were $60.8 million. 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.

NOTE 8 – 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

NOTE 8 – FEDERAL INCOME TAXES - CONTINUED:

organization; therefore, no provision or liability for federal income taxes has been included in the financial statements.

oThe 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 2014 – 2016 remain subject to examination by the United States Internal Revenue Service.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The Foundation has evaluated subsequent events through December 6, 2017, the date which the financial statements were available to be issued.

CID No. CID-14-D-016

Since the issuance of the prior fiscal year financial statements, the Foundation has been contacted by the Assistant U.S. Attorney ("AUSA") about the results of an examination related to CID No. CID-14-D-016 (the "CID") issued by the AUSA to the Foundation which covered ten (10) years of activity on federally sponsored projects awarded to the Foundation and involved over sixty (60) million dollars of expenditures. The focus of the CID was the propriety of certain expenditures charged to these sponsored projects. The Foundation engaged in extensive discussions with the AUSA to resolve all issues raised in the CID. On October 23, 2017, the Texas A&M Research Foundation sent a letter to the AUSA offering to settle this matter in return for a payment of $750,000 and upon the U.S. Government agreeing to certain additional terms described in such letter. As of December 6, 2017, the Foundation has not received a formal response of settlement from the AUSA. At August 31, 2017, the Foundation has accrued a liability of $750,000 associated with this examination.

Sale of the 8.9 Acre Parcel of Land

One September 29, 2017, the Research Foundation and 777 Graham Road, LLC closed the sale of the unimproved 8.9 acre parcel of land located on Graham Road, College Station, Texas. The net proceeds of the sale, in the amount of $979,914, were received by the Research Foundation on October 1, 2017. Under the terms of a letter agreement between the Research Foundation and Texas A&M University, the proceeds of the sale of this parcel are to be distributed as follows: one-third to the Research Foundation and two-thirds to Texas A&M University. Given the passage of time and perhaps changed circumstances, the Research Foundation board of directors will be re-visiting this issue at its next board meeting to determine whether the distribution of these net proceeds should be modified.

NOTE 10 – 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 in 2011. The remaining 16 employees were designated as "near retirement" and remained Foundation employees. As of August 31, 2016, the remaining employees retired. As of September 1, 2016, the Foundation has no employees.

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. Research expenditures on the Foundation books have continued to decrease as new awards are set up on the System member books. In fiscal year 2017, approximately 43 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.

NOTE 11 – OPERATING LEASES:

The Foundation leases various pieces of document reproduction, postage meter and forklift equipment with monthly payments totaling $1,317.58 and leases expiring September 2019.

NOTE 11 – OPERATING LEASES - CONTINUED:

The following is a combined schedule of minimum future lease payments required under these leases:

2018	$15,810.96
2019	6,140.23
2020	195.15
2021	-
2022	-
	$22,146.34

Rent expense for the year ended August 31, 2017 and 2016, amounted to $17,762.20 and $16,578.09 respectively.

NOTE 12 – ENDOWMENT:

Endowment refers to the resources restricted by the donor for investment to provide future revenue to support the Foundation activities.

The following is a statement of the endowment activity for the year ended August 31, 2017:

	Temporarily Restricted Tina and Paul Gardner Reveille VII Research Fund	Permanently Restricted Tina and Paul Gardner Reveille VII Research Fund	Permanently Restricted William B. Clayton Memorial	Total
Investment income	$ 2,253.51	$ -	$ -	$ 2,253.51
Unrealized gain/(loss) on investments	-	3,861.15	(64,224.00)	(60,362.85)
Assets released from restriction	(3,326.00)	-	-	(3,326.00)
Total revenue	(1,072.49)	3,861.15	(64,224.00)	(61,435.34)
Net assets at beginning of year	3,984.78	65,310.59	299,904.00	369,199.37
Net assets at end of year	$ 2,912.29	$ 69,171.74	$ 235,680.00	$ 307,764.03

NOTE 12 - ENDOWMENT – CONTINUED:

The following is a statement of the endowment activity for the year ended August 31, 2016:

	Temporarily Restricted Tina and Paul Gardner Reveille VII Research Fund	Permanently Restricted Tina and Paul Gardner Reveille VII Research Fund	Permanently Restricted William B. Clayton Memorial	Total
Donations	$ -	$ 5,956.00	$ -	$ 5,956.00
Investment income	3,441.68	-	-	3,441.68
Unrealized gain/(loss) on investments	-	491.58	61,632.00	62,123.58
Assets released from restriction	(3,837.00)	-	-	(3,837.00)
Total revenue	(395.32)	6,447.58	61,632.00	67,684.26
Net assets at beginning of year	4,380.10	58,863.01	238,272.00	301,515.11
Net assets at end of year	$ 3,984.78	$ 65,310.59	$ 299,904.00	$ 369,199.37

NOTE 13 – RESTATEMENT OF NET ASSETS:

Net assets as of September 1, 2015, have been restated for a prior period adjustment of $1,479,633.42 that was made to reverse deferred revenue that was improperly reported in a prior year.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, September 1, 2015, as originally reported	$ 16,010,530.94	$ 4,380.10	$297,135.01	16,312,046.05
Adjustment	1,479,633.42	-	-	1,479,633.42
Net assets, September 1, 2015, as restated	$ 17,490,164.36	$ 4,380.10	$297,135.01	$ 17,791,679.47

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, 2017, 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 December 6, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weakness.

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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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2017-002.

Foundation's Response to Finding

The Foundation's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
December 6, 2017

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 THE UNIFORM GUIDANCE

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 Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended August 31, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

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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 the Uniform Guidance, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-002 that we consider to be a significant deficiency.

The Foundation's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Foundation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Ingram, Wallis & Company

Bryan, Texas
December 6, 2017

Texas A&M Research Foundation
Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2017

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Identifying Number	Total Pass-Through and Expenditure
Highway and Planning Construction Cluster			
Department of Transportation			
Pass Thru From:			
Arizona Department of Transportation			
Highway Planning and Construction	20.205	TASK MPD0025-15\ ADOT11-003006:3	53,585.85
Highway Planning and Construction	20.205	ADOT11-003006; TA# MPD0066-16 SPR752	76,604.93
Total, Department of Transportation			130,190.78
Total, Highway and Planning Construction Cluster			130,190.78
Research and Development Cluster			
Department of Agriculture			
Direct Program:			
Agriculture and Food Research Initiative (AFRI)	10.310		2,305,744.46
Pass Thru From:			
University of Delaware			
Agriculture and Food Research Initiative (AFRI)	10.310	25606 (PRIME 2011-67003-30342)	1,303.91
University of Florida-Gainesville			
Agriculture and Food Research Initiative (AFRI)	10.310	UF11099 (USDA PRIME# 2011-68002-30185)	155,701.70
University of Georgia			
Agriculture and Food Research Initiative (AFRI)	10.310	RD317100/4784286 (2011-68003-30012)	38,433.85
Total, Department of Agriculture			2,501,183.92
Department of Commerce			
Direct Program:			
Integrated Ocean Observing System (IOOS)	11.012		455,817.43
Applied Meteorological Research	11.468		45,784.50
Total, Department of Commerce			501,601.93
Department of Defense			
Direct Program:			
Military Medical Research and Development	12.420	W81XWH1120166	46,040.43
Total, Department of Defense			46,040.43
Department of Interior			
Direct Program:			
Technical Science-Analytical Service	15.000	F12PC00007/F15PC00122	11,886.19
Total, Department of the Interior			11,886.19
Department of State			
Direct Program:			
General Department of State Assistance	19.700		326,582.66
Total, Department of State			326,582.66
Department of Transportation			
Pass Thru From:			
Battelle Memorial Institute			
Evaluation of Safety Treatments for Pedestrian Crossing: Pedestrian Hybrid Beacon, Rectangular Rapid Flashing Beacon	20.000	US001-601119-3	(34.58)
Leidos, Inc.			
Highway Safety Visibility Program (HSVP) Outreach, Technical Assistance, and Rulemaking	20.000	P010052675 R6 T-11-002	8,550.00
Roadway Data Extraction Technical Assistance Program (RDETAP) (under SAIC BA 99-652)	20.000	P010052675-R14	60,275.89
Scale and Scope of Highway Safety Manual Implementation in the Project Development Process	20.000	P010052675-R18	4,463.30
Traffic Signal Controller Logic Enhancements to Support Vehicle to Infrastructure (V2I) Safety	20.000	P010052675-R20	93,574.50

xx.000 indicates CFDA number is unavailable

Texas A&M Research Foundation
Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2017

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Identifying Number	Total Pass-Through and Expenditure
Guidance on Traffic Control Devices	20.000	TASK 5012/P010052675-R22	10,324.43
NAS-National Cooperative Highway Research Program			
Quantifying the Influence of Geosynthetics on Pavement Performance Basic Agreement 99-558	20.000	HR 01-50, TO 5, NAS 128	352.73
Guidelines for Slope Traversability	20.000	NAS 138 TO 19 / HR 17-55	10,372.34
Work Zone Crash Characteristics and Countermeasure Guidance	20.000	NAS 138 TP24 HR 17-61	113,339.53
Leidos, Inc.			
Highway Research and Development Program	20.200	P010052675-R10	23,733.74
Highway Research and Development Program	20.200	P010052675 - R17 / T-14-005	54,124.44
Total, Department of Transportation			379,076.32
National Aeronautics and Space Administration			
Direct Program:			
Science	43.001		496.50
Pass Thru From:			
California Institute of Technology			
Understanding the Vertical Distribution of Water Vapor at the Phoenix Landing Site	43.000	1422184	23,186.23
Lockheed Martin Space Operations			
Lockheed Martin Space Operations	43.000	4101005763/BBM004CH9	924,885.99
Malin Space Science Systems			
Atmospheric Imaging Investigation for the Mars Science Laboratory Imaging Science Team	43.000	11-0156 (NMO710846)	131,903.68
Space Telescope Science Institute			
Super-Group 1120-1202: A Unique Laboratory for Tracing Galaxy Evolution in an Assembling Cluster at Z=0.37	43.000	HST-GO-12470.01-A	2,235.58
Total, National Aeronautics and Space Administration			1,082,707.98
National Science Foundation			
Direct Program:			
Mathematical and Physical Sciences	47.049		327,071.31
Geosciences	47.050		60,992,744.49
Biological Sciences	47.074		198,185.69
Education and Human Resources	47.076		38,996.61
Office of Cyberinfrastructure	47.080		164,400.86
Total, National Science Foundation			61,721,398.96
Department of Energy			
Direct Program:			
Office of Science Financial Assistance Program	81.049		469.62
Total, Department of Energy			469.62
Department of Health and Human Services			
Direct Program:			
Combination Drug Testing for New TB Regimens	93.000	HHSN2722010000241/HHSN272001 A73	207,724.85
Training in General, Pediatric, and Public Health Dentistry	93.059		214,347.75
Cancer Cause and Prevention Research	93.393		85,252.92
Cancer Treatment Research	93.395		7,145.20
Cancer Biology Research	93.396		19,932.06
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		138,389.73
Allergy and Infectious Diseases Research	93.855		449,668.02
Biomedical Research and Research Training	93.859		189,748.51
Pass Thru From:			
Washington University in St. Louis			
Cardiovascular Diseases Research	93.837	PO NO.2911033P,SUBCONTRACT NO.WU-11-71	1,531.58
Total, Department of Health and Human Services			1,313,740.62

xx.000 indicates CFDA number is unavailable

Texas A&M Research Foundation
Schedule of Expenditures of Federal and State Awards
For the Year Ended August 31, 2017

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Identifying Number	Total Pass-Through and Expenditure
Total, Research and Development Cluster			67,884,688.63
Total, Federal Awards Expended			$ 68,014,879.41

xx.000 indicates CFDA number is unavailable

Texas A&M Research Foundation
Schedule of Expenditures of Federal Awards
For the Year Ended August 31, 2017

Subrecipients

Federal Grantor/Pass Through Grantor Program Title	CFDA Number	Total Pass-Through and Expenditure
U.S. Department of Agriculture		
Agriculture and Food Research Initiative (AFRI)	10.310	$ 1,004,781.08
Totals - U.S. Department of Agriculture		1,004,781.08
U.S. Department of Commerce		
Integrated Ocean Observing System (LOOS)	11.012	333,445.58
		333,445.58
U.S. Department of Transportation		
Work Zone Crash Characteristics and Countermeasure Guidance	20.000	42,344.77
Highway Planning and Construction	20.205	5,967.28
Totals - U.S. Department of Transportation		48,312.05
National Aeronautics and Space Administration		
Lockheed Martin Space Operations	43.000	790,627.74
Science	43.001	496.50
Totals - National Aeronautics and Space Administration		791,124.24
National Science Foundation		
Biological Sciences	47.074	6,125.64
Totals - National Science Foundation		6,125.64
U.S. Department of Health and Human Services		
Combination Drug Testing for New TB Regimens	93.000	83,849.90
Training in General, Pediatric, and Public Health Dentistry	93.059	62,680.20
Allergy and Infectious Diseases Research	93.855	254,434.04
Biomedical Research and Research Training	93.859	(3,215.82)
Totals - U.S. Department of Health and Human Services		397,748.32
Total Amount Provided to Subrecipients		$ 2,581,536.91

TEXAS A&M RESEARCH FOUNDATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting – The expenditures on the accompanying schedule of expenditures of federal 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 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 Awards as of August 31, 2017.

Sponsored research expense in Statement of Activities, August 31, 2017	$76,013,448.93
Non-federal expenditures	(8,483,594.20)
Research equipment purchased and capitalized during the year	1,230,196.46
Other	(745,171.78)
Total Expenditures per Schedule of Expenditures of Federal Awards, August 31, 2017	$68,014,879.41

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

Indirect Cost Rate – The Foundation has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

TEXAS A&M RESEARCH FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2017

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: *unmodified*

Internal control over financial reporting:

· Material weakness(es) identified?	_X_ yes	___ no
· Significant deficiency(ies) identified?	___ yes	_X_ none reported
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?	_X_ yes	___ none reported

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 2 CFR section 200.516(a) of the Uniform Guidance?	_X_ yes	___ 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: $2,040,446

Auditee qualified as low-risk auditee? _X_ yes ___ no

SECTION II – FINANCIAL STATEMENT FINDINGS

2017-001 Restatement of Net Assets

Criteria: The Texas A&M Research Foundation records deferred revenue on projects that report revenues greater than expenditures.

Condition: During the audit, we determined that deferred revenue had been recorded in error on project 402001 in a prior year and proposed a prior period audit adjustment to correct the error.

Context: In reviewing the deferred revenue balances at August 31, 2017, inquiry was made concerning the balance for project 402001. The inception to date expenditures were reported as a credit balance for this project thus resulting in the project being included in the total deferred revenue balance. It was determined that the credit to expenditures occurred in a prior year.

Effect: Prior years' deferred revenue was overstated by $1,479,633.42 resulting in the restatement of net assets.

Cause: A journal entry was not properly reversed in a prior year which resulted in a credit being posted to expenditures for project 402001 and the corresponding overstatement of deferred revenue. In addition, the Foundation did not review individual projects to verify the amounts that were being recorded as deferred revenue.

Recommendation: We recommend that the Foundation review the reports used to record deferred revenue and verify that amounts being recorded for each project are proper deferred revenues.

Views of responsible officials and planned corrective action: Responsible officials agree with the recommendation and will review available reports to ensure proper recording of deferred revenues. In addition, accounting personnel will verify that all automated entry reversals post correctly as well as reconcile that all proper entries transfer from prior fiscal year and current fiscal years during the year end closing process.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-002 Noncompliance with Subrecipient Monitoring Requirements

CFDA No: 10.310
Program Title: Integrated Program for Reducing Bovine Respiratory Disease Complex in Beef and Dairy Cattle
Agency: United States Department of Agriculture – National Institute of Food and Agriculture
Federal Award No: 2011-68004-30367
Federal Award Year: 4/15/2011-4/14/2017
Subaward: S110072 – Washington State University

CFDA No: 11.012
Program Title: Continued Development of the Gulf of Mexico Coastal Ocean Observing System
Agency: Department of Commerce – National Oceanic and Atmospheric Administration
Federal Award No: NA11NOS0120024
Federal Award Year: 6/1/2011-5/31/2017
Subaward: S120008 – University of Southern Mississippi

CFDA No: 93.000
Program Title: Combination Drug Testing for New TB Regimens
Agency: Department of Health and Human Services – National Institute of Allergy and Infectious Diseases
Federal Award No: HHSN2722010000241/HHSN272001A73
Federal Award Year: 9/23/2015-3/22/2017
Subaward: S162360 – University of Florida

Criteria: 2 CFR §200.331 requires that pass-through entities are responsible for subrecipient audits and ensuring that the required subrecipient audits were completed and appropriate and timely corrective action was taken an all audit findings, when applicable.

Condition: The subrecipient audits must be reviewed for audit findings and corrective action must be taken.

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

Context: It was noted that fiscal year 2016 audits for subrecipients under subaward agreements S110072, S120008, and S162360 were not properly reviewed for findings. For subaward agreements S110072 and S162360, staff only reviewed the financial statements and not the single audit. Review of the financial statements alone would not be adequate to reveal if there were single audit findings related to Foundation subawards. For subaward agreement S120008, staff failed to follow up with the subrecipient regarding their audit. The last correspondence on file showed that the University of Florida expected to complete the audit in April 2017. There was no follow up action taken to obtain the audit report until after we made our inquiry.

Effect: The overall effect is that these subrecipient audits were not properly obtained and reviewed for findings in accordance with 2 CFR §200.331 requirements.

Cause: The subrecipients were not adequately tracked to ensure that all subrecipient audits of federal expenditures had been obtained and reviewed.

Identification as a repeat finding: Although different subawards were noted as having not adhered to the requirements, this finding is consistent with 2016-001 issued in the prior year. See Status of Prior Year Findings and Questioned Costs.

Recommendation: We recommend that an employee be designated to review the subrecipient audits and keep a log of all audits reviewed to ensure that all subrecipient audits are completed and appropriate and timely corrective action is taken. Staff should be trained on the appropriate reports to review in order to determine if there are single audit findings related to Foundation subawards.

Response & Planned Corrective Action: The Texas A&M Research Foundation acknowledges and agrees with the finding. Procedures will be revised to ensure that we obtain an audit report for all subrecipients subject to audit requirements under applicable federal regulations. Procedures will also be implemented to ensure timely follow up when a subrecipient indicates that their audit will be completed as a future date.

TEXAS A&M RESEARCH FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2017
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

2016-001 Noncompliance with Subrecipient Monitoring Requirements

CFDA No: 20.000
Program Title: Work Zone Crash Characteristics and Countermeasure Guidance
Agency: Department of Transportation - Federal Highway Administration
Passthrough Entity: National Academy of Sciences
Federal Award No: NAS 138 TP24 HR 17-61
Federal Award Year: 9/1/12–1/31/17
Subaward: S131206 – University of Utah
S131207 – Virginia Department of Transportation

CFDA No: 47.074
Program Title: Biodiversity in the Parasitic Fluke Genus Alloglossidium: Evolutionary Origins of Changes in Life Cycle Complexity
Agency: National Science Foundation
Federal Award No: 1145508
Federal Award Year: 2/1/12-1/31/17
Subaward: S120047 – Southeastern Louisiana University

Criteria: The OMB Compliance Supplement requires that pass-through entities are responsible for subrecipient audits and ensuring that the required subrecipient audits were completed and appropriate and timely corrective action was taken an all audit findings, when applicable.

Condition: The subrecipient audits must be reviewed for audit findings and corrective action must be taken.

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

Context: It was noted that fiscal year 2015 audits for subrecipients under subaward agreements S131206, S131207, and S120047 were not reviewed for findings. We inquired of staff regarding these audits and they confirmed that the audit reports were not requested from the subrecipients until after we made our inquiry.

Effect: The overall effect is that these subrecipient audits were not reviewed for findings in accordance with OMB Compliance Supplement requirements.

Cause: The subrecipients were not adequately tracked to ensure that all subrecipient audits had been reviewed.

Recommendation: We recommend that an employee be designated to review the subrecipient audits and keep a log of all audits reviewed to ensure that all subrecipient audits are completed and appropriate and timely corrective action is taken.

Response & Planned Corrective Action: The Texas A&M Research Foundation acknowledges and agrees with the finding. An employee will be designated to obtain and review subrecipient audit reports to ensure the audits have been performed, if required, and that corrective action plans exist for any audit findings related to subawards issued by the Texas A&M Research Foundation.

Status: During fiscal year 2017, appropriate audit reports were obtained and reviewed for each of the subawards noted above. However, during review of additional subawards, we noted three subaward agreements for which the corrective action noted above was not adhered to. See 2017-001.