

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT



To the Board of Directors
Kansas Bioscience Authority
Olathe, Kansas

We have audited the accompanying balance sheets of the Kansas Bioscience Authority (Authority), a component unit of the state of Kansas, as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years ended June 30, 2009 and 2008. These financial statements are the responsibility of the Authority'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 audits 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 Kansas Bioscience Authority as of June 30, 2009 and 2008, and changes in its financial position and its cash flows for the years ended June 30, 2009 and 2008, 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 September 29, 2009, on our consideration of the Kansas Bioscience Authority's internal control over financial reporting and 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.

The management's discussion and analysis as listed on the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information 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 auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole.

Allen, Gibbs & Houlik, L.C.
Allen, Gibbs & Houlik, L.C.
September 29, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2009 and 2008

This annual financial report of the Kansas Bioscience Authority (Authority) consists of two sections: management's discussion and analysis (MD&A) and basic financial statements. This section of the report presents MD&A of financial position and changes in financial position for the years ended June 30, 2009 and 2008. This information is being presented to provide additional information regarding the activities of the Authority and to meet the disclosure requirements of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements, and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The Authority is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. This analysis should be read in conjunction with the independent auditors' report, audited financial statements, and accompanying notes.

FINANCIAL HIGHLIGHTS

- The Authority has initiated the programs called for under its enabling statutes as well as other initiatives aimed at advancing Kansas' national leadership in the biosciences. The Authority has received the financial resources over the past fiscal years to fund the programs. The funds available to commit to the approved programs grew to \$87.8 million at June 30, 2009 from \$65.0 million at June 30, 2008 and \$40.9 million at June 30, 2007.
- Since the Authority's inception, its board of directors committed \$226.6 million through June 30, 2009. The Authority's board committed \$177 million in fiscal year 2009 to companies and institutions to promote bioscience growth in Kansas. Most commitments are paid upon the achievement of milestones; at June 30, 2009 the total amount remaining to be paid on these commitments was \$200 million. Subsequent to June 30, 2009 through September 30, 2009 the Authority's board approved additional commitments totaling \$2.9 million.
- Assets other than cash and securities, capital assets and the receivable from the state of Kansas increased in fiscal year 2009 by approximately \$1.3 million. The increase was a result of a \$400,000 preferred equity investment, a \$200,000 loan and three convertible note investments in companies totaling \$400,000, excluding accrued interest. In fiscal year 2008 that same group of assets increased by approximately \$10.6 million as a result of valuing land donated to the Authority for development of the Kansas Bioscience Park in Olathe, an equity investment, several convertible note investments in companies, and a \$1 million draw on a note.
- Revenues are mainly derived from transfers from the state through the funding mechanism provided by the Emerging Industry Investment Act (EIIA). Revenues from the transfers decreased 9.3% or \$3.6 million in fiscal year 2009 and increased 47% or \$12.3 million in fiscal year 2008. The decrease in fiscal year 2009 was a result of a state-imposed cap on cash transfers to the Authority of \$35 million. The increase in fiscal year 2008 was a result of the increase in payroll withholding taxes each year in the bioscience sector.
- In fiscal year 2009, the Authority committed \$1 million and invested \$800,000 in companies in the form of equity or convertible notes. The Authority also granted \$1.5 million and provided \$200,000 to a company in the form of a loan. In fiscal year 2008, the Authority granted \$5 million and invested \$4.6 million in equity or convertibles notes. The Authority also provided an additional \$1 million to a company as a draw from the note. The total amount paid on commitments in fiscal year 2009 was \$11.3 million compared to \$11.8 million in fiscal year 2008, and \$3.3 million in fiscal year 2007.
- The Authority's fiscal year 2009 operating expenses other than grants and awards were \$3.1 million compared to \$2.3 million for fiscal year 2008 and \$1 million for fiscal year 2007. The increase in fiscal year 2009 was mainly the result of increasing staff and contractual and consulting fees related to implementing the Authority programs and documenting the investments of the authority. The increase in fiscal year 2008 operating expenses was mainly the result of increasing staff, consulting fees, legal fees and marketing expenses related to implementing programs and setting up the operational processes of the Authority.

OVERVIEW OF THE FINANCIAL STATEMENTS

The *balance sheet* answers the question, "How is our financial health at the end of the year?" This statement includes all assets and liabilities of the Authority, both financial and capital, short-term and long-term, using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector companies. The resulting net assets presented in the statement are displayed as restricted or unrestricted. Assets are restricted when their use is subject to external limits such as legal agreements or statutes. Assets falling outside this category are characterized as unrestricted. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the authority is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Years Ended June 30, 2009 and 2008

All of the current year's revenues and expenses of the Authority are accounted for in the *statement of revenues, expenses, and changes in net assets*. This statement measures the activities of the authority's operations over the past year and presents the excess of revenues over expenses and change in net assets. It can be used to determine whether the Authority has successfully recovered all of its costs through loans, externally funded programs, and other revenue sources. This statement helps answer the question, "Is the authority as a whole better off or worse off as a result of the year's activities?"

The primary purpose of the *statement of cash flows* is to provide information about the sources and uses of the authority's cash and the change in cash balance during the reporting period. This statement reports cash receipts, cash payments, and net changes resulting from operating, non-capital financing, capital financing, and investing activities. It provides answers to such questions as where cash came from, what cash was used for, and what the change in cash balance was during the reporting period.

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements follow the basic financial statements.

CONDENSED FINANCIAL INFORMATION

Balance Sheet

The following table presents a condensed balance sheet at June 30:

	2009	2008	2007
Assets			
Cash and securities	\$ 87,813,348	\$65,029,128	\$40,920,801
Receivable from State of Kansas	8,655,797	8,852,271	6,355,062
Capital assets	1,015,591	382,963	94,687
Other assets	12,935,903	11,596,779	1,024,771
Total assets	<u>\$110,420,639</u>	<u>\$85,861,141</u>	<u>\$48,395,321</u>
Liabilities			
Current liabilities	\$ 1,398,059	\$ 1,075,169	\$ 647,396
Total liabilities	<u>1,398,059</u>	<u>1,075,169</u>	<u>647,396</u>
Net assets			
Invested in capital assets	1,015,591	382,963	94,687
Restricted for development	4,998,871	4,998,871	—
Unrestricted	103,008,118	79,404,138	47,653,238
Total net assets	<u>109,022,580</u>	<u>84,785,972</u>	<u>47,747,925</u>
Total liabilities and net assets	<u>\$110,420,639</u>	<u>\$85,861,141</u>	<u>\$48,395,321</u>

Statement of Revenues, Expenses, and Changes in Net Assets

The following table presents a condensed statement of revenues, expenses, and changes in net assets:

	2009	2008	2007
Revenues			
Operating revenues	\$ 461,083	\$ 92,708	\$ 13,060
Transfers from State of Kansas	34,803,526	38,388,887	26,122,392
Contributed land	—	5,253,107	—
Investment income	2,118,544	2,286,771	1,352,392
Total revenues	<u>37,383,153</u>	<u>46,021,473</u>	<u>27,487,844</u>
Expenses			
Grants and awards	10,005,189	6,679,276	2,780,612
Other	3,141,356	2,304,150	951,398
Total operating expenses	<u>13,146,545</u>	<u>8,983,426</u>	<u>3,732,010</u>
Excess of revenues over expenses	24,236,608	37,038,047	23,755,834
Total net assets, beginning of period	84,785,972	47,747,925	23,992,091
Total net assets, end of period	<u>\$109,022,580</u>	<u>\$84,785,972</u>	<u>\$47,747,925</u>

Assets, liabilities and changes in net assets:

The Authority’s net assets grew to \$109 million at June 2009, an increase of \$24.2 million from June 2008. The growth in net assets resulted primarily from the transfers received from the state of Kansas via the Emerging Industry Investment Act. The increase in transfers was a result of job growth in bioscience companies from April 2004 through June 2009 over the base year of 2003, subject to a \$35 million annual funding cap for fiscal year 2009 imposed by the State of Kansas. The net assets also were reduced by operating expenses. See the financial highlights on page 3 for additional information.

The Authority expended funds of \$0.8 million for portfolio investments in fiscal year 2009 compared to \$4.6 million in fiscal year 2008. The Authority’s portfolio investments in fiscal year 2009 included three convertible notes and an equity investment. In fiscal year 2009, Authority also provided a \$200,000 note to a company. In fiscal year 2008 the Authority invested in two convertible notes and an equity investment. An additional \$1 million was invested in a note.

CAPITAL ASSET ACTIVITY

Capital assets include furniture and office and computer equipment purchased since inception of the Authority. In fiscal year 2008, the Authority received donated land with an estimated fair value of \$254,236 from the city of Olathe for the construction of the Authority’s incubator within the Kansas Bioscience Park. In fiscal year 2009, the Authority expended \$626,298 in construction costs for the Authority incubator. See additional information in note 9 to the financial statements.

ECONOMIC FACTORS

A key strategy for the Authority is to focus its investments in industry sectors where Kansas has established or emerging bioscience clusters supported by excellence in research and commercialization. The Authority’s board approved guidelines and programs in the last quarter of fiscal 2007 intended to provide clear and concise description of the programs set forth by the legislature when it approved the Kansas Economic Growth Act in 2004. These programs are tracked in two major broad categories which are research and commercialization. To that end, the Authority has tracked programs under two major categories 1) a focus on the research which will lead to 2) commercialization. A brief description of these programs is provided in the footnotes (pages 10 and 11) and a detail of the commitments can be found in the supplementary information. The funds committed to date are as follows:

Program Area:	Fiscal 2009	Inception through Fiscal 2009
Research	\$ 130,042,187	\$144,997,141
Commercialization	46,996,417	81,621,033
Total	\$ 177,038,604	\$226,618,174

The research focus for fiscal year 2009 was to accomplish the following: 1) lead Kansas’ efforts to attract the National Bio and Agro-Defense Facility (NBAF), 2) expand the Kansas Bioscience Eminent Scholars Program, 3) implement the Rising Star and Cluster Hire program, 4) identify and pursue large-scale federal research investment opportunities that support the centers of innovation and 5) develop and implement the Kansas Cancer Fighting Cures Project.

Accomplishments in the research category include the formal siting of the National Bio and Agro-Defense Facility to be constructed in Manhattan, Kansas. The Department of Homeland Security is building the federal laboratory to research and develop countermeasures to animal, human, and zoonotic diseases. On the merits, Kansas was selected for this initiative to protect the American food supply and agriculture economy, and this Authority funding supports the effort to bring the NBAF to Kansas. Also included in this category is a commitment to the University of Kansas Cancer Center for the renovation of the Wahl/Hixon Research Complex. This state-of-the-art cancer research space at the University of Kansas Medical Center (KUCC) in Kansas City, Kansas will be used to advance the KUCC’s cancer research program for National Cancer Institute (NCI) designation and to recruit cancer-related eminent, rising star, and emerging scholars. KUCC has identified 170,000 gross square feet in the Wahl/Hixon Research Complex to meet the near-term, state-of-the-art space needs for basic and translational cancer research. Another significant commitment in this category is a grant to the Wichita Center for Graduate Medical Education for a research program that will lead to the creation of three new research centers. These centers are intended to improve health care delivery and patient outcomes; potentially lead to new drugs, medical products, and intellectual property; and serve as the basis for sustained accreditation of the 14 medical residency programs in Wichita.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Years Ended June 30, 2009 and 2008

The commercialization category includes commitments related to infrastructure development and installation, equity investment, development of centers of innovation, Heartland BioVentures, and matching of federal and other research awards. Significant infrastructure commitments include \$19 million for the Authority Venture Accelerator building to be constructed in the Kansas Bioscience Park in Olathe, Kansas and \$3.25 million for the Lawrence-Douglas County Bioscience Authority wet lab incubator. The Authority Venture Accelerator and the Lawrence-Douglas County Bioscience Authority wet lab will facilitate the growth of the bioscience industry and supplement other existing or proposed incubators in the Kansas City metro region. The Lawrence facility's location will allow it to attract customers who seek close proximity to The University of Kansas, and the community and university will invest \$4 million in the Lawrence project.

A key strategy for the Authority is to focus investments in industry sectors in which Kansas has established leadership or emerging bioscience clusters supported by excellence in research and commercialization. The five areas of strength Kansas has identified are biomaterials, human health, animal health, bioenergy, and plant science. The hub of the Authority's cluster development strategy is the Kansas Bioscience Center of Innovation. Through this program, Kansas addresses its dual needs to (1) assist existing and emerging bioscience industries in capturing new knowledge and research findings for their product and production functions and (2) build strong world-class bioscience development centers. In fiscal year 2009 the board approved \$17.1 million to fund the implementation of the Center of Innovation for Biomaterials in Orthopaedic Research, the Kansas Bioenergy and Biorefining Center of Innovation, Kansas Bioscience Innovation Center in Drug Delivery, and the Kansas Innovation Center for Advanced Plant Design.

In fiscal year 2007, the board approved \$4.6 million to establish Heartland BioVentures (HBV) with the goal of improving companies' access to venture capital. In fiscal year 2009 this program was further developed and the ground work was laid to work with other initiatives in the state to assure common approaches and a coordinated effort to support in-state entrepreneurs and attract out-of-state opportunities. In addition, the HBV team continued its efforts to provide assistance and pre-venture financing to early stage bioscience firms to fundamentally address business, technology, management and other strategic issues critical to their success and, thus, improve their access to venture capital. The services, resources and networks of Heartland BioVentures and its partners are being directed to help bioscience startups develop products, raise capital and go to market.

The Authority has adopted an outcome and investment focus-based approach to program planning and execution. The program themes for fiscal year 2009 focused on areas to improve our ability to achieve outcomes at the organizational level, utilizing performance measurement, strategic guidance, and cross-program collaboration. The programs and projects are monitored and reported on a regular basis.

The Authority has established a base of assets to invest in its mission of attracting bioscience entities that will increase employment, encourage research and development, commercialize bioscience discoveries, and provide for the research infrastructure necessary to expand the bioscience industry in Kansas. The ability to continue to invest in the Authority's mission is dependent on the growth of bioscience companies' payrolls.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide stakeholders in the Authority with a general overview of the Authority's finances and to show the authority's accountability for the resources it receives, invests, and expends. If you have questions about this report, or need additional financial information, please contact Ms. Janice Katterhenry, CFO, at Kansas Bioscience Authority, 25501 W. Valley Pkwy, Ste 100, Olathe, KS 66061.

BALANCE SHEETS

June 30, 2009 and 2008

ASSETS

	2009	2008
Current Assets		
Cash and cash equivalents	\$ 67,639,853	\$ 2,578,188
Investments in securities	11,815,489	9,000,972
Receivable from State of Kansas	8,655,797	8,852,271
Accrued interest receivable	211,874	737,843
Prepaid expenses	58,356	36,156
Total current assets	88,381,369	21,205,430
Other Assets		
Deposits	4,500	4,500
Investments in securities	8,146,132	52,712,125
Portfolio investments	5,453,708	4,466,870
Notes receivable	2,420,468	2,090,382
Land held for development	4,998,871	4,998,871
Capital assets:		
Land and construction in process	880,534	254,236
Other capital assets, net	135,057	128,727
Total other assets	22,039,270	64,655,711
Total assets	\$ 110,420,639	\$85,861,141

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 1,355,449	\$ 1,012,206
Payroll liabilities payable	14,110	23,624
Compensated absences	28,500	39,339
Total current liabilities	1,398,059	1,075,169
Total liabilities	1,398,059	1,075,169
Commitments (see Note 7)		
Net assets		
Invested in capital assets	1,015,591	382,963
Restricted for development	4,998,871	4,998,871
Unrestricted	103,008,118	79,404,138
Total net assets	109,022,580	84,785,972
Total liabilities and net assets	\$ 110,420,639	\$85,861,141

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Interest income	\$ 461,083	\$ 92,708
Total operating revenues	<u>461,083</u>	<u>92,708</u>
Operating expenses:		
Grants and awards	10,005,189	6,679,276
Wages and benefits	1,551,182	1,053,834
Board fees and reimbursed expense	56,111	52,286
Meeting and travel expenses	119,484	95,502
Depreciation and amortization	53,966	36,803
Dues and subscriptions	17,564	9,885
Insurance	49,847	29,236
Contractual and consulting services	616,507	279,391
Legal services	222,622	391,268
Marketing	179,485	136,759
Office expense	71,674	68,791
Real estate tax	6,368	–
Rent	52,387	51,878
Equity in loss of investee	144,159	98,517
Total operating expenses	<u>13,146,545</u>	<u>8,983,426</u>
Operating loss	<u>(12,685,462)</u>	<u>(8,890,718)</u>
Nonoperating revenues and expenses:		
Transfers from the State of Kansas –		
Emerging Industry Investment Act	34,803,526	38,388,887
Contributed land	–	5,253,107
Investment income	2,118,544	2,286,771
Total nonoperating revenues	<u>36,922,070</u>	<u>45,928,765</u>
Excess of revenues over expenses	24,236,608	37,038,047
Net assets, beginning of period	84,785,972	47,747,925
Net assets, end of period	<u>\$ 109,022,580</u>	<u>\$ 84,785,972</u>

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash paid to others	\$(12,856,700)	\$ (9,454,528)
Net cash from operating activities	<u>(12,856,700)</u>	<u>(9,454,528)</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(679,714)	(65,593)
Proceeds from sale of capital assets	2,090	—
Net cash from capital and related financing activities	<u>(677,624)</u>	<u>(65,593)</u>
Cash flows from noncapital financing activities:		
Cash received from State of Kansas	<u>35,000,000</u>	35,891,678
Net cash from noncapital financing activities	<u>35,000,000</u>	<u>35,891,678</u>
Cash flows from investing activities:		
Purchases of investments in securities	41,751,476	(22,249,270)
Purchases of portfolio investments	(800,000)	(4,550,000)
Investment income	2,644,513	1,942,599
Net cash from investing activities	<u>43,595,989</u>	<u>(24,856,671)</u>
Net change in cash	65,061,665	1,514,886
Cash and cash equivalents at beginning of year	2,578,188	1,063,302
Cash and cash equivalents at end of period	<u>\$ 67,639,853</u>	<u>\$ 2,578,188</u>
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$(12,685,462)	\$ (8,890,718)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	44,915	31,553
Loss on sale/disposal of capital assets	81	—
Equity in loss of investee	144,159	98,517
Changes in assets and liabilities:		
Prepaid expenses and deposits	(22,200)	(23,952)
Accrued interest	(461,083)	(92,708)
Notes receivable	(200,000)	(1,004,993)
Accounts payable	343,243	391,008
Payroll liabilities and compensated absences	(20,353)	36,765
Net cash from operating activities	<u>\$ (12,856,700)</u>	<u>\$ (9,454,528)</u>
Supplemental schedule of non-cash investing and financing activities:		
Contribution of land	\$ —	\$ 5,253,107

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Kansas Bioscience Authority (Authority) is an independent instrumentality of the state of Kansas. Its enabling statutes are found in K.S.A. 74-99b01 et seq. as amended and supplemented. The authority was created on April 19, 2004, with the passage of the Kansas Economic Growth Act (KEGA), a comprehensive economic development act designed to meet the needs of the changing Kansas economy. The authority was created to make Kansas the most desirable state in which to conduct, facilitate, support, fund and perform bioscience research, development of commercialization, to make Kansas a national leader in bioscience, and to create jobs, foster economic growth, advance scientific knowledge and improve the quality of life for the citizens of the state of Kansas.

Accounting principles generally accepted in the United States of America require that the reporting entity include: (1) the primary government, (2) organizations for which the government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading. The Authority is financially accountable to the state and the state exercises oversight responsibility on financial interdependency and selection of governing board members. The state has the ability to significantly influence operations and accountability for fiscal matters, special financing relationships, and scope of public service. The Authority is included in the state's financial reporting entity, and the Authority's transactions are reported in the state's Comprehensive Annual Financial Report as a component unit.

KEGA provided a funding mechanism through the Emerging Industry Investment Act based on the growth of state withholding taxes payable from employees of bioscience-related companies. State taxes that exceed the base year measurement of such taxes accrue to the Authority for investment. This mechanism makes it unnecessary to raise taxes or reallocate amounts from other state budgets. Revenues that accrue belong exclusively to the Authority and are not part of the state treasury. During the 2009 legislative session, the transfers to Authority from the state were limited to \$35 million for the year ended June 30, 2009.

Some of the programs that the Authority has used or may use in the future in its investment in the biosciences are:

- **Matching Fund Program:** Matches research dollars from federal, private and other sources of support expanding the state's ability to attract federal research dollars.
- **Research and Development Voucher Program:** Provides funding to Kansas bioscience companies, in partnership with a Kansas research university, company, or institution, for proof-of-concept research and development activities and ancillary activities necessary to commercialize bioscience technologies. This program is designed to provide early stage financing and commercialization support for high-potential but high-risk innovations.
- **Bioscience Tax Investment Incentive Program:** Allows direct payment to a bioscience company in the amount of 50% of its Kansas net operating loss, up to \$1 million annually. Useful for business attraction or retention activities.
- **Eminent Scholars Program:** Designed to recruit distinguished bioscience researchers to conduct their research and commercialization activities at Kansas research institutions. An eminent scholar is an individual acknowledged as a scholar of distinction by national measures. The program will enhance the national eminence of selected outstanding academic research programs in the biosciences at Kansas universities and make important, direct contributions to Kansas capabilities for research and innovation in the biosciences.
- **Rising Stars Program:** Will retain and advance Kansas' best and brightest bioscience scholars. A rising star must be a researcher with a proven track record of grant productivity and team leadership in a research environment; researcher must demonstrate an interest in applying research to commercial opportunities that build Kansas' bioscience economy and most likely be a candidate for the National Academy of Science.

- **Retention, Expansion and Attraction Program:** Will create, retain and expand bioscience job opportunities for all Kansans. The program will facilitate the expansion and attraction of bioscience companies with strong growth potential and the ability to add high-quality jobs, develop or recruit bioscience researchers, and partner with Kansas research institutions.
- **Heartland BioVentures:** Is a business assistance program of the Authority designed to facilitate risk capital investment in Kansas bioscience companies. The goal is to provide to early-stage bioscience firms the assistance they need to fundamentally address business, technology, management and other strategic issues critical to their success, thus improving their access to venture capital. By selectively investing time as well as technical and business development expertise into emerging bioscience concepts, companies and entrepreneurs, BioVentures will be a source of pre-qualified deal flow for private venture investors interested in deals with reduced risk, and will provide clarity in the commercialization pathway.
- **Centers of Innovation:** The Centers of Innovation focus on research and development in core technology areas that establish national and international research excellence and lead to high commercial payoff in new products and processes. The Authority funds will leverage significant private and federal funds and enable Kansas, within five years, to have several major large-scale national and international centers. The research and development agenda of these centers is designed to focus on areas of interest to Kansas companies and potential entrepreneurs. The centers are designed not only for excellent research, but also for productive commercialization. The centers operate as consortia of industry, higher education, and other private research organizations driven by strong industry involvement.

Basis of Accounting

The Authority is organized as a proprietary activity. Transactions are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is utilized. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with an entity's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

As required by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless FASB and/or APB pronouncements conflict with or contradict GASB pronouncements.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the authority's cash equivalents are defined as short-term highly liquid investments that are readily convertible to cash with an original maturity of three months or less.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

Investments in Securities

Investments in securities are reported at fair value. As of June 30, 2009 and 2008, investments consist of funds invested in municipal securities and various government agency obligations. The fair value of these investments may fluctuate subsequent to year-end due to changes in economic conditions.

Portfolio Investments

Direct debt and equity financing which is extended to various companies to further the Authority's mission to advance the bioscience industry in Kansas are classified separately from investments in securities. These investments are usually reserved for projects where conventional lending is not an option due to large up-front investments with returns which may occur in future periods. Portfolio investments typically have no readily determinable fair value, and are initially recorded using the cost method of accounting. Under the cost method, investments are recorded at cost, adjusted for other-than-temporary impairment. Investments in certain limited liability companies are accounted for using the equity method, with an adjustment to the Authority's investment account for its proportionate share of income or loss from the investee.

Portfolio investments recorded at cost which have experienced an other-than-temporary decline in value are written down to estimated fair value, establishing a new cost basis, with the amount of the write-down included in expense as a loss. The determination of fair value requires the use of estimates, which are based on information provided by the companies and knowledge of events or changes in circumstances that would have a significant impact on the value of the investment. Due to the inherent uncertainty in the use of estimates, fair values for purposes of evaluating impairment may differ significantly from the amounts ultimately realized from the investments or values that would have been used had a ready market for the investments existed, and the differences could be material.

Land Held for Development

Land held for development consists of the estimated fair value of land donated to the Authority for its use in attracting and developing future bioscience investment in Kansas.

Capital Assets

Capital assets are carried at historical cost less depreciation or amortization. Donated capital assets are valued at their estimated fair value on the date donated. Individual items with an initial cost of more than \$1,000 are capitalized. Major renewals and betterments are capitalized, and maintenance and repairs, which do not improve or extend the life of the respective assets, are charged against earnings in the current period. Depreciation and amortization are provided on the straight-line method over estimated useful lives ranging from 3 to 15 years.

Revenue Recognition and Receivables

Revenues generated under the Emerging Industry Investment Act from state withholding taxes as described under "Reporting Entity" above are considered voluntary nonexchange transactions to the authority. As such, revenue is recognized by the Authority in the time period in which the withholdings are collected by the state. Receivables consist of amounts owed to the Authority from the state of Kansas. Given the nature of the receivables, no amounts are considered uncollectible by management.

Net Assets

Net assets are classified as follows:

Unrestricted – consist of those operating funds over which the board of directors retains full control to use in achieving any of its authorized purposes.

Invested in capital assets – represents the authority's total investment in capital assets.

Restricted for development – includes land held for development, which is restricted by contractual agreement.

Revenues and Expenses

Revenues are classified as operating or nonoperating according to the following criteria:

Operating revenues – include activities that have the characteristics of an exchange transaction.

Nonoperating revenues – include activities that have the characteristics of non-exchange transactions such as grant award and tax revenues that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34.

Expenses are classified as operating or nonoperating according to the following criteria:

Operating Expenses – include activities that have the characteristics of an exchange transaction such as a) employee salaries, benefits, and related expenses; b) supplies and other services; c) professional fees; and d) depreciation expenses related to capital assets.

Nonoperating Expenses – include activities that have the characteristics of non-exchange transactions plus expenses not meeting the above definition for operating expenses.

Income Taxes

The Authority is exempt from all federal, state, and local income, sales and property taxes.

NOTE 2 – CASH AND INVESTMENTS IN SECURITIES

As of June 30, 2009 and 2008, the Authority had balances of \$67,639,853 and \$2,578,188, respectively, of cash and money market investments.

Deposit and Investment Policies. The authority has adopted deposit and investment policies. Investment guidelines were followed by the local investment company which holds the Authority's cash and investments. Such guidelines are discussed in more detail below.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits or investments that are in the possession of an outside party. At June 30, 2009 and 2008, \$10 and \$75,746, respectively, were exposed to custodial credit risk as deposits are in excess of FDIC insurance coverage limits. During fiscal 2009, the Authority implemented a sweep option for its cash deposit account that transfers funds in excess of FDIC insurance coverage limits into a money market fund account for investment in government-backed securities. The investments in this money market account are protected from custodial credit risk by \$500,000 in Securities Investor Protection Corporation (SIPC) insurance coverage. Also, as of June 30, 2009 and 2008, underlying securities of \$19,961,621 and \$61,713,097 on investments were held by the investment's counterparty.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

Credit Risk. As of June 30, 2009 and 2008, the Authority was invested in government agency securities including FHMLC, FFCB, FHLB, and FNMA securities. The government agency securities were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. Under the authority's investment policy, only AAA-rated securities were considered for investment.

Concentration of Credit Risk. Under the authority's investment policy, there is no limit on the total amount that can be invested in U.S. Treasury securities, government agency securities, or money market funds, but no more than 5% of the investment portfolio can be invested in securities issued or guaranteed by any one corporate issuer.

As of June 30, 2009, more than 5% of the Authority's cash and investments are held in the following securities: FHLB (12%) and FHMLC (6%).

Interest Rate Risk. Interest rate risk relates to the exposure to fair value losses arising from the fluctuations in interest rates. Under the Authority's investment policy, the average duration of the overall portfolio should be no more than four years and only high-quality securities are considered. Management utilizes an investment manager and considers input and advice from this manager as part of the investment policy. As of June 30, the authority had the following investment maturities:

Investment Type	June 30, 2009				
	Fair Value	Less than 90 days	90 days – 1 year	1 – 5 years	5 – 10 years
Government Securities	\$19,961,621	\$4,887,890	\$6,927,599	\$ 8,146,132	\$ –
Total	<u>\$19,961,621</u>	<u>\$4,887,890</u>	<u>\$6,927,599</u>	<u>\$ 8,146,132</u>	<u>\$ –</u>

Investment Type	June 30, 2008				
	Fair Value	Less than 90 days	90 days – 1 year	1 – 5 years	5 – 10 years
Government Securities	\$61,713,097	\$9,000,972	\$ –	\$48,112,471	\$4,599,654
Total	<u>\$61,713,097</u>	<u>\$9,000,972</u>	<u>\$ –</u>	<u>\$48,112,471</u>	<u>\$4,599,654</u>

NOTE 3 – PORTFOLIO INVESTMENTS

Investments consisted of the following at June 30:

	2009	2008
Debt securities	\$4,479,691	\$3,915,387
Equity securities	974,017	551,483
	<u>\$5,453,708</u>	<u>\$4,466,870</u>

At June 30, 2009 and 2008, the Authority also owned warrants in one portfolio company to purchase 350,000 shares of common stock at an exercise price of \$1.30 per share, and held equity rights for 1% of common stock in another portfolio company. The value of these warrants and equity rights is not readily determinable; therefore, they are not included in these financial statements.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the years ended June 30, was as follows:

	July 1, 2008 Balance	Increases	Decreases	June 30, 2009 Balance
Capital assets not being depreciated:				
Land	\$ 254,236	\$ –	\$ –	\$ 254,236
Construction in process	–	626,298	–	626,298
Total capital assets not being depreciated	254,236	626,298	–	880,534
Furniture and equipment	164,855	53,416	(2,605)	215,666
Leasehold improvements	5,500	–	–	5,500
Total capital assets being depreciated	170,355	53,416	(2,605)	221,166
Less accumulated depreciation:				
Furniture and equipment	(40,986)	(44,549)	434	(85,101)
Leasehold improvements	(642)	(366)	–	(1,008)
Total accumulated depreciation	(41,628)	(44,915)	434	(86,109)
Total capital assets being depreciated, net	128,727	8,501	(2,171)	135,057
Total capital assets, net	\$ 382,963	\$ 634,799	\$ (2,171)	\$ 1,015,591
	July 1, 2007 Balance	Increases	Decreases	June 30, 2008 Balance
Capital assets not being depreciated:				
Land	\$ –	\$ 254,236	\$ –	\$ 254,236
Total capital assets not being depreciated	–	254,236	–	254,236
Furniture and equipment	99,262	65,593	–	164,855
Leasehold improvements	5,500	–	–	5,500
Total capital assets being depreciated	104,762	65,593	–	170,355
Less accumulated depreciation:				
Furniture and equipment	(9,800)	(31,186)	–	(40,986)
Leasehold improvements	(275)	(367)	–	(642)
Total accumulated depreciation	(10,075)	(31,553)	–	(41,628)
Total capital assets being depreciated, net	94,687	34,040	–	128,727
Total capital assets, net	\$ 94,687	\$ 288,276	\$ –	\$ 382,963

NOTE 5 – LEASES

The Authority entered into a noncancelable operating lease for office space for October 1, 2006 through October 1, 2011. During fiscal 2009, the Authority amended the lease to obtain additional office space.

Future minimum lease payments due under the noncancelable office operating lease will be:

Fiscal Year End	
2010	\$ 94,450
2011	97,457
2012	49,361
	<u>\$241,268</u>

The total rental expense included in the financials for the years ended June 30, 2009 and 2008, was \$79,558 and \$51,878, respectively.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

NOTE 6 – NOTES RECEIVABLE

In February 2007, the Authority entered into an agreement with a bioscience company to assist in its performance of bioscience research, development and commercialization, and creation of new jobs. The agreement provides for a maximum advance of \$2 million. As of June 30, 2009 and 2008, \$2,217,352 and \$2,090,382, respectively, was outstanding under the agreement, which included \$217,352 and \$90,382, respectively, of accrued interest. The note includes an interest rate of 6%, is secured by all equipment of the company, and is payable in full in February 2012, less any “employee credits.” These credits allow for the amounts owed under the agreement to be reduced by \$250,000 for every 25 new full-time equivalent positions created in Kansas, after maintenance of such positions for a consecutive 365-day period. As of June 30, 2009 and 2008, no employee credits had been earned by the bioscience company.

In February 2009, the Authority entered into an agreement with a bioscience company to assist in its performance of bioscience research, development and commercialization. The agreement provides for a maximum advance of \$1.5 million. As of June 30, 2009, \$203,116 was outstanding under the agreement, which included \$3,116 of accrued interest. The note includes an interest rate of three percentage points over the Wall Street Journal Prime Rate, adjusted on a calendar quarterly basis (6.25% at June 30, 2009). The agreement calls for payment of one-third of the outstanding principal and interest on February 27, 2012, one-half of all remaining outstanding principal and interest on February 27, 2013 and all remaining principal and interest on February 27, 2014. The agreement is secured by the Company’s intellectual property (as defined). The agreement also grants the Authority equity rights in 1% of the company’s common stock (see Note 3).

NOTE 7 – COMMITMENTS

The Authority invests its resources through various programs as outlined in Note 1. The terms of each funded project vary, but generally the investees are required to meet milestones to receive funding. Such milestones may include adding a certain number of employees in Kansas, recruiting students or researchers into bioscience studies, and investing in new bioscience equipment or facility expansion, among others. Therefore, projects approved by the authority do not become obligations until the milestones are met and payment becomes probable. As of June 30, 2009, the authority had approximately \$200 million of outstanding, approved commitments for various projects. Subsequent to June 30, 2009, an additional approximately \$2.9 million was committed by the authority for additional projects.

Each funded project has different terms and arrangements for funding. These projects have payment terms attached to milestones that cover periods from one to ten years. Management evaluates and projects future cash flow payments based on information about the status of each program. As of June 30, 2009, it is estimated that approximately \$64.9 million will be paid out in fiscal 2010 for the projects outstanding as of June 30, 2009, and those approved subsequent to year-end through September 30, 2009. This projection does not include payments on additional projects that may be funded in fiscal 2010 and is subject to change based on the achievement of milestones. Actual future cash flows could differ from the estimates as of June 30, 2009.

NOTE 8 – RETIREMENT PLAN

During fiscal 2008, the Authority implemented a 401(a) plan (Plan) which allows for a discretionary employer contribution of up to 8% based on the amount of the employee’s elective deferral. Employer contributions to the Plan were \$58,160 and \$27,382 for the years ended June 30, 2009 and 2008, respectively. The Authority also offers a 457(b) plan which allows for employees to defer wages up to the amounts allowed by the IRS.

NOTE 9 – LAND HELD FOR DEVELOPMENT

The city of Olathe conveyed approximately 54 acres of land during 2008 to the Authority to create the Kansas Bioscience Park. The purpose of the park is to assist in developing specialized infrastructure to facilitate the growth and expansion of bioscience companies. A benefit district has been created by the city of Olathe to build the infrastructure at the park, and construction commenced in August 2008.

SCHEDULE OF COMMITMENTS

June 30, 2009

Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/09	Total Remaining To be Paid
Prescription Solutions	7/11/2005	150,000	150,000	—	—	—
Heartland BioEnterprise	1/5/2006	200,000	—	200,000	81,059	118,941
KansasBio 2006	1/5/2006	100,000	—	100,000	100,000	—
Hospira, Inc	4/11/2006	200,000	—	200,000	153,000	47,000
Quintiles	4/11/2006	3,500,000	—	3,500,000	3,000,000	500,000
JACAM Chemicals	4/11/2006	500,000	—	500,000	345,000	155,000
IdentiGEN	4/11/2006	125,000	—	125,000	50,000	75,000
	FY 2006 Totals	\$ 4,775,000	\$ 150,000	\$ 4,625,000	\$ 3,729,059	\$ 895,941
City of Manhattan (NISTAC)	7/13/2006	1,000,000	—	1,000,000	300,000	700,000
CritiTech	7/13/2006	48,700	—	48,700	48,700	—
Kansas City Area Development Council	7/13/2006	41,200	—	41,200	41,200	—
Kansas City Area Life Sciences Institute	7/13/2006	10,000	—	10,000	10,000	—
MGP Ingredients	7/13/2006	40,000	—	40,000	25,000	15,000
Nutri-Shield	7/13/2006	40,000	—	40,000	39,379	621
Sunflower Bioenergy Phase 1	7/13/2006	13,000	—	13,000	13,000	—
Wet-Lab Planning & Architecture	7/13/2006	150,000	66,509	83,491	83,491	—
KUMC Wet-Lab Upgrade	7/13/2006	100,000	—	100,000	100,000	—
Topeka Chamber of Commerce	7/13/2006	13,388	—	13,388	13,388	—
Caravan Ingredients	7/13/2006	1,000,000	30,000	970,000	270,000	700,000
OncImmune	10/12/2006	2,500,000	—	2,500,000	2,319,864	180,136
Junction City, KS (Ventria)	10/12/2006	1,000,000	—	1,000,000	—	1,000,000
NBAF Phase I	1/9/2007	250,000	—	250,000	250,000	—
Kansas Bioscience Park/K-State Campus	1/9/2007	7,600,000	—	7,600,000	77,448	7,522,552
KansasBio 2007	1/9/2007	75,000	—	75,000	75,000	—
Hospira, Inc	1/9/2007	64,000	—	64,000	19,500	44,500
Sunflower Bioenergy Phase 2	1/9/2007	500,000	—	500,000	150,000	350,000
Edenspace Systems Expansion/Attraction	3/13/2007	200,000	—	200,000	50,000	150,000
Kansas Bioscience Fund	5/25/2007	100,000	—	100,000	—	100,000
Centers of Innovation – KCBID	5/25/2007	200,000	133,333	66,667	66,667	—
Centers of Innovation – KBICDD	5/25/2007	180,000	—	180,000	180,000	—
Centers of Innovation – Plant Design	5/25/2007	200,000	—	200,000	200,000	—
Heartland BioVentures	5/25/2007	4,600,000	—	4,600,000	459,360	4,140,640
	FY 2007 Totals	\$ 19,925,288	\$ 229,842	\$ 19,695,446	\$ 4,791,997	\$ 14,903,449
OsteoGeneX	7/10/2007	130,000	—	130,000	130,000	—
ABADRL/City of Manhattan	7/10/2007	1,500,000	—	1,500,000	—	1,500,000
Innovia Medical	7/10/2007	650,000	—	650,000	650,000	—
City of Emporia, KS (REG)	7/10/2007	300,000	—	300,000	—	300,000
Fort Dodge Animal Health	7/10/2007	3,500,000	3,500,000	—	—	—
KC BioMediX	7/10/2007	150,000	—	150,000	150,000	—
CritiTech	9/28/2007	264,048	—	264,048	264,048	—
Kansas Environmental Management Associates	9/28/2007	312,500	—	312,500	312,500	—
ThermoFisher Remel	9/28/2007	1,250,000	—	1,250,000	250,000	1,000,000
NBAF Phase II	9/28/2007	440,000	—	440,000	440,000	—
Collaborative Biosecurity Research Initiative	9/28/2007	2,500,000	—	2,500,000	—	2,500,000
KansasBio 2008	9/28/2007	100,000	—	100,000	100,000	—
Deciphera – East Hills Incubator	11/26/2007	3,500,000	3,500,000	—	—	—
Edenspace USDA SBIR Phase I	11/26/2007	40,000	—	40,000	40,000	—
Edenspace DOE SBIR Phase I	11/26/2007	50,000	—	50,000	50,000	—
Eminent Scholar – University of Kansas	1/16/2008	5,000,000	—	5,000,000	2,000,000	3,000,000
Eminent Scholar – Kansas State University	1/16/2008	2,055,000	—	2,055,000	1,040,000	1,015,000
MATRIC	1/16/2008	2,000,000	2,000,000	—	—	—
Pinnacle Technology	1/16/2008	375,000	—	375,000	245,000	130,000
Biosecurity Research Institute	2/26/2008	1,548,000	—	1,548,000	1,548,000	—
KU Breidenthal KUMCRI	4/8/2008	2,000,000	—	2,000,000	—	2,000,000
Eminent Scholar – Wichita State	4/8/2008	911,954	—	911,954	364,782	547,172
OsteoGeneX NIH SBIR Phase II	6/5/2008	375,000	—	375,000	230,294	144,706
Collaborative Cancer Research Initiative	6/5/2008	750,000	—	750,000	—	750,000
Ventria Phase I Expansion	6/5/2008	3,750,000	—	3,750,000	3,750,000	—
Immunogenetix Therapeutics, Inc. (IGX)	6/5/2008	420,000	—	420,000	100,000	320,000
Vince and Associates, LLC	6/5/2008	200,000	—	200,000	150,000	50,000
TVAX Inc BTIIP	6/5/2008	187,622	—	187,622	187,622	—
	FY 2008 Totals	\$ 34,259,124	\$ 9,000,000	\$ 25,259,124	\$ 12,002,246	\$ 13,256,878

SCHEDULE OF COMMITMENTS, CONTINUED

June 30, 2009

Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/09	Total Remaining To be Paid
KC BioMediX preferred equity investment	7/15/2008	400,000	—	400,000	400,000	—
KC BioMediX common equity investment	7/15/2008	16,693	—	16,693	16,693	—
VasoGenix Pharmaceuticals convertible note	7/15/2008	200,000	—	200,000	200,000	—
NBAF Phase III	8/15/2008	400,000	—	400,000	400,000	—
KansasBio 2009	8/15/2008	100,000	—	100,000	100,000	—
Kansas Venture Capital Program	8/15/2008	1,000,000	—	1,000,000	—	1,000,000
WCGME Grad Med Educ Planning Grant	9/12/2008	250,000	—	250,000	200,000	50,000
WCGME research centers	10/28/2008	5,880,000	—	5,880,000	—	5,880,000
K-State Biomass Inventory Assessment	10/28/2008	300,000	—	300,000	100,000	200,000
ICM Collaborative Bioenergy Research	10/28/2008	1,000,000	—	1,000,000	150,000	850,000
Nowa Technology	10/28/2008	1,500,000	—	1,500,000	200,000	1,300,000
Pinnacle NIH SBIR In-Vivo Wireless	10/28/2008	375,000	—	375,000	100,000	275,000
ANOxA headquarters relocation	10/28/2008	300,000	—	300,000	120,000	180,000
KU Cancer Center cluster hire	10/28/2008	750,000	—	750,000	187,500	562,500
Via Christi/Wichita State University cluster hire	10/28/2008	327,500	—	327,500	42,500	285,000
NBAF DHS	1/12/2009	92,884,687	—	92,884,687	—	92,884,687
Edenspace USDA SBIR Phase II	1/27/2009	175,000	—	175,000	—	175,000
Edenspace DOE SBIR Phase II	1/27/2009	184,724	—	184,724	—	184,724
ICM Biomass Gasification	1/27/2009	500,000	—	500,000	—	500,000
VasoGenix Pharmaceuticals convertible note 2	1/27/2009	400,000	—	400,000	100,000	300,000
KBP Venture Accelerator	1/27/2009	19,000,000	—	19,000,000	626,298	18,373,702
Wahl/Hixon renovation	03/09/2009	26,400,000	—	26,400,000	2,640,000	23,760,000
LDCBA Incubator	03/09/2009	3,250,000	—	3,250,000	—	3,250,000
KUCC Stowers	03/09/2009	250,000	—	250,000	100,000	150,000
KUCC Compound Management System	03/09/2009	500,000	—	500,000	—	500,000
NBAF Phase IV	03/09/2009	500,000	—	500,000	90,100	409,900
KBCI KBICDD	03/09/2009	5,000,000	—	5,000,000	—	5,000,000
KBCI KABB	03/09/2009	4,100,000	—	4,100,000	250,000	3,850,000
KBCI CIBOR	5/19/2009	4,000,000	—	4,000,000	—	4,000,000
KBCI HPI	5/19/2009	4,000,000	—	4,000,000	—	4,000,000
Cydex R&D Voucher	5/19/2009	195,000	—	195,000	—	195,000
SCF Technologies	5/19/2009	50,000	—	50,000	50,000	—
Nanoscale NIH SBIR	5/19/2009	50,000	—	50,000	50,000	—
KUCC/Scripps	5/19/2009	500,000	—	500,000	—	500,000
KU/VC Wichita Clinical Trials	5/19/2009	500,000	—	500,000	—	500,000
Kansas Cancer Operations	5/19/2009	600,000	—	600,000	—	600,000
ADM R&D Voucher	5/19/2009	1,200,000	—	1,200,000	—	1,200,000
	FY 2009 Totals	\$177,038,604	\$ —	\$177,038,604	\$ 6,123,091	\$170,915,513
	Totals	\$235,998,016	\$ 9,379,842	\$226,618,174	\$ 26,646,393	\$199,971,781

This schedule is presented on a cash basis and does not include accruals.

INDEPENDENT AUDITORS' 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 Directors
Kansas Bioscience Authority
Olathe, Kansas

We have audited the financial statements of the Kansas Bioscience Authority (Authority), a Component Unit of the State of Kansas, as of and for the year ended June 30, 2009 and have issued our report thereon dated September 29, 2009. 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 Authority'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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Authority'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 these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Allen, Gibbs & Houlik, L.C.
Certified Public Accountants
September 29, 2009
Wichita, Kansas

