

# FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

YEARS ENDED JUNE 30, 2010 AND 2009

## TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	2
REQUIRED SUPPLEMENTARY INFORMATION	
Management's Discussion and Analysis	3 - 8
BASIC FINANCIAL STATEMENTS	
Balance Sheets	9
Statements of Revenues, Expenses, and Changes in Net Assets	10
Statements of Cash Flows	11
Notes to the Financial Statements	12 - 20
SUPPLEMENTARY INFORMATION	
Schedule of Commitments	21 - 22
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	23

# 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, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years ended June 30, 2010 and 2009. 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, 2010 and 2009, and changes in its financial position and its cash flows for the years ended June 30, 2010 and 2009, 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 October 6, 2010, 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.  
October 6, 2010

**REQUIRED SUPPLEMENTARY INFORMATION****MANAGEMENT'S DISCUSSION AND ANALYSIS***Years Ended June 30, 2010 and 2009*

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, 2010 and 2009.

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 \$96.8 million at June 30, 2010 from \$87.8 million at June 30, 2009 and \$65.0 million at June 30, 2008.
- Since the Authority's inception, its board of directors committed \$227.6 million through June 30, 2010. The Authority's board committed \$67.4 million in fiscal year 2010 to companies and institutions to promote bioscience growth in Kansas; \$64.5 million in commitments approved in previous years was released during the fiscal year. Most commitments are paid upon the achievement of milestones; at June 30, 2010 the total amount remaining to be paid on these commitments was \$177.5 million. Subsequent to June 30, 2010 through September 30, 2010, the Authority's board approved additional commitments totaling \$2.1 million; also during that period, the Authority released \$3.3 million in commitments approved in previous years.
- The Receivable from the state of Kansas increased \$1.1 million in fiscal year 2010 due to growth in bioscience company payroll tax withholdings. The slight decline in this receivable in fiscal year 2009 was due to a new state-imposed cap on cash transfers to the Authority; this cap was continued in fiscal year 2010.
- Capital assets increased \$4.1 million in fiscal year 2010 primarily due to \$3.9 million in construction costs for the Authority's Venture Accelerator. Completion of the infrastructure at the Kansas Bioscience Park created an additional \$166,463 in value for the land upon which the Venture Accelerator is being built. The fiscal year 2009 increase of \$632,628 was also primarily due to construction costs for the Venture Accelerator.
- Other assets increased by approximately \$6.5 million in fiscal year 2010. Components of this increase included a \$3.3 million increase in the value of land held for development related to completion of the infrastructure at the Kansas Bioscience Park, \$2.5 million in the form of equity or convertible notes and \$500,000 in a loan reflected in the financials as a notes receivable. In fiscal year 2009 that same group of assets increased by approximately \$1.3 million as a result of \$800,000 in equity or convertible notes and \$200,000 in a loan reflected on the financials as a note receivable.
- Current liabilities increased \$3.8 million in fiscal year 2010 primarily due to milestones that had been achieved by grant recipients as of the end of the fiscal year for which payments had not yet been made and to a lesser extent the accrued liabilities related to the construction of the Venture Accelerator. In fiscal year 2009 liabilities increased approximately \$300,000 primarily due to milestones achieved but not yet paid at the end of the fiscal year.
- Long-term liabilities that arose during fiscal year 2010 included \$3.3 million in special assessments on the infrastructure at the Kansas Bioscience Park and \$2.5 million in bond financing of Venture Accelerator construction costs.
- 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 increased 3.65% or \$1.3 million in fiscal year 2010 and decreased 9.3% or \$3.6 million in fiscal year 2009. The increase in fiscal year 2010 was a result of growth in bioscience company payroll tax withholdings. The decrease in fiscal year 2009 was a result of a state-imposed cap on cash transfers to the Authority of \$35 million.
- Investment income was approximately \$1.7 million lower in fiscal year 2010 compared to fiscal year 2009 as a result of lower interest rates and the types of investments made in fiscal year 2010. The Authority's executive committee changed the investment policy in May 2009 to insure that the overall portfolio preserved capital and obtained sufficient returns to warrant the risk involved with investing over a very short period of time. Investment income was lower in fiscal year 2009 than fiscal year 2008 as a result of slightly lower interest rates in fiscal year 2009.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Years Ended June 30, 2010 and 2009

- Grants and Awards increased \$12.4 million in fiscal year 2010 which represents a 124% percent increase from the prior year. This increase is a result of milestone accomplishments by those companies in which the Authority invested. In fiscal year 2009, Grants and Awards increased \$3.3 million or 50% from fiscal year 2008. The increases in Grants and Awards are a result of the Authority continuing to make commitments to companies and organizations and those same companies and organizations achieving their established milestones.
- The Authority's fiscal year 2010 operating expenses other than grants and awards were \$3.6 million compared to \$3.1 million for fiscal year 2009 and \$2.3 million for fiscal year 2008. The increase in fiscal year 2010 was mainly the result of an increase in wages and the recognition of the Authority's percentage of losses on an equity investment; these increases were partially offset by a decrease in the use of consultants. The increase in fiscal year 2009 operating expenses was mainly the result of increasing staff and contractual and consulting fees related to implementing programs and documenting the investments 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.

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:

	2010	2009	2008
<b>Assets</b>			
Cash and securities	\$ 96,803,462	\$ 87,813,348	\$ 65,029,128
Receivable from state of Kansas	9,729,682	8,655,797	8,852,271
Capital assets	5,087,015	1,015,591	382,963
Other assets	19,418,575	12,935,903	11,596,779
Total assets	<u>\$131,038,734</u>	<u>\$110,420,639</u>	<u>\$85,861,141</u>
<b>Liabilities</b>			
Current liabilities	\$ 5,177,885	\$ 1,398,059	\$ 1,075,169
Long-term liabilities	5,800,602	--	--
Total liabilities	<u>10,978,487</u>	<u>1,398,059</u>	<u>1,075,169</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,414,540	1,015,591	382,963
Restricted for development	4,998,871	4,998,871	4,998,871
Unrestricted	112,646,836	103,008,118	79,404,138
Total net assets	<u>120,060,247</u>	<u>109,022,580</u>	<u>84,785,972</u>
Total liabilities and net assets	<u>\$131,038,734</u>	<u>\$ 110,420,639</u>	<u>\$ 85,861,141</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:

	2010	2009	2008
<b>Revenues</b>			
Operating revenues	\$ 548,762	\$ 461,083	\$ 92,708
Transfers from state of Kansas	36,073,885	34,803,526	38,388,887
Contributed land	--	--	5,253,107
Investment income	386,001	2,118,544	2,286,771
Total revenues	<u>37,008,648</u>	<u>37,383,153</u>	<u>46,021,473</u>
<b>Expenses</b>			
Grants and awards	22,393,576	10,005,189	6,679,276
Other	3,577,405	3,141,356	2,304,150
Total operating expenses	<u>25,970,981</u>	<u>13,146,545</u>	<u>8,983,426</u>
<b>Excess of revenues over expenses</b>			
Total net assets, beginning of period	11,037,667	24,236,608	37,038,047
Total net assets, end of period	<u>109,022,580</u>	<u>84,785,972</u>	<u>47,747,925</u>
	<u>\$120,060,247</u>	<u>\$109,022,580</u>	<u>\$84,785,972</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED  
Years Ended June 30, 2010 and 2009

## ASSETS, LIABILITIES AND CHANGES IN NET ASSETS

The Authority's net assets grew to \$120 million at June 2010, an increase of \$11 million from June 2009. The growth in net assets resulted primarily from the transfers received from the state of Kansas via the Emerging Industry Investment Act that were not expended on board approved grants or used to fund operations in the fiscal year. The transfers were the result of job growth in bioscience companies from April 2004 through June 2010 over the base year of 2003, subject to a \$35 million annual funding cap for fiscal year 2010 imposed by the state of Kansas. See the financial highlights on page 3 for additional information.

## CAPITAL ASSET ACTIVITY

Capital assets include land, construction costs for the Venture Accelerator, and furniture and equipment purchased since inception of the Authority. In fiscal year 2010, the Authority expended or financed via industrial revenue bonds \$3.9 million in construction costs. The value of the land included in capital assets increased by \$166,463 after completion of Kansas Bioscience Park infrastructure construction during fiscal 2010. In fiscal year 2009, the Authority expended \$626,298 in construction costs for the Venture Accelerator. See additional information in note 4 to the financial statements.

## DEBT ACTIVITY

Debt includes \$2.5 million in industrial revenue bond financing and \$3.5 million in special assessments. In fiscal year 2010, the Authority secured industrial revenue bond financing of construction costs for its Venture Accelerator facility. Also in fiscal year 2010, the Authority received special assessments from the city of Olathe related to infrastructure installed at the Kansas Bioscience Park. See additional information in notes 9, 10 and 11 to the financial statements.

## ECONOMIC FACTORS

The Kansas Economic Growth Act 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. Revenues that accrue belong to the Authority and are not part of the state treasury; however, given the state of the state's economy the transfers to the Authority were capped at \$35 million for the years June 30, 2010 and 2009. The Authority's board of directors approved the Authority's strategic plan and considered investments based on the limited available funding.

A key strategy for the Authority is to focus its investments in industry sectors where Kansas either has established or has emerging bioscience clusters supported by excellence in research and commercialization. The Authority's board approved guidelines and programs 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: 1) a focus on the research which will lead to 2) commercialization. A brief description of these programs is provided in the footnotes (pages 12 and 13) and detail of the commitments can be found in the supplementary information. The funds committed to date are as follows:

<b>Program Area:</b>	Fiscal 2010	Inception through Fiscal 2010
Research	\$ 9,407,077	\$ 93,269,556
Commercialization	58,005,322	134,330,777
Total	<u>\$67,412,399</u>	<u>\$227,600,333</u>

The research focus for fiscal year 2010 was to accomplish the following: 1) lead Kansas' efforts to protect the American food supply through the National Bio and Agro-Defense Facility (NBAF), 2) identify and pursue large-scale federal research investment opportunities that support the centers of innovation, 3) expand the Kansas Bioscience Eminent Scholars Program, 4) implement the Rising Star Program, and 5) develop and implement the Kansas Cancer Fighting Cures Project.

In fiscal year 2010, the Authority's board approved two eminent scholars. One scholar's expertise is in the area of signal transduction in cancer cells. The other scholar is a leading researcher in vaccine discovery. The Authority hired a project director to coordinate its partnerships with Kansas cancer research institutions, including development and implementation of a federal advocacy agenda and enhancement of the regional and national reputation of the KU Cancer Center. An integrated marketing and communications plan was developed for targeted public and private stakeholders, who can promote the state's cancer research and care enterprise. In fiscal year 2009 a commitment was made to the University of Kansas Cancer Center for the renovation of the Wahl/Hixon Research Complex and in fiscal year 2010 significant progress was made on this renovation. 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. Major progress was also made in fiscal year 2010 on 170,000 gross square feet in the Wahl/Hixon Research Complex at KUMC to meet the near-term, state-of-the-art space needs for basic and translational cancer research.

The commercialization category includes commitments related to infrastructure development and installation, Heartland BioVentures, equity investment, development of centers of innovation, and matching of federal and other research awards. In fiscal year 2009, significant infrastructure commitments included \$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. In fiscal year 2010, significant progress was made against those commitments, with the awarding of the construction contract and ground breaking in the second quarter of fiscal year 2010 and progress per plan with expected occupation in March 2011. The Lawrence-Douglas County Bioscience facility opened in fiscal year 2010. 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.

The Heartland BioVentures (HBV) team added four professionals in fiscal year 2010. HBV staff provides assistance 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.

A major accomplishment in fiscal year 2010 was a commitment of \$50 million to eight different venture capital funds. The expectation is that the investment in these venture capital funds will do the following:

- Stimulate both the quantity and quality of venture capital seeking and making investments in the Kansas bioscience market.
- Improve the probability that high potential bioscience companies in Kansas will ultimately achieve high growth, commercial success.
- Create a private equity climate in Kansas that will encourage entrepreneurs to launch new businesses that will create high paying jobs and associated economic activity, and ultimately, wealth for the entrepreneurs and investors.
- Create a bioscience industry climate that will encourage bioscience companies located outside Kansas to relocate their businesses to Kansas.
- Complement and support the investments and business assistance services provided by the Authority under its existing programs.
- Generate superior, risk-adjusted financial returns on the capital invested by the Authority.

In addition, the Authority approved two direct equity investments in companies.

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 Program. 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 2010, the Center of Innovation for Biomaterials in Orthopaedic Research, the Kansas Bioenergy and Biorefining Center and the Center for Advanced Plant Design initiated their work and received funding from the Authority to implement their plan. The Authority also approved a \$250,000 planning grant for an animal health center of innovation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

*Years Ended June 30, 2010 and 2009*

The Authority committed \$6.4 million through its other commercialization programs (Matching Program, R&D Voucher Program and the Expansion and Attraction Program) to assist companies in their commercialization efforts.

The Authority has adopted an outcome and investment focus-based approach to program planning and execution. The program themes for fiscal year 2010 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.

## BASIC FINANCIAL STATEMENTS

## BALANCE SHEETS

June 30, 2010 and 2009

	2010	2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$89,579,146	\$67,639,853
Investments in securities	2,076,880	11,815,489
Receivable from state of Kansas	9,729,682	8,655,797
Accrued interest	78,266	211,874
Other current assets	79,308	58,356
Total current assets	<u>101,543,282</u>	<u>88,381,369</u>
<b>Noncurrent assets</b>		
Long term investments		
Investments in securities	5,069,170	8,146,132
Portfolio investments	7,946,984	5,453,708
Notes receivable	3,082,386	2,420,468
Capital assets		
Land	420,699	254,236
Construction in process	4,519,984	626,298
Furniture and equipment, net	146,332	135,057
Other assets		
Land held for development	8,300,397	4,998,871
Deposits	9,500	4,500
Total other assets	<u>29,495,452</u>	<u>22,039,270</u>
Total assets	<u>\$131,038,734</u>	<u>\$110,420,639</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$4,743,049	\$1,355,449
Payroll liabilities payable	218,530	14,110
Compensated absences	32,907	28,500
Special assessments payable	173,399	--
Accrued interest payable	10,000	--
Total current liabilities	<u>5,177,885</u>	<u>1,398,059</u>
<b>Long term liabilities</b>		
Special assessments payable	3,294,590	--
Bonds payable	2,506,012	--
Total long term liabilities	<u>5,800,602</u>	<u>--</u>
Total liabilities	<u>10,978,487</u>	<u>1,398,059</u>
<b>Commitments (see Note 7)</b>		
<b>Net assets</b>		
Invested in capital assets, net of related debt	2,414,540	1,015,591
Restricted for development	4,998,871	4,998,871
Unrestricted	<u>112,646,836</u>	<u>103,008,118</u>
Total net assets	<u>120,060,247</u>	<u>109,022,580</u>
Total liabilities and net assets	<u>\$131,038,734</u>	<u>\$110,420,639</u>

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 Years Ended June 30, 2010 and 2009

	2010	2009
<b>Operating revenues:</b>		
Interest income	\$548,762	\$461,083
Total operating revenues	<u>548,762</u>	<u>461,083</u>
<b>Operating expenses:</b>		
Grants and awards	22,393,576	10,005,189
Wages and benefits	1,891,115	1,551,182
Board fees and reimbursed expense	64,473	56,111
Meeting and travel expenses	85,088	119,484
Depreciation and amortization	59,653	53,966
Dues and subscriptions	25,592	17,564
Insurance	64,928	49,847
Contractual and consulting services	373,885	616,507
Legal services	229,975	222,622
Marketing	184,939	179,485
Office expense	124,957	71,674
Real estate tax	49,695	6,368
Rent	53,368	52,387
Equity in loss of investee	369,737	144,159
Total operating expenses	<u>25,970,981</u>	<u>13,146,545</u>
Operating loss	<u>(25,422,219)</u>	<u>(12,685,462)</u>
<b>Nonoperating revenues and expenses:</b>		
Transfers from the state of Kansas - Emerging Industry Investment Act	36,073,885	34,803,526
Investment income	386,001	2,118,544
Total nonoperating revenues	<u>36,459,886</u>	<u>36,922,070</u>
<b>Excess of revenues over expenses</b>	<b>11,037,667</b>	<b>24,236,608</b>
<b>Net assets, beginning of period</b>	<b>109,022,580</b>	<b>84,785,972</b>
<b>Net assets, end of period</b>	<b><u>\$120,060,247</u></b>	<b><u>\$109,022,580</u></b>

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

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2010 and 2009

	2010	2009
<b>Cash flows from operating activities:</b>		
Cash paid to others	\$ (22,473,766)	\$ (12,856,700)
Net cash from operating activities	<u>(22,473,766)</u>	<u>(12,856,700)</u>
<b>Cash flows from capital and related financing activities:</b>		
Purchase of capital assets	(3,951,964)	(679,714)
Proceeds from sale/disposal of capital assets	--	2,090
Proceeds from bonds payable	2,506,012	--
Net cash from capital and related financing activities	<u>(1,445,952)</u>	<u>(677,624)</u>
<b>Cash flows from noncapital financing activities:</b>		
Cash received from state of Kansas	35,000,000	35,000,000
Net cash from noncapital financing activities	<u>35,000,000</u>	<u>35,000,000</u>
<b>Cash flows from investing activities:</b>		
Proceeds from maturities of investments in securities	12,730,395	49,142,221
Purchases of investments in securities	--	(7,079,855)
Purchases of portfolio investments	(2,476,169)	(800,000)
Investment income	604,785	2,333,623
Net cash from investing activities	<u>10,859,011</u>	<u>43,595,989</u>
<b>Net change in cash</b>	<b>21,939,293</b>	<b>65,061,665</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>67,639,853</b>	<b>2,578,188</b>
<b>Cash and cash equivalents at end of period</b>	<b><u>\$ 89,579,146</u></b>	<b><u>\$ 67,639,853</u></b>
<b>Reconciliation of operating loss to net cash from operating activities:</b>		
Operating loss	\$ (25,422,219)	\$ (12,685,462)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	47,003	44,915
Loss on sale/disposal of capital assets	--	81
Equity in loss of investee	369,737	144,159
Changes in assets and liabilities:		
Other current assets and deposits	(25,952)	(22,200)
Accrued interest	(548,762)	(461,083)
Notes receivable	(500,000)	(200,000)
Accounts payable	3,387,600	343,243
Payroll liabilities and compensated absences	218,827	(20,353)
Net cash from operating activities	<u>\$ (22,473,766)</u>	<u>\$ (12,856,700)</u>
<b>Non-cash capital financing activities</b>		
Increase in land and land held for development due to special assessments payable	<u>\$3,467,989</u>	<u>\$ --</u>

The accompanying notes are an integral part of 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 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 2010 and 2009 legislative sessions, the transfers to the Authority from the state were limited to \$35 million for the fiscal years ended June 30, 2010 and 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.
- **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.
- **Bioscience Growth Fund:** The Authority acknowledged that a major challenge identified by bioscience entrepreneurs and others in Kansas is the lack of access to venture capital in the state. To address this challenge, the Authority committed \$50 million to eight different venture funds to stimulate the quantity and quality of bioscience venture capital under management in Kansas. The funding is designed to generate superior, risk-adjusted returns for the capital being committed by the Authority; increase the likelihood that high growth potential bioscience companies in Kansas access growth capital to gain full scale commercialization; encourage the development and growth of a vibrant Kansas-based private equity community; and enhance the visibility of Kansas and, specifically, bioscience in Kansas, as a market for attractive venture capital opportunities.
- **Proof of Concept Investment Program:** The Authority's Proof of Concept Investment Program (POCI) provides early-stage "seed" investments to enable the further development and validation of promising bioscience technologies that are, or will become, the platform for a Kansas-based start-up company. The POCI investments may be up to \$200,000 and funds will be invested based on a competitive application process. The purpose of the POCI program is to enable HBV to further assist its clients in the development of their technology and business concepts in order to reduce the uncertainty and risk of the technology, and to help bridge the gap between basic research funding and the next stage of outside investment.

## **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.

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments in Securities**

Investments in securities are reported at fair value. As of June 30, 2010 and 2009, investments consist of funds invested in 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. Investments in venture capital limited partnerships are accounted for similar to the equity method by using the net asset value of their investment, which is adjusted for the Authority's allocated share of income or loss.

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 and improvements 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.

At June 30, 2010 and 2009, capital assets include \$4,519,984 and \$626,298, respectively, of construction-in-process related to the construction of a new facility and research park. Included in construction-in-process at June 30, 2010 and 2009 are debt issue costs of \$173,640 and \$0, respectively, and capitalized interest of \$9,082 and \$0, respectively. Debt issue costs are expected to be amortized over the life of the related debt instrument (Note 10).

**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, net of related debt* – represents the Authority’s total investment in capital assets, net of any outstanding debt issued to finance capital asset acquisitions.

*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, 2010 and 2009, the Authority had balances of \$89,579,146 and \$67,639,853, 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, 2010 and 2009, approximately \$50 million and \$10, respectively, were exposed to custodial credit risk as deposits are in excess of FDIC insurance coverage limits. On June 30, 2010, the Authority transferred \$50 million to a broker for investment purposes; these funds were subsequently invested in a money market portfolio the following day. For the one day during which these funds were being transferred to the broker for investment, they were temporarily “walled off” in a tier 1 capital account that was protected by FDIC insurance coverage, so are included in this custodial credit risk. 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, 2010 and 2009, underlying securities of \$7,146,050 and \$19,961,621 in investments were held by the investments’ counterparties.

*Credit Risk.* As of June 30, 2010 and 2009, 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.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

**NOTE 2 – CASH AND INVESTMENTS IN SECURITIES (Continued)**

*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, 2010, the Authority did not have an investment in a security type in excess of 5% of the total cash and investments balance.

*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:

June 30, 2010				
Investment Type	Fair Value	Less than 90 days	90 days –1 year	1 – 5 years
Government Securities	\$ 7,146,050	\$ --	\$2,076,880	\$5,069,170
Total	<u>\$ 7,146,050</u>	<u>\$ --</u>	<u>\$2,076,880</u>	<u>\$5,069,170</u>

June 30, 2009				
Investment Type	Fair Value	Less than 90 days	90 days –1 year	1 – 5 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>

**NOTE 3 – PORTFOLIO INVESTMENTS**

Investments consisted of the following at June 30:	2010	2009
Debt securities	\$5,316,535	\$4,479,691
Equity securities	1,404,280	974,017
Venture capital limited partnerships	1,226,169	--
	<u>\$7,946,984</u>	<u>\$5,453,708</u>

At June 30, 2010 and 2009, the Authority also owned warrants and equity rights for the purchase of common stock in certain portfolio companies. 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, 2009 Balance	Increases	Decreases	June 30, 2010 Balance
Capital assets not being depreciated:				
Land	\$ 254,236	\$ 166,463	\$ --	\$ 420,699
Construction in process	626,298	3,893,686	--	4,519,984
Total capital assets not being depreciated	880,534	4,060,149	--	4,940,683
Furniture and equipment	215,666	58,278	--	273,944
Leasehold improvements	5,500	--	--	5,500
Total capital assets being depreciated	221,166	58,278	--	279,444
Less accumulated depreciation:				
Furniture and equipment	(85,101)	(46,636)	--	(131,737)
Leasehold improvements	(1,008)	(367)	--	(1,375)
Total accumulated depreciation	(86,109)	(47,003)	--	(133,112)
Total capital assets being depreciated, net	135,057	11,275	--	146,332
Total capital assets, net	\$1,015,591	\$ 4,071,424	\$ --	\$5,087,015
	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

## NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

### NOTE 5 – LEASES

The Authority entered into a noncancelable operating lease for office space for October 1, 2006 through October 31, 2011. During fiscal year 2009, the Authority amended the lease to extend it through December 31, 2011 and to obtain additional office space. During fiscal year 2010, the Authority entered into a new operating lease for additional office space. This lease covers the period December 14, 2009 through March 31, 2011.

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

Fiscal Year End	
2011	\$ 142,457
2012	49,361
	<u>\$ 191,818</u>

The total rental expense included in the financials for the years ended June 30, 2010 and 2009 was \$132,816 and \$79,558, respectively.

### 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, 2010 and 2009, \$2,350,393 and \$2,217,352, respectively, was outstanding under the agreement, which included \$350,393 and \$217,352, 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, 2010 and 2009, 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, 2010 and 2009, \$731,993 and \$203,116, respectively, was outstanding under the agreement, which included \$31,993 and \$3,116, respectively, 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, 2010). 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 2% 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.

During fiscal year 2010, the Authority approved a commitment for \$50 million to create the Kansas Bioscience Growth Fund (the Fund). The Fund will invest in up to eight pre-approved venture capital funds to stimulate venture capital activity in Kansas for the bioscience industry. As of June 30, 2010, the Authority had committed \$5,000,000 for investment in one fund. This commitment is payable subject to capital calls by the venture capital limited partnership. At June 30, 2010, \$3,527,238 was payable subject to call.

As of June 30, 2010, the Authority had \$177,531,620 of outstanding approved commitments for various projects. Subsequent to June 30, 2010, an additional \$2,130,000 was committed by the Authority for additional projects and \$3,337,441 in previously-approved commitments was released.

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, 2010, it is estimated that approximately \$49.3 million will be paid out in fiscal 2011 for the projects outstanding as of June 30, 2010 and those approved subsequent to year-end through September 30, 2010.

This projection does not include payments on additional projects that may be funded in fiscal 2011 and is subject to change based on the achievement of milestones. Actual future cash flows could differ from the estimates as of June 30, 2010.

#### **NOTE 8 – RETIREMENT PLAN**

The Authority has 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 \$76,273 and \$58,160 for the years ended June 30, 2010 and 2009, 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. Infrastructure construction was substantially completed during fiscal year 2010 and the city of Olathe assessed specials of \$3,467,989 on the Authority. Of the total assessments, the Authority allocated \$3,301,526 to the land held for development and \$166,463 to the Authority's land. The Authority has recorded these assessments as payables with \$173,399 due in fiscal 2011. The Authority anticipates allocating the cost of the special assessments payable on the land held for development to developers that join the Kansas Bioscience Park.

Future principal and interest payments on the special assessments payable are expected to be as follows (without allocation to developers that join the Kansas Bioscience Park):

Year Ending June 30:	Principal	Interest	Total
2011	\$173,399	\$119,923	\$293,322
2012	173,399	113,927	287,326
2013	173,399	107,931	281,330
2014	173,399	101,935	275,334
2015	173,399	95,938	269,337
2016 - 2020	866,998	389,750	1,256,748
2021 - 2025	866,998	239,846	1,106,844
2026 - 2030	866,998	89,942	956,940
	\$3,467,989	\$1,259,192	\$4,727,181

#### **NOTE 10 – BONDS PAYABLE**

During fiscal year 2010, the city of Olathe issued three series of industrial revenue bonds for the benefit of the Authority for the purpose of constructing the Venture Accelerator facility in the Kansas Bioscience Park. The total maximum principal under the three series is \$14,080,000.

The Series 2009A bonds have a maximum principal of \$3,475,000 and have an interest rate equal to 67% of the difference between the prime rate less 0.50% with a floor of 1.82% through November 1, 2011 and equal to the taxable equivalent yield table rate as defined until maturity on December 1, 2021. A portion of the 2009A bonds, equal to principal of \$225,150, has a maturity of December 1, 2018.

The Series 2009B bonds have a maximum principal of \$6,605,000 and have an interest rate equal to the prime rate less 0.50% with a floor of 2.75% during the construction period and commencing December 1, 2011 equal to the 3-year US Treasury bond yield plus 2.50% with a floor of 5.00% or the 5-year US Treasury bond yield plus 2.50% with a floor of 5.50% as elected by the Authority until maturity on December 1, 2021. A portion of the 2009B bonds, equal to principal of \$654,850, has a maturity of December 1, 2018.

The Series 2009C bonds have a maximum principal of \$4,000,000 and have an interest rate equal to 5.00% until maturity on December 1, 2011. Such bonds were issued to achieve sales tax exemptions, and the Authority will purchase the bonds themselves. Such bonds will be offset with the related investment, resulting in no effect on the financial statements.

The Series 2009A and 2009B bonds are payable monthly commencing on December 1, 2011 based on a 20-year amortization schedule.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

**NOTE 10 – BONDS PAYABLE (Continued)**

Interest has not been included in the table below as the rate has not been set as of June 30, 2010 in accordance with the elections noted above. Future minimum principal payments, assuming the above bonds will be fully drawn upon, is expected to be as follows:

Year Ending June 30:	Principal
2011	\$ --
2012	191,881
2013	397,888
2014	417,524
2015	438,163
2016 – 2020	2,307,119
2021 – 2025	6,327,425
	<u>\$ 10,080,000</u>

**NOTE 11 – LONG TERM LIABILITIES**

Long term liability activity for the year ended June 30, 2010, was as follows:

	June 30, 2010				
	Balance at July 1, 2009	Additions	Reductions	Balance at June 30, 2010	Amounts due within one year
Bonds payable	\$ --	\$ 2,506,012	\$ --	\$2,506,012	\$ --
Special assessments payable	--	3,467,989	--	3,467,989	173,399
	<u>\$ --</u>	<u>\$ 5,974,001</u>	<u>\$ --</u>	<u>\$5,974,001</u>	<u>\$173,399</u>

## SUPPLEMENTARY INFORMATION

## SCHEDULE OF COMMITMENTS At June 30, 2010

Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/10	Total Remaining To Be Paid
Prescription Solutions	7/11/2005	150,000	150,000	--	--	--
Heartland BioEnterprise	1/5/2006	200,000		200,000	181,055	18,945
KansasBio 2006	1/5/2006	100,000		100,000	100,000	--
Hospira, Inc	4/11/2006	200,000		200,000	183,000	17,000
Quintiles	4/11/2006	3,500,000		3,500,000	3,500,000	--
JACAM Chemicals	4/11/2006	500,000		500,000	420,000	80,000
IdentiGEN	4/11/2006	125,000		125,000	50,000	75,000
	<b>FY 2006 Totals</b>	<b>\$4,775,000</b>	<b>\$150,000</b>	<b>\$4,625,000</b>	<b>\$4,434,055</b>	<b>\$190,945</b>
City of Manhattan (NISTAC)	7/13/2006	1,000,000		1,000,000	400,000	600,000
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	40,000	--
Nutri-Shield	7/13/2006	40,000		40,000	39,379	621
Sunflower Bioenergy Phase I	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	370,000	600,000
Onclmmune	10/12/2006	2,500,000		2,500,000	2,404,728	95,272
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	112,374	7,487,626
KansasBio 2007	1/9/2007	75,000		75,000	75,000	--
Hospira, Inc	1/9/2007	64,000		64,000	39,000	25,000
Sunflower Bioenergy Phase II	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	--	--	--
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	3,100,000		3,100,000	1,376,255	1,723,745
HBV Proof of Concept Investment (POCI)	5/25/2007	1,304,422		1,304,422	--	1,304,422
	<b>FY 2007 Totals</b>	<b>\$19,729,710</b>	<b>\$329,842</b>	<b>\$19,399,868</b>	<b>\$6,063,182</b>	<b>\$13,336,686</b>
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	1,501,083	1,501,083	--	--	--
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	3,000,000	2,000,000
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	375,000	--
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	375,000	--
Collaborative Cancer Research Initiative	6/5/2008	25		25	--	25
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	250,000	170,000
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	--
	<b>FY 2008 Totals</b>	<b>\$32,510,232</b>	<b>\$10,501,083</b>	<b>\$22,009,149</b>	<b>\$13,426,952</b>	<b>\$8,582,197</b>

SCHEDULE OF COMMITMENTS (Continued) At June 30, 2010

Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/10	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 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	63,951	936,049
WCGME Grad Med Educ Planning Grant	9/12/2008	250,000		250,000	250,000	--
WCGME research centers	10/28/2008	5,880,000		5,880,000	1,470,000	4,410,000
K-State Biomass Inventory Assessment	10/28/2008	300,000		300,000	175,000	125,000
ICM Collaborative Bioenergy Research	10/28/2008	1,000,000		1,000,000	350,000	650,000
Nowa Technology	10/28/2008	1,500,000		1,500,000	700,000	800,000
Pinnacle NIH SBIR In-Vivo Wireless	10/28/2008	375,000		375,000	264,507	110,493
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	375,000	375,000
Via Christi/Wichita State Univ cluster hire	10/28/2008	327,500		327,500	127,500	200,000
NBAF DHS	1/12/2009	92,884,687	57,884,687	35,000,000	--	35,000,000
Edenspace USDA SBIR Phase II	1/27/2009	175,000		175,000	137,500	37,500
Edenspace DOE SBIR Phase II	1/27/2009	184,724		184,724	142,362	42,362
ICM Biomass Gasification	1/27/2009	500,000		500,000	250,000	250,000
VasoGenix convertible note II	1/27/2009	400,000		400,000	400,000	--
KBP Venture Accelerator	1/27/2009	19,000,000		19,000,000	1,163,921	17,836,079
Wahl/Hixon renovation	03/09/2009	26,400,000		26,400,000	5,280,000	21,120,000
LDCBA Incubator	03/09/2009	3,250,000		3,250,000	3,000,000	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	500,000	--
KBCI KBICDD	03/09/2009	5,000,000	5,000,000	--	--	--
KBCI KABB	03/09/2009	4,100,000		4,100,000	400,000	3,700,000
KBCI CIBOR	5/19/2009	4,000,000		4,000,000	2,440,000	1,560,000
KBCI HPI	5/19/2009	4,000,000		4,000,000	2,000,000	2,000,000
Cydex R&D Voucher	5/19/2009	195,000		195,000	103,955	91,045
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	300,000	200,000
KU/VC Wichita Clinical Trials	5/19/2009	500,000		500,000	186,596	313,404
Kansas Cancer Operations	5/19/2009	600,000		600,000	268,908	331,092
ADM R&D Voucher	5/19/2009	1,200,000		1,200,000	250,000	950,000
	<b>FY 2009 Totals</b>	<b>\$177,038,604</b>	<b>\$62,884,687</b>	<b>\$114,153,917</b>	<b>\$22,535,893</b>	<b>\$91,618,024</b>
NBAF Phase V	7/21/2009	1,000,000		1,000,000	751,334	248,666
KC BioMediX Equity III	8/14/2009	500,000		500,000	500,000	--
Megastarter	8/14/2009	300,000		300,000	--	300,000
City of Manhattan NISTAC II	8/14/2009	1,000,000		1,000,000	--	1,000,000
Ventria NIH SBIR Phase II	8/14/2009	144,744		144,744	134,744	10,000
KBA Growth Fund	10/8/2009	50,000,000		50,000,000	1,528,683	48,471,317
Eminent Scholar - KU Volkin	11/9/2009	2,490,185		2,490,185	--	2,490,185
Rising Star - KU Qian	11/9/2009	500,000		500,000	--	500,000
CCRI KSU - UTCC	11/10/2009	500,000		500,000	125,000	375,000
Nanoscale DOD SBIR Phase II	11/10/2009	375,000		375,000	243,750	131,250
Nanoscale NSF STTR Phase I	11/10/2009	50,000		50,000	50,000	--
POCI - CritiTech	11/10/2009	50,000		50,000	50,000	--
AGCO DOE RERDg	1/26/2010	1,500,000		1,500,000	--	1,500,000
Eminent Scholar - KU Srivastava	1/26/2010	1,775,000		1,775,000	100,000	1,675,000
KSU CBRI PRRS	1/26/2010	500,000		500,000	--	500,000
RELIVE for Kids, LLC	1/26/2010	50,000		50,000	--	50,000
TVAX Immunotherapy	1/26/2010	600,000		600,000	--	600,000
Planning Grant - Animal Health Ctr of Innov	1/26/2010	250,000		250,000	38,089	211,911
Ceva Biomune	3/9/2010	700,000		700,000	--	700,000
Rising Star - KU (School of Pharmacy)	3/9/2010	700,000	700,000	--	--	--
SAFC Bioscience	3/9/2010	250,000		250,000	--	250,000
POCI - AIR, Inc.	5/7/2010	73,000		73,000	58,000	15,000
Cargill Expansion and Attraction	5/10/2010	750,000		750,000	--	750,000
CBRI ABADRU - Rift Valley Fever	5/10/2010	498,917		498,917	--	498,917
CCRI KU Fabian	5/10/2010	249,975		249,975	--	249,975
Deciphera Pharmaceuticals R&D Voucher	5/10/2010	390,000		390,000	--	390,000
PRA Intl Expansion and Attraction	5/10/2010	350,000		350,000	--	350,000
POCI - Novita Therapeutics	5/14/2010	72,578		72,578	29,031	43,547
Heartland BioVentures Phase II	5/24/2010	100,000		100,000	--	100,000
Kansas Cancer Operations Phase II	5/24/2010	693,000		693,000	--	693,000
NBAF Phase VI	5/24/2010	700,000		700,000	--	700,000
NBAF Research	5/24/2010	500,000		500,000	--	500,000
Megastarter Expansion & Attraction loan	6/09/2010	500,000		500,000	--	500,000
	<b>FY 2010 Totals</b>	<b>\$68,112,399</b>	<b>\$700,000</b>	<b>\$67,412,399</b>	<b>\$3,608,631</b>	<b>\$63,803,768</b>
	<b>Totals</b>	<b>\$302,165,945</b>	<b>\$74,565,612</b>	<b>\$227,600,333</b>	<b>\$50,068,713</b>	<b>\$177,531,620</b>

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, 2010 and have issued our report thereon dated October 6, 2010. 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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  
October 6, 2010  
Wichita, Kansas