

UNIVERSITY OF KANSAS CENTER FOR RESEARCH, INC

**FINANCIAL STATEMENTS
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2008 and 2007**

**University of Kansas Center for Research, Inc.
June 30, 2008 and 2007**

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CHV**COCHRAN HEAD VICK & CO., P.A.****& Co***Certified Public Accountants***INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statement of financial position of the University of Kansas Center for Research, Inc. (the Center) as of June 30, 2008 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 audit. The financial statements of the University of Kansas Center for Research, Inc. as of and for the year ended June 30, 2007 were audited by other auditors whose report dated October 22, 2007, expressed an unqualified opinion on those statements.

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. 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 audit provides 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, Inc. as of June 30, 2008, and the changes in its net assets and its cash flows for the year 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 August 25, 2008, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

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August 25, 2008

Cochran Head Vick & Co PA

University of Kansas Center for Research, Inc.
Statements of Financial Position
June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents	\$ 2,787,046	\$ 10,603,549
Investments	29,163,007	27,827,384
Interest receivable	208,368	189,365
Accounts receivable - sponsored research		
Federal	16,723,854	12,742,351
State	1,741,118	2,743,956
Private	2,198,254	1,679,677
Total accounts receivable	20,663,226	17,165,984
Total current assets	52,821,647	55,786,282
Property and equipment, net	20,930,445	17,998,234
Construction in progress	19,244,200	3,884,518
Total property and equipment	40,174,645	21,882,752
Cash and investments designated for capital projects and debt service	3,361,666	15,042,912
Other assets		
Bond issuance costs and other	1,440,887	1,525,633
Total assets	\$ 97,798,845	\$ 94,237,579
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 9,994,540	\$ 9,309,501
Current portion of long-term debt	2,212,491	2,122,491
Deferred revenues - sponsored research		
Federal	903,977	4,754,806
State	4,422,335	4,563,542
Private	5,474,455	3,642,263
Total deferred revenues	10,800,767	12,960,611
Total current liabilities	23,007,798	24,392,603
Bonds Payable, net	57,339,225	59,551,717
Total liabilities	80,347,023	83,944,320
Net Assets (Deficit)		
Unrestricted - designated	11,741,212	12,235,398
Unrestricted	5,710,610	(1,942,139)
Total unrestricted net assets	17,451,822	10,293,259
Total liabilities and net assets	\$ 97,798,845	\$ 94,237,579

See notes to the financial statements

University of Kansas Center for Research, Inc.
 Statements of Activities
 For the years ended June 30, 2008 and 2007

	2008	2007
Revenues, Gains, and Other Support		
Direct research income	\$ 101,900,475	\$ 99,834,888
Facilities & administrative (F&A) reimbursement:		
Corporation F&A reimbursement	16,235,232	16,274,448
Research unit/school F&A reimbursement	2,914,295	3,352,411
Total F&A reimbursement	19,149,527	19,626,859
Service centers	1,940,808	1,985,912
Technology transfer	1,176,357	366,958
Custodial funds	142,477	46,766
Donations of equipment from projects	4,794,546	2,920,965
Investment Income	2,106,793	2,490,878
Other Income	1,726,680	453,496
	11,887,661	8,264,975
Total revenues, gains and other support	132,937,663	127,726,722
Expenses		
Direct research expenses	101,900,475	99,834,888
Corporation F&A expenses:		
Research facilities operations and maintenance	334,618	1,750,657
University support	299,571	285,555
Research awards, training and programs	-	314,436
Start-up program costs	1,089,653	602,252
Matching costs	766,320	601,065
Research center, unit and service lab support	3,982,852	4,632,896
Research administration	5,240,315	3,219,049
Interest expense-bonds	2,566,905	2,748,642
Research unit/school F&A expenses	2,868,815	2,691,793
Service centers	1,970,968	1,695,900
Technology transfer	1,059,691	865,254
Custodial funds	112,670	32,770
Depreciation and amortization	3,431,976	2,722,079
Gain/loss on disposal	29,664	344,275
Total expenses	125,654,493	122,341,511
Change in net assets before transfers	7,283,170	5,385,211
Transfers to University	124,607	2,002,355
Change in net assets after transfer	7,158,563	3,382,856
Net assets, beginning of year	10,293,259	6,910,403
Net assets, end of year	\$ 17,451,822	\$ 10,293,259

See notes to the financial statements

University of Kansas Center for Research, Inc.
Statements of Cash Flows
For the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Activities		
Cash received for research contracts, grants and service accounts and unit support	\$ 115,392,916	\$ 116,929,223
Payments to suppliers and employees	(118,904,836)	(112,806,238)
Interest paid	(2,945,672)	(2,466,078)
Other operating receipts	<u>6,838,201</u>	<u>4,727,862</u>
Net cash provided by operating activities	<u>380,609</u>	<u>6,384,769</u>
Investing Activities		
Purchase of property and equipment	(16,683,646)	(4,025,674)
Purchase of investments	(38,591,055)	(61,859,150)
Proceeds from sales and maturities of investments	<u>49,172,589</u>	<u>47,848,632</u>
Net cash used in investing activities	<u>(6,102,112)</u>	<u>(18,036,192)</u>
Financing Activities		
Proceeds from issuance of bonds payable	-	17,634,826
Principal payments of long-term debt	(2,095,000)	(1,565,000)
Bond issuance costs and other	<u>-</u>	<u>(396,625)</u>
Net cash provided by (used in) financing activities	<u>(2,095,000)</u>	<u>15,673,201</u>
Increase (Decrease) in Cash and Cash Equivalents	(7,816,503)	4,021,778
Cash and Cash Equivalents, Beginning of Year	<u>10,603,549</u>	<u>6,581,771</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,787,046</u>	<u>\$ 10,603,549</u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in net assets	\$ 7,158,563	\$ 3,382,856
Items not requiring (providing) cash:		
Depreciation	3,431,976	2,722,079
Amortization	57,254	29,096
Capitalized interest expense	(399,948)	(43,393)
Donations of equipment from research projects	(4,794,546)	(2,920,965)
Loss on disposal of property and equipment	29,664	344,275
Unrealized (gain) loss on investments	(235,911)	(599,565)
Transfer of assets to KU	124,607	2,002,355
Changes in:		
Accounts receivable - research	(3,497,242)	1,181,840
Interest receivable	(19,003)	(16,583)
Accounts payable and accrued expenses	685,039	4,017,138
Deferred revenues - research	<u>(2,159,844)</u>	<u>(3,714,364)</u>
Net cash provided by operating activities	<u>\$ 380,609</u>	<u>\$ 6,384,769</u>
Supplemental Cash Flow Information		
Donations of equipment from research projects	<u>\$ 4,794,546</u>	<u>\$ 2,920,965</u>

See notes to the financial statements

UNIVERSITY OF KANSAS CENTER FOR RESEARCH, INC.
Notes to the Financial Statements
June 30, 2008 and 2007

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, 2008 and 2007, cash equivalents consisted primarily of an overnight sweep account. Substantially all of the Center's cash and cash equivalents are held by one bank at June 30, 2008. At June 30, 2008, and periodically throughout the year, deposits exceeded federally insured amounts. At June 30, 2008, uninsured deposits totaled \$7, 890, 199. A significant portion of the uninsured deposits are maintained in an overnight sweep account which is collateralized with U.S. Government securities.

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, generally 8 to 40 years. 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.

Property and equipment are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the Center's capitalization policy includes all items with a unit cost of \$5,000 or more, and an estimated useful life greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if the related project cost exceeds \$100,000. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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.

UNIVERSITY OF KANSAS CENTER FOR RESEARCH, INC.
Notes to the Financial Statements
June 30, 2008 and 2007

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.

Unrestricted net assets at June 30, 2008 and 2007 included designated amounts of \$11,741,212 and \$12,235,398, 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. Facilities and administrative (F&A) reimbursement 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's management believes all cost reimbursement receivable amounts will be collected. If amounts become uncollectible, 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.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on total assets, liabilities, net assets or changes in net assets.

UNIVERSITY OF KANSAS CENTER FOR RESEARCH, INC.
Notes to the Financial Statements
June 30, 2008 and 2007

2) Investments and Investment Return

Investments at June 30 consisted of the following:

	<u>2008</u>	<u>2007</u>
Cash equivalents	\$ 1,799,786	\$ 1,252,640
Equity mutual funds	1,479,566	1,703,243
U.S. Treasury obligations	4,732,635	1,341,908
U.S. Agency obligations	<u>21,151,020</u>	<u>23,529,593</u>
 Total investments	 <u>\$ 29,163,007</u>	 <u>\$ 27,827,384</u>

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

	<u>2008</u>	<u>2007</u>
Cash equivalents	\$ 1,653,166	\$ 8,135,530
Fixed income investments	<u>1,708,500</u>	<u>6,907,382</u>
	 <u>\$ 3,361,666</u>	 <u>\$ 15,042,912</u>

The above designated investments are a result of bond proceeds to be used for debt service and 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>2008</u>	<u>2007</u>
Interest and dividend income	\$ 1,870,882	\$ 1,891,313
Net realized and unrealized gains on investments reported at fair value.	<u>235,911</u>	<u>599,565</u>
	 <u>\$ 2,106,793</u>	 <u>\$ 2,490,878</u>

UNIVERSITY OF KANSAS CENTER FOR RESEARCH, INC.
Notes to the Financial Statements
June 30, 2008 and 2007

3) Property and Equipment

Property and equipment at June 30, 2008 consists of:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Land	\$ 580,952	\$ -	\$ 100,000	\$ 480,952
Building	4,303,488	74,472	26,236	4,351,724
Office equipment	38,034	24,181	-	62,215
Scientific equipment	29,148,206	6,948,052	491,977	35,604,281
	<u>34,070,680</u>	<u>7,046,705</u>	<u>618,213</u>	<u>40,499,172</u>
Less accumulated depreciation:				
Building	1,110,311	92,634	5,007	1,197,938
Office equipment	34,605	7,388	-	41,993
Scientific equipment	14,927,530	3,829,792	428,525	18,328,797
	<u>16,072,446</u>	<u>3,929,814</u>	<u>433,532</u>	<u>19,568,728</u>
	<u>17,998,234</u>	<u>3,116,891</u>	<u>184,681</u>	<u>20,930,444</u>
Construction in progress	<u>3,884,518</u>	<u>15,431,596</u>	<u>71,914</u>	<u>19,244,200</u>
Total, net	<u>\$ 21,882,752</u>	<u>\$ 18,548,487</u>	<u>\$ 256,595</u>	<u>\$ 40,174,644</u>
Increases to accumulated depreciation	\$ 3,929,814			
Less accumulated depreciation recognized on donated assets	<u>497,838</u>			
Depreciation charged to operations	<u>\$ 3,431,976</u>			

The statements of financial position of the Center include only those property and equipment purchases or donations 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 2008 and 2007 were:

	<u>2008</u>	<u>2007</u>
Equipment	<u>\$ 124,607</u>	<u>\$ 2,002,355</u>

Construction in progress for fiscal year 2008 relates primarily to construction of the Structural Biology Center Phase III and Phase IV buildings and includes capitalized interest expense of \$399,948. Construction began during the year ended June 30, 2007. Upon completion, the facility will be transferred to the University.

In connection with the Phase IV project, the Center received \$1,000,000 contribution from the University through a funding agreement between the University and the Kansas Bioscience Authority.

UNIVERSITY OF KANSAS CENTER FOR RESEARCH, INC.
Notes to the Financial Statements
June 30, 2008 and 2007

4) Research Project Transfers

The University has transferred substantially all of its research grants to the administrative control of the Center. For the years ended June 30, 2008 and 2007, the University had research expenditures of \$2,877,991 and \$2,452,445 respectively (Unaudited). The Center had research expenditures of \$101,900,475 and \$99,834,888 for the years ended June 30, 2008 and 2007, respectively. For the years ended June 30, 2008 and 2007, the University earned indirect cost reimbursements on its sponsored programs in the amounts of \$76,316 and \$103,334, respectively (Unaudited). The Center earned indirect cost reimbursements (reflected as general and administrative overhead on the statements of activities) of \$19,149,527 and \$19,626,859 for the years ended June 30, 2008 and 2007, respectively.

For the years ended June 30, 2008 and 2007, total "sponsored activity" conducted at the University of Kansas (research income and indirect cost reimbursements) amounted to \$124,004,309 and \$122,017,526, respectively.

5) Long-term Debt

A summary of the changes in long term debt is as follows:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2008</u>	<u>Current Portion</u>
Revenue bonds:					
Series 2005B	\$ 44,060,000	\$ -	\$ 1,625,000	\$42,435,000	\$1,685,000
Series 2006G	17,085,000	-	470,000	16,615,000	500,000
	<u>61,145,000</u>	<u>-</u>	<u>2,095,000</u>	<u>59,050,000</u>	<u>2,185,000</u>
Bond premium	529,207	-	27,491	501,716	27,491
Total	<u>\$ 61,674,207</u>	<u>\$ -</u>	<u>\$ 2,122,491</u>	<u>\$59,551,716</u>	<u>\$2,212,491</u>

Long-term debt at June 30, 2008, is comprised of the following:

Revenue Bonds

\$45,625,000 – Series 2005B Kansas Development Finance Authority Taxable Revenue Bonds. Due in annual installments of \$1,565,000 to \$3,610,000. Issued 2/1/05 with a final maturity on 2/1/25. Interest ranging from 3.6% to 5.3% payable semi-annually. A rating of A1 was assigned by Moody's. The bonds were upgraded to AAA with the purchase of a surety bond issued by MBIA Insurance Corporation.

\$ 42,435,000

\$17,085,000 - Series 2006G Kansas Development Finance Authority Revenue Bonds (\$15,830,000 tax-exempt and \$1,255,000 taxable) Due in annual installments of \$470,000 to \$4,615,000. Issued 10/1/06 with final maturity on 2/1/26. The first principle payment was due 2/1/08. Interest ranging from 4.00% to 5.04% payable semi-annually. A rating of A was assigned by Standard & Poor's and a rating of A1 was assigned by Moody's Investor Services.

16,615,000

\$ 59,050,000

Proceeds from the 2005B and 2006G bonds were used to finance the construction of a Multidisciplinary Research Building and Structural Biology Center Phase III building, respectively.

UNIVERSITY OF KANSAS CENTER FOR RESEARCH, INC.
Notes to the Financial Statements
June 30, 2008 and 2007

Future revenue bond debt service requirements at June 30, 2008 are as follows:

Year Ending June 30,	2005B		2006G		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 1,685,000	\$ 2,113,664	\$ 500,000	\$ 745,433	\$ 2,185,000	\$ 2,859,097
2010	1,755,000	2,045,590	520,000	720,233	2,275,000	2,765,823
2011	1,830,000	1,971,178	545,000	696,469	2,375,000	2,667,647
2012	1,910,000	1,891,573	565,000	674,669	2,475,000	2,566,242
2013	1,995,000	1,804,668	590,000	652,069	2,585,000	2,456,737
2014-2018	11,500,000	7,499,324	3,335,000	2,886,144	14,835,000	10,385,468
2019-2023	14,725,000	4,273,876	4,055,000	2,162,888	18,780,000	6,436,764
2024-2026	7,035,000	564,185	6,505,000	828,438	13,540,000	1,392,623
	<u>\$ 42,435,000</u>	<u>\$ 22,164,058</u>	<u>\$ 16,615,000</u>	<u>\$ 9,366,343</u>	<u>\$ 59,050,000</u>	<u>\$ 31,530,401</u>

Included in cash and investments designated for capital projects is approximately \$1,400,000 of proceeds from the Structural Biology Center Phase III bonds that is restricted to fund construction of this building.

6) Related Party Transactions

During the years ended June 30, 2008 and 2007, amounts paid by the University (and reimbursed by the Center) for salaries, benefits, scholarships, fellowships, tuition and other operating expenses amounted to approximately \$77,435,000 and \$80,500,000 respectively. Of these amounts, approximately \$5,200,000 and \$7,100,000 are included in accounts payable and accrued expenses at June 30, 2008 and 2007, respectively.

The University provides support to the Center to fund general and administrative salaries and benefits and 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, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Salaries and benefits	\$ 790,040	\$ 998,442
Utilities	52,636	42,195
Maintenance	22,901	17,599
Custodial	<u>29,600</u>	<u>30,694</u>
	<u>\$ 895,177</u>	<u>\$ 1,088,930</u>

UNIVERSITY OF KANSAS CENTER FOR RESEARCH, INC.
Notes to the Financial Statements
June 30, 2008 and 2007

7) Operating Leases

Noncancellable operating leases for facilities used in research projects expire in various years through 2013. These leases generally contain renewal options for periods ranging from one to five years.

Future minimum lease payments at June 30, 2008 were:

2009	\$ 168,687
2010	43,401
2011	24,743
2012	21,850
2013	<u>1,824</u>
	<u>\$ 260,505</u>

Rent expense for all operating leases was \$297,946 and \$324,384 for the years ended June 30, 2008 and 2007, respectively.

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 \$226,926 and \$200,461 for 2008 and 2007, respectively.

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 56% of all grant revenues was received from three grantors (federal agencies) in 2008.

**UNIVERSITY OF KANSAS
CENTER FOR RESEARCH, INC.**

**SINGLE AUDIT REPORT
(OMB Circular A-133)**

FOR THE YEAR ENDED JUNE 30, 2008

University of Kansas Center for Research, Inc.

**Single Audit Report
(OMB Circular A-133)
For the Year Ended June 30, 2008**

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A copy of the University of Kansas Center for Research, Inc.'s Financial Statements for the year ended June 30, 2008 accompanies this report. The independent auditor's report is hereby incorporated by reference.	
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CHV**& Co****COCHRAN HEAD VICK & CO., P.A.***Certified Public Accountants***Independent Auditor's Report on Schedule
of Expenditures of Federal Awards**

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

We have audited the accompanying statement of financial position of the University of Kansas Center for Research, Inc. (the Center) as of June 30, 2008, and the related statement 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 audit.

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, and the provisions of Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether 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 audit provides a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2008, on our consideration of the Center'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* and should be considered in assessing the results of our audit.

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

This report is intended for the information of the Board of Trustees and management of the Center, 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.

August 25, 2008

Cochran Head Vick & Co PA

ADDITIONAL INFORMATION

University of Kansas Center for Research, Inc.
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Note 1. Organization

The University of Kansas Center for Research, Inc. (the Center) is the recipient of several federal grants. The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the Center for the year ended June 30, 2008. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

Note 2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information presented in this schedule is 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 financial statements.

Note 3. Additional Audits

Grantor agencies reserve the right to conduct additional audits of the Center's grant programs for economy and efficiency and program results which may result in disallowed costs to the Center. However, management does not believe such audits would result in any disallowed costs that would be material to the Center's financial position at June 30, 2008.

Note 4. Subrecipients

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	\$ 7,004,675
Understanding the Tree of Life	47.076	22,116
Demonstration of a Low cost Micro Scale N2 Rejection System to Upgrade Low-BTU Gas	81.259	60,000
Advanced Technologies for Teachers in Using Assessment Data to Improve Student Achievement	84.116	30,339
Transatlantic Dual Bachelor of Science Degree in Chemistry	84.116	1,464
Assistive Technology Services for Vocational Rehabilitation (VR) Customers	84.126	94,895
Tiny K-Infant Toddler Assistive Technology Services	84.181	22,000
KAN-Tell (Kansas Teachers of English Language Learners)	84.195	62,952
CIBER - Center for International Business Education	84.220	4,973
Kansas Alternative Finance Program	84.224	1,287,236
Assistive Technology for Kansans Project (ATKP)	84.224	122,970
Kansas Low-Incidence Personnel Preparation (KLIPP)	84.325	12,957
GEAR UP - Topeka 2005 - 2011	84.334	205,131
APEX GEAR UP	84.334	51,063
Wyandotte County, Kansas Early Reading First	84.359	341,466
Title XIX - Mental Health (FY 2005)/KS SRS	93.242	195,928
Title XIX - Children's Mental Health & Consumer Satisfaction	93.242	11,708
Effective Child Welfare Practice with Hispanic Children and Families	93.648	21,374
Equipment Exchange: Increasing Access to Durable Medical Equipment	93.778	122,151
Advancing Biomedical Research for American Indians	93.859	119,311
The NICHD Study of Early Child Care - Phase III	93.865	113,708
		\$ 9,908,417

**University of Kansas Center for Research, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

Section 1 - Summary of Auditor's Results

Financial Statements:

Type Audit Report Issued on Financial Statements of Auditee

Unqualified

Internal Control Over Financial Reporting

Significant deficiency identified. Considered to be a material weakness.

See finding 08-01

General Compliance

The audit did not disclose any instances of noncompliance which would be material to the financial statements.

Federal Awards:

Internal Control Over Major Programs

No material weaknesses identified. No significant deficiencies reported.

Type Audit Report Issued on Compliance for Major Programs

Unqualified

Audit Findings

The audit did not disclose any audit findings that are required to be reported under OMB Circular A-133.

Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program</u>
N/A	Research and Development Cluster
93.242	Mental Health Research Grants

Dollar Threshold Used to Distinguish Between Type A and Type B Program

\$3,000,000

Auditee Qualified as a Low-risk Auditee

Yes

**University of Kansas Center for Research, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2008**

Section 2 – Financial Statement Findings

Financial Statement Findings Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

08-01 - Financial Reporting – Amounts Held in Retention

Condition

When construction invoices are processed in the accounting system, the amount recorded reflects the net disbursement due to the contractor. However, such a system does not take into account amounts held in retention by the Center until the completion of a construction contract. By not including information regarding amounts held in retention, the Center may not accurately reflect all amounts payable to contractors on its general ledger. As a result, a material adjustment to the Center's financial records was required to reflect amounts held in retention related to ongoing construction contracts. Accordingly, we consider this issue to be a material weakness in internal control over financial reporting.

Recommendation

We recommend that the Center evaluate its construction management policies and incorporate the necessary procedures required to ensure that the Center's accounting system is used to timely and accurately record and account for the full cost of construction projects.

Management's Response

We agree. Management will review its construction management policies and put procedures in place to ensure that these liabilities are properly recorded in Accounts Payable on a timely and accurate basis.

Summary Schedule of Prior Audit Findings

None

Section 3 – Federal Award Findings and Questioned Costs

Federal Award Findings Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None

Summary Schedule of Prior Audit Findings

None

COMPLIANCE REPORTS



COCHRAN HEAD VICK & CO., P.A.

& Co

Certified Public Accountants

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

We have audited the accompanying financial statements of the University of Kansas Center for Research, Inc. (the Center), and have issued our report thereon dated August 25, 2008. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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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 combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting identified as item 08-01.

A material weakness is a significant deficiency, or 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 entity's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness in internal control over financial reporting.

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 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 that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of the Center in a separate letter dated August 25, 2008.

The Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Center's response, and, accordingly, we express no opinion on it.

This report is intended for the information of the Board of Trustees and management of the Center, 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.

August 25, 2008

Cochran Head, Vicki & Co. PA

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**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

To the Board of Trustees
University of Kansas Center for Research, Inc.

Compliance

We have audited the compliance of the University of Kansas Center for Research, Inc. (the Center), 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 its major federal program for the year ended June 30, 2008. The Center's major federal programs are identified in the summary of auditor's results section of the 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 Center's compliance 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 Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether any noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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 Center complied in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

We noted certain immaterial instances of non-compliance that we reported to management of the Center in a separate letter dated August 25, 2008.

Internal Control Over Compliance

The management of the Center 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.

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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 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 for the information of the Board of Trustees and management of the Center, 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.

August 25, 2008

Cochran Head Vicki & G PA