

**CANCER PREVENTION AND RESEARCH  
INSTITUTE OF TEXAS**  
Austin, Texas

**FINANCIAL STATEMENTS**

**AUGUST 31, 2017**

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

Austin, Texas

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## INDEPENDENT AUDITOR'S REPORT

To the Oversight Committee of  
Cancer Prevention and Research Institute of Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and governmental fund of Cancer Prevention and Research Institute of Texas (CPRIT), a component unit of the State of Texas, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise CPRIT's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS) 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 basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic financial statements.

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



**Opinions**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and governmental fund information of CPRIT as of August 31, 2017, and the respective changes in financial position for the year then ended in accordance with U.S. GAAP.

**Other Matters**

*Required Supplementary Information*

U.S. GAAP requires that the management’s discussion and analysis and budgetary comparison schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017, on our consideration of CPRIT'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 the 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 CPRIT’s internal control over financial reporting and compliance.

Houston, Texas  
December 4, 2017

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

Austin, Texas

## Management's Discussion and Analysis

August 31, 2017

### Introduction

This section of the Cancer Prevention and Research Institute of Texas (CPRIT) annual financial report presents management's discussion and analysis of CPRIT's financial performance during the fiscal year that ended on August 31, 2017. Please read it in conjunction with CPRIT's financial statements, which follow this section.

The State of Texas established CPRIT to fund grants for cancer research and prevention. CPRIT is charged by the Texas Legislature to:

- Create and expedite innovation in the area of cancer research, thereby enhancing the potential for a medical or scientific breakthrough in the prevention of cancer and cures for cancer;
- Attract, create, or expand research capabilities of public or private institutions of higher education and other public or private entities that will promote a substantial increase in cancer research and in the creation of high-quality new jobs in this State; and
- Continue to develop and implement the Texas Cancer Plan by promoting the development and coordination of effective and efficient statewide public and private policies, programs, and services related to cancer and by encouraging cooperative, comprehensive, and complementary planning among the public, private, and volunteer sectors involved in cancer prevention, detection, treatment, and research.

CPRIT is governed by an Oversight Committee, composed of 9 members who are appointed by the Governor, Lieutenant Governor, and Speaker of the House.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to CPRIT's basic financial statements, comprised of three components: 1) management's discussion and analysis, 2) basic financial statements, and 3) notes to the financial statements. The basic financial statements are presented in a combined format including the Combined Balance Sheet/Statement of Net Position and Combined Statement of Revenue, Expenditures and Changes in Fund Balance/Statement of Activities for the governmental funds.

- The Statement of Net Position and Statement of Activities provide information about CPRIT's overall financial position and results. These statements are presented on an accrual basis.
- The basic financial statements also include a "Notes to Financial Statement" section which explains some of the information presented in the combined financial statements and provides additional detailed data.
- The fund financial statements (Balance Sheet and Statement of Revenue, Expenditures and Changes in Fund Balance) provide information about CPRIT's governmental fund activities funded primarily through state appropriation of bond proceeds for which CPRIT follows a modified accrual basis of accounting.

The remainder of this overview section of management's discussion and analysis explains the structure and content of each of these statements.

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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## Management's Discussion and Analysis (Unaudited)

August 31, 2017

### Government-Wide Financial Statements

The Statement of Net Position shows governmental activities on a full accrual basis. The Statement of Activities presents a government-wide format of expenses, operating grants and contributions and net expenses by governmental activities.

### Statement of Net Position

The following table reflects information on the CPRIT's accumulated net position at August 31, 2017 and 2016:

ASSETS	2017	2016	Change	%
<b>CURRENT ASSETS</b>				
Cash in state treasury	\$ 888,395	\$ 852,103	\$ 36,292	4%
Interfund receivable	7,269	-	7,269	0%
Due from other agencies	29,044,230	27,585,758	1,458,472	5%
Consumable inventories	4,542	5,758	(1,216)	-21%
Total current assets	29,944,436	28,443,619	1,500,817	5%
<b>CAPITAL ASSETS</b>				
Buildings and buildings improvements	699,679	699,679	-	0%
Less: Accumulated depreciation	(92,319)	(48,006)	(44,313)	92%
Furniture and equipment	401,124	401,124	-	0%
Less: Accumulated depreciation	(199,537)	(400,387)	200,850	-50%
TOTAL ASSETS	\$ 30,753,383	\$ 29,096,029	\$ 1,657,354	6%
<b>LIABILITIES AND NET ASSETS</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	\$ 6,627,693	\$ 11,228,331	\$ (4,600,638)	-41%
Accrued payroll	404,809	350,078	54,731	16%
Due to other agencies	22,569,615	16,631,769	5,937,846	36%
Employees' compensable leave	349,731	809,669	(459,938)	-57%
Total current liabilities	29,951,848	29,019,847	932,001	3%
<b>LONG-TERM LIABILITIES</b>				
Employees' compensable leave	252,570	166,821	85,749	51%
TOTAL LIABILITIES	30,204,418	29,186,668	1,017,750	3%
<b>NET POSITION</b>				
Net investment in capital assets	607,360	652,410	(45,050)	-7%
Unrestricted	(267,251)	(743,049)	475,798	-64%
TOTAL NET POSITION	\$ 340,109	\$ (90,639)	\$ 430,748	-475%

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## Management's Discussion and Analysis

August 31, 2017

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In fiscal year 2017, CPRIT received legislative appropriations that provided for annual funding for staff and associated on-going operations costs as well as funding to award cancer prevention, academic research, and product development research projects.

In comparison to fiscal year 2016, there was an increase in current assets by almost \$1.5 million which tracks the increase in the due from other agencies line item, representing the net change between the beginning and ending balances of the treasury account that holds bond proceeds for CPRIT issued by the Texas Public Finance Authority (TPFA). This means that CPRIT expended the majority of the \$222.9 million in bond proceeds issued during fiscal year 2017 for grant payments and agency operations.

The majority of the current liabilities fall into two categories, accounts payable and due to other agencies. Accounts payable represents payable balances for operating expenses outstanding at the end of fiscal year 2017, and the due to other agencies amount is an estimate of grantee reimbursements owed to but as yet not requested by state institutions of higher education at the end of the fiscal year. Included in both current and long-term liabilities are the current and non-current portions, respectively, of employees' compensable leave. These amounts together represent the unpaid balances of employees' accumulated annual leave.

### Statement of Activities

The Statement of Activities reflects the sources of CPRIT's changes in net position as they arise through its various programs and functions. CPRIT operations and prevention grants are shown as governmental activities.

The table below shows transfers in for CPRIT's governmental activities totaled \$491.2 million. The transfers were primarily received through legislative appropriations of bond proceeds that were transferred to CPRIT by the Texas Public Finance Authority (TPFA) and provided funding for CPRIT's staff (32 FTEs), office space and fixtures, and grant award operations.

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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## Management's Discussion and Analysis

August 31, 2017

	2017	2016	Increase/Decrease Amount	%
<b>REVENUE</b>				
License, fees and permits	\$ 87,850	\$ 203,637	\$ (115,787)	-57%
Interest and investment income	113	262	(149)	-57%
Other	33,795	76,000	(42,205)	-56%
Total Revenues	121,758	279,899	(158,141)	-56%
<b>EXPENDITURES</b>				
Grants	244,630,253	229,707,446	14,922,807	6%
Operations	15,170,909	16,154,093	(983,184)	-6%
Total Expenditures	259,801,162	245,861,539	13,939,623	6%
Deficiency of Revenues over Expenditures	(259,679,404)	(245,581,640)	(14,097,764)	6%
<b>OTHER FINANCING SOURCES</b>				
Transfers in- Legislative requirements	491,270,700	356,788,979	134,481,721	38%
Transfers out - Legislative requirements	(231,160,548)	(114,103,795)	(117,056,753)	103%
Total other financing sources	260,110,152	242,685,184	17,424,968	7%
<b>CHANGE IN NET POSITION</b>	430,748	(2,896,456)	3,327,204	-115%
<b>BEGINNING NET POSITION</b>	(90,639)	2,805,817	(2,896,456)	-103%
<b>ENDING NET POSITION</b>	\$ 340,109	\$ (90,639)	\$ 430,748	-475%

The license, fees, and permits revenues decreased in the fiscal year due to the reduced collection of conference registration fees for following CPRIT's 2015 conference. The other revenues amount also decreased by 57 percent, reflecting decrease in product development research application fees collected compared to fiscal year 2016. The amount of product development research application fee collections varies from year to year depending on the number of product development research applications the agency receives.

In fiscal year 2017, CPRIT processed a higher volume of grantee reimbursement payments reflected by the combination of \$244.6 million in grant expenditures and \$231.2 million in transfers out, the majority of which was state pass-through grant payments to state academic institutions with CPRIT grants. The total increase in payments from fiscal year 2016 was \$133.5 million, or 39 percent. The transfers in in the amount of \$491.3 million is dependent on current year cash transferred from TPFAs for the issuance of general obligation commercial paper notes on CPRIT's behalf and the prior year's cash balance for grant encumbrances brought forward to the current year.



# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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## Management's Discussion and Analysis

August 31, 2017

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### **General Fund Budgetary Highlights**

Variances between final budget and actual are the result of decreased resources—reduced in-flows from decreased appropriated receipts of both product development research application fees and conference registration fees following the 2015 CPRIT Conference. On the other hand, there were increased resources from additional transfers in of encumbered award balances from prior years for grantee payments. There was also a corresponding increase in budgetary outflows for grant payments. See page 19 for a budgetary comparison schedule.

### **Future Outlook**

For the 2016-17 biennium, the 84<sup>th</sup> Texas Legislature fully funded CPRIT with the maximum \$300 million in general obligation bond proceeds per year allowed by law.

With more than 500 active grant awards, CPRIT will continue to process a high volume of grantee reimbursement payments each quarter of the year as well as other financial reports required to be submitted annually. In conjunction with the continued high volume in grantee reimbursements, CPRIT estimates it will request that TPFA issue approximately \$250.4 million in additional debt to support grant reimbursement payments and operating expenses during fiscal year 2018.

### **Request for Information**

This financial report is designed to provide a general overview of CPRIT's operations for all parties interested in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Cancer Prevention and Research Institute of Texas, Chief Operating Officer, P.O. Box 12097, Austin, Texas 78711.

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**

Austin, Texas

**Statement of Net Position and Governmental Funds Balance Sheet**

August 31, 2017

	<u>General Fund</u>	<u>Governmental Funds Total</u>	<u>Capital Assets Adjustments</u>	<u>Long-Term Liabilities Adjustments</u>	<u>Other Adjustments</u>	<u>Statement of Net Position</u>
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents						
Cash in state treasury	\$ 888,395	\$ 888,395	\$ -	\$ -	\$ -	\$ 888,395
Interfund receivable	7,269	7,269	-	-	-	7,269
Due from other agencies	29,044,230	29,044,230	-	-	-	29,044,230
Consumable inventories	4,542	4,542	-	-	-	4,542
Total Current Assets	<u>29,944,436</u>	<u>29,944,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,944,436</u>
Capital Assets:						
Buildings and buildings improvements	-	-	699,679	-	-	699,679
Accumulated depreciation	-	-	(92,319)	-	-	(92,319)
Furniture and equipment	-	-	199,537	-	-	199,537
Accumulated depreciation	-	-	(199,537)	-	-	(199,537)
<b>Total Assets</b>	<u>\$ 29,944,436</u>	<u>\$ 29,944,436</u>	<u>\$ 607,360</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,551,796</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Current Liabilities:						
Payables from:						
Accounts payable	\$ 6,627,693	\$ 6,627,693	\$ -	\$ -	\$ -	\$ 6,627,693
Payroll payable	404,809	404,809	-	-	-	404,809
Interfund payable	7,269	7,269	-	-	-	7,269
Due to other funds	22,569,615	22,569,615	-	-	-	22,569,615
Employees' compensable leave-current portion	-	-	-	349,731	-	349,731
Total Current Liabilities	<u>29,609,386</u>	<u>29,609,386</u>	<u>-</u>	<u>349,731</u>	<u>-</u>	<u>29,959,117</u>
Long-Term Liabilities:						
Employees' compensable leave	-	-	-	252,570	-	252,570
<b>Total Liabilities</b>	<u>29,609,386</u>	<u>29,609,386</u>	<u>-</u>	<u>602,301</u>	<u>-</u>	<u>30,211,687</u>
FUND BALANCES						
Nonspendable for inventory	4,542	4,542			(4,542)	-
Committed	891,508	891,508			(891,508)	-
Unassigned	(561,000)	(561,000)			561,000	-
<b>Total Fund Balances</b>	<u>335,050</u>	<u>335,050</u>			<u>(335,050)</u>	<u>-</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 29,944,436</u>	<u>\$ 29,944,436</u>				
<i>Governmental-Wide Statement of Net Position</i>						
<b>NET POSITION</b>						
Net investment in capital assets			\$ 607,360	-	-	\$ 607,360
Unrestricted			-	(602,301)	335,050	(267,251)
Total Net Position			<u>\$ 607,360</u>	<u>\$ (602,301)</u>	<u>\$ 335,050</u>	<u>\$ 340,109</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>						<u>\$ 30,551,796</u>

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

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

Austin, Texas

## Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balances Year Ended August 31, 2017

	General Fund	Total Governmental Funds	Capital Assets Adjustments	Long-Term Liabilities Adjustments	Other Adjustments	Statement of Net Position
<b>REVENUES</b>						
Interest income	\$ 113	\$ 113	\$ -	\$ -	\$ -	\$ 113
Licenses, fees & permits	87,850	87,850	-	-	-	87,850
Other	33,795	33,795	-	-	-	33,795
Total Revenues	121,758	121,758	-	-	-	121,758
<b>EXPENDITURES</b>						
Salaries and wages	3,679,318	3,679,318	-	(374,189)	-	3,305,129
Payroll related costs	751,704	751,704	-	-	-	751,704
Professional fees and services	10,566,261	10,566,261	-	-	-	10,566,261
Travel	67,477	67,477	-	-	-	67,477
Materials and supplies	156,121	156,121	-	-	-	156,121
Communication and utilities	72,792	72,792	-	-	-	72,792
Repairs and maintenance	6,424	6,424	-	-	-	6,424
Rentals and leases	46,457	46,457	-	-	-	46,457
Printing and reproduction	1,150	1,150	-	-	-	1,150
State grant payments -pass-thru	148,291,805	148,291,805	-	-	-	148,291,805
Public Assistance payments	96,338,448	96,338,448	-	-	-	96,338,448
Other expenditures	152,344	152,344	-	-	-	152,344
Depreciation expense	-	-	45,050	-	-	45,050
Total Expenditures	260,130,301	260,130,301	45,050	(374,189)	-	259,801,162
<b>CHANGE IN NET POSITION BEFORE OTHER FINANCING SOURCES</b>						
	(260,008,543)	(260,008,543)	(45,050)	374,189	-	(259,679,404)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in- Legislative requirements	491,270,700	491,270,700	-	-	-	491,270,700
Transfers out - Legislative requirements	(231,160,548)	(231,160,548)	-	-	-	(231,160,548)
Net transfers	260,110,152	260,110,152	-	-	-	260,110,152
Net Change in Fund Balances/Net Position	101,609	101,609	(45,050)	374,189	-	430,748
<b>FUND BALANCES</b>						
Fund Balances, September 1, 2016	233,441	233,441	652,410	(976,490)	-	(90,639)
Fund Balances, August 31, 2017	\$ 335,050	\$ 335,050	\$ 607,360	\$ (602,301)	\$ -	

**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**

Net position, September 1, 2016	\$ (90,639)
Net position, August 31, 2017	340,109

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

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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## Notes to the Financial Statements

August 31, 2017

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### NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of CPRIT have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to a local governmental agency. The Governmental Accounting Standards Board (GASB) is the accepted primary standard-setting body for establishing governmental accounting and financial reporting principles. CPRIT's significant accounting policies are described below.

#### **A. Basis of Presentation**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of CPRIT. Under the GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, CPRIT qualifies as a special purpose government unit with one program, to support cancer research and prevention efforts in the State of Texas. All activities of CPRIT are considered governmental activities, as defined by GASB. GASB Statement No. 34 allows such entities to combine the presentation of the fund financial statements and the government-wide financial statements, rather than present separate statements. Adjustments are provided to reconcile the government-wide statements to the fund statements. Explanations for reconciling items in the "Adjustments" column are provided on the face of the financial statements.

#### **B. Measurement Focus and Basis of Accounting**

##### **Fund Financial Statements**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental fund financial statements are presented using "current financial resources measurement focus" and "modified accrual basis of accounting." With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The operating statements of these funds present increases and decreases in net current assets. Under the modified accrual basis of accounting, revenues are recognized when they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. CPRIT considers all revenues as available if it is collected within 60 days after the year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

##### **General Fund**

The following sub-funds collectively comprise the general fund.

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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## Notes to the Financial Statements

August 31, 2017

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- a) TPFA G.O. Commercial Paper Series A&B Cancer Project Fund (fund 7639) is the capital grant projects fund used to account for general obligation bond proceeds issued by the Texas Public Finance Authority. The purpose of the bond proceeds is to account for CPRIT operations, including providing cancer research and prevention grants. It accounts for all financial resources except those required to be accounted for in another fund.
- b) Cancer Prevention and Research Fund (fund 5136) is used to receive fees for company applications and any miscellaneous revenues of CPRIT.
- c) License Plate Trust Fund (fund 0802) is used to receive fees charged for specialty license plates in addition to motor vehicle registration fees.
- d) Interest and Sinking Fund (fund 5168) is used to receive payments from grantees based on the revenue from licensing fee, royalty, or equity payments as a result of their CPRIT-funded grants. Revenue collected in this fund may only be appropriated by the Texas Legislature to pay debt service on CPRIT's general obligation bonds.

### **Government-wide Adjustment Fund Types**

The statement of net position and statement of activities display information about CPRIT as a whole. The statement of net position and statement of activities were prepared using the "economic resources measurement focus" and the "accrual basis of accounting." Revenues, expenses, gains, losses, assets, and liabilities are recognized when the underlying transactions take place. This includes unpaid employee compensable leave, capital assets and accumulated depreciation.

### **Budget and Budgetary Accounting**

The budget is prepared biennially and represents appropriations authorized by the Texas Legislature and approved by the State's Governor (the General Appropriations Act). The State monitors its statewide budget by establishing the legal level of control at the agency level to ensure that expenditures are not made in excess of budgetary authority. Within CPRIT, procedures are used to ensure that expenditures do not exceed the total budget, but the Comptroller ultimately ensures that each total authorized agency budget is not exceeded.

Unencumbered appropriations are generally lapsed 60 days after the end of the fiscal year for which they have been appropriated.

### **Fund Balances/Net Position**

The difference between fund assets and liabilities is "Net Position" on the government-wide statements and the "Fund Balance" is the difference between fund assets and liabilities on the governmental fund statements.

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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## Notes to the Financial Statements

August 31, 2017

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CPRIT follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, to classify its governmental fund balances as follows:

- a) *Non-spendable Fund Balance*: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts if any. It also includes the long-term amounts of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.
- b) *Restricted Fund Balance*: These are amounts that are restricted for specific purposes. Fund balance is reported as restricted when constraints placed on the use of resources are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- c) *Committed Fund Balance*: These are amounts that can only be used for specific purposes pursuant to constraints imposed by a formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. Compliance with constraints imposed by the government that commit amounts to specific purposes is not considered to be legally enforceable and may be redeployed for other purposes with appropriate due process. Amounts used only for specific purposes pursuant to constraints imposed by a formal action of the Texas Legislature, the state's highest level of decision making authority.
- d) *Assigned Fund Balance*: Amounts constrained by the state's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by: (1) the Texas Legislature or (2) a body (for example, a budget or finance committee) or official to which the governing body has delegated CPRIT to assign amounts to be used for specific purposes.
- e) *Unassigned Fund Balance*: The residual classification for the general fund which represents fund balances that were not assigned to other funds, and were not restricted, committed or assigned to specific purposes within the general fund.

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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## Notes to the Financial Statements

August 31, 2017

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Under the government-wide financial statements, net position is classified into three components as follows:

- a) *Invested in capital assets:* This component of net position consists of capital assets, net of accumulated depreciation and reduced by any bonds, notes, or other borrowings.
- b) *Restricted:* This component of net position consists of constraints on use placed on net position through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- c) *Unrestricted:* This component of net position consists of net position that does not meet the definition of “invested in capital assets” or “restricted”.

### **Cash and Cash Equivalents**

Short-term, highly liquid investments with an original maturity of three months or less are considered cash equivalents. Cash held in the State’s Treasury are derived from the sale of "Texans Conquer Cancer" and “A Fine Cause” specialty license plates and fees from company product development applications. These funds are utilized, subject to legislative appropriations, for additional cancer prevention grants and to defray the cost of CPRIT’s due diligence reviews on product development grants.

### **Consumable Inventories**

Consumable inventories consist of items purchased by CPRIT for (a) reissue/reuse, which CPRIT controls as part of its ongoing operations (e.g., hardware items, or maintenance parts that have a long shelf life and are stocked by CPRIT). Inventories are valued at cost, generally using the first-in, first-out method. The consumption method of accounting is used to account for inventories and prepaid items that appear in the governmental and proprietary fund types. The cost of these items is expensed when the items are consumed.

### **Due from/to Other Agencies**

Amount due from other agencies are appropriations due to CPRIT that have not been received at year end. Amount due to other agencies are grant funds payable to other state agencies, including state institutions of higher education.

### **Capital Assets**

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if donated, at appraisal fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

Austin, Texas

## Notes to the Financial Statements

August 31, 2017

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expenditures. Depreciation is reported on all "exhaustible" assets in the entity-wide financial statements. Maintenance and repairs are charged to operations when incurred.

Capital assets are depreciated over the estimated useful life of the asset (5 years) using the straight-line method.

### **Accounts Payable**

Accounts payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

### **Employees' Compensable Leave Balances**

Employees' compensable leave balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately, either as current or noncurrent, in the statement of net position. These obligations are normally paid from the same funding source from which each employee's salary or wage compensation was paid.

### **Administrative Expenses**

Administrative expenses include agency operation costs and grant payments to organizations for cancer research and prevention projects authorized by CPRIT's Oversight Committee.

### **Inter-fund Transactions and Balances**

CPRIT may have the following types of transactions among funds: (1) Transfers - Legally required transfers that are reported when incurred as "Transfers In" by the recipient fund and as "Transfers Out" by the disbursing fund. (2) Legislative Sources/Uses — Budget transfers between agencies within a fund. In this particular instance, CPRIT is required to transfer funds to the Texas Department of State Health for the Texas Cancer Registry.

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. There were no significant estimates included in the financial statements.



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## Notes to the Financial Statements

August 31, 2017

### NOTE 2 — CAPITAL ASSETS

A summary of capital assets for the year ended August 31, 2017 is presented below:

	<b>Balance 09/01/2016</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance 08/31/2017</b>
<u>Governmental Activities</u>					
Capital assets:					
Building improvements	\$ 699,679	\$ -	\$ -	\$ -	\$ 699,679
Furniture and equipment	401,124	-	\$ (174,379)	\$ (27,208)	199,537
Total	<u>1,100,803</u>	<u>-</u>	<u>\$ (174,379)</u>	<u>\$ (27,208)</u>	<u>899,216</u>
Less accumulated depreciation for:					
Building improvements	(48,006)	(44,313)	\$ -	\$ -	(92,319)
Furniture and equipment	(400,387)	(737)	\$ 174,379	\$ 27,208	(199,537)
Total	<u>(448,393)</u>	<u>(45,050)</u>	<u>\$ 174,379</u>	<u>\$ 27,208</u>	<u>(291,856)</u>
Governmental activities capital assets, net	<u>\$ 652,410</u>	<u>\$ (45,050)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 607,360</u>

Depreciation expense for the year ended August 31, 2017 was \$45,050.

### NOTE 3 — DEPOSITS

As of August 31, 2017, the carrying amount of deposits for CPRIT was \$888,395. CPRIT's cash is held in the State's Treasury and has no interest rate risk or credit risk.

#### *Custodial Credit Risk – Deposits*

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned to the government. All of CPRIT's deposits are held by the Comptroller, in the State's Treasury. Deposits of the State of Texas are managed by the Comptroller. Deposits that exceed the \$250,000 of insurance coverage by the Federal Deposit Insurance Corporation (FDIC) are collateralized in accordance with Comptroller's policy.

### NOTE 4 — SHORT-TERM DEBT (NOT APPLICABLE)

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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## Notes to the Financial Statements

August 31, 2017

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### NOTE 5 — SUMMARY OF LONG TERM LIABILITIES

#### *Changes in Long-Term Liabilities*

During the year ended August 31, 2017, the following changes occurred:

#### *Employees' Compensable Leave*

<u>Governmental Activities</u>	<u>Balance 09/01/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 08/31/2017</u>	<u>Amount Due within One Year</u>	<u>Amount Due Thereafter</u>
Compensable leave	\$ 976,490	\$ 412,842	\$ (787,031)	\$ 602,301	\$ 349,731	\$ 252,570

A State employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal, or separation from State employment, provided the employee has had continuous employment with the State for six months. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. An expense and liability for proprietary fund types are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

### NOTE 6 — BONDED INDEBTEDNESS (NOT APPLICABLE)

### NOTE 7 — CAPITAL LEASES (NOT APPLICABLE)

### NOTE 8 — OPERATING LEASES (NOT APPLICABLE)

### NOTE 9 — EMPLOYEE BENEFITS

CPRIT contributes to the Employee Retirement System of Texas (the System), a cost-sharing, multiple-employer, defined benefit plan. The System provides service retirement, disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government Code, Title 8, Subtitle B, which is subject to amendment by the Texas Legislature. Under provisions in state law, plan members are required to contribute 9.5% of their annual salary. The System's annual financial report and other required disclosure information are available by writing the Employees Retirement System of Texas, P.O. Box 13207, Austin, Texas, 78711-3207. CPRIT contributed the state's share of benefits totaling \$492,500, \$481,903, and \$338,135, respectively, to the System for the fiscal year ended August 31, 2017, 2016 and 2015.

### NOTE 10 — DEFERRED COMPENSATION (NOT APPLICABLE)

### NOTE 11 — POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFIT (NOT APPLICABLE)

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

Austin, Texas

## Notes to the Financial Statements

August 31, 2017

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### **NOTE 12 — INTERFUND ACTIVITY AND TRANSACTIONS (NOT APPLICABLE)**

### **NOTE 13 — CONTINUANCE SUBJECT TO REVIEW (NOT APPLICABLE)**

### **NOTE 14 — ADJUSTMENTS TO FUND BALANCE/NET ASSETS (NOT APPLICABLE)**

### **NOTE 15 — CONTINGENT LIABILITIES (NOT APPLICABLE)**

### **NOTE 16 — SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 4, 2017; the date the financial statements were available to be issued. No changes were made, or are necessary to be made, to the financial statements, as a result of this evaluation.

### **NOTE 17 — RISK MANAGEMENT (NOT APPLICABLE)**

### **NOTE 18 — MANAGEMENT DISCUSSION AND ANALYSIS (SEE PAGE 3)**

### **NOTE 19 — REPORTING ENTITY**

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the financial reporting entity are based on the criteria prescribed by accounting principles generally accepted in the United States of America (U.S. GAAP). These same criteria are evaluated in considering whether CPRIT is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that CPRIT's financial reporting entity status is that of a component unit are: that it does not have a separately elected governing body; and it is not fiscally independent of other state and local governments.

Based on criteria prescribed by U.S. GAAP, CPRIT is considered a component unit of the State of Texas. The primary criterion for this is that of financial accountability. The State appoints voting Oversight Committee members and approves CPRIT's budget.

### **NOTE 20 — STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (NOT APPLICABLE)**

### **NOTE 21(a) — NATURE OF OPERATIONS**

The Cancer Prevention and Research Institute of Texas (CPRIT) is an agency of the State of Texas (State) and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' (Comptroller) *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

In 2007, Texans overwhelmingly approved a constitutional amendment to create CPRIT and fund \$3 billion in grants to support cancer research and prevention efforts in Texas. For the next decade, CPRIT

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

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## Notes to the Financial Statements

August 31, 2017

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will work on behalf of all Texans to: (1) create and expedite innovation in the area of cancer research, and in enhancing the potential for a medical or scientific breakthrough in the prevention of cancer and cures for cancer; (2) attract, create, or expand research capabilities of public or private institutions of higher education, and other public or private entities, that will promote a substantial increase in cancer research and in the creation of high-quality new jobs in this state; and (3) develop and implement the Texas Cancer Plan.

CPRIT is primarily funded through State appropriations financed through sale of general obligation debt provided by the Texas Public Finance Authority (TPFA).

### **NOTE 21(b) — CANCER PREVENTION AND RESEARCH AWARDS**

CPRIT has entered into various grant contract awards with third party grant recipients to perform cancer prevention and research activities through 2017. The outstanding value of these grants awards as of August 31, 2017, totals approximately \$732,917,361. Payments will be made from bond proceeds issued by TPFA and provided to CPRIT under annual appropriation.

### **NOTE 21(c) — LIQUIDITY ((NOT APPLICABLE))**

### **NOTE 21(d) — BOND ISSUANCE**

As provided by statute, CPRIT submits requests to TPFA to issue and sell general obligation commercial paper of the state as authorized by Section 67, Article III, Texas Constitution. TPFA is not authorized to issue or sell more than \$300 million in general obligation debt in a single state fiscal year. Proceeds of the debt are required to be deposited into the state treasury, and may be only used for 1) making grant payments, 2) purchasing laboratory facilities, 3) paying operating cost of CPRIT, or 4) paying the cost of issuing the debt and related administrative cost of TPFA. As of August 31, 2017, \$1,293,754,128 has been disbursed by TPFA since CPRIT was formed in 2008. The commercial paper is a general obligation of the State of Texas and is not a specific obligation of CPRIT.

For the year ended August 31, 2017, CPRIT received proceeds from the sale of debt of approximately \$222,900,000, which are included in “Transfers In” from other entities on the Statement of Activity.

### **NOTE 22 — DONOR RESTRICTED ENDOWMENTS (NOT APPLICABLE)**

### **NOTE 23 — EXTRAORDINARY AND SPECIAL ITEMS (NOT APPLICABLE)**

### **NOTE 24 — DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES (NOT APPLICABLE)**

### **NOTE 25 — TERMINATION BENEFITS (NOT APPLICABLE)**

### **NOTE 26 — SEGMENT INFORMATION (NOT APPLICABLE)**

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**

Austin, Texas

**BUDGETARY COMPARISON SCHEDULE (Unaudited)**

For the Year Ended August 31, 2017

	<u>Original</u> <u>Budgeted</u>	<u>Final</u> <u>Budgeted</u>	<u>Actual</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Budget</u> <u>Positive/</u> <u>(Negative)</u>
Budgetary Balance, September 1, 2016	\$ 346,508	\$ 390,832	\$ 233,441	\$ 157,391
<b>Resources (Inflows):</b>				
Appropriated Receipts	40,000	40,000	33,795	6,205
Other	15,000	15,000	87,963	(72,963)
Transfers in - Legislative Appropriations	300,000,000	302,113,256	491,270,700	(189,157,444)
<b>Total Resources</b>	<u>300,401,508</u>	<u>302,559,088</u>	<u>491,625,899</u>	<u>(189,066,811)</u>
<b>Uses of Resources</b> <b>(Outflows):</b>				
Operations	16,789,648	17,371,600	15,500,047	1,871,553
Grants	280,295,798	279,658,846	244,630,253	35,028,593
Transfers out- Legislative Requirement	2,969,554	2,969,554	231,160,548	(228,190,994)
<b>Total Uses of Resources</b>	<u>300,055,000</u>	<u>300,000,000</u>	<u>491,290,848</u>	<u>(191,290,848)</u>
Budgetary Fund Balance, August 31, 2017	<u>\$ 346,508</u>	<u>\$ 2,559,088</u>	<u>\$ 335,051</u>	<u>\$ 2,224,037</u>

# CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS

Austin, Texas

## BUDGETARY COMPARISON SCHEDULE (Unaudited)

For the Year Ended August 31, 2017

(Continued)

### Explanation of Differences Between Budgetary Inflows and GAAP Revenues:

<b>Sources/Inflows of Resources</b>	\$ 491,625,899
Differences – budget to GAAP:	
The balance at the beginning of the year is a budgetary item but is not current year revenue for financial reporting purposes.	(233,441)
The transfer in is a budgetary resource but is not current year revenue for financial reporting purposes.	<u>(491,270,700)</u>
Total revenue as reported on the statement of activities and governmental fund revenues, expenditures, and changes in fund balances	<u>\$ 121,758</u>

### Explanation of Differences Between Budgetary Outflows and GAAP Expenditures:

<b>Uses/Outflows of Resources</b>	\$ 491,290,848
Differences – budget to GAAP:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	45,050
The transfer out is a other uses but is not current year expenditures for financial reporting purposes.	(231,160 548)
Long-term liabilities are not available to pay current period expenditures and therefore, are not reported in the governmental funds.	<u>(374,189)</u>
Total expenditure as reported on the statement of governmental fund revenues, expenditures, and changes in fund balances	<u>\$ 259,801,161</u>

## **COMPLIANCE SECTION**





**INDEPENDENT AUDITOR'S 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**

To the Oversight Committee of  
Cancer Prevention and Research Institute of 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 governmental activities and the governmental fund information of Cancer Prevention and Research Institute of Texas (CPRIT), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise CPRIT's basic finance statements, and have issued our report thereon dated December 4, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered CPRIT'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CPRIT's internal control. Accordingly, we do not express an opinion on the effectiveness of CPRIT'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 preceding paragraph 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 CPRIT'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

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instance of noncompliance or other matter that is 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 CPRIT's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CPRIT's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*McConnell & Jones*

Houston, Texas  
December 4, 2017

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**

Austin, Texas

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED AUGUST 31, 2017**

**SECTION 1:**

**SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements:*

- |   |            |
|---|------------|
| 1. Type of auditor's report issued:   | Unmodified |
| 2. Internal control over financial reporting:   |            |
| a) Material weaknesses identified?  | No         |
| b) Significant deficiencies identified that are not considered to be material weaknesses? | No         |
| c) Noncompliance material to financial statements noted?                                  | No         |

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**

Austin, Texas

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED AUGUST 31, 2017**

**FINDINGS – FINANCIAL STATEMENT AUDIT**

None noted

**CANCER PREVENTION AND RESEARCH INSTITUTE OF TEXAS**

Austin, Texas

**SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES  
FOR THE YEAR ENDED AUGUST 31, 2017**

Prior year Findings:

None noted