

**KANSAS BIOSCIENCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010

AND

INDEPENDENT AUDITORS' REPORT

KANSAS BIOSCIENCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)

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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, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years ended June 30, 2011 and 2010. 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, 2011 and 2010, and changes in its financial position and its cash flows for the years ended June 30, 2011 and 2010, 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 November 1 2011, 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.

November 1, 2011

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**KANSAS BIOSCIENCE AUTHORITY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2011 and 2010**

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, 2011 and 2010.

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 were \$82.0 million at June 30, 2011; \$96.8 million at June 30, 2010; and \$87.8 million at June 30, 2009.
- Since the Authority's inception, its board of directors committed \$250.5 million through June 30, 2011. The Authority's board committed \$28.5 million in fiscal year 2011 to companies and institutions to promote bioscience growth in Kansas; \$4.3 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, 2011 the total amount remaining to be paid on these commitments was \$163.1 million. Subsequent to June 30, 2011 through September 30, 2011, the Authority's board approved additional commitments totaling \$6.2 million; also during that period, the Authority released \$650,000 in commitments approved in previous fiscal years.
- The Receivable from the state of Kansas increased \$11.9 million in fiscal year 2011 due to a delay in receiving funds related to the quarter ended December 31, 2010 until fiscal year 2012. The \$1.1 million increase in this receivable in fiscal year 2010 was due to growth in bioscience company payroll tax withholdings.
- Capital assets increased \$9.6 million in fiscal year 2011 primarily due to \$8.9 million in construction costs for the Authority's Venture Accelerator. The purchase of office and laboratory furniture and equipment resulted in an \$825,178 increase in capital assets in fiscal year 2011. The fiscal year 2010 increase of \$3.9 million was also primarily due to construction costs for the Venture Accelerator.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2011 and 2010**

- Other assets increased by approximately \$7.6 million in fiscal year 2011. Components of this increase included a \$5.9 million increase in equity and convertible note investments, a \$1.5 million increase in loans reflected in the financials as notes receivable and an increase of approximately \$300,000 in other receivables and prepaid expenses. In fiscal year 2010 that same group of assets increased by approximately \$6.7 million as a result of a \$3.3 million increase in the value of land held for development related to completion of the infrastructure at the Kansas Bioscience Park, a \$2.5 million increase in equity or convertible note investments, a \$500,000 increase in a loan reflected on the financials as a note receivable and \$173,640 in unamortized bond issuance costs related to the Venture Accelerator industrial revenue bond financing.
- Current liabilities increased \$1.4 million in fiscal year 2011 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. In fiscal year 2010 liabilities increased approximately \$3.8 million primarily due to milestones achieved but not yet paid at the end of the fiscal year and to a lesser extent the accrued liabilities related to the construction of the Venture Accelerator.
- Long-term liabilities increased \$7.2 million in fiscal year 2011 as a result of the increase in industrial revenue bond principal used to finance Venture Accelerator construction costs and equipment. 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.
- Total revenues increased in FY 2011 by \$1.7 million. The major reasons for the increase are 1) approximately \$0.7 million in gains recognized on the sale of investments within the Venture Fund portfolios, 2) new revenue from federal grants of approximately \$0.3 million, 3) an approximately \$0.5 million increase in state transfers and 4) a \$0.2 million increase in interest income. Revenues are mainly derived from transfers from the state through the funding mechanism provided by the Emerging Industry Investment Act (EIIA). The state of Kansas has imposed an annual cap of \$35 million on its cash transfers to the Authority for the past three years; therefore, there has been little change in revenue from transfers. The slight increase in transfers is a result of growth in bioscience payroll withholding taxes for the quarter ending June 30, 2011 as compared to withholdings for the quarter ended June 30, 2010. Revenues from the transfers increased \$1.3 million in fiscal year 2010 due to growth in bioscience payroll withholding taxes for the quarter ended June 30, 2010 as compared to withholdings for the quarter ended June 30, 2009.
- Grants and Awards increased \$6.6 million in fiscal year 2011, which represents a 29% 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 2010, Grants and Awards increased \$12.4 million or 124% from fiscal year 2009. 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.

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- The Authority's fiscal year 2011 operating expenses other than Grants and Awards were \$4.0 million compared to \$3.6 million for fiscal year 2010 and \$3.1 million for fiscal year 2009. The increase in fiscal year 2011 was mainly the result of federal awards consulting and contractual expenses, which are directly related to and funded by the federal award revenue; other contractual and consulting services; marketing and depreciation. Increases in these operating expense categories were offset by lower realized losses on equity investments. The increase in fiscal year 2010 operating expenses was mainly related to 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.

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2011 and 2010

CONDENSED FINANCIAL INFORMATION

Balance Sheet

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

	2011	2010	2009
Assets			
Cash and securities	\$ 82,026,702	\$ 96,803,462	\$ 87,813,348
Receivable from state of Kansas	21,629,432	9,729,682	8,655,797
Capital assets	14,522,282	4,913,375	1,015,591
Other assets	27,238,414	19,592,215	12,935,903
Total assets	\$ 145,416,830	\$ 131,038,734	\$ 110,420,639
Liabilities			
Current liabilities	\$ 6,622,355	\$ 5,177,885	\$ 1,398,059
Long-term liabilities	13,009,311	5,800,602	--
Total liabilities	19,631,666	10,978,487	1,398,059
Net assets			
Invested in capital assets, net of related debt	4,284,143	2,240,900	1,015,591
Restricted for development	5,163,947	4,998,871	4,998,871
Unrestricted	116,337,074	112,820,476	103,008,118
Total net assets	125,785,164	120,060,247	109,022,580
Total liabilities and net assets	\$ 145,416,830	\$ 131,038,734	\$ 110,420,639

Statement of Revenues, Expenses, and Changes in Net Assets

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

	2011	2010	2009
Revenues			
Operating revenues	\$ 1,624,669	\$ 548,762	\$ 461,083
Transfers from state of Kansas	36,592,503	36,073,885	34,803,526
Investment income	477,757	386,001	2,118,544
Total revenues	38,694,929	37,008,648	37,383,153
Expenses			
Grants and awards	28,953,491	22,393,576	10,005,189
Other	4,016,521	3,577,405	3,141,356
Total operating expenses	32,970,012	25,970,981	13,146,545
Excess of revenues over expenses	5,724,917	11,037,667	24,236,608
Total net assets, beginning of period	120,060,247	109,022,580	84,785,972
Total net assets, end of period	\$ 125,785,164	\$ 120,060,247	\$ 109,022,580

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2011 and 2010**

ASSETS, LIABILITIES AND CHANGES IN NET ASSETS

The Authority's net assets grew to \$125.8 million at June 2011, an increase of \$5.7 million from June 2010. The growth in net assets during fiscal year 2011 resulted primarily from the completion of the Venture Accelerator facility and new equity and convertible note investments. Net asset growth of \$11 million in fiscal year 2010 was primarily the result of transfers received from the state of Kansas that were not expended on board-approved grants or used to fund operations during the year. These transfers were the result of job growth in bioscience companies over the base year of 2003, subject to a \$35 million annual funding cap imposed by the state of Kansas since fiscal year 2009. See the financial highlights on page 2 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 2011, the Authority expended or financed via industrial revenue bonds \$8.9 million in construction costs. In fiscal year 2010, the Authority expended \$3.7 million in construction costs for the Venture Accelerator. See additional information in note 4 to the financial statements.

DEBT ACTIVITY

Debt at June 30, 2011 includes \$10.1 million in industrial revenue bond financing and \$3.3 million in special assessments. In fiscal year 2010 the Authority secured industrial revenue bond financing of construction costs for its Venture Accelerator facility; use of that bond financing for construction costs continued through fiscal year 2011. Also in fiscal year 2010, the Authority received special assessments from the city of Olathe related to infrastructure installed at the Kansas Bioscience Park. The Authority began making payments on those special assessments during fiscal year 2011. See additional information in notes 8, 9 and 10 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, 2011 and 2010. 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 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

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Years Ended June 30, 2011 and 2010

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 13 through 15) and detail of the commitments can be found in the supplementary information. The funds committed to date are as follows:

<u>Program Area:</u>	<u>Fiscal 2011</u>	<u>Inception through Fiscal 2011</u>
Research	\$ 15,434,500	\$ 108,204,031
Commercialization	13,064,649	142,345,054
Total	<u>\$ 28,499,149</u>	<u>\$ 250,549,085</u>

The key program themes for fiscal year 2011 were the following: 1) accelerate bioscience commercialization in Kansas, 2) protect the American food supply and agriculture economy, and 3) bring cutting-edge cancer treatments closer to home for thousands of Kansans.

Research

In fiscal year 2011, the Authority's board approved four eminent scholar grants for recruits to the University of Kansas Cancer Center. All four eminent scholar grants, which total \$8,438,500 in commitments, were for recruits to fill leadership posts in the cancer center: the deputy director and assistant directors for basic science, for translational science, and for prevention. These were positions the National Cancer Institute had said must be filled before KU's early-fiscal-year-2012 application for NCI designation. In addition to these grants, the successful recruitment of these investigators was highly dependent upon a fiscal year 2010 investment to support the renovation of the Wahl/Hixon Research Complex at the KU Medical Center, where the new cancer center scholars are housed. The first phase of that renovation was completed in early fiscal year 2011 and is now fully occupied. Two further phases should be completed by fiscal year 2013.

One rising star grant of \$780,000 was approved for a basic and translational investigator focused on cancer drug discovery and delivery. This scholar is contributing to building the cancer center's pharmaceutical research excellence, which is a centerpiece of KU's application for NCI designation.

The Authority also continued to help the university respond to the recommendations of B&D Consulting, whom the authority retained to design and implement a federal funding advocacy agenda and to identify strategies for building a designation-worthy cancer center. In fiscal year 2011, investments arising from this work included the funding of a dedicated grants specialist for the cancer center and the redesign and launch of the cancer center's website to better serve its critical needs in both patient and scholar recruitment.

Two matching grants totaling \$5.5 million were committed in FY 2011 to Kansas State University (KSU). KSU won a \$12 million Department of Homeland Security award for the Center of Excellence in Emerging Zoonotic and Animal Diseases (CEEZAD). CEEZAD will develop and commercialize animal disease products to protect American agriculture. KBA committed \$4 million over six years to facilitate university/industry commercialization interactions amongst CEEZAD's partners. KBA also committed \$1.5 million to KSU toward the

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construction of a new Feed Technology Innovation Center that will provide research and education capabilities in nutrition, animal feed production, food safety, and disease prevention and control through dietary measures.

Commercialization

The commercialization category includes commitments related to commercial advancement of bioscience companies in the state. Such activities include matching of federal and other research awards, providing direct equity investments, providing R&D vouchers, providing proof of concept grants and developing centers of innovation. Much of this activity is directed and implemented by the KBA's Heartland BioVentures staff, who works closely with many bioscience companies and researchers in the state.

In prior fiscal years, significant infrastructure commitments included \$19 million for the Authority Venture Accelerator building to be constructed in the Kansas Bioscience Park in Olathe, Kansas; \$3.3 million for the Lawrence-Douglas County Bioscience Authority wet lab incubator in Lawrence, Kansas; and \$2 million for renovation of Breidenthal Hall at KU Medical Center (KUMC) in Kansas City, Kansas. In fiscal year 2011, significant progress was made against those commitments with the completion of the Venture Accelerator in May 2011, the opening of the Lawrence-Douglas County Bioscience facility in October 2010, and completion of the Breidenthal renovation by March 2011. These facilities will facilitate the growth of the bioscience industry and supplement other existing or proposed incubators in the Kansas City metro region. The Lawrence and KUMC facilities' locations will allow them to attract customers who seek close proximity to The University of Kansas.

The Heartland BioVentures (HBV) team 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 up to \$50 million to up to eight different venture capital funds. In fiscal year 2010 one fund met the KBA's entry requirements, resulting in a commitment of \$5 million to that fund. In fiscal year 2011, two additional venture capital funds met the KBA's entry requirements, resulting in a total commitment of \$15 million to those two funds. Other activity in fiscal year 2011 included a \$373,334 increase in the commitment to one of the funds and a \$1 million release of the original \$50 million commitment to fund a direct equity investment approved by the KBA board of directors. It is anticipated that in fiscal year 2012 KBA will invest in one or two additional venture funds and release more of the original \$50 million commitment for direct equity investments. The expectation is that the investment in 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.

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- 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 fiscal year 2011 the Authority approved a total of \$2.2 million in direct equity or convertible notes in four 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 human health, animal health, bioenergy, plant science and biomaterials. One component of the Authority's cluster development strategy is the Kansas Bioscience Center of Innovation Program. Through this program, Kansas addresses its dual objectives of (1) assisting existing and emerging bioscience industries in capturing new knowledge and research findings for their product and production functions and (2) building strong world-class bioscience development centers. In fiscal year 2010, the board approved \$12.1 million to fund implementation of the Center of Innovation for Biomaterials in Orthopaedic Research (CIBOR), the Kansas Bioenergy and Biorefining Center of Innovation (KABB), and the Kansas Innovation Center for Advanced Plant Design (dba Heartland Plant Innovations (HPI)). In fiscal year 2011, CIBOR and HPI received an additional \$2.5 million in approved commitments from the Authority to support their plans and the Authority approved a \$1.0 million commitment for a new Animal Health Center of Innovation.

In fiscal year 2011, the Authority approved \$1.9 million to attract three companies to Kansas. The Authority also committed \$3.0 million through its other commercialization programs (Matching Program, R&D Voucher Program and the Proof of Concept Program) to assist 15 companies in their commercialization efforts.

The Authority has an outcome and investment focus for program planning and execution. The HBV staff assists high-potential clients by developing investment recommendations for consideration by the investment committee and board, utilizing the KBA's multiple investment programs. The programs and projects are monitored and reported on a regular basis.

The Authority has established a strong set of assets to invest in its mission of advancing and attracting bioscience entities that will increase employment, encourage research and development, commercialize bioscience discoveries, and provide 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. Ruth Saale at Kansas Bioscience Authority, 10900 S. Clay Blair Blvd., Olathe, KS 66061.

BASIC FINANCIAL STATEMENTS

**KANSAS BIOSCIENCE AUTHORITY
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BALANCE SHEETS
June 30, 2011 and 2010

	2011	2010
Current assets:		
Cash and cash equivalents	\$ 26,770,733	\$ 89,579,146
Investments in securities	25,446,638	2,076,880
Receivable from state of Kansas	21,629,432	9,729,682
Accrued interest	326,106	78,266
Other current assets	386,584	79,308
Total current assets	74,559,493	101,543,282
Noncurrent assets:		
Long term investments		
Investments in securities	29,483,225	5,069,170
Portfolio investments	13,814,897	7,946,984
Notes receivable	4,588,618	3,082,386
Total investments	47,886,740	16,098,540
Capital assets		
Land	420,699	420,699
Construction in process	--	4,346,344
Building	13,252,402	--
Furniture and equipment	1,096,153	279,444
Less accumulated depreciation	(246,972)	(133,112)
Total capital assets	14,522,282	4,913,375
Other assets		
Land held for development	8,300,397	8,300,397
Bond issuance costs, net of amortization	147,918	173,640
Deposits	--	9,500
Total other assets	8,448,315	8,483,537
Total assets	\$ 145,416,830	\$ 131,038,734

	<u>2011</u>	<u>2010</u>
Current liabilities:		
Accounts payable	\$ 6,187,016	\$ 4,743,049
Payroll liabilities payable	26,308	218,530
Compensated absences	30,310	32,907
Special assessments payable	173,399	173,399
Bonds payable	191,880	--
Accrued interest payable	9,494	10,000
Deferred revenue	3,948	--
	<u>6,622,355</u>	<u>5,177,885</u>
Total current liabilities		
	<u>6,622,355</u>	<u>5,177,885</u>
Long term liabilities:		
Special assessments payable	3,121,191	3,294,590
Bonds payable	9,888,120	2,506,012
	<u>13,009,311</u>	<u>5,800,602</u>
Total long term liabilities		
	<u>13,009,311</u>	<u>5,800,602</u>
Total liabilities	<u>19,631,666</u>	<u>10,978,487</u>
	<u>19,631,666</u>	<u>10,978,487</u>
Commitments (see Note 6)		
Net assets:		
Invested in capital assets, net of related debt	4,284,143	2,240,900
Restricted for development	5,163,947	4,998,871
Unrestricted	116,337,074	112,820,476
	<u>125,785,164</u>	<u>120,060,247</u>
Total net assets		
	<u>125,785,164</u>	<u>120,060,247</u>
Total liabilities and net assets	<u>\$ 145,416,830</u>	<u>\$ 131,038,734</u>
	<u>\$ 145,416,830</u>	<u>\$ 131,038,734</u>

The accompanying notes are an integral part of these financial statements

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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Federal grant revenue	\$ 284,258	\$ --
Rent income	4,534	--
Interest income	647,284	548,762
Income from limited partnerships	688,593	--
Total operating revenues	1,624,669	548,762
Operating expenses:		
Grants and awards	28,953,491	22,393,576
Wages and benefits	1,865,469	1,891,115
Board fees and reimbursed expense	51,754	64,473
Meeting and travel expenses	74,447	85,088
Depreciation and amortization	146,784	59,653
Dues and subscriptions	13,952	25,592
Insurance	71,210	64,928
Contractual and consulting services	497,991	373,885
Contractual and consulting federal grants	258,679	--
Legal services	243,764	229,975
Marketing	355,299	184,939
Office expense	141,445	124,957
Real estate tax	33,686	49,695
Rent	99,644	53,368
Utilities	5,867	--
Loss from equity securities	156,530	369,737
Total operating expenses	32,970,012	25,970,981
Operating loss	(31,345,343)	(25,422,219)
Nonoperating revenues and expenses:		
Transfers from the state of Kansas - Emerging Industry Investment Act	36,592,503	36,073,885
Investment income	477,757	386,001
Total nonoperating revenues	37,070,260	36,459,886
Excess of revenues over expenses	5,724,917	11,037,667
Net assets, beginning of period	120,060,247	109,022,580
Net assets, end of period	\$ 125,785,164	\$ 120,060,247

The accompanying notes are an integral
part of these financial statements

**KANSAS BIOSCIENCE AUTHORITY
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STATEMENTS OF CASH FLOWS

Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Cash paid to others	\$ (33,014,034)	\$ (22,473,766)
Payments for special assessments, land held for development	(165,076)	--
Cash received from Federal grants	284,258	--
Cash received from others	4,534	--
Net cash from operating activities	(32,890,318)	(22,473,766)
Cash flows from capital and related financing activities:		
Purchase of capital assets	(9,727,819)	(3,951,964)
Proceeds from bonds payable	7,573,988	2,506,012
Payments for special assessments on capital assets	(8,323)	--
Net cash from capital and related financing activities	(2,162,154)	(1,445,952)
Cash flows from noncapital financing activities:		
Cash received from state of Kansas	24,692,753	35,000,000
Net cash from noncapital financing activities	24,692,753	35,000,000
Cash flows from investing activities:		
Proceeds from maturities of investments in securities	2,076,880	12,730,395
Purchases of investments in securities	(49,812,911)	--
Purchases of portfolio investments	(4,894,798)	(2,476,169)
Investment income	182,135	604,785
Net cash from investing activities	(52,448,694)	10,859,011
Net change in cash	(62,808,413)	21,939,293
Cash and cash equivalents at beginning of year	89,579,146	67,639,853
Cash and cash equivalents at end of period	\$ 26,770,733	\$ 89,579,146
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (31,345,343)	\$ (25,422,219)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	144,634	47,003
Income from limited partnerships	(688,593)	--
Loss from equity securities	156,530	369,737
Changes in assets and liabilities:		
Other current assets	(297,776)	(25,952)
Accrued interest	(647,284)	(548,762)
Notes receivable	(1,300,000)	(500,000)
Accounts payable	1,443,967	3,387,600
Special assessments payable	(165,076)	--
Payroll liabilities and compensated absences	(191,377)	218,827
Net cash from operating activities	\$ (32,890,318)	\$ (22,473,766)
Non-cash capital financing activities		
Increase in land and land held for development due to special assessments payable	\$ --	\$ 3,467,989

The accompanying notes are an integral part of these financial statements

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO 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. The Authority is governed by a board of directors and during the fiscal year ending 2011, the board of directors contracted with a firm to perform a forensic audit. This was done for the purpose of ensuring that the Authority is in compliance with all applicable state statutes.

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 2011 and 2010 legislative sessions, the transfers to the Authority from the state were limited to \$35 million for the fiscal years ended June 30, 2011 and 2010. The transfers from the state continue to be limited to \$35 million for the fiscal years ending June 30, 2012 and 2013.

For fiscal year ending June 30, 2012, the first \$1 million in funding generated by KEGA will be allocated to the Center of Innovation for Biomaterials in Orthopaedic Research reducing the funding to the Authority to \$34 million.

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 that are working in partnership with other Kansas institutions, including universities and companies, to advance research and development 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.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

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

- **Eminent Scholars Program:** Provides support to recruit distinguished bioscience researchers to conduct their research and commercialization activities at Kansas research institutions. An eminent scholar is an established investigator acknowledged as a scholar of distinction by national measures, including membership or potential future membership in the National Academies of Science or other prominent scientific organizations. The program enhances the national eminence of selected outstanding academic research programs in the biosciences at Kansas universities and makes important, direct contributions to Kansas' capabilities for research and innovation in the biosciences.
- **Rising Stars Program:** Provides support to recruit distinguished scholars who are likely to become leaders in their fields and to retain Kansas' best and brightest bioscience scholars. A rising star must be a researcher with a record of grant productivity and team leadership in a research environment and must demonstrate an interest in applying research to commercial opportunities that build Kansas' bioscience economy. Rising stars are likely future candidates for membership in the National Academies of Science or other prominent scientific organizations.
- **Retention, Expansion and Attraction Program:** This program allows the Authority to create, retain and expand bioscience job opportunities for all Kansans. The program facilitates 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:** A business assistance program of the Authority designed to facilitate risk capital investment in Kansas bioscience companies. Heartland BioVentures provides early-stage bioscience firms the assistance they need to fundamentally address business, technology, management and other strategic issues critical to their success, and improve their chances to gain access to venture capital. By selectively investing time as well as technical and business development expertise into emerging bioscience concepts, companies and entrepreneurs, Heartland BioVentures is a source of pre-qualified deal flow for private venture investors interested in deals with reduced risk, and provides 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 in October 2009 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

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NOTES TO FINANCIAL STATEMENTS

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

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. Three of the eight funds have raised the required capital and have obtained KBA funding, and it is expected that one or two additional funds will raise the capital required to trigger KBA's funding. Three funds will not raise the capital required to meet KBA's funding requirement. The KBA board agreed to release commitments from the Bioscience Growth Fund related to those three funds as needed for direct equity investments. As of June 30, 2011, \$1 million had been released leaving \$49 million committed for the Bioscience Growth Fund. Subsequent to June 30, 2011, an additional \$600,000 was released.

- **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 Heartland BioVentures 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 the Governmental Accounting Standards Board (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.

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NOTES TO FINANCIAL STATEMENTS

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

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.

Investments in Securities

Investments in securities are reported at fair value. As of June 30, 2011, investments consisted of funds invested in corporate bonds and notes, asset backed securities, and various government agency obligations. At June 30, 2010, investments consisted 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 in accordance with GASB No. 31, Accounting and Financial Reporting for Certain Investments and Certain Investment Pools. 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 realized gains or losses.

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 and special assessment improvements charged to the Authority for its use in attracting and developing future bioscience investment in Kansas.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

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

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 39 years.

At June 30, 2011 and 2010, capital assets include \$0 and \$4,346,344, respectively, of construction-in-process related to the construction of a new facility which was completed in fiscal year 2011.

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 certain 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.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

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

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.

Reclassifications

Certain balances on the balance sheet for the year ended June 30, 2010 have been reclassified to be consistent with classifications adopted for the year ended June 30, 2011.

NOTE 2 – CASH AND INVESTMENTS IN SECURITIES

As of June 30, 2011 and 2010, the Authority had balances of \$26,770,733 and \$89,579,146, 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, 2011 and 2010, \$0 and approximately \$50 million, respectively, were exposed to custodial credit risk on deposits that were 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. Also, as of June 30, 2011 and 2010, underlying securities of \$54,929,863 and \$7,146,050 in investments were held by the investments' counterparties.

Credit Risk. As of June 30, 2011 and 2010, the Authority was invested in government agency securities including FHLMC, FFCB, FHLB, FNMA and U.S. Treasury securities. The government agency securities were rated AAA to AAa by Standard & Poor's and AAA to Aaa by Moody's Investors Service. Under the Authority's investment policy, only AAA-rated securities are to be considered for investment.

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NOTES TO FINANCIAL STATEMENTS

NOTE 2 – CASH AND INVESTMENTS IN SECURITIES (CONTINUED)

The Authority was also invested in corporate bonds and asset backed securities through the UBS-U.S. Ultra Short fund which provides longer term investments for investors seeking incremental yield over money market funds. The UBS-U.S. Ultra Short fund had an average quality of Aaa. Within the fund were corporate bonds which were rated AAA to BBB by Standard and Poor's. The asset backed securities were rated A-2 to A-4 by Standard and Poor's. Under the Authority's investment policy, only A-1 + rated securities were considered for investment for asset backed securities. The Authority's investment policy did not include guidelines for corporate bond ratings at June 30, 2011; however, in September 2011, the executive committee approved a revised investment policy which clarified that the ratings did not apply to comingled portfolios like the U.S. Ultra Short fund.

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, 2011, the Authority had investments in US Treasury notes and Federal Home Loan Bank bonds representing 18.77% and 5.83%, respectively, 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:

Investment Type	Fair Value	June 30, 2011		
		Less than 90 days	90 days – 1 year	1 – 5 years
Government securities	\$ 24,713,327	\$ 501,245	\$ 9,649,705	\$ 14,562,377
Corporate bonds	23,196,597	1,078,126	14,217,562	7,900,909
Asset backed	6,521,379	--	--	6,521,379
Municipal securities	498,560	--	--	498,560
Total	\$ 54,929,863	\$ 1,579,371	\$ 23,867,267	\$ 29,483,225

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

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 3 – PORTFOLIO INVESTMENTS

Investments consisted of the following at June 30:

	2011	2010
Debt securities	\$ 6,777,587	\$ 5,316,535
Equity securities	1,747,750	1,404,280
Venture capital limited partnerships	5,289,560	1,226,169
	<u>\$ 13,814,897</u>	<u>\$ 7,946,984</u>

At June 30, 2011 and 2010, the Authority also owned warrants and other equity rights for the purchase of common stock in certain portfolio companies (see Note 1). Because these companies are start-up ventures, 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, 2010			June 30, 2011
	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 420,699	\$ --	\$ --	\$ 420,699
Construction in process	4,346,344	9,221,451	(13,567,795)	--
Total capital assets not being depreciated	<u>4,767,043</u>	<u>9,221,451</u>	<u>(13,567,795)</u>	<u>420,699</u>
Building	--	13,252,402	--	13,252,402
Furniture and equipment	273,944	825,178	(2,969)	1,096,153
Leasehold improvements	5,500	--	(5,500)	--
Total capital assets being depreciated	<u>279,444</u>	<u>14,077,580</u>	<u>(8,469)</u>	<u>14,348,555</u>
Less accumulated depreciation:				
Building	--	(56,635)	--	(56,635)
Furniture and equipment	(131,737)	(61,569)	2,969	(190,337)
Leasehold improvements	(1,375)	(4,125)	5,500	--
Total accumulated depreciation	<u>(133,112)</u>	<u>(122,329)</u>	<u>8,469</u>	<u>(246,972)</u>
Total capital assets being depreciated, net	146,332	13,955,251	--	14,101,583
Total capital assets, net	<u>\$ 4,913,375</u>	<u>\$ 23,176,702</u>	<u>\$ (13,567,795)</u>	<u>\$ 14,522,282</u>

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS (CONTINUED)

	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	3,720,046	--	4,346,344
Total capital assets not being depreciated	<u>880,534</u>	<u>3,886,509</u>	<u>--</u>	<u>4,767,043</u>
Furniture and equipment	215,666	58,278	--	273,944
Leasehold improvements	5,500	--	--	5,500
Total capital assets being depreciated	<u>221,166</u>	<u>58,278</u>	<u>--</u>	<u>279,444</u>
Less accumulated depreciation:				
Furniture and equipment	(85,101)	(46,636)	--	(131,737)
Leasehold improvements	(1,008)	(367)	--	(1,375)
Total accumulated depreciation	<u>(86,109)</u>	<u>(47,003)</u>	<u>--</u>	<u>(133,112)</u>
Total capital assets being depreciated, net	<u>135,057</u>	<u>11,275</u>	<u>--</u>	<u>146,332</u>
Total capital assets, net	<u>\$ 1,015,591</u>	<u>\$ 3,897,784</u>	<u>\$ --</u>	<u>\$ 4,913,375</u>

NOTE 5 – 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, 2011 and 2010, \$2,491,417 and \$2,350,393, respectively, was outstanding under the agreement, which included \$491,417 and \$350,393, 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, 2011 and 2010, no employee credits had been earned by the bioscience company.

As of July 2011 this agreement was amended to extend the February 2012 due date to February 2014. The look back period for employee credits was modified to allow for counting employees whose employment commences between the date that is 365 days prior to the end of the term and the date that is 180 days prior to the end of the term. The agreement was also modified to give the Authority the option to convert up to 50% of the total principal and accrued interest on the agreement into equity.

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NOTES TO FINANCIAL STATEMENTS

NOTE 5 – NOTES RECEIVABLE (CONTINUED)

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, 2011 and 2010, \$1,597,201 and \$731,993, respectively, was outstanding under the agreement, which included \$97,201 and \$31,993, 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, 2011). 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 granted the Authority equity rights in 5% of the company's common stock (see Note 3) once the total funding has been provided to the company (all committed funding has been provided).

In August 2010, 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 \$500,000. As of June 30, 2011, \$500,000 was outstanding under the agreement. The agreement has an interest rate of 0%. The agreement calls for payment of the outstanding principal on August 12, 2015, less any "employee credits and or revenue credits." The employee credits allow for the amounts owed under the agreement to be reduced by \$250,000 for every 40 new full-time equivalent positions created in Kansas, after maintenance of such positions for a consecutive 365-day period. The revenue credits allow for the amounts owed under the agreement to be reduced by \$250,000 for each revenue credit earned. A revenue credit is attainment of annual net revenue in excess of \$15 million for the preceding 365-day calendar period. As of June 30, 2011, no employee credits or revenue credits had been earned by the bioscience company.

NOTE 6 – 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, 2011, the Authority had \$163,088,148 of outstanding approved commitments for various projects. Portions of the outstanding approved commitments for the Kansas Bioscience Park and Venture Accelerator facility totaling \$13,384,084 are included in special assessments payable, accrued interest payable and bonds payable. Subsequent to June 30, 2011, an additional \$6,199,539 was committed by the Authority for additional projects and \$650,000 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, 2011, it is estimated that approximately \$49.8 million will be paid out in fiscal 2012 for the projects outstanding as of June 30, 2011 and those approved subsequent to year-end through September 30, 2011. This projection does not include payments on additional projects that may be funded in fiscal 2012 and is subject to change based on the achievement of milestones. Actual future cash flows could differ from the estimates as of June 30, 2011.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 6 – COMMITMENTS (CONTINUED)

During fiscal year 2010, the Authority approved a commitment for \$50 million to create the Kansas Bioscience Growth Fund (the Fund). The Fund was approved to invest in up to eight pre-approved venture capital funds to stimulate venture capital activity in Kansas for the bioscience industry. The KBA board agreed to release commitments from the Fund as needed for direct equity investments. As of June 30, 2011, \$1 million had been released leaving \$49 million committed for the Fund. As of June 30, 2011 and 2010, the Authority had committed \$20,373,334 (in three funds) and \$5,000,000 (in one fund), respectively. This commitment is payable subject to capital calls by the venture capital limited partnerships. At June 30, 2011, \$13,580,952 was payable subject to call.

NOTE 7 – 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 \$123,664 and \$76,273 for the years ended June 30, 2011 and 2010, 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 8 – 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 interest expense for the years ended June 30, 2011 and 2010 was \$109,923 and \$10,000, respectively. The expense is included in operating expense grants and awards. The Authority anticipates allocating the cost of the special assessments payable on the land held for development to companies that want to build facilities in 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):

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	173,399	89,942	263,341
2017 - 2021	866,998	359,769	1,226,767
2022 - 2026	866,998	209,865	1,076,863
2027 - 2030	693,599	59,962	753,561
	<u>\$ 3,294,590</u>	<u>\$ 1,139,269</u>	<u>\$ 4,433,859</u>

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 9 – 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 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 30, 2011 and equal to the taxable equivalent yield table rate as defined until maturity on December 1, 2021. The interest rate was 1.84% at June 30, 2011. 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. The interest rate was 2.75% at June 30, 2011. 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 purchased the bonds themselves in the amount of \$1,121,469 as of June 30, 2011. Since the Authority purchased the bonds, there is no effect on the financial statements.

The Series 2009A and 2009B bonds are payable monthly commencing on January 1, 2012 based on 20-year and 7-year amortization schedules with a balloon payment on December 1, 2021.

Interest has been included on the table below based on rates in effect at June 30, 2011 (the floor rate for each bond series). Future minimum principal and interest payments are expected to be as follows:

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 191,880	\$ 365,584	\$ 557,464
2013	397,888	471,458	869,346
2014	417,524	451,822	869,346
2015	438,163	431,183	869,346
2016	459,859	409,487	869,346
2017 – 2021	<u>8,174,686</u>	<u>1,846,223</u>	<u>10,020,909</u>
	<u>\$ 10,080,000</u>	<u>\$ 3,975,757</u>	<u>\$ 14,055,757</u>

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 10 – LONG TERM LIABILITIES

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

		June 30, 2011				
		Balance at June 30, 2010	Additions	Reductions	Balance at June 30, 2011	Amounts due within one year
Bonds payable	\$	2,506,012	\$ 7,573,988	\$ --	\$ 10,080,000	\$ 191,880
Special assessments payable		3,467,989	--	(173,399)	3,294,590	173,399
	\$	5,974,001	\$ 7,573,988	\$ (173,399)	\$ 13,374,590	\$ 365,279
		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
	\$	--	\$ 5,974,001	\$ --	\$ 5,974,001	\$ 173,399

NOTE 11 – PRONOUNCEMENTS ISSUED, NOT YET ADOPTED

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was issued in June 2011. GASB 63 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). GASB 63 requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. GASB 63 also amends certain provisions of GASB Statement No. 34, *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. GASB 63 is effective for financial statements for the Authority's year ending June 30, 2013. Implementation of GASB 63 is not expected to have a material effect on the financial statements.

SUPPLEMENTARY INFORMATION

KANSAS BIOSCIENCE AUTHORITY
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SCHEDULE OF COMMITMENTS
JUNE 30, 2011

Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/11	Total Remaining To Be Paid
Prescription Solutions	7/11/2005	150,000	(150,000)	--	--	--
Heartland BioEnterprise	1/5/2006	200,000	--	200,000	200,000	--
KansasBio 2006	1/5/2006	100,000	--	100,000	100,000	--
Hospira, Inc	4/11/2006	200,000	(17,000)	183,000	183,000	--
Quintiles	4/11/2006	3,500,000	--	3,500,000	3,500,000	--
JACAM Chemicals	4/11/2006	500,000	--	500,000	500,000	--
IdentiGEN	4/11/2006	125,000	(75,000)	50,000	50,000	--
	FY 2006 Totals	\$ 4,775,000	\$ (242,000)	\$ 4,533,000	\$ 4,533,000	\$
City of Manhattan (NISTAC)	7/13/2006	1,000,000	--	1,000,000	500,000	500,000
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	(621)	39,379	39,379	--
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	(95,272)	2,404,728	2,404,728	--
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	1/9/2007	7,600,000	(2,264,523)	5,335,477	423,879	4,911,598
KansasBio 2007	1/9/2007	75,000	--	75,000	75,000	--
Hospira, Inc	1/9/2007	64,000	(20,000)	44,000	44,000	--
Sunflower Bioenergy Phase II	1/9/2007	500,000	--	500,000	500,000	--
Edenspace Systems Expansion/Attraction	3/13/2007	200,000	--	200,000	100,000	100,000
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	2,551,967	548,033
HBV Proof of Concept Investment (POCI)	5/25/2007	76,466	--	76,466	--	76,466
	FY 2007 Totals	\$ 18,501,754	\$ (2,710,258)	\$ 15,791,496	\$ 8,055,399	\$ 7,736,097
OsteoGeneX R&D Voucher	7/10/2007	130,000	--	130,000	130,000	--
ABADRL/City of Manhattan	7/10/2007	1,500,000	--	1,500,000	1,022,000	478,000
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 Equity	7/10/2007	150,000	--	150,000	150,000	--
CritiTech BTIIP	9/28/2007	264,048	--	264,048	264,048	--
Kansas Environmental Mgmt Associates	9/28/2007	312,500	--	312,500	312,500	--
ThermoFisher Remel Expansion	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 (CBRI)	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 - KU (Peterson)	1/16/2008	5,000,000	--	5,000,000	4,000,000	1,000,000
Eminent Scholar - KSU (Richt)	1/16/2008	2,055,000	--	2,055,000	1,730,000	325,000
MATRIC	1/16/2008	2,000,000	(2,000,000)	--	--	--
Pinnacle NIH SBIR Phase II	1/16/2008	375,000	--	375,000	375,000	--
BRI Training and Education	2/26/2008	1,548,000	--	1,548,000	1,548,000	--
KU Breidenthal KUMCRI	4/8/2008	2,000,000	--	2,000,000	1,839,078	160,922
Eminent Scholar - WSU (Wooley)	4/8/2008	911,954	--	911,954	547,172	364,782
OsteoGeneX NIH SBIR Phase II	6/5/2008	375,000	--	375,000	375,000	--
Collaborative Cancer Research Initiative (CCRI)	6/5/2008	25	(25)	--	--	--
Ventria Phase I Expansion	6/5/2008	3,750,000	--	3,750,000	3,750,000	--
Immunogenetix Therapeutics Equity	6/5/2008	420,000	--	420,000	420,000	--
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	\$ 32,510,232	\$ (10,501,108)	\$ 22,009,124	\$ 18,330,420	\$ 3,678,704

(Continued)

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Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/11	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	95,116	904,884
WCGME Graduate Medical Education Planning Grant	9/12/2008	250,000	--	250,000	250,000	--
WCGME research centers	10/28/2008	5,880,000	--	5,880,000	2,940,000	2,940,000
K-State Biomass Inventory Assessment	10/28/2008	300,000	--	300,000	300,000	--
ICM Collaborative Bioenergy Research	10/28/2008	1,000,000	--	1,000,000	550,000	450,000
Nowa Technology	10/28/2008	1,500,000	--	1,500,000	1,200,000	300,000
Pinnacle NIH SBIR In-Vivo Wireless	10/28/2008	375,000	--	375,000	329,014	45,986
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	562,500	187,500
Via Christi/WSU cluster hire	10/28/2008	327,500	--	327,500	170,000	157,500
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	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 convertible note II	1/27/2009	400,000	--	400,000	400,000	--
KBP Venture Accelerator	1/27/2009	19,000,000	--	19,000,000	2,728,738	16,271,262
Wahl/Hixon renovation	03/09/2009	26,400,000	--	26,400,000	7,920,000	18,480,000
LDCBA Incubator	03/09/2009	3,250,000	--	3,250,000	3,250,000	--
CCRI - KUCC/Stowers	03/09/2009	250,000	--	250,000	150,000	100,000
CCRI - KUCC Compound Mgmt System	03/09/2009	500,000	--	500,000	500,000	--
NBAF Phase IV	03/09/2009	500,000	--	500,000	500,000	--
KBCI KBICDD - Drug Development	03/09/2009	5,000,000	(5,000,000)	--	--	--
KBCI KABB - Bioenergy	03/09/2009	4,100,000	--	4,100,000	1,466,000	2,634,000
KBCI CIBOR - Biomaterials	5/19/2009	4,000,000	--	4,000,000	4,000,000	--
KBCI HPI - Plant Design	5/19/2009	4,000,000	--	4,000,000	4,000,000	--
Cydex R&D Voucher	5/19/2009	195,000	--	195,000	179,448	15,552
SCF Technologies NCI SBIR Phase I	5/19/2009	50,000	--	50,000	50,000	--
Nanoscale NIH SBIR Phase I	5/19/2009	50,000	--	50,000	50,000	--
CCRI - KUCC/Scripps	5/19/2009	500,000	--	500,000	300,000	200,000
CCRI - KU/Via Christi Wichita Clinical Trials	5/19/2009	500,000	--	500,000	186,596	313,404
Kansas Cancer Operations	5/19/2009	600,000	--	600,000	434,945	165,055
ADM R&D Voucher	5/19/2009	1,200,000	--	1,200,000	675,000	525,000
FY 2009 Totals		\$ 177,038,604	\$ (62,884,687)	\$ 114,153,917	\$ 35,283,774	\$ 78,870,143

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Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/11	Total Remaining To Be Paid
NBAF Phase V	7/21/2009	1,000,000	--	1,000,000	1,000,000	--
KC BioMediX Equity III	8/14/2009	500,000	--	500,000	500,000	--
Megastarter Attraction	8/14/2009	300,000	--	300,000	300,000	--
City of Manhattan NISTAC II	8/14/2009	1,000,000	--	1,000,000	250,000	750,000
Ventria NIH SBIR Phase II	8/14/2009	144,744	--	144,744	144,744	--
KBA Growth Fund	10/8/2009	50,000,000	(1,000,000)	49,000,000	6,746,266	42,253,734
Eminent Scholar - KU (Volkin)	11/9/2009	2,490,185	--	2,490,185	504,493	1,985,692
Rising Star - KU	11/9/2009	500,000	(500,000)	--	--	--
CCRI - KSU/UTCC	11/10/2009	500,000	--	500,000	375,000	125,000
Nanoscale DOD SBIR Phase II	11/10/2009	375,000	--	375,000	375,000	--
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 RERDGM Matching	1/26/2010	1,500,000	--	1,500,000	240,300	1,259,700
Eminent Scholar - KU (Srivastava)	1/26/2010	1,775,000	--	1,775,000	234,010	1,540,990
CBRI - KSU PRRS	1/26/2010	500,000	--	500,000	75,000	425,000
RELIVE for Kids NIH Matching	1/26/2010	50,000	(50,000)	--	--	--
TVAX Equity	1/26/2010	600,000	(300,000)	300,000	300,000	--
Centers of Innovation - CAHI	1/26/2010	250,000	--	250,000	233,089	16,911
Ceva Biomune	3/9/2010	700,000	--	700,000	100,000	600,000
Rising Star - KU	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	73,000	--
Cargill Expansion and Attraction	5/10/2010	750,000	--	750,000	200,000	550,000
CBRI - KSU/ABADRU Rift Valley Fever	5/10/2010	498,917	--	498,917	100,000	398,917
CCRI - KU (Fabian)	5/10/2010	249,975	--	249,975	175,000	74,975
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	150,000	200,000
POCI - Novita Therapeutics	5/14/2010	72,578	--	72,578	72,578	--
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	263,582	429,418
NBAF Phase VI	5/24/2010	700,000	--	700,000	195,445	504,555
NBAF Research	5/24/2010	500,000	--	500,000	--	500,000
Megastarter Expansion & Attraction loan	6/09/2010	500,000	--	500,000	500,000	--
FY 2010 Totals		\$ 68,112,399	\$ (2,550,000)	\$ 65,562,399	\$ 13,597,507	\$ 51,964,892

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Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/11	Total Remaining To Be Paid
OsteoGeneX Equity Match	7/27/2010	500,000	--	500,000	500,000	--
Rising Star-KU (Xu)	7/27/2010	780,000	--	780,000	260,000	520,000
Rising Star-KU	7/27/2010	850,000	(850,000)	--	--	--
POCI - EnalaPed	8/2/2010	74,500	--	74,500	74,500	--
POCI - IdentiGEN North America Inc.	9/17/2010	74,910	--	74,910	70,000	4,910
POCI - Centaur	9/28/2010	51,120	--	51,120	51,120	--
Eminent Scholar - KU (Anant)	10/11/2010	1,450,000	--	1,450,000	450,000	1,000,000
Eminent Scholar - KU (Bhalla)	10/11/2010	2,051,000	--	2,051,000	697,000	1,354,000
Eminent Scholar - KU (Godwin)	10/11/2010	3,362,500	--	3,362,500	1,087,500	2,275,000
Eminent Scholar - KU (Welch)	10/11/2010	1,575,000	--	1,575,000	269,167	1,305,833
Rising Star - KU	10/11/2010	725,000	(725,000)	--	--	--
Orbis SBIR Phase II Matching	10/11/2010	347,550	--	347,550	247,550	100,000
POCI - Emerge Medical Solutions	10/20/2010	199,860	(199,860)	--	--	--
POCI - Nanoscale	10/26/2010	199,996	--	199,996	120,000	79,996
POCI - Visimed	12/06/2010	161,600	--	161,600	25,000	136,600
POCI - Pulse Needlefree Systems	12/17/2010	73,800	--	73,800	60,000	13,800
CEEZAD	12/21/2010	4,000,000	--	4,000,000	722,000	3,278,000
The Learning Collaborative	12/21/2010	500,000	--	500,000	--	500,000
Aratana Therapeutics	12/21/2010	1,000,000	--	1,000,000	500,000	500,000
KBCI CIBOR FY 2011	1/24/2011	1,500,000	--	1,500,000	750,000	750,000
KBCI HPI FY 2011	1/24/2011	1,000,000	--	1,000,000	787,000	213,000
Plastikon Healthcare Attraction	1/24/2011	750,000	--	750,000	200,000	550,000
Lead Horse Technologies	1/24/2011	500,000	--	500,000	200,000	300,000
Heartland BioVentures NDDA Support	1/24/2011	175,000	--	175,000	95,000	80,000
POCI - Innovative Products	2/04/2011	63,230	--	63,230	25,000	38,230
POCI - ChocoFinesse	2/07/2011	131,800	--	131,800	50,000	81,800
POCI - Crititech (Nanotax Ph I Clinical Trial)	2/07/2011	197,500	--	197,500	45,000	152,500
KBCI CAHI - Animal Health	3/1/2011	1,000,000	--	1,000,000	275,000	725,000
KSU Feed Technology Center Matching	3/1/2011	1,500,000	--	1,500,000	--	1,500,000
Evogen Expansion & Attraction	3/1/2011	500,000	--	500,000	--	500,000
KC BioMediX Bridge Loan	3/1/2011	200,000	--	200,000	100,000	100,000
POCI - Echogen	5/2/2011	199,500	--	199,500	--	199,500
Aptakon NHGRI Matching	5/9/2011	48,750	--	48,750	--	48,750
Aptakon NCI SBIR Matching	5/9/2011	74,928	--	74,928	--	74,928
Abaxis Expansion and Attraction	5/9/2011	650,000	--	650,000	--	650,000
ImmunoGenetix Research Voucher	5/9/2011	428,070	--	428,070	--	428,070
OsteoGeneX Matching (BIRD)	5/9/2011	450,000	--	450,000	--	450,000
Pinnacle NIH SBIR Ph I/Ph II Matching	5/9/2011	424,895	--	424,895	--	424,895
Kansas Cancer Operations Phase III	6/15/2011	316,000	--	316,000	--	316,000
Heartland BioVentures Phase III	6/15/2011	1,787,500	--	1,787,500	--	1,787,500
NBAF Phase VII	6/15/2011	400,000	--	400,000	--	400,000
FY 2011 Totals		\$ 30,274,009	\$ (1,774,860)	\$ 28,499,149	\$ 7,660,837	\$ 20,838,312
Totals		\$ 331,211,998	\$ (80,662,913)	\$ 250,549,085	\$ 87,460,937	\$ 163,088,148

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, 2011 and have issued our report thereon dated November 1, 2011. 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

Management of the Authority is responsible for establishing and maintaining effective 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

November 1, 2011
Wichita, Kansas