

REPORT ON EXAMINATION  
OF THE

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

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

**McBRIDE, LOCK & ASSOCIATES**

CERTIFIED PUBLIC ACCOUNTANTS  
KANSAS CITY

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## MCBRIDE, LOCK & ASSOCIATES

### INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the  
Center for Practical Bioethics, Inc.

We have audited the accompanying financial statements of the Center for Practical Bioethics, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditor's Responsibility**

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## 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, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited the Center for Practical Bioethics, Inc. 2012 financial statements, and our report dated May 21, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.



McBride, Lock & Associates  
Kansas City, Missouri  
April 21, 2014

Center For Practical Bioethics, Inc.  
STATEMENT OF FINANCIAL POSITION  
December 31, 2013

<u>Assets</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2013	2012
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents	\$ (165,152)	\$ 295,876	\$ -	\$ 130,724	\$ 256,577
Accounts Receivable	44,045	15,000	-	59,045	12,927
Grants Receivable	-	5,000	-	5,000	25,000
Pledge Receivable (NOTE 2)	53,500	55,000	2,544	111,044	72,687
Prepaid Expenses	33,621	-	-	33,621	19,875
<b>Total Current Assets</b>	<b>\$ (33,986)</b>	<b>\$ 370,876</b>	<b>\$ 2,544</b>	<b>\$ 339,434</b>	<b>\$ 387,066</b>
<b>PROPERTY AND EQUIPMENT</b>					
Furniture and Equipment	\$ -	\$ -	\$ -	\$ -	\$ 16,176
Computer Hardware and Software	14,420	-	-	14,420	14,420
Leasehold Improvements	1,965	-	-	1,965	1,965
Accumulated Depreciation and Amortization	(16,385)	-	-	(16,385)	(32,561)
<b>Total Property and Equipment</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>OTHER ASSETS</b>					
Investments - Restricted (NOTE 3)	\$ -	\$ 316,374	\$ 3,523,587	\$ 3,839,961	\$ 3,595,669
Interfund Receivable (NOTE 10)	-	-	-	-	293,000
Pledges Receivable (NOTE 2)	132,905	-	-	132,905	12,132
Deferred Compensation	152,492	-	-	152,492	114,309
<b>Total Other Assets</b>	<b>\$ 285,397</b>	<b>\$ 316,374</b>	<b>\$ 3,523,587</b>	<b>\$ 4,125,358</b>	<b>\$ 4,015,110</b>
<b>TOTAL ASSETS</b>	<b>\$ 251,411</b>	<b>\$ 687,250</b>	<b>\$ 3,526,131</b>	<b>\$ 4,464,792</b>	<b>\$ 4,402,176</b>
<b>Liabilities</b>					
<b>CURRENT LIABILITIES</b>					
Accounts Payable	\$ 40,976	\$ -	\$ -	\$ 40,976	\$ 27,152
Accrued Expenses	46,467	-	-	46,467	51,810
Interfund Payable (NOTE 10)	-	-	-	-	293,000
Line of Credit (NOTE 11)	-	-	-	-	55,000
Deferred Revenue	48,917	-	-	48,917	50,762
<b>Total Current Liabilities</b>	<b>\$ 136,360</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 136,360</b>	<b>\$ 477,724</b>
<b>LONG-TERM LIABILITIES</b>					
457(b) Deferred Compensation Liability	\$ 152,427	\$ -	\$ -	\$ 152,427	\$ 113,251
<b>Total Liabilities</b>	<b>\$ 288,787</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 288,787</b>	<b>\$ 590,975</b>
<b>Net Assets</b>					
<b>Unrestricted</b>					
Operating	\$ (260,732)	\$ -	\$ -	\$ (260,732)	\$ (554,867)
Board Designated (NOTE 9)	223,356	-	-	223,356	87,238
<b>Total Unrestricted</b>	<b>\$ (37,376)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (37,376)</b>	<b>\$ (467,629)</b>
Temporarily Restricted (NOTE 8)	\$ -	\$ 687,250	\$ -	\$ 687,250	\$ 380,529
Permanently Restricted (NOTE 6)	-	-	3,526,131	3,526,131	3,898,301
<b>Total Net Assets</b>	<b>\$ (37,376)</b>	<b>\$ 687,250</b>	<b>\$ 3,526,131</b>	<b>\$ 4,176,005</b>	<b>\$ 3,811,201</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 251,411</b>	<b>\$ 687,250</b>	<b>\$ 3,526,131</b>	<b>\$ 4,464,792</b>	<b>\$ 4,402,176</b>

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

**Center For Practical Bioethics, Inc.**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2013**

<u>Revenue</u>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2013	2012
Contributions, grants, and other support	\$ 565,676	\$ 479,482	\$ -	\$ 1,045,158	\$ 625,179
Fundraising	217,328	70,000	-	287,328	366,610
Membership Dues	121,010	-	-	121,010	120,390
Communications	21,797	-	-	21,797	6,041
Investment Income	4,322	110,281	-	114,603	116,913
Other Income	6,290	-	-	6,290	7,084
Net assets released from restrictions	1,169,387	(797,217)	(372,170)	-	-
<b>Total Revenue</b>	<b>\$ 2,105,810</b>	<b>\$ (137,454)</b>	<b>\$ (372,170)</b>	<b>\$ 1,596,186</b>	<b>\$ 1,242,217</b>
 <u>Expenses</u>					
Program expenses					
Education and Consulting	\$ 1,214,647	\$ -	\$ -	\$ 1,214,647	\$ 1,216,764
Support services expenses					
Management and general	\$ 331,237	\$ -	\$ -	\$ 331,237	\$ 235,595
Fundraising	129,514	-	-	129,514	177,175
<b>Total support services expenses</b>	<b>\$ 460,751</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 460,751</b>	<b>\$ 412,770</b>
<b>Total Expenses</b>	<b>\$ 1,675,398</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,675,398</b>	<b>\$ 1,629,534</b>
<b>Change in Net Assets from Operations</b>	<b>\$ 430,412</b>	<b>\$ (137,454)</b>	<b>\$ (372,170)</b>	<b>\$ (79,212)</b>	<b>\$ (387,317)</b>
Other Revenue (Expense):					
Realized Investment Gains	\$ 539	\$ 100,637	\$ -	\$ 101,176	\$ 78,942
Unrealized Investment Gains	11,831	368,502	-	380,333	195,102
Interest Expense	(9,904)	-	-	(9,904)	(9,681)
Investment Expense	(2,625)	(24,964)	-	(27,589)	(23,515)
<b>Total Other Revenue (Expenses)</b>	<b>\$ (159)</b>	<b>\$ 444,175</b>	<b>\$ -</b>	<b>\$ 444,016</b>	<b>\$ 240,848</b>
<b>Change in Net Assets</b>	<b>\$ 430,253</b>	<b>\$ 306,721</b>	<b>\$ (372,170)</b>	<b>\$ 364,804</b>	<b>\$ (146,469)</b>
Net Assets, beginning of the year	(467,629)	380,529	3,898,301	3,811,201	3,957,670
<b>Net Assets, end of year</b>	<b>\$ (37,376)</b>	<b>\$ 687,250</b>	<b>\$ 3,526,131</b>	<b>\$ 4,176,005</b>	<b>\$ 3,811,201</b>

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

Center For Practical Bioethics, Inc.  
**STATEMENT OF FUNCTIONAL EXPENSES**  
For the Year Ended December 31, 2013

	Program Services			Support Services	
	Education and	Management		Total	
	Consulting	and General	Fundraising	2013	2012
<b><u>Personnel Expenses</u></b>					
Salaries & Wages - Management	\$ 112,305	\$ 112,305	\$ 24,956	\$ 249,566	\$ 417,564
Salaries & Wages - Other	507,816	83,033	13,668	604,517	386,371
Health Insurance	100,579	31,682	6,265	138,526	112,996
Payroll Taxes	45,748	14,411	2,849	63,008	58,501
Retirement Expense	13,216	4,163	823	18,202	18,961
Deferred Compensation Plan Expense	32,227	6,131	818	39,176	22,970
Health Reimbursement Account	-	-	-	-	2,330
Disability Expense	46	15	3	64	(325)
Paid Time Off Liability Expense	-	-	-	-	10,434
Workers Compensation	2,326	733	145	3,204	2,848
Key-man Insurance	4,191	-	-	4,191	4,191
Payroll Processing Fees	1,232	388	77	1,697	1,676
Employment Development	3,875	1,020	204	5,099	400
Search Expense	-	-	-	-	14,399
Other Employee Expense	11,500	-	-	11,500	-
Total Personnel Expenses	\$ 835,061	\$ 253,881	\$ 49,808	\$ 1,138,750	\$ 1,053,316
<b><u>Occupancy Expenses</u></b>					
Rent	\$ 49,539	\$ 15,605	\$ 3,086	\$ 68,230	\$ 66,243
Parking	740	233	46	1,019	1,534
Insurance-Property & Casualty	3,045	959	190	4,194	3,884
Other Occupancy Expense	2,100	661	131	2,892	1,622
Total Occupancy Expenses	\$ 55,424	\$ 17,458	\$ 3,453	\$ 76,335	\$ 73,283
<b><u>Operating Expenses</u></b>					
Consulting Fees	\$ 156,491	\$ 16,253	\$ 2,156	\$ 174,900	\$ 153,547
Audit Fees	-	9,300	-	9,300	9,200
Professional/Filing Fees	3,929	1,295	245	5,469	27,386
Community Relations	1,550	-	7,500	9,050	3,380
Bank/Credit Card Charges	2,666	840	166	3,672	3,336
Office Expense & Supplies	1,441	4,433	-	5,874	7,911
Printing Expense	52,067	8,702	19,344	80,113	108,778
Books & Subscriptions	1,527	407	-	1,934	11,588
Dues & Memberships	350	709	-	1,059	1,318
Postage & Shipping Expense	5,160	239	779	6,178	5,376
Telephone Expense	7,599	2,394	473	10,466	11,199
Equipment Lease Expense	10,286	3,240	641	14,167	14,336
Equipment Maintenance	1,789	563	111	2,463	2,235
Equipment-Computer Expense	4,259	1,342	265	5,866	4,212
Insurance - D&O Liability	1,684	530	105	2,319	2,301
Insurance - Professional Liability	3,877	1,222	241	5,340	5,340
Conference/Meeting Expense	30,871	1,201	43,354	75,426	97,331
Travel Expense	21,525	5,082	447	27,054	32,794
Depreciation Expense	-	-	-	-	221
Other Operating Expense	17,091	2,146	426	19,663	1,146
Total Operating Expenses	\$ 324,162	\$ 59,898	\$ 76,253	\$ 460,313	\$ 502,935
Total Program and Support Expenses	\$ 1,214,647	\$ 331,237	\$ 129,514	\$ 1,675,398	\$ 1,629,534

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

**Center For Practical Bioethics, Inc.**  
**STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2013**

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 364,804	\$ (146,469)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and Amortization	-	221
Permanently restricted contributions	-	(2,311)
Changes in operating assets and liabilities:		
Accounts Receivable	(46,118)	(9,551)
Grants Receivable	20,000	(24,000)
Pledges Receivable	(159,130)	(41,186)
Prepaid Expenses	(13,746)	(803)
Deferred Compensation	(38,183)	(20,192)
Accounts Payable	13,824	12,247
Accrued Expenses	(5,343)	18,070
Deferred Revenue	(1,845)	26,712
Accrued Deferred Compensation	39,176	22,969
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ 173,439</b>	<b>\$ (164,293)</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Purchases of Investments	\$ (244,292)	\$ (212,832)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Permanently Restricted Contributions	\$ -	\$ 2,311
Line of Credit	(55,000)	55,000
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>\$ (55,000)</b>	<b>\$ 57,311</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>\$ (125,853)</b>	<b>\$ (319,814)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>256,577</b>	<b>576,391</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 130,724</b>	<b>\$ 256,577</b>
 <b>SUPPLEMENTAL DISCLOSURES</b>		
Cash Paid For Interest	\$ 9,904	\$ 9,681

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, 2013

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 ethical issues in health and healthcare to help patients, families, and health care providers find practical solutions to ethical problems. The guiding principles of the Center are as follows:

- To be unfettered by special interests
- To listen actively, think critically, and act wisely
- To lead and promote the leadership of others
- To collaborate with those who commit to civil discourse
- 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. Additionally, the Center’s Board has designated certain funds that have been donated in honor or memory of an individual.

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.

Memberships revenue – Annual dues are assessed yearly based on the organizational or individual member’s 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, 2013.

#### 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 acquisitions of property and equipment in excess of \$1,000, 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.

As required by FASB ASC No. 740, *Income Taxes*, the Center evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Center's continued qualification as a tax-exempt organization and whether there is unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or exanlination; no disclosures of uncertain tax positions are required. The Center is no longer subject to United States federal or state examinations by tax authorities for the years before 2010. During 2013, the Center did not recognize any interest or penalties associated with any positions.

#### 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. The allocation rate corresponds to the functional allocation of salaries and wages.

#### Advertising

Advertising costs are expensed as incurred.

### Use of Estimates

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

### NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable represent donors' promises to pay contributions to the Center and are measured at the present value of estimated future cash flows. Cash flows are discounted using the Treasury Bond yield rate on the date of the pledge that corresponds to the length of the pledge (i.e. rate on 3 year bond is used for a 3 year pledge). Collection of receivables at December 31, 2013 is expected as follows:

Due in less than one year	\$	111,044
Due in one to five years		140,500
Total Pledges Receivable		<u>251,544</u>
Less Discount to Present Value		<u>(7,595)</u>
Net Pledges Receivable	\$	<u>243,949</u>

### NOTE 3 – INVESTMENTS

Investments consisted of the following as of December 31, 2013:

Money Market Funds	\$	126,980
Equities		2,585,851
Fixed Income		<u>1,127,130</u>
Total Investments	\$	<u>3,839,961</u>

### NOTE 4 – FAIR VALUE MEASUREMENTS

Assets and liabilities measured at fair value are categorized into one of three different levels depending on the observability of the inputs employed in their measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are market-observable inputs for measuring the asset or liability other than quoted prices included within Level 1. Level 3 inputs are unobservable inputs for measuring the asset or liability reflecting significant modifications to observable related market data or the Center's assumptions about pricing by market participants.

The following table presents the assets and liabilities recognized in the accompanying statement of financial position that are measured at fair value on a recurring basis and the level within the fair value hierarchy in which those fair value measurements fall at December 31, 2013:

	Fair Value			
	December 31	Level 1	Level 2	Level 3
Assets:				
Investments				
Money Market Funds	\$ 126,980	\$ 126,980	\$ -	\$ -
Equities	2,585,851	2,585,851	-	-
Fixed Income	1,127,130	1,127,130	-	-
Total Investments	<u>\$ 3,839,961</u>	<u>\$ 3,839,961</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred Compensation				
Money Market Funds	\$ 23,420	\$ 23,420	\$ -	\$ -
Mutual Funds	129,007	129,007	-	-
Fixed Income	65	65	-	-
Total Deferred Compensation	<u>\$ 152,492</u>	<u>\$ 152,492</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities:				
Deferred Compensation				
Money Market Funds	\$ 23,420	\$ 23,420	\$ -	\$ -
Mutual Funds	129,007	129,007	-	-
Total Deferred Compensation	<u>\$ 152,427</u>	<u>\$ 152,427</u>	<u>\$ -</u>	<u>\$ -</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, 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, 2013 was \$18,202.

During the year ended December 31, 2006, the Center adopted a 457(b) deferred compensation plan for a key employee. In 2012, the plan was expanded to include a second key employee. The employees and the employer can make discretionary contributions. Total deferred compensation expense for the year ended December 31, 2013 was \$39,176.

## NOTE 6 – PERMANENTLY RESTRICTED NET ASSETS

Net assets were permanently restricted for the following purposes as of December 31, 2013:

Rosemary Flanigan Chair in Clinical Ethics	\$ 2,025,856
Kathleen M. Foley Chair in Pain and Palliative Care	<u>1,500,275</u>
Total Permanently Restricted Net Assets	<u>\$ 3,526,131</u>

### Rosemary Flanigan Chair in Clinical Ethics

In 2006, the Center for Practical Bioethics began fundraising to establish an endowed chair in honor of Rosemary Flanigan, PhD., philosopher, teacher, bioethicist and Center staff member from 1992 until her retirement in 2010. Prior to becoming a staff member, Dr. Flanigan served on the Center Board of Directors and chaired the board in 1990/91. Between 2006 and 2013, more than \$2 million was raised from over 200 donors with gifts ranging from \$5 to \$1.3 million. The annual proceeds of this endowed fund support a staff member of the Center with expertise in philosophy and clinical ethics who is named the holder of the Rosemary Flanigan Chair.

### Kathleen M. Foley Chair in Pain and Palliative Care

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 the Kathleen M. Foley Chair in Pain and Palliative Care. The trust was funded in the amount of \$500,000 at the time of contractual signing by the Center, which occurred during the year ended December 31, 2008 and another payment was made in Fiscal Year 2009. The remaining balance of \$500,000 was paid during Fiscal Year 2011. The annual proceeds of this endowed fund support the work of the Center in the area of Pain and Palliative Care.

## NOTE 7 – JOHN B. FRANCIS CHAIR IN BIOETHICS

During the year ended December 31, 2005, the John B. Francis Chair in Bioethics Fund was established with the Greater Kansas City Community Foundation by the Francis Family Foundation for the benefit of the Center. The principal amount pledged to the Fund was \$3,000,000, with the Center receiving annual distributions outlined by the terms of the agreement. The Francis Family Foundation has oversight responsibility of the fund for a period of 10 years after its inception. On the tenth anniversary date of the Fund, the Francis Family Foundation will transfer oversight responsibility to the Center provided conditions in the agreement are met.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Net assets were temporarily restricted for the following purposes as of December 31, 2013:

John B. Francis Chair	\$ 129,753
Kathleen M. Foley Chair	135,346
Rosemary Flanigan Chair	181,028
Francis Family Foundation - Operating Reserve	50,000
Sunflower Grant	8,635
PAINS	62,488
PAINS Public-Private Partnership	50,000
2014 Annual Dinner	<u>70,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 687,250</u>

NOTE 9 – BOARD DESIGNATED UNRESTRICTED NET ASSETS

Board designated endowments include the Robert L. Biblo Endowment, General Endowment and the Kathleen M. Foley Endowment. Robert L. Biblo was on the Center's Board of Directors until his death in 1994, and this endowment was established at the Center in his honor. The General Endowment is funded by undesignated donations made in honor or memory of someone. The Kathleen M. Foley Endowment was established to support the endowed chair. Net assets were voluntarily segregated by the Center's Board for the following purposes as of December 31, 2013:

Robert L. Biblo Endowment	\$ 80,000
General Endowment	7,488
Kathleen M. Foley Endowment	<u>135,868</u>
Total Board Designated Net Assets	<u>\$ 223,356</u>

NOTE 10 – INTERFUND RECEIVABLE/PAYABLE

In 2006, the Flanigan Endowment was established at the Center with gifts ranging from \$5 to \$1.3 million. With permission from the major donor, the Center held an operating loan promissory note in the Endowment since 2009 with a face amount of \$300,000. The Center had drawn \$293,000 of that amount.

In 2013, the board authorized the chair and executive to seek acknowledgement and consent from the major donor of the Flanigan Endowment to release the promissory note obligation of the \$293,000 loan from the Flanigan Endowment allowing the transfer of the obligation from the Permanently Restricted fund to the Operating fund. The donor approved this repurposing of the loan and the board ratified that action confirming the effective date as December 31, 2013. This transfer of funds to the Unrestricted fund releases the permanent restriction and the obligation of the Center to repay the promissory note.

#### NOTE 11 – LINE OF CREDIT

On September 17, 2013, the Center renewed a one year promissory note with Country Club Bank for a line of credit up to \$300,000. The note has a variable interest rate based on the Wall Street Journal U.S. Prime Rate, with a minimum rate of 5%. The Center must make interest payments on any outstanding principal balance on a monthly basis. On December 31, 2013, the Center had no borrowings against this line of credit.

#### NOTE 12 – OPERATING LEASES

The Center leases its office space under operating leases. The office lease will expire January 31, 2017. Rent expense related to this operating lease was \$68,230 for the year ended December 31, 2013.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2014	\$ 70,266
2015	72,391
2016	74,567
2017	6,229

#### NOTE 13 – MAJOR CONCENTRATIONS

The Center maintains its cash balances within two accounts at a financial institution in Kansas City, Missouri. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Center has a repurchase agreement for balances in excess of insurance coverage. At December 31, 2013 the Center's cash balances were adequately secured.

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.

#### NOTE 14 – ENDOWMENTS

The Center's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by the accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board has determined that, absent explicit donor stipulations to the contrary, the Uniform Prudent Management of Institutional Funds Act (2006) (UPMIFA) statutes as adopted in Kansas and Missouri allow the Center to appropriate for expenditure or to accumulate so much of an endowment fund as the Center determines is prudent for the uses, benefits, purposes and duration for which the endowment funds were established, and to make such determinations to appropriate or accumulate fund assets in good faith pursuant to investment and spending policies implemented in the context of the perpetual nature of an endowment which are designed to maintain the value of the fund over time and to permit annual expenditure amounts that are prudent, after considering the following factors: (1) the duration and preservation of the endowment fund; (2) the purposes of the Center and the fund; (3) general economic conditions; (4) the possible effect of inflation or deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Center; and (7) the investment and spending policy of the Center.

#### Investment Return Objectives, Risk Parameters and Strategies

The Center has adopted investment and spending policies for the purpose of attempting to provide a reasonably predictable stream of funding to programs supported by endowment funds while also attempting to maintain the purchasing power of the Center's endowment assets over the long term. The Center shall seek an achievable return of 7% (net of investment fees) taking into account both capital appreciation (realized and unrealized) and current yield (interest and dividends) calculated as a moving three (3) year average of the fair market value of the funds.

#### Spending Policy

The Center has a policy of appropriating for distribution each year for programs and administration an amount up to but not to exceed 6% of a moving three (3) year average of the fair market value of the endowment funds determined quarterly. This is consistent with the Center's objectives to appropriate for expenditure or to accumulate so much of an endowment fund for the uses, benefits, purposes and duration for which the endowment funds were established.

Of the endowment net asset composition of \$3,842,505, \$316,374 is included in the Temporarily Restricted Fund and \$3,526,131 is included in the Permanently Restricted Fund.

Changes in endowment net assets as of December 31, 2013 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of the year	\$ -	\$3,898,301	\$3,898,301
Contributions	-	-	-
Investment Income	110,281	-	110,281
Net Appreciation	444,175	-	444,175
Amounts appropriated for expenditure	(317,252)	(293,000)	(610,252)
Transfer of previous years earnings, gains/losses and fees	<u>79,170</u>	<u>(79,170)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 316,374</u>	<u>\$3,526,131</u>	<u>\$3,842,505</u>

NOTE 15 – PRIOR YEAR SUMMARIZED INFORMATION

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2012, from which the summarized information was derived.

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated and noted no subsequent events through April 21, 2014, the date which the financial statements were available for issue.

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MCBRIDE, LOCK & ASSOCIATES

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROLS

To the Board of Directors of  
Center for Practical Bioethics, Inc.

In planning and performing our audit of the financial statements of the Center for Practical Bioethics, Inc. (the "Organization") as of and for the year ended December 31, 2013, 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



McBride, Lock & Associates  
Kansas City, Missouri  
April 21, 2014