

University of Kansas Center for Research, Inc.

Accountants' Report and Financial Statements

June 30, 2007 and 2006



University of Kansas Center for Research, Inc.
June 30, 2007 and 2006

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
University of Kansas Center for Research, Inc.
Lawrence, Kansas

We have audited the accompanying statements of financial position of the University of Kansas Center for Research, Inc. as of June 30, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Kansas Center for Research as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2007, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

Kansas City, Missouri
October 22, 2007

University of Kansas Center for Research, Inc.
Statements of Financial Position
June 30, 2007 and 2006

Assets

	2007	2006
Cash and cash equivalents	\$ 11,856,189	\$ 6,581,771
Investments	26,574,744	26,227,539
Interest receivable	189,365	172,782
Accounts receivable from KU	—	3,833,955
Costs incurred in excess of research revenues received		
Federal	12,742,351	14,752,845
Private	1,679,677	1,440,562
State	<u>2,743,956</u>	<u>2,154,417</u>
	<u>17,165,984</u>	<u>18,347,824</u>
Property and equipment, net	17,998,234	16,869,053
Construction in progress	<u>3,884,518</u>	<u>14,526</u>
	<u>21,882,752</u>	<u>16,883,579</u>
Cash and investments designated for capital projects	<u>15,042,912</u>	<u>2,032,674</u>
Other assets		
Bond issuance costs and other	<u>1,525,633</u>	<u>1,207,114</u>
Total assets	<u>\$ 94,237,579</u>	<u>\$ 75,287,238</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 9,309,501	\$ 6,076,860
Current portion of long-term debt	2,122,491	1,565,000
Research revenues received in advance of costs incurred		
Federal	4,754,806	7,494,308
Private	3,642,263	4,380,814
State	<u>4,563,542</u>	<u>4,799,853</u>
	12,960,611	16,674,975
Bonds payable	<u>59,551,717</u>	<u>44,060,000</u>
Total liabilities	<u>83,944,320</u>	<u>68,376,835</u>
Net Assets (Deficits)		
Unrestricted – designated	13,867,227	15,871,202
Unrestricted	<u>(3,573,968)</u>	<u>(8,960,799)</u>
Total unrestricted net assets	<u>10,293,259</u>	<u>6,910,403</u>
Total liabilities and net assets	<u>\$ 94,237,579</u>	<u>\$ 75,287,238</u>

University of Kansas Center for Research, Inc.
Statements of Activities
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues, Gains and Other Support		
Direct research income	\$ 99,834,888	\$ 106,797,244
Facilities & administrative (F&A) reimbursement		
Corporation F&A reimbursement	16,274,448	17,543,949
Research unit/school F&A reimbursement	<u>3,352,411</u>	<u>3,869,574</u>
Total F&A reimbursement	19,626,859	21,413,523
Service centers	1,985,912	950,518
Technology transfer	366,958	360,033
Custodial funds	46,766	49,765
Donations of equipment from projects	2,920,965	4,592,072
Investment income	2,490,878	1,167,597
Other income	<u>453,496</u>	<u>109,671</u>
	<u>8,264,975</u>	<u>7,229,656</u>
Total revenues, gains and other support	<u>127,726,722</u>	<u>135,440,423</u>
Expenses		
Direct research expenses	99,834,888	106,797,244
Corporation F&A expenses		
Research facilities operations and maintenance	1,750,657	2,909,764
University support	285,555	225,424
Research awards, training and programs	314,436	565,188
Start-up program costs	602,252	984,843
Matching costs	601,065	371,422
Research center, unit and service lab support	4,632,896	4,453,407
Research administration	3,219,049	4,773,339
Interest expense – bonds	2,748,642	1,691,959
Research unit/school F&A expenses	2,691,793	889,995
Service centers	1,695,900	772,274
Technology transfer	865,254	871,743
Custodial funds	32,770	—
Depreciation and amortization	2,722,079	2,022,371
Gain/loss on disposal	<u>344,275</u>	<u>90,005</u>
Total expenses	<u>122,341,511</u>	<u>127,418,978</u>
Change in Net Assets before Transfer	5,385,211	8,021,445
Transfers to University (see Note 3)	<u>2,002,355</u>	<u>42,465,362</u>
Change in Net Assets after Transfer	3,382,856	(34,443,917)
Net Assets, Beginning of Year	<u>6,910,403</u>	<u>41,354,320</u>
Net Assets, End of Year	<u>\$ 10,293,259</u>	<u>\$ 6,910,403</u>

University of Kansas Center for Research, Inc.
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Activities		
Cash received for research contracts, grants and service accounts and unit support	\$ 116,929,223	\$ 124,125,207
Payments to suppliers and employees	(112,806,238)	(127,387,870)
Interest paid	(2,466,078)	(2,177,394)
Other operating receipts	<u>4,727,862</u>	<u>35,196</u>
Net cash provided by (used in) operating activities	<u>6,384,769</u>	<u>(5,404,861)</u>
Investing Activities		
Purchase of property and equipment	(4,025,674)	(26,660,969)
Purchases of investments	(61,859,150)	(5,357,149)
Proceeds from sales and maturities of investments	<u>49,101,272</u>	<u>31,288,495</u>
Net cash used in investing activities	<u>(16,783,552)</u>	<u>(729,623)</u>
Financing Activities		
Proceeds from issuance of bonds payable	17,634,826	—
Principal payments of long-term debt	(1,565,000)	—
Bond issuance costs and other	<u>(396,625)</u>	<u>—</u>
Net cash provided by financing activities	<u>15,673,201</u>	<u>—</u>
Increase (Decrease) in Cash and Cash Equivalents	5,274,418	(6,134,484)
Cash and Cash Equivalents, Beginning of Year	<u>6,581,771</u>	<u>12,716,255</u>
Cash and Cash Equivalents, End of Year	<u>\$ 11,856,189</u>	<u>\$ 6,581,771</u>
Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Change in net assets	\$ 3,382,856	(34,443,917)
Items not requiring (providing) cash		
Depreciation	2,722,079	2,022,371
Amortization	29,096	63,429
Capitalized interest expense	(43,393)	(572,106)
Donations of equipment from research projects	(2,920,965)	(4,592,072)
Loss on disposal of property and equipment	344,275	90,006
Unrealized (gain) loss on investments	(599,565)	514,476
Transfer of assets to KU	2,002,355	42,465,362
Changes in		
Costs incurred in excess of research revenues received	1,181,840	(6,269,097)
Interest receivable	(16,583)	(21,209)
Other assets	—	2,946
Accounts payable and accrued expenses	4,017,138	(2,811,957)
Research revenues received in advance of costs incurred	<u>(3,714,364)</u>	<u>(1,853,093)</u>
Net cash provided by (used in) operating activities	<u>\$ 6,384,769</u>	<u>\$ (5,404,861)</u>
Supplemental Cash Flow Information		
Donations of equipment from research projects	<u>\$ 2,920,965</u>	<u>\$ 4,592,072</u>

University of Kansas Center for Research, Inc.

Notes to Financial Statements

June 30, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The University of Kansas Center for Research, Inc. (the Center) is a not-for-profit organization that operates under the administrative jurisdiction of the University of Kansas (the University or KU). The Center is a Component Unit of the University and administers sponsored agreements to conduct research and training for the University. The Center's revenues and other support are derived principally from federal, state and private grants and its activities are conducted principally in Lawrence, Kansas.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Center considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2007 and 2006, cash equivalents consisted primarily of money market mutual funds and an overnight sweep account. Substantially all of the Center's cash and cash equivalents are held by two banks at June 30, 2007.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Property and Equipment

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Scientific equipment purchased with research funds is either donated to the Center or returned to the grantor at the end of the research project. If such equipment is donated to the Center, the equipment is recorded at its original cost less accumulated depreciation at the date it is given to the Center. Other donated equipment is recorded at its fair market value at the date of donation and is depreciated over its estimated remaining useful life.

University of Kansas Center for Research, Inc.

Notes to Financial Statements

June 30, 2007 and 2006

Bond Issuance Costs

Bond issuance costs incurred on the revenue bond issues have been deferred and are being amortized over the life of the bonds using the straight-line method.

Net Assets

Unrestricted – Net assets that are not subject to donor-imposed stipulations and resources are used in support of the Center's general operations.

Unrestricted – Designated – Net assets that are not subject to donor-imposed restrictions but the resources are held in custody by the Center primarily for various departments or units of the University. These amounts originate primarily from overhead fees charged by the Center on behalf of these departments. The amounts are used at the discretion of the respective departments or units.

Designated and unrestricted net assets at June 30, 2007 and 2006 included \$13,867,227 and \$15,871,202, respectively, to be used for funding of certain individual principal investigators, laboratories, departments and schools within the University or the University itself.

Revenue Recognition

Support funded by grants is recognized as the Center performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Research project revenues are received in connection with exchange transactions wherein the Center is obligated to provide certain goods and/or services. Revenues received for research projects are received either in advance of costs incurred or on a cost-reimbursement basis. Any revenues received in advance are deferred. The costs of projects on a cost-reimbursement basis are recognized as incurred and related revenue is recognized when earned (primarily as costs are incurred), whether billed or unbilled. General and administrative overhead revenues are earned as a percentage of direct costs charged to sponsored projects. The percentage is based on the rate negotiated with the U.S. Department of Health and Human Services and is included in each award budget.

The Center believes all capitalized costs incurred in excess of research revenues received will be recoverable. If amounts become unrecoverable, they will be charged to operations in the period that determination is made.

Income Taxes

The Center is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Center is subject to federal income tax on any unrelated business taxable income.

University of Kansas Center for Research, Inc.

Notes to Financial Statements

June 30, 2007 and 2006

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Investments and Investment Return

Unrestricted investments at June 30 consisted of the following:

	<u>2007</u>	<u>2006</u>
Cash equivalents	\$ —	\$ 728,199
Equity mutual funds	1,703,243	1,413,351
U.S. Treasury obligations	1,341,908	1,077,307
U.S Agency obligations	<u>23,529,593</u>	<u>23,008,682</u>
	<u>\$ 26,574,744</u>	<u>\$ 26,227,539</u>

Investments designated for capital projects at June 30 consisted of the following:

	<u>2007</u>	<u>2006</u>
Cash equivalents	\$ 8,135,530	\$ 3,604
Fixed income investments	<u>6,907,381</u>	<u>2,029,070</u>
	<u>\$ 15,042,911</u>	<u>\$ 2,032,674</u>

The above designated investments are a result of bond proceeds to be used for the construction of a multidisciplinary research building and related building furnishings and the Structural Biology Center Phase III (see Notes 3 and 5).

Total investment return is comprised of the following:

	<u>2007</u>	<u>2006</u>
Interest and dividend income	\$ 1,891,312	\$ 1,682,073
Net realized and unrealized gains (losses) on investments reported at fair value	<u>599,565</u>	<u>(514,476)</u>
	<u>\$ 2,490,877</u>	<u>\$ 1,167,597</u>

University of Kansas Center for Research, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Note 3: Property and Equipment and Building Under Construction

Property and equipment at June 30 consists of:

	<u>2007</u>	<u>2006</u>
Land	\$ 580,952	\$ 700,952
Building	4,303,488	4,102,246
Office equipment	38,034	59,731
Scientific equipment	<u>29,148,206</u>	<u>25,480,433</u>
	34,070,680	30,343,362
Less accumulated depreciation and amortization	<u>16,072,446</u>	<u>13,474,309</u>
	17,998,234	16,869,053
Construction in progress	<u>3,884,518</u>	<u>14,526</u>
	<u>\$ 21,882,752</u>	<u>\$ 16,883,579</u>

The statements of financial position of the Center include only those property and equipment purchases that remain the Center's property. Accordingly, the historical cost of property and equipment purchased by the Center and transferred to the University are reflected within the University's financial statements.

Transfers to the University for 2007 and 2006 were:

	<u>2007</u>	<u>2006</u>
Equipment	\$ 2,002,355	\$ 2,155,198
Buildings	<u>—</u>	<u>40,310,164</u>
	<u>\$ 2,002,355</u>	<u>\$ 42,465,362</u>

During the year ended June 30, 2006, the construction of a multidisciplinary research building (*see Note 5*) was completed and the building and historical costs (amounting to \$40,310,164) were transferred to the University, resulting in a deficit balance in the Center's unrestricted net assets. The Center will utilize the building to conduct its activities at no charge by the University.

Construction in progress for fiscal year 2007 relates to construction of the Structural Biology Center Phase III building (*see Note 5*). Construction began during the year ended June 30, 2007.

University of Kansas Center for Research, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Note 4: Research Project Transfers

The University has transferred all of its research grants to the administrative control of the Center. For the years ended June 30, 2007 and 2006, the University had research expenditures of \$2,452,445 and \$1,294,767, respectively (unaudited). The Center had research expenditures of \$99,834,888 and \$106,797,244 for the years ended June 30, 2007 and 2006, respectively. For the years ended June 30, 2007 and 2006, the University earned indirect cost reimbursements on its sponsored programs in the amounts of \$103,334 and \$60,895, respectively (unaudited). The Center earned indirect cost reimbursements (reflected as general and administrative overhead on the statements of activities) of \$19,626,859 and \$21,413,523 for the years ended June 30, 2007 and 2006, respectively.

For the years ended June 30, 2007 and 2006, total “sponsored activity” conducted at the University of Kansas (research income and indirect cost reimbursements) amounted to \$122,017,526 and \$129,566,429, respectively.

Note 5: Bonds Payable

During 2005, the Center financed the construction of a multidisciplinary research building (*see Notes 2 and 3*) by issuing taxable revenue bonds totaling \$45,625,000. Principal payments are due over the next 20 years (commencing in 2007). Interest payments are due semiannually at rates ranging from 3.62% to 5.30%. During fiscal year 2007, the Center financed the construction of the Structural Biology Center Phase III building by issuing taxable and non-taxable term bonds totaling \$1,255,000 and \$15,830,000 respectively. Principal payments are due over the next 20 years (commencing in 2010). Interest payments are due semiannually at rates ranging from 4% to 5%.

Future minimum principal payments at June 30, 2007 are as follows:

2008	\$ 2,095,000
2009	2,185,000
2010	2,275,000
2011	2,375,000
2012	2,475,000
Thereafter	<u>49,740,000</u>
	61,145,000
Bond premium	<u>529,207</u>
	<u>\$ 61,674,207</u>

University of Kansas Center for Research, Inc.

Notes to Financial Statements

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Multidisciplinary research building (MRB) bonds	\$ 44,060,000	\$ 45,625,000
Structural Biology Center (SBC) Phase III bonds	<u>17,614,207</u>	<u>—</u>
	<u>\$ 61,674,207</u>	<u>\$ 45,625,000</u>

Included in cash and investments designated for capital projects is approximately \$12,335,000 of proceeds from the Structural Biology Center Phase III bonds that is restricted to fund construction of this building.

Note 6: Related Party Transactions

The Center has reported certain utility, maintenance and custodial expenses paid by the University for the benefit of the Center. The following amounts were paid by the University for the years ended June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Utilities	\$ 42,195	\$ 39,100
Maintenance	17,599	11,115
Custodial	<u>30,694</u>	<u>30,484</u>
	<u>\$ 90,488</u>	<u>\$ 80,699</u>

During the years ended June 30, 2007 and 2006, amounts paid by the University (and reimbursed by the Center) for salaries, benefits, scholarships, fellowships, tuition and other operating expenses amounted to approximately \$80,500,000 and \$91,000,000, respectively. Of these amounts, approximately \$3,500,000 and \$129,000 are included in accounts payable at June 30, 2007 and 2006, respectively.

Additionally, during the year ended June 30, 2007, the University provided support to the Center amounting to \$998,442 to fund general and administrative salaries and benefits.

University of Kansas Center for Research, Inc.
Notes to Financial Statements
June 30, 2007 and 2006

Note 7: Operating Leases

Noncancellable operating leases for facilities used in research projects expire in various years through 2011. These leases generally contain renewal options for periods ranging from one to five years.

Future minimum lease payments at June 30, 2007, were:

2008	\$	266,853
2009		150,086
2010		22,620
2011		<u>3,428</u>
	\$	<u>442,987</u>

Rent expense for all operating leases was \$324,384 and \$449,168 for the years ended June 30, 2007 and 2006, respectively.

Note 8: Defined Contribution Program

All employees working for the Center are University of Kansas employees. The University has a defined contribution program covering all staff employees who have worked at the University for more than one year. Participating employees contribute 5.5% of their salary, and the Center contributes an additional 8.5%. Participating employees are fully vested immediately. The Center contributed \$200,461 and \$265,283 for 2007 and 2006, respectively.

Note 9: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Grant Revenue

Approximately 58% of all grant revenues was received from three grantors (federal agencies) in 2007.

Supplementary Information

University of Kansas Center for Research, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

See Schedule Following

University of Kansas Center for Research, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Notes to Schedule

1. This schedule includes the federal awards activity of the University of Kansas Center for Research, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. Of the federal expenditures presented in this schedule, the Center provided federal awards to subrecipients as follows:

Program	CFDA Number	Amount Provided
Research and Development Cluster	N/A	\$ 5,828,297
Medicaid Cluster	N/A	97,786
GEAR UP: Pathways to Success	84.334	1,927
Blueprint2 Project	84.344	63,161
SIM Teacher Training Project Virginia Department of Education	84.323	312,507
Assistive Technology for Kansans Project (ATKP)	84.224	133,554
Transatlantic Dual Bachelor of Science Degree in Chemistry	84.116	2,550
Assistive Technology Services for Vocational Rehabilitation (VR)	84.126	381,739
Kansas Alternative Finance Program	84.224	793,646
The NICHD Study of Early Child Care – Phase III	93.865	393
Advancing Biomedical Research for American Indians	93.859	350,301
PI*TEC – The Private Independent Technology in Education Consortium – AKA The Missouri Bypass Contract	84.XXX	<u>10,000</u>
		<u>\$ 7,975,861</u>



**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Trustees
University of Kansas Center for Research, Inc.
Lawrence, Kansas

We have audited the financial statements of the University of Kansas Center for Research as of and for the year ended June 30, 2007, and have issued our report thereon dated October 22, 2007. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures 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 Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Center's financial statements that is more than inconsequential will not be prevented or detected by the Center's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Center's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Center's management in a separate letter dated October 22, 2007.

This report is intended solely for the information and use of the governing body, management and others within the Center and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City Missouri
October 22, 2007



Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs

Board of Trustees
University of Kansas Center for Research, Inc.
Lawrence, Kansas

Compliance

We have audited the compliance of the University of Kansas Center for Research, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the compliance of the University of Kansas Center for Research based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Centers*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center'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. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the University of Kansas Center for Research, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the University of Kansas Center for Research, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 Center's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City, Missouri
October 22, 2007

University of Kansas Center for Research, Inc.
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Summary of Auditors' Results

1. The opinion(s) expressed in the independent accountants' report was (were):
 Unqualified Qualified Adverse Disclaimed

2. The independent accountants' report on internal control over financial reporting described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit? Yes No

4. The independent accountants' report on internal control over compliance with requirements applicable to major federal awards programs described:
 Significant deficiency(ies) noted considered material weakness(es)? Yes No
 Significant deficiency(ies) noted that are not considered to be a material weakness? Yes No

5. The opinion(s) expressed in the independent accountants' report on compliance with requirements applicable to major federal awards was (were):
 Unqualified Qualified Adverse Disclaimed

6. The audit disclosed findings required to be reported by OMB Circular A-133? Yes No

7. The Center's major programs were:

Cluster/Program	CFDA Number
Research and Development Cluster	N/A
Special Education Personnel Preparation to Improve Services and Results for Children with Disabilities	84.325
Kansas Reading and Mathematics Assessment	84.369

University of Kansas Center for Research, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2007

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$3,000,000.
9. The Center qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

University of Kansas Center for Research, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2007

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
No matters are reportable.		

University of Kansas Center for Research, Inc.
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2007

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Summary of Finding	Status
No matters are reportable.		

Findings Required to be Reported by OMB Circular A-133

Reference Number	Summary of Finding	Status
No matters are reportable.		