

University of Kansas Center for Research, Inc.

Accountants' Report and Financial Statements

June 30, 2005 and 2004



University of Kansas Center for Research, Inc.
June 30, 2005 and 2004

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information.....	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities.....	3
Statements of Cash Flows	4
Notes to Financial Statements	5
Supplementary Information	
Schedule of Expenditures of Federal Awards	12
Notes to Schedule of Expenditures of Federal Awards	45
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 <i>Government Auditing Standards</i>.....	46
Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs	48
Schedule of Findings and Questioned Costs.....	50
Summary Schedule of Prior Audit Findings	53



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, 2005 and 2004, 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, 2005 and 2004, 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 August 25, 2005, 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.

/s/ **BKD, LLP**

Kansas City, Missouri
August 25, 2005

University of Kansas Center for Research, Inc.
Statements of Financial Position
June 30, 2005 and 2004

Assets

	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 12,716,255	\$ 1,786,546
Investments	25,840,882	24,830,800
Interest receivable	151,573	180,191
Costs incurred in excess of research revenues received		
Federal	10,791,545	8,808,503
Private	650,537	748,869
State	<u>636,645</u>	<u>330,554</u>
	<u>12,078,727</u>	<u>9,887,926</u>
Property and equipment, net	11,688,228	8,009,883
Building under construction	<u>20,417,588</u>	<u>—</u>
	<u>32,105,816</u>	<u>8,009,883</u>
Investments designated for capital projects	<u>28,865,154</u>	<u>—</u>
Other assets		
Bond issuance costs and other	<u>1,273,489</u>	<u>—</u>
Total assets	<u>\$ 113,031,896</u>	<u>\$ 44,695,346</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ <u>7,524,508</u>	\$ <u>2,793,191</u>
Research revenues received in advance of costs incurred		
Federal	7,414,257	3,376,354
Private	3,995,576	3,626,201
State	<u>7,118,235</u>	<u>5,243,095</u>
	<u>18,528,068</u>	<u>12,245,650</u>
Bonds payable	<u>45,625,000</u>	<u>—</u>
Total liabilities	<u>71,677,576</u>	<u>15,038,841</u>

Net Assets

Unrestricted - designated	11,157,003	7,964,856
Unrestricted	<u>30,197,317</u>	<u>21,691,649</u>
Total unrestricted net assets	<u>41,354,320</u>	<u>29,656,505</u>
Total liabilities and net assets	<u>\$ 113,031,896</u>	<u>\$ 44,695,346</u>

University of Kansas Center for Research, Inc.
Statements of Activities
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues, Gains and Other Support		
Research income – federal, state and private grants	\$ 100,756,824	\$ 97,004,750
General and administrative overhead	18,652,400	17,133,806
Service accounts and unit support	7,314,079	1,826,598
Support provided by KU	2,703,287	956,804
Donations of equipment from research projects	4,278,183	1,806,962
Investment return	1,339,572	198,060
Gain on disposal of property and equipment	—	9,359
Other income	<u>7,572</u>	<u>29,276</u>
Total revenues, gains and other support	<u>135,051,917</u>	<u>118,965,615</u>
Expenses		
Research expenses	100,756,824	97,004,750
General and administrative overhead	9,784,157	12,237,012
Depreciation and amortization	2,523,115	1,934,913
Service accounts and unit support	6,736,201	3,794,531
Interest expense	786,976	—
Support provided by KU	2,703,287	956,804
Loss on disposal of property and equipment	56,747	—
Other expenses	<u>6,795</u>	<u>—</u>
Total expenses	<u>123,354,102</u>	<u>115,928,010</u>
Change in Net Assets	11,697,815	3,037,605
Net Assets, Beginning of Year	<u>29,656,505</u>	<u>26,618,900</u>
Net Assets, End of Year	<u>\$ 41,354,320</u>	<u>\$ 29,656,505</u>

University of Kansas Center for Research, Inc.
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Operating Activities		
Cash received for research contracts, grants and service accounts and unit support	\$ 139,161,898	\$ 114,020,780
Payments to suppliers and employees	(120,892,786)	(115,596,785)
Other operating receipts	<u>388,405</u>	<u>972,860</u>
Net cash provided by (used in) operating activities	<u>18,657,517</u>	<u>(603,145)</u>
Investing Activities		
Purchase of property and equipment	(22,397,612)	(1,088,482)
Proceeds from sale of property and equipment	—	86,154
Purchases of investments	(97,749,444)	(11,291,657)
Proceeds from sales and maturities of investments	<u>68,067,737</u>	<u>8,262,166</u>
Net cash used in investing activities	<u>(52,079,319)</u>	<u>(4,031,819)</u>
Financing Activities		
Proceeds from issuance of bonds payable	45,625,000	—
Bond issuance costs and other	<u>(1,273,489)</u>	<u>—</u>
Net cash provided by financing activities	<u>44,351,511</u>	<u>—</u>
Increase (Decrease) in Cash and Cash Equivalents	10,929,709	(4,634,964)
Cash and Cash Equivalents, Beginning of Year	<u>1,786,546</u>	<u>6,421,510</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,716,255</u>	<u>\$ 1,786,546</u>
Reconciliation of Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Change in net assets	\$ 11,697,815	\$ 3,037,605
Items not requiring (providing) cash		
Depreciation and amortization	2,523,115	1,934,913
Donations of equipment from research projects	(4,278,183)	(1,806,962)
(Gain) loss on disposal of property and equipment	56,747	(9,359)
Unrealized (gain) loss on investments	(193,529)	758,403
Changes in		
Costs incurred in excess of research revenues received	(2,190,801)	(1,754,372)
Interest receivable	28,618	(12,879)
Accounts payable and accrued expenses	4,731,317	(2,560,492)
Research revenues received in advance of costs incurred	<u>6,282,418</u>	<u>(190,002)</u>
Net cash provided by (used in) operating activities	<u>\$ 18,657,517</u>	<u>\$ (603,145)</u>
Supplemental Cash Flow Information		
Donations of equipment from research projects	<u>\$ 4,278,183</u>	<u>\$ 1,806,962</u>

University of Kansas Center for Research, Inc.

Notes to Financial Statements

June 30, 2005 and 2004

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, 2005 and 2004, 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 one bank at June 30, 2005.

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, 2005 and 2004

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, 2005 and 2004 included \$11,157,003 and \$7,964,856, 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, 2005 and 2004

Reclassifications

Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 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>2005</u>	<u>2004</u>
Cash equivalents	\$ 1,778,616	\$ 358,730
Equity mutual funds	1,301,555	1,230,083
U.S. Treasury obligations	1,325,586	2,634,459
U.S Agency obligations	<u>21,435,125</u>	<u>20,607,528</u>
	<u>\$ 25,840,882</u>	<u>\$ 24,830,800</u>

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

	<u>2005</u>	<u>2004</u>
Cash equivalents	\$ 1,521	\$ —
U.S Agency obligations	<u>28,863,633</u>	<u>—</u>
	<u>\$ 28,865,154</u>	<u>\$ —</u>

The above designated investments are a result of bond proceeds to be used exclusively for the construction of a multidisciplinary research building (see Notes 3 and 5).

Total investment return is comprised of the following:

	<u>2005</u>	<u>2004</u>
Interest and dividend income	\$ 1,146,043	\$ 956,463
Net realized and unrealized gains (losses) on investments reported at fair value	<u>193,529</u>	<u>(758,403)</u>
	<u>\$ 1,339,572</u>	<u>\$ 198,060</u>

University of Kansas Center for Research, Inc.
Notes to Financial Statements
June 30, 2005 and 2004

Note 3: Property and Equipment and Building Under Construction

Property and equipment at June 30 consists of:

	2005	2004
Land	\$ 580,952	\$ 580,952
Building	4,074,101	3,412,598
Office equipment	86,894	86,894
Scientific equipment	<u>20,086,323</u>	<u>14,208,997</u>
	24,828,270	18,289,441
Less accumulated depreciation and amortization	<u>13,140,042</u>	<u>10,279,558</u>
	11,688,228	8,009,883
Building under construction to be transferred upon completion	<u>20,417,588</u>	<u>—</u>
	<u>\$ 32,105,816</u>	<u>\$ 8,009,883</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.

The "building under construction to be transferred upon completion," for which construction in progress amounted to \$20,417,588 at June 30, 2005, relates to a multidisciplinary research building (see Note 5) for which construction completion is anticipated in the fiscal year ending June 30, 2006. Upon project completion, the historical cost of the building will be transferred to the University. The Center will utilize the building to conduct its activities at no charge by the University.

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, 2005 and 2004, the University had research expenditures of \$2,261,560 and \$2,564,923, respectively (unaudited). The Center had research expenditures of \$100,756,824 and \$97,004,750 for the years ended June 30, 2005 and 2004, respectively. For the years ended June 30, 2005 and 2004, the University earned indirect cost reimbursements on its sponsored programs in the amount of \$55,010 and \$187,094, respectively (unaudited). The Center earned indirect cost reimbursements (reflected as general and administrative overhead on the statements of activities) of \$18,652,400 and \$17,133,806 for the years ended June 30, 2005 and 2004, respectively.

For the years ended June 30, 2005 and 2004, total "sponsored activity" (research income and indirect cost reimbursements) amounted to \$119,409,224 and \$114,138,556, respectively.

University of Kansas Center for Research, Inc.
Notes to Financial Statements
June 30, 2005 and 2004

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%. The bonds are collateralized by certain property and investments.

Future minimum principal payments at June 30, 2005 are as follows:

2006	\$	—
2007		1,565,000
2008		1,625,000
2009		1,685,000
2010		1,755,000
Thereafter		<u>38,995,000</u>
		<u>\$ 45,625,000</u>

Note 6: Bioscience Research Center

During 1994, the University of Kansas financed a portion of the construction of a bioscience research center and pledged its Sponsored Research Overhead to repayment of the bonds. Because of the transfer of research grants discussed in Note 4, beginning in 2003, overhead revenues (indirect cost reimbursements) generated by the Center were used to supplement the University's overhead collections for the purposes of paying debt service and meeting debt service coverage requirements on the bioscience research center bonds. These payments amounted to \$556,102 for the year ended June 30, 2004. During 2005, in connection with the bond offering discussed in Note 5 above, the remaining bonded debt, amounting to approximately \$1,898,000, was defeased.

Note 7: 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, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Utilities	\$ 39,279	\$ 37,796
Maintenance	9,873	15,048
Custodial	<u>29,286</u>	<u>26,624</u>
	<u>\$ 78,438</u>	<u>\$ 79,468</u>

University of Kansas Center for Research, Inc.

Notes to Financial Statements

June 30, 2005 and 2004

During the years ended June 30, 2005 and 2004, amounts paid by the University (and reimbursed by the Center) for salaries, benefits, scholarships, fellowships, tuition and other operating expenses amounted to approximately \$72,000,000 and \$67,000,000, respectively. Of these amounts, approximately \$605,000 and \$1,617,000 are included in accounts payable at June 30, 2005 and 2004, respectively.

Additionally, during the years ended June 30, 2005 and 2004, the University provided support to the Center amounting to \$2,703,207 and \$956,804, respectively, to fund general and administrative salaries and benefits.

Note 8: Operating Leases

Noncancellable operating leases for facilities used in research projects expire in various years through 2009. These leases generally contain renewal options for periods ranging from one to five years.

Future minimum lease payments at June 30, 2005, were:

2006	\$	248,000
2007		242,000
2008		230,000
2009		<u>95,833</u>
	\$	<u>815,833</u>

Rent expense for all operating leases was \$508,139 and \$514,606 for the years ended June 30, 2005 and 2004, respectively.

Note 9: 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 that 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 \$305,258 and \$259,775 for 2005 and 2004, respectively.

Note 10: 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 59% of all grant revenues were received from three grantors in 2005.

University of Kansas Center for Research, Inc.

Notes to Financial Statements

June 30, 2005 and 2004

Other Revenue

Through July 2004, the Center had received certain royalty payments (the right to such payments was transferred to the Center under its agreement with the University as the research, development and, technology manager for the University) in connection with a License Agreement that was executed between the University and another entity. Such payments were directed to the Center as it was responsible for the patents covered by the License Agreement. In July 2004, the University executed an agreement whereby the other entity bought out the Patent Rights covered by the License Agreement. In connection with the buyout agreement, the Center received \$4,000,000, which has been recorded as service account and unit support revenue in 2005.

Supplementary Information

University of Kansas Center for Research, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

See Schedule Following

University of Kansas Center for Research, Inc.
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

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	\$ 16,572,094
Medicaid Cluster	N/A	99,410
Assistive Technology Services for Vocational Rehabilitation (VR)	84.126	393,490
Stage 3: Development of 21 st Century Community Learning Centers	84.287	19,761
Stage 4: Development of 21 st Century Community Learning Centers	84.287	<u>41,891</u>
		<u>\$ 17,126,646</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, Inc. as of and for the year ended June 30, 2005 and have issued our report thereon dated August 25, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 August 25, 2005.

Board of Trustees
University of Kansas Center for Research, Inc.
Page 2

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.

/s/ **BKD, LLP**

Kansas City, Missouri
August 25, 2005



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, 2005. The Center's major federal programs are identified in the summary of auditors' 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, Inc. 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 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, 2005.

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 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 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Board of Trustees
University of Kansas Center for Research, Inc.
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

/s/ **BKD, LLP**

Kansas City, Missouri
August 25, 2005

University of Kansas Center for Research, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2005

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

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$3,163,731.

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, 2005

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, 2005

Reference Number	Summary of Finding	Status
No matters are reportable.		