

REPORT ON EXAMINATION
OF THE

**CENTER FOR PRACTICAL BIOETHICS, INC.
KANSAS CITY, MISSOURI**

FOR THE YEAR ENDED DECEMBER 31, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Center for Practical Bioethics, Inc.
Kansas City, Missouri

We have audited the accompanying statement of financial position of the Center for Practical Bioethics, Inc. as of December 31, 2008, and the related statements of activities, functional expenses, and cash flows for the year 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 *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 Center for Practical Bioethics, Inc., as of December 31, 2008, and the activities, functional expenses, 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 a report dated April 13, 2009 on our consideration of the Center for Practical Bioethics, Inc.'s internal control structure and a report dated April 13, 2009 on its compliance with laws and regulations.

McBride, Lock & Associates
April 13, 2009

Center For Practical Bioethics, Inc
STATEMENT OF FINANCIAL POSITION
December 31, 2008

<u>Assets</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
CURRENT ASSETS				
Cash and cash equivalents	\$ -	\$ 128,602	\$ -	\$ 128,602
Accounts Receivable	36,500	-	-	36,500
Grants Receivable	-	230,379	-	230,379
Pledge Receivable	-	317,488	-	317,488
Prepaid Expenses	5,193	-	-	5,193
Total Current Assets	<u>\$ 41,693</u>	<u>\$ 676,469</u>	<u>\$ -</u>	<u>\$ 718,162</u>
PROPERTY AND EQUIPMENT				
Furniture and equipment	\$ 17,218	\$ -	\$ -	\$ 17,218
Computer hardware and software	23,035	-	-	23,035
Leasehold Improvements	1,965	-	-	1,965
Accumulated depreciation and amortization	(40,407)	-	-	(40,407)
Total Property and Equipment	<u>\$ 1,811</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,811</u>
OTHER ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 584,688	\$ 584,688
Investments	-	-	1,385,361	1,385,361
Accounts Receivable	-	-	251	251
Pledges Receivable	-	179,192	1,345,667	1,524,859
Deferred Compensation	44,883	-	-	44,883
Deposits	808	-	-	808
Total Other Assets	<u>\$ 45,691</u>	<u>\$ 179,192</u>	<u>\$ 3,315,967</u>	<u>\$ 3,540,850</u>
TOTAL ASSETS	<u>\$ 89,195</u>	<u>\$ 855,661</u>	<u>\$ 3,315,967</u>	<u>\$ 4,260,823</u>
Liabilities				
CURRENT LIABILITIES				
Line of Credit	\$ 251,000	\$ -	\$ -	\$ 251,000
Cash and cash equivalents	64,504	-	-	64,504
Accounts Payable	58,801	-	3,210	62,011
Accrued Expenses	44,750	-	-	44,750
Deferred Revenue	26,500	-	-	26,500
Total Current Liabilities	<u>\$ 445,555</u>	<u>\$ -</u>	<u>\$ 3,210</u>	<u>\$ 448,765</u>
LONG-TERM LIABILITIES				
457(b) Deferred Compensation Liability	\$ 41,437	\$ -	\$ -	\$ 41,437
Total Liabilities	<u>\$ 486,992</u>	<u>\$ -</u>	<u>\$ 3,210</u>	<u>\$ 490,202</u>
Net Assets				
Unrestricted	\$ (397,797)	\$ -	\$ -	\$ (397,797)
Temporarily Restricted	-	855,661	-	855,661
Permanently Restricted	-	-	3,312,757	3,312,757
Total Net Assets	<u>\$ (397,797)</u>	<u>\$ 855,661</u>	<u>\$ 3,312,757</u>	<u>\$ 3,770,621</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 89,195</u>	<u>\$ 855,661</u>	<u>\$ 3,315,967</u>	<u>\$ 4,260,823</u>

The accompanying notes to the financial statements are an integral part of this statement.

Center For Practical Bioethics
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

<u>Revenue</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Contributions, grants, and other support	\$ -	\$ 629,609	\$ 1,813,485	\$ 2,443,094
Fundraising	571,689	-	-	571,689
Membership Dues	520,164	-	-	520,164
Communications	7,660	-	-	7,660
Investment Income	20,084	-	39,535	59,619
Net assets released from restrictions	687,723	(687,723)	-	-
Total Revenue	\$ 1,807,320	\$ (58,114)	\$ 1,853,020	\$ 3,602,226
 <u>Expenses</u>				
Program expenses				
Education and Consulting	\$ 1,490,805	\$ -	\$ -	\$ 1,490,805
Support services expenses				
Management and general	207,007	-	-	207,007
Fundraising	205,072	-	-	205,072
Total support services expenses	\$ 412,079	\$ -	\$ -	\$ 412,079
Total Expenses	\$ 1,902,884	\$ -	\$ -	\$ 1,902,884
 Change in Net Assets from Operations	 \$ (95,564)	 \$ (58,114)	 \$ 1,853,020	 \$ 1,699,342
 Other Revenue (Expense):				
Realized Investment Gains (Losses)	\$ -	\$ -	\$ (43,842)	\$ (43,842)
Unrealized Investment Gains (Losses)	-	-	(260,124)	(260,124)
Interest Expense	(9,011)	-	-	(9,011)
Total Other Revenue (Expenses)	\$ (9,011)	\$ -	\$ (303,966)	\$ (312,977)
Change in Net Assets	\$ (104,575)	\$ (58,114)	\$ 1,549,054	\$ 1,386,365
Net Assets, beginning of the year	(293,222)	913,775	1,763,703	2,384,256
Net Assets, end of year	\$ (397,797)	\$ 855,661	\$ 3,312,757	\$ 3,770,621

The accompanying notes to the financial statements are an integral part of this statement.

Center For Practical Bioethics
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2008

<u>Direct Expenses</u>	Program Services	Support Services		Total
	Education and Consulting	Management and General	Fundraising	
Program	\$ 95,281	\$ -	\$ -	\$ 95,281
Annual Dinner	11,202	-	63,478	74,680
Workshop and Lectures	15,432	-	-	15,432
Development	5,113	-	15,339	20,452
Communications and Publications	11,295	-	1,255	12,550
Total Direct Expenses	\$ 138,323	\$ -	\$ 80,072	\$ 218,395
<u>Personnel Expenses</u>				
Salaries & Wages - Management	\$ 178,900	\$ 44,877	\$ 79,444	\$ 303,221
Salaries & Wages - Other	765,101	99,454	7,852	872,407
Health Insurance	74,478	11,408	6,863	92,749
Contracted Services/Temporary Help	64,481	9,877	5,942	80,300
Payroll Taxes	62,670	9,600	5,775	78,045
Retirement Expense	7,268	1,113	670	9,051
Deferred Comp Plan Expense	8,378	1,283	772	10,433
Health Reimbursement Acct	5,840	895	538	7,273
Disability Expense	6,824	1,045	629	8,498
Workers Compensation	4,808	736	443	5,987
Key-man Insurance	3,366	515	310	4,191
Payroll Processing Fees	1,594	244	147	1,985
Paid Time Off Disability Expense	(401)	(62)	(37)	(500)
Employment Development	768	118	71	957
Other Employee Expense	1,502	230	138	1,870
Total Personnel Expenses	\$ 1,185,577	\$ 181,333	\$ 109,557	\$ 1,476,467
<u>Occupancy Expenses</u>				
Rent	\$ 58,050	\$ 8,892	\$ 5,350	\$ 72,292
Parking	839	129	77	1,045
Insurance-Property & Casualty	4,517	692	416	5,625
Total Occupancy Expenses	\$ 63,406	\$ 9,713	\$ 5,843	\$ 78,962
<u>Operating Expenses</u>				
Consulting Fees	\$ 16,853	\$ 2,581	\$ 1,553	\$ 20,987
Audit Fees	6,657	1,020	614	8,291
Professional/Filing Fees	482	74	44	600
Board Expense	3,973	609	366	4,948
Community Relations	304	47	28	379
Bank/Credit Card Charges	1,801	276	166	2,243
Finance/Late Charges	58	9	5	72
Office Expense & Supplies	3,518	539	324	4,381
Printing Expense	3,898	597	359	4,854
Books & Subscriptions	621	95	57	773
Dues & Memberships	826	127	76	1,029
Postage & Shipping Exp	3,963	607	365	4,935
Telephone Expense	6,166	944	568	7,678
Equipment Lease Expense	14,091	2,265	1,363	17,719
Equipment Maintenance	3,742	573	345	4,660
Equipment-Computer Expense	18,952	2,903	1,746	23,601
Automobile Expense	2,564	393	236	3,193
Insurance - D&O Liability	1,522	233	140	1,895
Insurance - Professional Liability	4,493	688	414	5,595
Conference/Mtg Expense	661	101	61	823
Travel Expense	5,859	898	540	7,297
Depreciation Expense	2,495	382	230	3,107
Total Operating Expenses	\$ 103,499	\$ 15,961	\$ 9,600	\$ 129,060
Total Program and Support Expenses	\$ 1,490,805	\$ 207,007	\$ 205,072	\$ 1,902,884

The accompanying notes to the financial statements are an integral part of this statement.

Center For Practical Bioethics
STATEMENT OF CASH FLOWS
For the Year Ended Decemeber 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 1,386,365
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities;	
Depreciation and amortization	3,107
Permanently restricted contributions	(1,813,485)
Restricted Cash included in Endowment Fund	(637,249)
Changes in operating assets and liabilities	
Accounts Receivable	(16,024)
Grants Receivable	(215,377)
Pledge Receivable	(859,837)
Prepaid Expenses	5,379
Deposits	(132)
Deferred Compensation	(13,879)
Accounts Payable	20,693
Accrued Expenses	2,061
Deferred Revenue	26,500
Accrued Deferred Compensation	10,433
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ (2,101,445)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Net Purchases of Investments	<u>\$ (137,078)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>\$ (137,078)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Net Proceeds from (repayments of) Line of Credit	\$ (13,000)
Proceeds from Permanently Restricted Contributions	<u>1,813,485</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,800,485</u>
NET INCREASE IN CASH	\$ (438,038)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,086,824</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>648,786</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

CENTER FOR PRACTICAL BIOETHICS, INC
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Center for Practical Bioethics, Inc., (the “Center”) was incorporated in July 1984 as a Kansas not-for-profit corporation. The Center exists to raise and respond to ethics issues in the healthcare arena and help communities find practical solutions to ethical problems. The guiding principles of the Center are as follows:

- To lead and promote the leadership of others
- To think critically and listen actively
- To address ethical issues unfettered by special interests
- To collaborate with others who share our values
- To work diligently toward our mission

Net Assets

The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted – The portion of expendable funds that is available for support of the Center’s operations.

Temporarily restricted and permanently restricted – Funds that are subject to donor restrictions. These funds require either that the principal be invested in perpetuity or the income only be used by the Center or are temporarily restricted by the donor’s intent as to usage.

Revenue Recognition

Contributions – Pledges are recorded as unrestricted, temporarily restricted, or permanently restricted support in the period in which they are pledged.

Fundraising – Sponsorships and attendance fees received are recorded in the period in which the event occurs.

Membership revenues – Annual dues are assessed yearly based on the members anniversary date and are considered earned when received.

Accounts, Grants, and Pledges Receivable

The majority of the Center's receivables are due from revenues earned from consulting agreements and from contributions. Receivables are due at the donor's discretion. Accounts outstanding beyond the donor agreement are considered past due. The Center writes off receivables when they become uncollectible. No allowance for doubtful accounts was considered necessary at December 31, 2008.

Investments

Investments are stated at fair value based on quoted market prices, with unrealized gains and losses included in the accompanying statements of activities.

Property and Equipment

The Center capitalizes all significant acquisitions of property and equipment, which are recorded at cost, or fair value if donated. Property and equipment are depreciated using the straight-line method over the estimated useful life of the assets.

Income Taxes

The Center is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code.

Cash Equivalents

The Center considers unrestricted cash, money market accounts, and highly liquid investments purchased with maturities of less than three months to be a cash equivalent.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and services benefited.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – GRANTS RECEIVABLE

Grants receivable at December 31, 2008

	<u>2008</u>
Aging in Community	\$ 68,750
Tech Ready project	1,629
TPOPP (Prime Health Foundation)	60,000
Genetics Conference	100,000
	<u>\$ 230,379</u>

NOTE 3 – PLEDGES RECEIVABLE

Pledges Receivable at December 31, 2008 were as follows:

	<u>2008</u>
Due in less than one year	\$ 986,705
Due in one to five years	855,642
	<u>\$ 1,842,347</u>

NOTE 4 – INVESTMENTS

Investments consisted of the following as of December 31, 2008:

	<u>2008</u>
Cash and Cash Equivalents	\$ 652,644
Equities	365,391
Fixed Income	349,849
Real Estate	9,213
Tangible Assets	8,264
	<u>\$ 1,385,361</u>

NOTE 5 – RETIREMENT PLANS

The Center sponsors a 403(b) defined contribution pension plan that covers all employees. The Center matches 25% of employee contributions up to 5% of the employee's annual salary, for a total potential contribution from the Center of 1.25%. Employer contributions are vested over five years of service. In addition, during years that the Center has an increase in net assets, management may authorize a discretionary matching contribution in the amount of 1.75% of gross salaries. Total expense under this plan for the year ended December 31, 2008 was \$9,051.

During year ended December 31, 2006, the Center adopted a 457(b) deferred compensation plan for a key employee. The employee and the employer can make discretionary contributions. Total deferred compensation expense for the year ended December 31, 2008 was \$10,433.

NOTE 6 – PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes as of December 31, 2008:

	<u>2008</u>
Robert L. Biblo endowment	\$ 80,000
Rosemary Flanigan Ethics Chair	1,728,069
General Endowment	4,688
Foley Chair Endowment	<u>1,500,000</u>
	<u>\$ 3,312,757</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

	<u>2008</u>
Francis Family Foundation - operating reserve	\$ 50,000
Francis Family Foundation - executive search	6,163
Pediatric Palliative Care Initiative	2,500
Vision to Action Pledge	105,392
John B Francis Chair	445,985
Caring Conversations for Young Adults	5,242
Transportable Physician's Orders for Patient Preferences	60,000
Aging in Community (Aging in place)	68,750
Tech Ready Project	11,629
Genetics Conference	<u>100,000</u>
	<u>\$ 855,661</u>

NOTE 8 – LINE OF CREDIT

The Center has a line of credit agreement with a bank, with a face amount of \$300,000. The agreement automatically renews in September of each year and has an interest rate of “Wall Street Prime” with a floor of 5%. The line is collateralized by all the Center’s assets and is required to have a zero balance for at least sixty consecutive days during the term of the agreement. At December 31, 2008, the line of credit was drawn to \$251,000.

NOTE 9 – OPERATING LEASES

The Center leases its office space and certain equipment under operating leases. The office lease will expire January 31, 2011. Rent expense related to this operating lease was \$72,291 for the year ended December 31, 2008.

Future minimum lease payments under the office lease are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2009	\$ 74,517
2010	76,785
2011	6,415

NOTE 10 – FOLEY CHAIR

During the year ended December 31, 2008, the Center entered into an agreement with Purdue Pharma L.P. whereby \$1,500,000 was contributed to provide funding for an endowed chair. The trust was funded in the amount of \$500,000 at the time of contractual signing by the candidate, which occurred during the year ended December 31, 2008. The remaining balance of \$1,000,000 is expected in two payments of \$500,000 during Fiscal Years 2009 and 2010.

NOTE 11 – MAJOR CONCENTRATIONS

The Center maintains its cash balances within two accounts at a financial institution in Kansas City, Missouri. The balance, held in a regular checking, is insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2008 the Center’s uninsured balance per the bank statement totaled \$648,310.

The Center invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investments securities, it is at least reasonably possible that changes could materially affect the amounts reported in the accompanying statements of financial position. The Board of Directors and management of the Center have established policies to provide prudent oversight of the investments.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS

Board of Directors
Center for Practical Bioethics, Inc.
Kansas City, Missouri

In planning and performing our audit of the statement of financial position of the Center for Practical Bioethics, Inc. (the "Organization") and the related statements of activity, functional expenses and cash flow for the year ended December 31, 2008 (on which we have issued our report dated April 13, 2009), in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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.

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 internal control was for the limited purpose described in the first paragraph 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 that we consider to be material weaknesses, as defined above.

McBride, Lock & Associates
April 13, 2009