

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

AND

INDEPENDENT AUDITORS' REPORT

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

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FINANCIAL STATEMENTS

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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, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years ended June 30, 2012 and 2011. 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, 2012 and 2011, and changes in its financial position and its cash flows for the years ended June 30, 2012 and 2011, 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 15, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed on the table of contents, be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was made for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

October 15, 2012
Wichita, KS

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**KANSAS BIOSCIENCE AUTHORITY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2012 and 2011**

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. The first section of the report presents MD&A of financial position and changes in financial position for the years ended June 30, 2012 and 2011.

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 programs aimed at advancing Kansas' national leadership in the biosciences. The Authority has received financial resources over the past fiscal years to fund the programs. Funds available to service commitments made under the approved programs were \$66.7 million at June 30, 2012; \$82.0 million at June 30, 2011; and \$96.8 million at June 30, 2010.
- Since the Authority's inception, its board of directors committed \$271.8 million through June 30, 2012. The Authority's board committed \$23.5 million in fiscal year 2012 to companies and institutions to promote bioscience growth in Kansas, and \$2.2 million related to commitments approved in previous years was released during the fiscal year. Most commitments are paid upon the achievement of milestones; at June 30, 2012 the total amount remaining to be paid on these commitments was \$151.6 million. Subsequent to June 30, 2012 through September 30, 2012, the Authority's board approved additional commitments totaling \$5.0 million; also during that period, the Authority released \$6.2 million in commitments approved in previous fiscal years.
- The Receivable from the state of Kansas decreased \$15.3 million in fiscal year 2012 due to the Kansas legislature passing House Substitute for Senate Bill No. 294, also known as the Omnibus Appropriation Act of 2012. This statute impacted the Authority in several ways: it reduced the annual funding cap for fiscal year 2012 from \$35 million to \$12.3 million, of which \$1 million was transferred by the Kansas State Treasurer directly to the Center of Innovation for Biomaterials in Orthopaedic Research – Wichita State University Fund; it prevented the transfer to the Authority of \$22.7 million in funding for the first three quarters of fiscal year 2012 and from a reconciliation of 2009 growth in bioscience payroll tax withholdings; and it appropriated \$6 million in funding for the quarter ended June 30, 2012 for transfer directly to the Center of Innovation for Biomaterials in Orthopaedic Research – Wichita State University Fund and the National Bio Agro-Defense Facility Fund at Kansas State University. The \$11.9 million increase in this receivable in fiscal year 2011 was due to a delay in receiving funding related to the quarter ended December 31, 2010 until fiscal year 2012.
- Capital assets decreased \$203,626 in fiscal year 2012. Venture Accelerator construction costs of \$145,837 and purchases of office and laboratory furniture and equipment of \$148,418 were more than offset by depreciation expense of \$497,881.

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Years Ended June 30, 2012 and 2011**

Capital assets increased \$9.6 million in fiscal year 2011 primarily due to \$8.9 million in construction costs for the Venture Accelerator, while the purchase of office and laboratory furniture and equipment resulted in an \$825,178 increase in capital assets in fiscal year 2011.

- Other assets increased by approximately \$4.2 million in fiscal year 2012 primarily due to a \$3.8 million increase in equity and convertible note investments. Loans reflected in the financials as notes receivable earned interest of \$251,351 in fiscal year 2012 and other accounts receivable increased by \$195,660. In fiscal year 2011 that same group of assets increased by approximately \$7.6 million as a result of 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.
- Current liabilities decreased \$3.7 million in fiscal year 2012 primarily due to the payment during the year of all accrued liabilities related to the construction of the Venture Accelerator, fewer milestones achieved by grant recipients as of the end of the fiscal year for which payments had not yet been made, and the payment of all accrued liabilities related to the performance of a forensic audit (discussed further on page 5). These factors were slightly offset by an increase of \$207,606 in industrial revenue bond principal due to be paid in the next twelve months. In fiscal year 2011 liabilities increased \$1.4 million primarily due to milestones achieved but not yet paid at the end of the fiscal year.
- Long-term liabilities are comprised of industrial revenue bonds used to finance construction of the Venture Accelerator and special assessments related to infrastructure installed in the Kansas Bioscience Park. These liabilities decreased \$605,318 in fiscal year 2012 due to \$431,918 in bond principal and \$173,400 in special assessments that became current during the fiscal year. Long-term liabilities increased \$7.2 million in fiscal year 2011 due to the increase in bond principal as construction of the Venture Accelerator was completed.
- Total revenues decreased by \$30.7 million in fiscal year 2012 primarily due to a \$30.3 million decrease in transfers from the state of Kansas. The Omnibus Appropriation Act of 2012 discussed on page 3 made unavailable to the Authority all funding for the first three quarters of the fiscal year as well as the first \$6 million in funding for the quarter ended June 30, 2012. Other factors included a \$247,569 decrease in operating revenues and a \$189,663 decrease in investment income. Total revenues increased by \$1.7 million in fiscal year 2011 due to \$688,593 in gains on the sale of investments within the Venture Fund portfolios, a \$518,618 increase in state transfers, \$284,258 in new revenue from federal grants, and a \$190,278 increase in interest income. The slight increase in state transfers in fiscal year 2011 was a result of growth in bioscience payroll withholding taxes for the quarter ended June 30, 2011 as compared to withholdings for the quarter ended June 30, 2010.
- Grants and Awards decreased \$4.5 million, or 16%, in fiscal year 2012. In fiscal year 2011, Grants and Awards increased \$6.6 million, or 29%, from the prior year. These changes are primarily a result of expected differences in the timing of milestone accomplishments and the submission to the Authority of milestone payment requests

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by the companies and research universities in which the Authority has invested. The timing of milestone accomplishment varies by grant, and the mix of grants for which milestone payments are made varies from year to year.

- The Authority's fiscal year 2012 operating expenses other than Grants and Awards were \$5.9 million compared to \$4.0 million for fiscal year 2011 and \$3.6 million for fiscal year 2010. The increase in fiscal year 2012 was caused primarily by the following factors: audit and legal fees associated with the forensic audit completed during fiscal year 2012 (discussed below), losses on equity investments in two bioscience companies, and a full year of depreciation on the Authority's Venture Accelerator building and associated furniture and equipment. Partially offsetting these factors were decreases in wages and travel expenses caused by open positions during the year and decreased marketing expenses. The increase in fiscal year 2011 operating expenses 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.

At the request of the Kansas governor and some members of the state legislature, the Authority's board of directors contracted with two independent, third-party firms to perform a forensic audit which began near the end of fiscal year 2011 and continued through fiscal year 2012. The forensic auditors examined all expenditures and contractual arrangements, as well as numerous other factors associated with the Authority, since its inception in 2004. There were no material adverse findings as a result of the audit. Audit and legal fees totaling approximately \$1.5 million were incurred in association with the audit, of which approximately \$1.2 million was included in fiscal year 2012 operating expense and approximately \$300,000 was included in fiscal year 2011 operating expense.

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?"

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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:

	2012	2011	2010
Assets			
Cash and securities	\$ 66,691,906	\$ 82,026,702	\$ 96,803,462
Receivable from state of Kansas	6,287,267	21,629,432	9,729,682
Capital assets	14,318,656	14,522,282	4,913,375
Other assets	31,403,596	27,238,414	19,592,215
Total assets	\$ 118,701,425	\$ 145,416,830	\$ 131,038,734
Liabilities			
Current liabilities	\$ 2,891,642	\$ 6,622,355	\$ 5,177,885
Long-term liabilities	12,403,993	13,009,311	5,800,602
Total liabilities	15,295,635	19,631,666	10,978,487
Net assets			
Invested in capital assets, net of related debt	4,313,150	4,284,143	2,240,900
Restricted for development	5,329,023	5,163,947	4,998,871
Unrestricted	93,763,617	116,337,074	112,820,476
Total net assets	103,405,790	125,785,164	120,060,247
Total liabilities and net assets	\$ 118,701,425	\$ 145,416,830	\$ 131,038,734

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Statement of Revenues, Expenses, and Changes in Net Assets

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

Revenues	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 1,377,100	\$ 1,624,669	\$ 548,762
Transfers from state of Kansas	6,287,267	36,592,503	36,073,885
Investment income	288,094	477,757	386,001
Total revenues	<u>7,952,461</u>	<u>38,694,929</u>	<u>37,008,648</u>
 Expenses			
Grants and awards	24,456,575	28,953,491	22,393,576
Other	5,875,260	4,016,521	3,577,405
Total operating expenses	<u>30,331,835</u>	<u>32,970,012</u>	<u>25,970,981</u>
 Excess of revenues over expenses	 (22,379,374)	 5,724,917	 11,037,667
Total net assets, beginning of period	<u>125,785,164</u>	<u>120,060,247</u>	<u>109,022,580</u>
Total net assets, end of period	<u>\$ 103,405,790</u>	<u>\$ 125,785,164</u>	<u>\$ 120,060,247</u>

ASSETS, LIABILITIES AND CHANGES IN NET ASSETS

The Authority's net assets decreased by \$22.4 million to \$103.4 million at June 30, 2012 as compared to \$125.8 million at June 30, 2011. The decrease in net assets during fiscal year 2012 was primarily due to the Kansas legislature passing the Omnibus Appropriation Act of 2012 as discussed on page 3. This statute redirected \$22.7 million of the Authority's fiscal year 2012 funding to the State General Fund. Net asset growth of \$5.7 million in fiscal year 2011 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 annual funding caps imposed by the state of Kansas since fiscal year 2009.

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 2012, the Authority expended \$145,837 in construction costs and \$148,418 for equipment and furniture for the Venture Accelerator. In fiscal year 2011, the Authority expended \$8.9 million in construction costs. See additional information in note 5 to the financial statements.

DEBT ACTIVITY

Debt at June 30, 2012 included \$9.9 million in industrial revenue bond financing and \$3.1 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, and the Authority began making principal and interest payments on the bonds during fiscal year 2012. Also in fiscal year 2010, the

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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, 2012 and 2011. The fiscal year 2012 funding cap was subsequently reduced to \$12.3 million (which included \$1 million to be transferred to the Center of Innovation for Biomaterials in Orthopaedic Research – Wichita State University Fund rather than to the Authority) by the Omnibus Appropriation Act of 2012 as discussed on page 3. The Authority's board of directors considered these funding limits in approving any investments in fiscal year 2012 and in developing the Authority's fiscal year 2013 strategic plan.

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 established guidelines and programs intended to provide clear and concise descriptions of the programs used by the Authority to make its investment commitments, including those set forth by the legislature when it approved the Kansas Economic Growth Act in 2004. These programs are tracked in two major categories: research and commercialization. A brief description of these programs is provided in the footnotes (pages 15 and 16) and detail of the commitments can be found in the supplementary information. The funds committed through June 30, 2012 are as follows:

<u>Program Area:</u>	<u>Fiscal 2012</u>	<u>Inception through Fiscal 2012</u>
Research	\$ 7,244,147	\$ 115,448,178
Commercialization	16,291,890	156,399,448
Total	<u>\$ 23,536,037</u>	<u>\$ 271,847,626</u>

The key program themes for fiscal year 2012 were 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 2012, the Authority continued to support the University of Kansas (KU) Cancer Center in its drive to attain National Cancer Institute designation. This support included assisting KU in responding 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 September 2011 the KU Cancer Center formally applied for NCI designation, and in June 2012, the National Cancer Institute recommended the cancer

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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center for the designation. In July 2012, National Institutes for Health officials named the KU Cancer Center as the nation's 67th NCI-designated cancer center.

Three rising star grants totaling \$2,346,952 were approved to recruit one researcher to direct the KU Cancer Center's phase I clinical trials program and to retain two other researchers at KU. The recruited researcher has filled one of the positions the National Cancer Institute had said KU must fill before the NCI designation would be awarded. One of the retained researchers focuses on drug discovery and delivery, while the second focuses on biomaterials and cell-based technologies at the university's Bioengineering Research Center.

In fiscal year 2012, the Authority's board approved one eminent scholar grant of \$4.9 million for a recruit to Kansas State University. This recruit has been named a distinguished professor of veterinary medicine at K-State and will establish and lead a new Institute of Computational Comparative Medicine at the university, which will be the first such institute of its kind focused on animal health.

At the request of the Kansas governor's administration, in February 2012 the Authority began paying a monthly retainer to the firm of Polsinelli Shughart for outreach and advocacy pertaining to the National Bio and Agro-defense Facility (NBAF). The Omnibus Appropriation Act of 2012 passed by the Kansas legislature resulted in additional support of NBAF by the Authority, as discussed on page 3.

Commercialization

The commercialization category includes commitments related to commercial advancement of bioscience companies in the state. Such activities include attracting bioscience companies with the potential to add high-quality jobs in the state, matching 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 Authority's directors of commercialization, who work closely with many bioscience companies and researchers in the state.

The Authority's Retention, Expansion and Attraction program was a focus area in fiscal year 2012. The Authority's board of directors approved \$6.2 million in commitments to seven bioscience companies under this program as an incentive to locate or expand their facilities in Kansas. These companies will have to meet milestones related to capital expenditures and/or the addition or retention of jobs in the state to receive payment of the committed funds.

During fiscal year 2012, the Authority's board of directors also approved \$3.7 million in commitments to four bioscience companies under its Research and Development Voucher program and \$3.6 million in grants to three of its centers of innovation. As discussed in Note 1 to the financial statements, the Research and Development Voucher program promotes partnerships between Kansas bioscience companies and research universities or other Kansas companies engaged in research and development activities, which benefit indirectly from the program. The Kansas Bioscience Center of Innovation program allows the state to address 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 bioscience development centers. In fiscal year 2012, the Center of Innovation for Biomaterials in Orthopaedic Research (CIBOR), the Kansas Innovation Center for Advanced

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Plant Design (dba Heartland Plant Innovations or HPI) and the Center for Animal Health Innovation (CAHI) were each granted additional funds by the Authority in support of their plans.

The Authority's board of directors also approved \$1.5 million in direct equity investments in two Kansas bioscience companies and \$1.0 million in proof-of-concept investment (POCI) commitments to ten bioscience companies. These POCI commitments, which ranged from approximately \$20,000 to approximately \$190,000, are intended to advance promising technologies toward readiness for private investment or commercial launch.

The Authority focuses on expected outcomes as it plans and executes its investment strategies. The directors of commercialization assist high-potential clients by developing investment recommendations for consideration by the investment committee and board, utilizing the Authority'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 Mr. Paul Gardner, Chief Financial Officer, 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, 2012 and 2011

ASSETS

	2012	2011
Current assets:		
Cash and cash equivalents	\$ 13,964,835	\$ 26,770,733
Investments in securities	16,308,950	25,446,638
Receivable from state of Kansas	6,287,267	21,629,432
Other accounts receivable	369,239	173,579
Accrued interest	236,449	326,106
Notes receivable, current	699,067	--
Portfolio investments, current	5,812,930	--
Other current assets	99,653	213,005
Total current assets	43,778,390	74,559,493
Noncurrent assets:		
Long term investments		
Investments in securities	36,181,672	29,483,225
Portfolio investments	11,847,578	13,814,897
Notes receivable	4,140,902	4,588,618
Total long term investments	52,170,152	47,886,740
Capital assets		
Land	420,699	420,699
Building	13,398,239	13,252,402
Furniture and equipment	1,244,571	1,096,153
Less accumulated depreciation	(744,853)	(246,972)
Total capital assets	14,318,656	14,522,282
Other assets		
Land held for development	8,300,397	8,300,397
Bond issuance costs, net of amortization	133,830	147,918
Total other assets	8,434,227	8,448,315
Total assets	\$ 118,701,425	\$ 145,416,830

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ 2,227,907	\$ 6,187,016
Bonds payable, current	399,487	191,880
Special assessments payable, current	173,399	173,399
Accrued liabilities	81,854	60,566
Accrued interest payable	8,995	9,494
	<u>2,891,642</u>	<u>6,622,355</u>
Total current liabilities		
	<u>2,891,642</u>	<u>6,622,355</u>
Long term liabilities:		
Bonds payable	9,456,202	9,888,120
Special assessments payable	2,947,791	3,121,191
	<u>12,403,993</u>	<u>13,009,311</u>
Total long term liabilities		
	<u>12,403,993</u>	<u>13,009,311</u>
Total liabilities	<u>15,295,635</u>	<u>19,631,666</u>
Commitments (see Note 6)		
Net assets:		
Invested in capital assets, net of related debt	4,313,150	4,284,143
Restricted for development	5,329,023	5,163,947
Unrestricted	93,763,617	116,337,074
	<u>103,405,790</u>	<u>125,785,164</u>
Total net assets		
	<u>103,405,790</u>	<u>125,785,164</u>
Total liabilities and net assets	<u>\$ 118,701,425</u>	<u>\$ 145,416,830</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, 2012 and 2011

	2012	2011
Operating revenues:		
Federal grant revenue	\$ 445,909	\$ 284,258
Rent income	120,235	4,534
Interest income	810,956	647,284
Income from limited partnerships	--	688,593
	1,377,100	1,624,669
Operating expenses:		
Grants and awards	24,456,575	28,953,491
Wages and benefits	1,801,643	1,865,469
Board fees and reimbursed expense	19,599	51,754
Meeting and travel expenses	37,037	74,447
Depreciation and amortization	511,969	146,784
Dues and subscriptions	18,953	13,952
Insurance	91,952	71,210
Contractual and consulting services	1,311,366	497,991
Contractual and consulting federal grants	289,289	258,679
Legal services	285,394	243,764
Marketing	216,745	355,299
Office expense	240,893	141,445
Real estate tax	32,856	33,686
Rent	14,974	99,644
Utilities	58,540	5,867
Loss from equity securities	944,050	156,530
	30,331,835	32,970,012
Total operating expenses		
	(28,954,735)	(31,345,343)
Nonoperating revenues and expenses:		
Transfers from the state of Kansas - Emerging Industry Investment Act	6,287,267	36,592,503
Investment income	288,094	477,757
	6,575,361	37,070,260
Total nonoperating revenues		
Revenues (under) over expenses	(22,379,374)	5,724,917
Net assets, beginning of period	125,785,164	120,060,247
Net assets, end of period	\$ 103,405,790	\$ 125,785,164

The accompanying notes are an integral
part of these financial statements

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

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash paid to others	\$ (30,674,065)	\$ (33,700,520)
Payments for special assessments, land held for development	(164,730)	(165,076)
Cash received from federal grants	270,998	115,435
Cash received from others	95,654	8,482
Net cash from operating activities	(30,472,143)	(33,741,679)
Cash flows from capital and related financing activities:		
Purchase of capital assets	(2,000,161)	(8,893,438)
Payments of bonds payable	(224,312)	--
Proceeds from bonds payable	--	7,573,988
Payments for special assessments on capital assets	(8,670)	(8,323)
Net cash from capital and related financing activities	(2,233,143)	(1,327,773)
Cash flows from noncapital financing activities:		
Cash received from state of Kansas	21,629,432	24,692,753
Net cash from noncapital financing activities	21,629,432	24,692,753
Cash flows from investing activities:		
Proceeds from maturities of investments in securities	25,446,638	2,076,880
Purchases of investments in securities	(22,810,493)	(49,812,911)
Purchases of portfolio investments	(4,547,036)	(4,877,818)
Investment income	180,847	182,135
Net cash from investing activities	(1,730,044)	(52,431,714)
Net change in cash	(12,805,898)	(62,808,413)
Cash and cash equivalents, beginning of period	26,770,733	89,579,146
Cash and cash equivalents, end of period	\$ 13,964,835	\$ 26,770,733
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (28,954,735)	\$ (31,345,343)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	511,969	144,634
Income from limited partnerships	--	(688,593)
Loss from equity securities	944,050	156,530
Changes in assets and liabilities:		
Other current assets	(82,308)	(297,776)
Accrued interest	(810,956)	(647,284)
Notes receivable	(300,000)	(1,000,000)
Accounts payable	(1,636,222)	292,606
Special assessments payable	(164,730)	(165,076)
Payroll liabilities and compensated absences	20,789	(191,377)
Net cash from operating activities	\$ (30,472,143)	\$ (33,741,679)

The accompanying notes are an integral part of these financial statements

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

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 best state for bioscience research, development and commercialization. Its investments are intended to make Kansas a national leader in bioscience – creating new jobs, growing the economy, advancing scientific knowledge and improving the quality of life for the citizens of Kansas and others around the world. The Authority is governed by a board of directors and during fiscal year 2011, the board contracted with two independent, third-party firms to perform a forensic audit which was completed during fiscal year 2012. Results from the forensic audit had no material impact on the financial statements. Audit fees for the project totaled \$934,913 and \$158,611 for the years ended June 30, 2012 and 2011, respectively. These costs are included in the contractual and consulting services on the Statement of Revenues, Expenses, and Changes in Net Assets.

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. During the 2012 and 2011 legislative sessions, the transfers to the Authority from the state were limited to \$11,322,186 and \$35 million for the fiscal years ended June 30, 2012 and 2011, respectively. During the fiscal year ended June 30, 2012 the state transferred \$1 million in funding generated by KEGA directly to the Center of Innovation for Biomaterials in Orthopaedic Research – Wichita State University Fund and transferred \$22,677,814 in funding generated by KEGA to the State General Fund.

Funding transfers from the state to the Authority will continue to be limited to \$35 million for the fiscal years ending June 30, 2013 and 2014. For fiscal year ending June 30, 2013, the first \$1 million in funding generated by KEGA will be transferred directly to the Center of Innovation for Biomaterials in Orthopaedic Research – Wichita State University Fund and the next \$5 million generated by KEGA will be transferred directly to the National Bio Agro-Defense Facility Fund at Kansas State University. These two transfers by the state to other entities will reduce the Authority's fiscal year 2013 funding transfer limit from \$35 million to \$29 million.

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

NOTES TO FINANCIAL STATEMENTS

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

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

- **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.
- **Matching Fund Program:** Matches research dollars from federal, private and other sources of support, expanding the state's ability to attract federal research dollars and to advance the research programs of early-stage Kansas companies.
- **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.
- **Direct Equity Investment Program:** Provides critical capital to early-stage Kansas bioscience companies with high potential at a time when it is most difficult for them to raise capital, allowing them to significantly advance their technologies or commercial readiness and position themselves for serious consideration by professional venture investors. The Authority makes direct equity investments on a syndicated basis, leveraging professional market and technical due diligence and sharing risk with professionals experienced in the management of seed, early-stage investments.

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

NOTES TO FINANCIAL STATEMENTS

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

- **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 up to \$50 million to up 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 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, met the Authority's other requirements and obtained Authority funding. The other five funds are not expected to raise the capital required to meet the Authority's funding requirement or otherwise qualify for Authority investment. The Authority's board agreed to release commitments from the Bioscience Growth Fund related to those five funds as needed for direct equity investments. As of June 30, 2012, \$3 million had been released leaving \$47 million committed for the Bioscience Growth Fund.
- **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 the Authority 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.
- **Grant Writing Voucher Program:** The Authority's Grant Writing Voucher (GWV) program supports Kansas-based small businesses and research consortia seeking to hire high-quality consultants to write and submit federal agency and nonprofit foundation grant proposals. The purpose is to increase participation by Kansas-based small businesses in these grant programs. Authority funding for the GWV program is generally limited to \$12,000 per voucher with a minimum dollar-for-dollar match required of the applicant in the form of an upfront payment to the grant-writing consultant. Total project cost may exceed \$24,000, but any costs exceeding \$24,000 will generally be paid by the applicant.

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

NOTES TO FINANCIAL STATEMENTS

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

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.

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.

Investments in Securities

Investments in securities are reported at fair value. As of June 30, 2012 and 2011, investments consisted of funds invested in corporate bonds and notes, asset backed securities, and various government agency obligations. The fair value of these investments may fluctuate subsequent to year-end due to changes in economic conditions.

Notes Receivable

The Authority enters into note receivable agreements with bioscience companies to assist in their performance of bioscience research, development and commercialization, and the creation of new jobs. The Authority records the notes at face value less any collections. The terms of some note agreements have provisions that allow for forgiveness or conversion into equity (Note 3). Conversion or debt frequency events are recorded when such events occur in the future. Management evaluates the notes receivable for collectability in a manner that is similar to the other-than-temporary impairment evaluation as explained below.

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

NOTES TO FINANCIAL STATEMENTS

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

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 is 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 and 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, which may be based on an income tax basis of accounting rather than generally accepted accounting principles. 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.

Other Than Temporary Impairment

Portfolio investments or notes receivable 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. The estimates are derived from the following (not all inclusive): quarterly financials, annual projections, performance against plan, and ability to raise additional funds. 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 readily determinable 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 further bioscience investment in Kansas. Such land may be donated as an incentive for future development. The value of land granted to a bioscience company will be recorded as grants and awards expense when title to the land transfers from the Authority.

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.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

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

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. The receivable from the state of Kansas consists of revenues generated under the Emerging Industry Investment Act that have been certified for transfer to the Authority by the Kansas Secretary of Revenue but have not yet been transferred by the Kansas State Treasurer. The receivable is reduced by any amounts that have been statutorily appropriated for transfer to other entities and so are not available for transfer to the Authority. No other amounts are considered uncollectible by management.

Other accounts receivable primarily includes outstanding reimbursement requests made to federal agencies pursuant to grant agreements and rentals due from tenants of the Authority’s Venture Accelerator incubator. Reimbursement requests are recognized as revenue as soon as all eligibility requirements imposed by the granting agency have been met.

Net Assets

Net assets are classified as follows:

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.

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

Revenues and Expenses

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

Operating revenues – generally result from providing services in connection with an entity’s principal ongoing operations and 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, 2011 have been reclassified to be consistent with classifications adopted for the year ended June 30, 2012.

NOTE 2 – CASH AND INVESTMENTS IN SECURITIES

As of June 30, 2012 and 2011, the Authority had balances of \$13,964,835 and \$26,770,733, 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. No amounts were exposed to custodial credit risk on deposits that were in excess of FDIC insurance coverage limits at June 30, 2012 and 2011. Also, as of June 30, 2012 and 2011, underlying securities of \$52,490,622 and \$54,929,863 in investments were held by the investments' counterparties.

Credit Risk. As of June 30, 2012 and 2011, 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, individual securities must be investment grade. For Standard and Poor's this would be those issues rated BBB – or better for long term bonds or A-3 or better for short term bonds. Ratings by Moody's would include Baa3 or better for long term bonds and P-3 or better for short term bonds.

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, ratings do not apply to comingled portfolios like the U.S. Ultra Short fund.

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

NOTES TO FINANCIAL STATEMENTS

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, 2012, the Authority had investments in US Treasury securities and Federal Home Loan Bank securities representing 24% and 7.5%, 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, no less than 80% of the investments in the portfolio should mature within five years and at least 20% of the portfolio should mature within two years. No more than 20% of investments may have a maximum maturity of up to eight years. 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 stated maturities:

Investment Type	June 30, 2012				
	Fair Value	Less than 90 days	90 days – 1 year	1 – 5 years	5 – 10 years
Government securities	\$ 27,573,819	\$ 1,008,635	\$ 7,897,500	\$ 18,667,684	\$ --
Corporate bonds	15,260,497	1,045,250	5,854,825	8,360,422	--
Asset backed	8,184,822	--	--	7,643,552	541,270
Municipal securities	968,744	--	--	968,744	--
Certificates of deposit	502,740	--	502,740	--	--
Total	\$ 52,490,622	\$ 2,053,885	\$ 14,255,065	\$ 35,640,402	\$ 541,270

Investment Type	June 30, 2011				
	Fair Value	Less than 90 days	90 days – 1 year	1 – 5 years	5 – 10 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	\$ --

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – NOTES RECEIVABLE

In February 2007, the Authority entered into an agreement with a bioscience company for a maximum advance of \$2 million. As of June 30, 2012 and 2011, \$2,640,902 and \$2,491,417, respectively, was outstanding under the agreement, which included \$640,902 and \$491,417, 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 2014, 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. The agreement also gives the Authority the option to convert up to 50% of the total principal and accrued interest on the agreement into equity. As of June 30, 2012 and 2011, no employee credits had been earned by the bioscience company.

In February 2009, the Authority entered into an agreement with a bioscience company for a maximum advance of \$1.5 million. As of June 30, 2012 and 2011, \$1,699,067 and \$1,597,201, respectively, was outstanding under the agreement, which included \$199,067 and \$97,201, 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, 2012). The amended agreement calls for payment of one-third of the outstanding principal plus all accrued and unpaid interest on February 27, 2013, one-half of all remaining outstanding principal plus all accrued and unpaid interest on February 27, 2014 and all remaining principal plus all accrued and unpaid interest on February 27, 2015. The agreement is secured by the company’s intellectual property (as defined). The agreement also granted the Authority equity rights of 5% of the company’s common stock (see Note 4) 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 for a maximum advance of \$500,000 with an interest rate of 0%. Principal of \$500,000 was outstanding under the agreement at June 30, 2012 and 2011 respectively. 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, 2012 and 2011, no employee credits had been earned by the bioscience company.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PORTFOLIO INVESTMENTS

Investments consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Debt securities	\$ 7,107,414	\$ 6,777,587
Equity securities	2,433,478	1,747,750
Venture capital limited partnerships	<u>8,119,616</u>	<u>5,289,560</u>
	17,660,508	13,814,897
Less current portion of debt securities	<u>5,812,930</u>	--
	<u>\$ 11,847,578</u>	<u>\$ 13,814,897</u>

At June 30, 2012 and 2011, 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.

Certain investment agreements may include terms that provide for dividends to accrue to the Authority, with payment upon the occurrence of certain events or other terms as outlined in the agreements. The Authority does not record a receivable for such dividends until they are declared by the investee company. Management estimates of accumulated dividends not yet declared as of June 30, 2012 are \$36,400.

NOTE 5 – CAPITAL ASSETS

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

	<u>July 1, 2011</u>			<u>June 30, 2012</u>
	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 420,699	\$ --	\$ --	\$ 420,699
Building	13,252,402	145,837	--	13,398,239
Furniture and equipment	<u>1,096,153</u>	<u>148,418</u>	--	<u>1,244,571</u>
Total capital assets being depreciated	<u>14,348,555</u>	<u>294,255</u>	--	<u>14,642,810</u>
Less accumulated depreciation:				
Building	(56,635)	(340,993)	--	(397,628)
Furniture and equipment	<u>(190,337)</u>	<u>(156,888)</u>	--	<u>(347,225)</u>
Total accumulated depreciation	<u>(246,972)</u>	<u>(497,881)</u>	--	<u>(744,853)</u>
Total capital assets being depreciated, net	<u>14,101,583</u>	<u>(203,626)</u>	--	<u>13,897,957</u>
Total capital assets, net	<u>\$ 14,522,282</u>	<u>\$ (203,626)</u>	<u>\$ --</u>	<u>\$ 14,318,656</u>

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	July 1, 2010 Balance	Increases	Decreases	June 30, 2011 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	<u>146,332</u>	<u>13,955,251</u>	<u>--</u>	<u>14,101,583</u>
Total capital assets, net	<u>\$ 4,913,375</u>	<u>\$ 23,176,702</u>	<u>\$ (13,567,795)</u>	<u>\$ 14,522,282</u>

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, 2012, the Authority had \$151,558,039 of outstanding approved commitments for various projects. Portions of the outstanding approved commitments for the Kansas Bioscience Park and Venture Accelerator facility totaling \$12,985,874 are included in special assessments payable, accrued interest payable and bonds payable. Subsequent to June 30, 2012, an additional \$5,020,000 was committed by the Authority for additional projects and \$6,180,000 in previously-approved commitments was released.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 6 – COMMITMENTS (CONTINUED)

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, 2012, it is estimated that approximately \$36.4 million will be paid out in fiscal 2013 for the projects outstanding as of June 30, 2012 and those approved subsequent to year-end through September 30, 2012. This projection does not include payments on additional projects that may be funded in fiscal 2013 and is subject to change based on the achievement of milestones. Actual future cash flows could differ from the estimates as of June 30, 2012.

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 Authority's board agreed to release commitments from the Fund as needed for direct equity investments. As of June 30, 2012, \$3 million had been released leaving \$47 million committed for the Fund. As of June 30, 2012 and 2011, the Authority had committed \$20,373,334. This commitment is payable subject to capital calls by the venture capital limited partnerships. At June 30, 2012, \$9,844,872 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 \$118,495 and \$123,664 for the years ended June 30, 2012 and 2011, 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 to the Authority during 2008 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 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, 2012 and 2011 was \$113,428 and \$109,923, 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.

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NOTES TO FINANCIAL STATEMENTS

NOTE 8 – LAND HELD FOR DEVELOPMENT (CONTINUED)

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>
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	173,399	83,946	257,345
2018 - 2022	866,998	329,789	1,196,787
2023 - 2027	866,998	179,885	1,046,883
2028 - 2030	520,199	35,976	556,175
	<u>\$ 3,121,190</u>	<u>\$ 1,025,342</u>	<u>\$ 4,146,532</u>

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 total principal of \$3,475,000; of this total, \$225,150 has a maturity of December 1, 2018 and \$3,249,850 has a maturity of December 1, 2021. On December 6, 2011 the Authority selected a 3-year interest rate period for the Series 2009A bonds. At that time the 3-year rate was below the 3-year rate floor of 3.3% established for the issue in the bond indenture agreement, so the 3.3% rate floor became the interest rate for the Series 2009A bonds through November 2014. The Authority will select a new 3-year or 5-year rate period for the issue prior to December 2014.

The Series 2009B bonds have a total principal of \$6,605,000; \$654,850 of this total has a maturity of December 1, 2018 and the remaining \$5,950,150 has a maturity of December 1, 2021. The issue has an interest rate equal to either the 3-year U.S. Treasury bond yield plus 2.5% with a floor of 5.00% or the 5-year U.S. Treasury bond yield plus 2.5% with a floor of 5.5% as elected by the Authority until maturity on December 1, 2021. On December 6, 2011 the Authority selected a 3-year interest rate period for the Series 2009B bonds. At that time the 3-year rate was below the 3-year rate floor of 5.0%, so the 5.0% rate floor became the interest rate for the Series 2009B bonds through November 2014. The Authority will select a new 3-year or 5-year rate period for the issue prior to December 2014.

The Series 2009C bonds had a maximum principal of \$4,000,000 and an interest rate equal to 5.00% until they matured on December 1, 2011. These bonds were issued to achieve sales tax exemptions, and the Authority purchased the bonds themselves in the amount of \$2,710,184. Since the Authority purchased the bonds, there is no effect on the financial statements.

The Authority began making monthly principal and interest payments on the Series 2009A and 2009B bonds in December 2011. These monthly payments are based on 20-year and 7-year amortization schedules with a balloon payment of the remaining principal balances to be made on December 1, 2021.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 9 – BONDS PAYABLE (CONTINUED)

Interest has been included in the table below based on the 3-year floor rate for each series that is in effect from December 1, 2011 through November 30, 2014: 3.3% for Series 2009A, and 5.0% for Series 2009B. 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>
2013	\$ 399,487	\$ 427,145	\$ 826,632
2014	419,204	409,220	828,424
2015	439,930	390,379	830,309
2016	461,717	370,572	832,289
2017	484,620	349,751	834,371
2018 – 2022	7,650,731	1,298,533	8,949,264
	<u>\$ 9,855,689</u>	<u>\$ 3,245,600</u>	<u>\$ 13,101,289</u>

NOTE 10 – LONG TERM LIABILITIES

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

	<u>June 30, 2012</u>				
	<u>Balance at June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2012</u>	<u>Amounts due within one year</u>
Bonds payable	\$ 10,080,000	\$ --	\$ (224,311)	\$ 9,855,689	\$ 399,487
Special assessments payable	3,294,590	--	(173,400)	3,121,190	173,399
	<u>\$ 13,374,590</u>	<u>\$ --</u>	<u>\$ (397,711)</u>	<u>\$ 12,976,879</u>	<u>\$ 572,886</u>
	<u>June 30, 2011</u>				
	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2011</u>	<u>Amounts due within one year</u>
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
	<u>\$ 5,974,001</u>	<u>\$ 7,573,988</u>	<u>\$ (173,399)</u>	<u>\$ 13,374,590</u>	<u>\$ 365,279</u>

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NOTES TO FINANCIAL STATEMENTS

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.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was issued in March 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Also, this statement provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows and inflows of resources, such as changes in determination of the asset calculations and limiting the use of the term deferred in the financial statement presentations. The provisions of this statement are effective for financial statements for the Authority's year ending June 30, 2014.

Implementation of GASB 63 and 65 are not expected to have a material effect on the financial statements.

SUPPLEMENTARY INFORMATION

KANSAS BIOSCIENCE AUTHORITY
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SCHEDULE OF COMMITMENTS
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Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/12	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	600,000	400,000
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	570,000	400,000
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/K-State Campus	1/9/2007	7,600,000	2,264,523	5,335,477	741,874	4,593,603
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	3,100,000	--
FY 2007 Totals		18,425,288	2,710,258	15,715,030	9,221,427	6,493,603
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 Mgmt 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	4,000,000	1,000,000
Eminent Scholar - Kansas State University	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 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	729,563	182,391
OsteoGeneX NIH SBIR Phase II	6/5/2008	375,000	--	375,000	375,000	--
Collaborative Cancer Research Initiative	6/5/2008	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	420,000	--
Vince and Associates, LLC	6/5/2008	200,000	--	200,000	200,000	--
TVAX Inc BTIIP	6/5/2008	187,622	--	187,622	187,622	--
FY 2008 Totals		\$ 32,510,232	\$ 10,501,108	\$ 22,009,124	\$ 19,201,733	\$ 2,807,391

(Continued)

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Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/12	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	104,041	895,959
WCGME Planning Grant	9/12/2008	250,000	--	250,000	250,000	--
WCGME research centers	10/28/2008	5,880,000	--	5,880,000	3,920,400	1,959,600
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	1,500,000	--
Pinnacle NIH SBIR In-Vivo Wireless	10/28/2008	375,000	--	375,000	375,000	--
ANoxA headquarters relocation	10/28/2008	300,000	--	300,000	120,000	180,000
KU Cancer Center cluster hire	10/28/2008	750,000	--	750,000	750,000	--
Via Christi/Wichita State Univ cluster hire	10/28/2008	327,500	--	327,500	212,500	115,000
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	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	5,067,317	13,932,683
Wahl/Hixon renovation	03/09/2009	26,400,000	--	26,400,000	10,560,000	15,840,000
LDCBA Incubator	03/09/2009	3,250,000	--	3,250,000	3,250,000	--
KUCC Stowers	03/09/2009	250,000	--	250,000	250,000	--
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 - Drug Development	03/09/2009	5,000,000	5,000,000	--	--	--
KBCI KABB - Bioenergy	03/09/2009	4,100,000	--	4,100,000	3,508,440	591,560
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	195,000	--
SCF Technologies	5/19/2009	50,000	--	50,000	50,000	--
Nanoscale NIH SBIR	5/19/2009	50,000	--	50,000	50,000	--
KUCC/Scripps	5/19/2009	500,000	--	500,000	500,000	--
KU/VC Wichita Clinical Trials	5/19/2009	500,000	--	500,000	346,596	153,404
Kansas Cancer Operations	5/19/2009	600,000	--	600,000	582,708	17,292
ADM R&D Voucher	5/19/2009	1,200,000	--	1,200,000	1,025,000	175,000
FY 2009 Totals		\$ 177,038,604	\$ 62,884,687	\$ 114,153,917	\$ 44,843,419	\$ 69,310,499

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Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/12	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	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	144,744	--
KBA Growth Fund	10/8/2009	50,000,000	3,000,000	47,000,000	10,528,462	36,471,538
Eminent Scholar - KU Volkin	11/9/2009	2,490,185	--	2,490,185	1,287,840	1,202,345
Rising Star - KU Qian	11/9/2009	500,000	500,000	--	--	--
CCRRI 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 - CriteTech	11/10/2009	50,000	--	50,000	50,000	--
AGCO DOE RERDG	1/26/2010	1,500,000	--	1,500,000	869,800	630,200
Eminent Scholar - KU Srivastava	1/26/2010	1,775,000	--	1,775,000	1,010,000	765,000
KSU CBRI PRRS	1/26/2010	500,000	--	500,000	328,793	171,207
RELIVE for Kids, LLC	1/26/2010	50,000	50,000	--	--	--
TVAX Immunotherapy	1/26/2010	600,000	300,000	300,000	300,000	--
Planning Grant - Animal Health Ctr of Innov	1/26/2010	250,000	--	250,000	249,590	410
Ceva Biomune	3/9/2010	700,000	--	700,000	250,000	450,000
Rising Star - Goldman	3/9/2010	700,000	700,000	--	--	--
SAFC Bioscience	3/9/2010	250,000	--	250,000	50,000	200,000
POCI - AIR, Inc.	5/7/2010	73,000	--	73,000	73,000	--
Cargill Expansion and Attraction	5/10/2010	750,000	--	750,000	400,000	350,000
CBRI ABADRU - Rift Valley Fever	5/10/2010	498,917	--	498,917	200,000	298,917
CCRRI KU Fabian	5/10/2010	249,975	--	249,975	215,000	34,975
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	505,500	187,500
NBAF Phase VI	5/24/2010	700,000	--	700,000	240,738	459,262
NBAF Research	5/24/2010	500,000	--	500,000	3,563	496,437
Megastarter Expansion & Attraction loan	6/09/2010	500,000	--	500,000	500,000	--
FY 2010 Totals		\$ 68,112,399	\$ 4,550,000	\$ 63,562,399	\$ 21,519,608	\$ 42,042,791

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Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/12	Total Remaining To Be Paid
OsteoGeneX Equity Match (convertible note)	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 (Nie)	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	74,910	--
POCI - Centaur	9/28/2010	51,120	--	51,120	51,120	--
Eminent Scholar - KU (Anant)	10/11/2010	1,450,000	--	1,450,000	700,000	750,000
Eminent Scholar - KU (Bhalla)	10/11/2010	2,051,000	--	2,051,000	1,144,000	907,000
Eminent Scholar - KU (Godwin)	10/11/2010	3,362,500	--	3,362,500	1,637,500	1,725,000
Eminent Scholar - KU (Welch)	10/11/2010	1,575,000	--	1,575,000	559,167	1,015,833
Rising Star - KU (Schwimmer)	10/11/2010	725,000	725,000	--	--	--
Orbis SBIR Phase II Matching	10/11/2010	347,550	--	347,550	297,550	50,000
POCI - Emerge Medical Solutions	10/20/2010	199,860	199,860	--	--	--
POCI - Nanoscale	10/26/2010	199,996	--	199,996	180,000	19,996
POCI - Visimed	12/06/2010	161,600	111,030	50,570	50,570	--
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	100,000	400,000
Aratana Therapeutics	12/21/2010	1,000,000	--	1,000,000	1,000,000	--
KBCI CIBOR FY 2011	1/24/2011	1,500,000	--	1,500,000	1,500,000	--
KBCI HPI FY 2011	1/24/2011	1,000,000	--	1,000,000	1,000,000	--
Plastikon Healthcare Attraction	1/24/2011	750,000	--	750,000	200,000	550,000
Lead Horse Technologies	1/24/2011	500,000	--	500,000	500,000	--
Heartland BioVentures NDDA Support	1/24/2011	175,000	--	175,000	174,500	500
POCI Innovative Products	2/04/2011	63,230	--	63,230	25,000	38,230
POCI ChocoFinesse	2/07/2011	131,800	--	131,800	121,400	10,400
POCI - Crititech (Nanotax Ph I Clinical Trial)	2/07/2011	197,500	--	197,500	117,500	80,000
KBCI NCAHI - Animal Health	3/1/2011	1,000,000	--	1,000,000	899,000	101,000
KSU Feed Technology Center Matching	3/1/2011	1,500,000	--	1,500,000	750,000	750,000
Evogen Expansion & Attraction	3/1/2011	500,000	--	500,000	200,000	300,000
KC BioMediX Bridge Loan	3/1/2011	200,000	50,000	150,000	150,000	--
POCI Echogen	5/2/2011	199,500	--	199,500	154,500	45,000
Aptakon NHGRI Matching	5/9/2011	48,750	--	48,750	29,042	19,708
Aptakon NCI SBIR Matching	5/9/2011	74,928	--	74,928	20,446	54,482
Abaxis Expansion and Attraction	5/9/2011	650,000	--	650,000	100,000	550,000
ImmunoGenetix Research Voucher	5/9/2011	428,070	--	428,070	210,015	218,055
OsteoGeneX Matching (BIRD)	5/9/2011	450,000	--	450,000	200,000	250,000
Pinnacle NIH SBIR Ph I/Ph II Matching	5/9/2011	424,895	--	424,895	215,000	209,895
Kansas Cancer Operations Phase III	6/15/2011	316,000	--	316,000	77,022	238,978
Heartland BioVentures Phase III	6/15/2011	1,787,500	--	1,787,500	543,923	1,243,577
NBAF Phase VII	6/15/2011	400,000	--	400,000	156,657	243,343
FY 2011 Totals		\$ 30,274,009	\$ 1,935,890	\$ 28,338,119	\$ 14,755,322	\$ 13,582,797

**KANSAS BIOSCIENCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)
SCHEDULE OF COMMITMENTS
JUNE 30, 2012**

Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/12	Total Remaining To Be Paid
POCI - Phlogistix	7/13/2011	\$ 98,890	\$ --	\$ 98,890	\$ 59,000	\$ 39,890
POCI - Green Dot Holdings	7/13/2011	140,000	--	140,000	120,000	20,000
Rising Star - KU (Perez)	7/25/2011	1,084,450	--	1,084,450	390,750	693,700
Deciphera R&D Voucher	7/25/2011	1,583,122	--	1,583,122	492,587	1,090,535
Novita Therapeutics Equity	7/25/2011	600,000	--	600,000	600,000	--
Argenta Expansion & Attraction	7/25/2011	400,000	--	400,000	50,000	350,000
KBCI HPI FY 2012	7/25/2011	2,291,068	--	2,291,068	1,572,500	718,568
POCI - Oncimmune	8/11/2011	58,600	--	58,600	20,000	38,600
POCI - GTBC Market Validation	8/22/2011	19,875	--	19,875	19,875	--
Ceva Expansion & Attraction 2011	10/31/2011	550,000	--	550,000	50,000	500,000
JCB Laboratories Expansion	10/31/2011	225,000	--	225,000	75,000	150,000
KBCI CIBOR FY 2012	10/31/2011	2,000,000	1,000,000	1,000,000	950,000	50,000
KBCI HPI Building	10/31/2011	2,527,590	--	2,527,590	1,253,795	1,273,795
MS Biotec R&D Voucher	10/31/2011	205,000	--	205,000	--	205,000
Rising Star - KU (Tunge)	10/31/2011	650,000	--	650,000	234,375	415,625
POCI - CAFO's BEST Waste Solutions	12/08/2011	72,398	--	72,398	--	72,398
POCI - ASP Medical, LLC	12/08/2011	74,900	--	74,900	60,000	14,900
POCI - Mencuro Therapeutics	2/20/2012	190,803	--	190,803	90,000	100,803
Aptakon NCI SBIR Matching (Antibodies)	3/06/2012	74,996	--	74,996	25,000	49,996
Spinal Simplicity Equity	3/06/2012	600,000	--	600,000	--	600,000
Aratana R&D Voucher	3/06/2012	1,333,333	--	1,333,333	--	1,333,333
Rising Star - KU (Detamore)	3/06/2012	612,502	--	612,502	--	612,502
KBCI CAHI - Phase II	3/06/2012	350,000	--	350,000	--	350,000
Novita Grant Writing Voucher (NINDS/NHLBI)	4/17/2012	2,500	--	2,500	2,500	--
Orbis Grant Writing Voucher (NIH SBIR)	4/18/2012	10,875	--	10,875	10,875	--
POCI - 3B Pharmaceuticals	5/10/2012	147,589	--	147,589	--	147,589
POCI - Effexus Pharmaceuticals	5/10/2012	165,000	--	165,000	90,000	75,000
POCI - Wound Care 360	6/4/2012	36,821	--	36,821	36,821	--
ImmunoGenetix Grant Writing Voucher	6/6/2012	12,000	--	12,000	12,000	--
Creche Innovations Expansion & Attraction	6/20/2012	500,000	--	500,000	--	500,000
EMCI Expansion & Attraction	6/20/2012	1,000,000	--	1,000,000	--	1,000,000
EMCI R&D Voucher	6/20/2012	595,000	--	595,000	--	595,000
Eminent Scholar - KSU (Riviere)	6/20/2012	4,897,195	--	4,897,195	--	4,897,195
Novita Therapeutics Equity - Round Two	6/20/2012	300,000	--	300,000	--	300,000
Orbis NIH SBIR Phase 1 - Pain Mgmt	6/20/2012	126,530	--	126,530	--	126,530
Xenometrics Expansion & Attraction	6/20/2012	1,000,000	--	1,000,000	--	1,000,000
FY 2012 Totals		\$ 24,536,037	\$ 1,000,000	\$ 23,536,037	\$ 6,215,078	\$ 17,320,959
Totals		\$ 355,671,569	\$ 83,823,943	\$ 271,847,626	\$ 120,289,587	\$ 151,558,039

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, 2012 and have issued our report thereon dated October 15, 2012. 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 previously.

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 15, 2012
Wichita, Kansas