

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 AND 2012

AND

INDEPENDENT AUDITOR'S REPORT

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FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kansas Bioscience Authority
Olathe, Kansas

Report on the Financial Statements

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, 2013 and 2012, the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kansas Bioscience Authority as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 a 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Commitments is presented for purposes of additional analysis and is not a required part of the financial statements. The Schedule of Commitments 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. Such 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 Schedule of Commitments is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2013 on our consideration of the Authority's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

October 29, 2013
Wichita, KS

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**KANSAS BIOSCIENCE AUTHORITY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2013 and 2012**

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, 2013 and 2012.

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 auditor's 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 as a global destination for bioscience innovation, commercialization, growth and economic development. 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 \$41.8 million at June 30, 2013; \$66.7 million at June 30, 2012; and \$82.0 million at June 30, 2011.
- Since the Authority's inception, its board of directors has approved \$216.0 million in net commitments through June 30, 2013. The Authority's board approved \$9.8 million in net commitments to companies and institutions in fiscal year 2013, and \$65.7 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, 2013 the total amount remaining to be paid on these commitments was \$67.8 million. Subsequent to June 30, 2013 through September 30, 2013, the Authority's board approved additional commitments totaling \$1.6 million; also during that period, the Authority released \$582,829 of commitments approved in a previous fiscal year.
- The Receivable from the State of Kansas decreased by \$5.5 million in fiscal year 2013 due to changes in individual state income tax rates and tax brackets beginning in the 2013 tax year. These changes, which were included in Senate Substitute for House Bill No. 2117 passed in May 2012, reduced the amount of growth in bioscience company employee withholding taxes above 2003 base year taxation for the quarter ended June 30, 2013, since the base year taxation against which growth is calculated was not normalized for the rate and bracket changes. The \$15.3 million decrease in this receivable in fiscal year 2012 was due to receipt in fiscal year 2012 of \$10.3 million in delayed fiscal year 2011 funding and to passage of House Substitute for Senate Bill No. 294, also known as the Omnibus Appropriation Act of 2012. One provision of this act was the appropriation of \$5 million in Authority funding for the quarter ended June 30, 2012 for the National Bio Agro-Defense Facility Fund at Kansas State University. An additional appropriation of Authority funding included in the act, \$1 million for the Center of Innovation for Biomaterials in Orthopaedic Research – Wichita State University Fund, was the second such transfer to that fund, with the first transfer having been made in the preceding year.

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- Capital assets decreased by \$375,174 in fiscal year 2013, as purchases of office and laboratory furniture and equipment of \$129,260 and Venture Accelerator additions of \$8,670 were more than offset by depreciation expense of \$513,104. Capital assets decreased by \$203,626 in fiscal year 2012 primarily due to depreciation expense of \$497,881, which more than offset Venture Accelerator construction costs of \$145,837 and office and laboratory furniture and equipment purchases of \$148,418.
- Other assets increased by approximately \$8.3 million in fiscal year 2013 primarily due to a \$7.0 million increase in equity investments: the Authority's net investment in four venture capital funds increased by \$2.0 million during the fiscal year; direct equity investments in Kansas bioscience companies increased by \$2.9 million; and the fair market value of the Authority's direct equity investment in a bioscience company increased by \$2.1 million above the Authority's cost at the end of fiscal year 2013. An additional \$1.3 million increase in other assets resulted from a loan extended to a bioscience company during fiscal year 2013 to fund expansion of its greenhouse facility. In fiscal year 2012 this same group of assets increased by approximately \$4.2 million primarily due to a \$3.8 million increase in equity and convertible note investments, \$251,351 in interest earned on loans, and a \$195,660 increase in other accounts receivable.
- Current liabilities decreased by \$174,952 in fiscal year 2013 primarily due to a decrease in the value of milestones achieved by grant recipients as of the end of the fiscal year for which payments had not yet been made. This factor was partially offset by post-employment obligations and other compensation-related amounts owed as of the end of fiscal year 2013. In fiscal year 2012, current liabilities decreased by \$3.7 million primarily due to 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. These factors were slightly offset by an increase in the amount of industrial revenue bond principal due to be paid in the next twelve months.
- 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 by \$592,604 in fiscal year 2013 due to \$419,205 in bond principal and \$173,399 in special assessments that became current during the fiscal year. Long-term liabilities decreased by \$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.
- Total revenues decreased by \$3.2 million in fiscal year 2013 primarily due to a \$5.5 million decrease in transfers from the State of Kansas. This transfer decrease was a result of the state income tax rate and bracket changes discussed on page 3, which reduced the amount of growth in bioscience company employee withholding taxes above 2003 base year taxation. Partially offsetting this decrease were a \$2.1 million unrealized increase in the fair market value of the Authority's direct equity investment in a bioscience company and dividend income of \$180,138 on that

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investment. 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.

- Grants and awards decreased by \$2.6 million, or 11%, in fiscal year 2013. In fiscal year 2012, Grants and awards decreased by \$4.4 million, or 16%, from the prior year. These decreases are primarily a result of expected differences in the timing of milestone accomplishments and the submission to the Authority of milestone payment requests 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. Additional factors contributing to the fiscal year 2013 decrease were a 57% decrease from the prior fiscal year in the net amount of new commitments approved by the Authority's board of directors and a mid-year investment strategy shift away from making both grant and equity investments to making primarily equity investments. Milestone payments on equity investments are included in Portfolio Investments instead of Grants and awards.
- The Authority's fiscal year 2013 operating expenses other than Grants and awards were \$5.9 million compared to \$7.2 million for fiscal year 2012 and \$5.3 million for fiscal year 2011. The \$1.3 million decrease in fiscal year 2013 was primarily a result of lower legal and consulting fees following completion of a forensic audit in fiscal year 2012 and lower realized losses on the Authority's equity investments. Partially offsetting these decreases was the impact of implementing GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. GASB 65 required expense recognition of all bond issuance costs that had previously been capitalized but not yet amortized, resulting in an \$119,743 increase in depreciation and amortization expense over the prior fiscal year. A \$1.8 million increase in fiscal year 2012 operating expenses other than Grants and awards was mainly the result of legal and audit fees associated with the forensic audit completed during the fiscal year, 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.

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 position presented in the statement is displayed as restricted or unrestricted.

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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 position 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 position*. 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 position. It can be used to determine whether the Authority has successfully recovered all of its costs through loans, externally funded programs, and other revenue sources. This statement helps answer the question, "Is the Authority as a whole better off or worse off as a result of the year's activities?"

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

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

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Years Ended June 30, 2013 and 2012

CONDENSED FINANCIAL INFORMATION

Balance Sheet

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

	2013	2012	2011
Assets			
Cash and securities	\$ 41,774,749	\$ 66,691,906	\$ 82,026,702
Receivable from State of Kansas	766,183	6,287,267	21,629,432
Capital assets	13,943,482	14,318,656	14,522,282
Other assets	39,733,941	31,403,596	27,238,414
Total assets	\$ 96,218,355	\$ 118,701,425	\$ 145,416,830
Liabilities			
Current liabilities	\$ 2,716,690	\$ 2,891,642	\$ 6,622,355
Long-term liabilities	11,811,389	12,403,993	13,009,311
Total liabilities	14,528,079	15,295,635	19,631,666
Net position			
Net investment in capital assets	4,345,789	4,313,150	4,284,143
Restricted for development	5,494,098	5,329,023	5,163,947
Unrestricted	71,850,389	93,763,617	116,337,074
Total net position	81,690,276	103,405,790	125,785,164
Total liabilities and net position	\$ 96,218,355	\$ 118,701,425	\$ 145,416,830

Statement of Revenues, Expenses, and Changes in Net Position

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

	2013	2012	2011
Revenues			
Operating revenues	\$ 3,767,761	\$ 1,377,100	\$ 1,624,669
Transfers from State of Kansas	766,183	6,287,267	36,592,503
Investment income	176,635	288,094	477,757
Total revenues	4,710,579	7,952,461	38,694,929
Expenses			
Grants and awards	20,531,994	23,174,819	27,623,228
Other	5,894,099	7,157,016	5,346,784
Total operating expenses	26,426,093	30,331,835	32,970,012
Excess of revenues over expenses	(21,715,514)	(22,379,374)	5,724,917
Total net position, beginning of period	103,405,790	125,785,164	120,060,247
Total net position, end of period	\$ 81,690,276	\$ 103,405,790	\$ 125,785,164

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Years Ended June 30, 2013 and 2012**

ASSETS, LIABILITIES AND CHANGES IN NET POSITION

The Authority's net position decreased by \$21.7 million to \$81.7 million at June 30, 2013 as compared to \$103.4 million at June 30, 2012. The decrease in net position during fiscal year 2013 was primarily due to the Kansas legislature passing Senate Bill No. 171, also known as the Omnibus Appropriation Act of 2013, which redirected \$22.7 million of the Authority's fiscal year 2013 funding to the State General Fund. A net position decrease of \$22.4 million in fiscal year 2012 was primarily due to the Kansas legislature passing the Omnibus Appropriation Act of 2012, which redirected \$22.7 million of the Authority's fiscal year 2012 funding to the State General Fund. Due to the limited amount of new funding transferred to the Authority in each fiscal year as a result of these legislative actions, milestone payments on approved commitments and operating expenses had to be funded with the Authority's existing cash and securities balances, resulting in a significant net position decrease in both years.

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 2013, the Authority expended \$8,670 for Venture Accelerator additions and \$129,260 for equipment and furniture. In fiscal year 2012, the Authority expended \$145,837 in construction costs and \$148,418 for equipment and furniture for the Venture Accelerator. See additional information in note 5 to the financial statements.

DEBT ACTIVITY

Debt at June 30, 2013 included \$9.5 million in industrial revenue bond financing and \$2.9 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 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 \$6.3 million for the fiscal year ended June 30, 2013 and \$11.3 million for the fiscal year ended June 30, 2012. These cap amounts are net of funding transfers made directly to the Center of Innovation for Biomaterials in Orthopaedic Research – Wichita State University Fund and the National Bio Agro-Defense Facility Fund – Kansas State University, as well as Authority funding that was redirected to the State General Fund in each fiscal year. Transfers to the Authority for fiscal year 2014 have been capped at \$4.0 million, which is net of amounts to be transferred directly to the Wichita State University and Kansas State University funds mentioned above.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2013 and 2012

In past years a key strategy for the Authority was 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. During fiscal year 2013 the Authority began moving in a new strategic direction that, while continuing to focus on industry sectors such as animal health, human health, bio-based products and bioenergy, uses a market-based, sustainable financial model of making equity investments rather than awarding grants. This model emphasizes investment in commercialization with the primary objectives of earning a return on and of invested dollars, attracting external capital to the state, and attracting and growing economic-based jobs.

The funds committed through June 30, 2013 are as follows:

<u>Commitment Type</u>	<u>Committed in Fiscal 2013</u>	<u>Committed through Fiscal 2013</u>
Portfolio Investments	\$ 3,216,068	\$ 33,426,096
Notes Receivable	700,000	5,963,795
Grants	5,923,824	176,589,692
Total	<u>\$ 9,839,892</u>	<u>\$ 215,979,583</u>

Portfolio Investments

Portfolio investments include equity investments in venture capital funds and equity or convertible debenture investments in Kansas bioscience companies. In fiscal year 2013 the Authority's board of directors approved commitments for equity investments in four Kansas bioscience companies. Two investments were made in companies that were already part of the Authority's portfolio, while two were made in companies that were new to the portfolio. Investments were in the form of preferred stock, preferred interests and common stock. Also in the fiscal year, the unpaid principal and interest on convertible debenture investments in two bioscience companies were converted to equity investments in those companies.

Notes Receivable

Notes receivable are loans extended to Kansas bioscience companies that are intended to be repaid or converted to grants via employee or revenue credits as discussed in Note 3 to the financial statements. In fiscal year 2013 the Authority's board of directors approved one new loan commitment to a bioscience company; in keeping with the new strategic objective of earning a return on and return of investment dollars, this loan's terms include both an interest and a royalty component in addition to principal repayment. Also during the fiscal year, one bioscience company began making monthly payments on its outstanding loan balance.

Grants

Prior to its mid-year strategic shift toward a market-based, sustainable financial model, the Authority's board approved several grant commitments under the Retention, Expansion and

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2013 and 2012**

Attraction Program and the Proof of Concept Investment Program. Grants totaling \$2.9 million were awarded to five bioscience companies as an incentive to locate or expand their facilities in Kansas. These companies will have to meet milestones related to capital expenditures or to the addition or retention of jobs in the state to receive payment of the committed funds. Grants totaling \$424,307 were awarded to two bioscience companies and one university to support the advancement of promising technologies toward readiness for private investment or commercial launch.

Also during the fiscal year, the Authority's board approved commitments to two centers of innovation under the terms of their pre-existing cooperative agreements. One commitment was made in support of Heartland Plant Innovations' ongoing operations and projects, while the other commitment was in support of the Kansas Alliance for Biorefining and Bioenergy's efforts to transition to future financial independence from the Authority.

Grant commitments were also approved to provide continued support to the University of Kansas Cancer Center and to provide funding for real estate broker fees to be paid in the event of successful transactions regarding the Authority's land held for development. In July 2012, National Institutes for Health officials named the KU Cancer Center as the nation's 67th NCI-designated cancer center. The Authority continued to fund the services of B&D Consulting, a firm retained to assist KU in identifying and implementing strategies for building a designation-worthy cancer center, through May 2013. At the request of the Kansas governor's administration, similar funding was also provided for a monthly retainer paid to the firm of Polsinelli PC for outreach and advocacy pertaining to the National Bio and Agro-defense Facility (NBAF). This funding continued through the end of fiscal year 2013.

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. Kevin Lockett, 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, 2013 and 2012

ASSETS

	2013	2012
Current assets:		
Cash and cash equivalents	\$ 12,981,592	\$ 13,964,835
Investments in securities	1,509,275	557,620
Receivable from State of Kansas	766,183	6,287,267
Other accounts receivable	338,599	369,239
Portfolio investments, current	1,907,929	5,812,930
Notes receivable, current	1,075,163	699,067
Accrued interest	149,653	236,449
Other current assets	95,898	99,653
	18,824,292	28,027,060
Noncurrent assets:		
Long term investments		
Investments in securities	27,134,229	51,933,002
Portfolio investments	22,737,055	11,847,578
Notes receivable	5,278,900	4,140,902
	55,150,184	67,921,482
Capital assets		
Land	420,699	420,699
Building	13,406,909	13,398,239
Furniture and equipment	1,355,871	1,244,571
Less accumulated depreciation	(1,239,997)	(744,853)
	13,943,482	14,318,656
Other assets		
Land held for development	8,300,397	8,300,397
Bond issuance costs, net of amortization	--	133,830
	8,300,397	8,434,227
Total assets	\$ 96,218,355	\$ 118,701,425

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
Current liabilities:		
Accounts payable	\$ 1,771,171	\$ 2,227,907
Bonds payable, current	419,204	399,487
Special assessments payable, current	173,399	173,399
Accrued liabilities	301,949	81,854
Accrued interest payable	50,967	8,995
	<u>2,716,690</u>	<u>2,891,642</u>
Long term liabilities:		
Bonds payable	9,036,997	9,456,202
Special assessments payable	2,774,392	2,947,791
	<u>11,811,389</u>	<u>12,403,993</u>
	<u>14,528,079</u>	<u>15,295,635</u>
Commitments (see Note 6)		
Net position:		
Net investment in capital assets	4,345,789	4,313,150
Restricted for development	5,494,098	5,329,023
Unrestricted	71,850,389	93,763,617
	<u>81,690,276</u>	<u>103,405,790</u>
	<u>\$ 96,218,355</u>	<u>\$ 118,701,425</u>

The accompanying notes are an integral
part of these financial statements

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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Federal grant revenue	\$ 267,215	\$ 445,909
Rent income	303,929	120,235
Dividend and interest income	1,079,892	810,956
Change in fair value of equity investments	2,116,725	--
Total operating revenues	3,767,761	1,377,100
Operating expenses:		
Grants and awards	20,531,994	23,174,819
Wages and benefits	2,644,627	2,562,232
Board fees and reimbursed expenses	62,501	19,599
Meeting and travel expenses	67,176	91,474
Depreciation and amortization	646,934	511,969
Dues and subscriptions	43,052	56,289
Insurance	97,993	91,952
Contractual and consulting services	717,150	1,679,762
Contractual and consulting federal grants	185,254	289,289
Legal services	33,361	285,394
Marketing	252,504	274,184
Office expense	299,532	244,452
Real estate tax	31,872	32,856
Rent	--	14,974
Utilities	106,612	58,540
Loss from limited partnerships	241,536	--
Loss from equity securities	463,995	944,050
Total operating expenses	26,426,093	30,331,835
Operating loss	(22,658,332)	(28,954,735)
Nonoperating revenues and expenses:		
Transfers from the State of Kansas - Emerging Industry Investment Act	766,183	6,287,267
Investment income	176,635	288,094
Total nonoperating revenues	942,818	6,575,361
Revenues under expenses	(21,715,514)	(22,379,374)
Net position, beginning of period	103,405,790	125,785,164
Net position, end of period	\$ 81,690,276	\$ 103,405,790

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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash paid to others	\$ (26,981,733)	\$ (30,674,065)
Payments for special assessments, land held for development	(165,076)	(164,730)
Cash received from federal grants	457,761	270,998
Cash received from others	325,495	95,654
Cash received from repayment of notes receivable	100,000	--
Net cash from operating activities	(26,263,553)	(30,472,143)
Cash flows from capital and related financing activities:		
Purchase of capital assets	(138,195)	(2,000,161)
Payments on bonds payable	(399,488)	(224,311)
Payments for special assessments on capital assets	(8,323)	(8,670)
Net cash from capital and related financing activities	(546,006)	(2,233,142)
Cash flows from noncapital financing activities:		
Cash received from State of Kansas	6,287,267	21,629,432
Net cash from noncapital financing activities	6,287,267	21,629,432
Cash flows from investing activities:		
Proceeds from sales and payments on purchases of investments in securities, net	23,847,118	2,636,145
Purchases of portfolio investments	(4,571,500)	(4,547,036)
Investment income	263,431	180,847
Net cash from investing activities	19,539,049	(1,730,044)
Net change in cash and cash equivalents	(983,243)	(12,805,898)
Cash and cash equivalents, beginning of period	13,964,835	26,770,733
Cash and cash equivalents, end of period	\$ 12,981,592	\$ 13,964,835
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (22,658,332)	\$ (28,954,735)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	646,934	511,969
Change in fair value of equity securities	(2,116,725)	--
Loss from limited partnerships	241,536	--
Loss from equity securities	463,995	944,050
Changes in assets and liabilities:		
Other current assets	22,870	(82,308)
Accrued interest	(899,754)	(810,956)
Notes receivable	(1,163,795)	(300,000)
Accounts payable	(897,273)	(1,636,222)
Special assessments payable	(165,076)	(164,730)
Accrued liabilities and interest payable	262,067	20,789
Net cash from operating activities	\$ (26,263,553)	\$ (30,472,143)

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's mission is to create value for Kansas through investments in bioscience, which will lead to Kansas becoming a global destination for bioscience innovation, commercialization, growth and economic development. The Authority will create value by accomplishing its five strategic objectives: (1) improve the return on and of invested funds, (2) increase capital investment in the State of Kansas' bioscience sector, (3) create and attract sustainable, economic-based jobs, (4) increase commercialization of intellectual properties, and (5) develop manufacturing, products and technologies for export.

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 financial statements 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 2013 and 2012 legislative sessions, the transfers to the Authority from the state were limited to \$6,287,267 and \$11,322,186 for the fiscal years ended June 30, 2013 and 2012, respectively. During the fiscal year ended June 30, 2013 the state transferred additional funding generated by KEGA as follows: \$5 million directly to the National Bio Agro-Defense Facility Fund – Kansas State University, \$1 million directly to the Center of Innovation for Biomaterials in Orthopaedic Research – Wichita State University Fund, and \$22,712,733 to the State General Fund. During the fiscal year ended June 30, 2012 the state transferred additional funding generated by KEGA as follows: \$1 million directly to the Center of Innovation for Biomaterials in Orthopaedic Research – Wichita State University Fund and \$22,677,814 to the State General Fund.

Under current state statute, funding transfers from the state to the Authority will be limited to \$10 million for fiscal year ending June 30, 2014 and \$35 million for fiscal year ending June 30, 2015. However, \$6 million of direct transfers by the state to the other entities mentioned above will reduce the Authority's fiscal year 2014 funding transfer limit from \$10 million to \$4 million and its fiscal year 2015 funding transfer limit from \$35 million to \$29 million.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

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

The Authority is using its Direct Equity Program to accomplish its five strategic objectives and its mission of creating value for Kansas through investments in bioscience. The goal of the Direct Equity Program is to ensure Kansas is considered a national leader among investment professionals in providing financial and management support to early-stage bioscience companies. Through this program, the Authority collaborates with private investors, accredited investors and others in investing in high growth potential bioscience companies. Investments can be in the form of preferred or common equity, debentures that can be converted into preferred or common equity, or loans with an income-generating component such as interest or royalties.

Programs that the Authority used in making its past investments in the biosciences, but does not plan to use for future investments, are:

- **Research and Development Voucher Program:** Provided funding to Kansas bioscience companies that were working in partnership with other Kansas institutions, including universities and companies, to advance research and development and ancillary activities necessary to commercialize bioscience technologies.
- **Matching Fund Program:** Matched research dollars from federal, private and other sources of support, expanding the state's ability to attract federal research dollars.
- **Eminent Scholars Program:** Provided support to recruit distinguished bioscience researchers to conduct their research and commercialization activities at Kansas research institutions.
- **Rising Stars Program:** Provided support to recruit distinguished scholars who were likely to become leaders in their fields and to retain Kansas' best and brightest bioscience scholars.
- **Retention, Expansion and Attraction Program:** Allowed the Authority to support the creation, retention and expansion of bioscience job opportunities for all Kansans.
- **Bioscience Growth Fund:** Addressed the lack of access to venture capital in the state. Under this program, the Authority committed to invest in four venture funds to stimulate the quantity and quality of bioscience venture capital under management in Kansas.
- **Proof of Concept Investment Program:** Provided 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.
- **Grant Writing Voucher Program:** Supported 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 was to increase participation by Kansas-based small businesses in these grant programs.

**KANSAS BIOSCIENCE AUTHORITY
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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.

Implementation of New Accounting Policies

Effective July 1, 2012, the Authority implemented the provisions of GASB Statement No. 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and GASB Statement No. 65 Items Previously Reported as Assets and Liabilities. GASB 63 provides guidance for reporting deferred outflows and deferred inflows of resources and GASB 65 provides additional guidance on reclassifying, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. A deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position applicable to a future accounting period. The Authority did not identify any financial statement balances that met the definition of a deferred outflow of resources or a deferred inflow of resources. However, the term “net assets” was replaced with the term “net position.” Additionally bond issuance costs were expensed as required by GASB 65, resulting in \$133,830 being recorded with Depreciation and amortization expense for the year ended June 30, 2013.

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, 2013 and 2012, investments consisted of funds invested in certificates of deposit, 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.

**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.

Dividends Receivable

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. Dividends receivable, if any, are recorded with other accounts receivable on the balance sheet.

Portfolio Investments

Direct debt and equity financing, extended to various companies to further the Authority’s mission of creating value for Kansas through investments in bioscience, 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. Certain investments may convert to having a readily determinable fair value, such as after an initial public offering. When that occurs, the Authority establishes a value for the investment based on a quoted market price, and the investment is recorded from that point forward at fair value.

The Authority investments generally result in obtaining a noncontrolling interest in the investee company, and owning less than 40% of the voting stock of the investee. Once the Authority’s ownership reaches or exceeds 20% the Authority evaluates whether the equity method of accounting would be used. In conducting this evaluation the Authority considers whether it can exercise significant influence over an investee’s operations and financial policies. Significant influence is demonstrated through ownership of voting stock, representation on the investee’s board of directors, and the absence of factors such as side agreements that limit the Authority’s rights, majority ownership being concentrated among a small group of investors who operate

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NOTES TO FINANCIAL STATEMENTS

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

without regard to the views of the Authority, or the inability of the Authority to obtain financial information about the investee.

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.

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.

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 of operating results and cash flows, performance against plan (status of projects and technology commercialization), changes in the environment of the investee or the industry in which it operates, 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.

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)

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. The estimated fair value was determined at the date of donation, and is subject to ongoing impairment evaluations.

Net Position

Net position is classified as follows:

Net investment in capital assets – 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 – consists 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.

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.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

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

Income Taxes

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

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

NOTE 2 – CASH AND INVESTMENTS IN SECURITIES

As of June 30, 2013 and 2012, the Authority had balances of \$12,981,592 and \$13,964,835, respectively, of cash and cash equivalents.

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

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its deposits or investments that are in the possession of an outside party. At June 30, 2013 and 2012, approximately \$195,000 and \$0 was exposed to custodial credit risk on deposits that were in excess of FDIC insurance coverage limits. Also, as of June 30, 2013 and 2012, underlying securities of \$28,643,504 and \$52,490,622 in investments were held by the investments' counterparties.

Credit Risk. As of June 30, 2013 and 2012, the Authority was invested in a UBS-U.S. Ultra Short Duration fund and U.S. government agency securities including FHLB and FFCB securities. The UBS-U.S. Ultra Short Duration fund holds investments in certificates of deposit, corporate bonds, asset backed securities and U.S. government agency securities. Under the Authority's investment policy, individual securities must be investment grade. For Standard and Poor's this would be those issues rated with 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. Under the Authority's investment policy, ratings do not apply to comingled portfolios like the U.S. Ultra Short Duration fund.

The individually owned government agency securities were rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service. The UBS-U.S. Ultra Short Duration fund had an average credit quality of holdings of Aa2.

**KANSAS BIOSCIENCE AUTHORITY
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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, 2013 and 2012, the Authority had investments in US Treasury securities representing 15% and 24%, respectively, and Federal Home Loan Bank securities representing 6% 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. As of June 30, the Authority had the following investment stated maturities:

Investment Type	Fair Value	June 30, 2013			
		Less than 90 days	90 days – 1 year	1 – 5 years	5 – 10 years
Government securities	\$ 10,286,840	\$ 1,509,275	\$ --	\$ 8,777,565	\$ --
Corporate bonds	9,136,648	--	--	9,136,648	--
Asset backed	7,064,557	--	--	7,064,557	--
Municipal securities	1,303,671	--	--	1,303,671	--
Certificates of deposit	851,788	--	--	851,788	--
Total	\$ 28,643,504	\$ 1,509,275	\$ --	\$ 27,134,229	\$ --

Investment Type	Fair Value	June 30, 2012			
		Less than 90 days	90 days – 1 year	1 – 5 years	5 – 10 years
Government securities	\$ 27,573,819	\$ 252,373	\$ 305,247	\$ 27,016,199	\$ --
Corporate bonds	15,260,497	--	--	15,260,497	--
Asset backed	8,184,822	--	--	8,184,822	--
Municipal securities	968,744	--	--	968,744	--
Certificates of deposit	502,740	--	--	502,740	--
Total	\$ 52,490,622	\$ 252,373	\$ 305,247	\$ 51,933,002	\$ --

**KANSAS BIOSCIENCE AUTHORITY
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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 \$2,000,000; certain terms of the agreement were amended during 2013. As of June 30, 2013 and 2012, \$2,799,356 and \$2,640,902, respectively, was outstanding under the agreement, which included \$799,356 and \$640,902, respectively, of accrued interest. The note includes an interest rate of 6%, is secured by all equipment of the company, and is due in November 2016, 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, 2013 and 2012, no employee credits had been earned by the bioscience company. After June 30, 2013, a \$250,000 employee credit was earned by the bioscience company in the manner discussed above, and the outstanding balance due on the note was reduced by \$250,000.

In February 2009, the Authority entered into an agreement with a bioscience company for a maximum advance of \$1.5 million; certain terms of the agreement were amended during 2013. As of June 30, 2013 and 2012, \$1,725,342 and \$1,699,067, respectively, was outstanding under the agreement, which included \$225,342 and \$199,067, respectively, of accrued interest. The note includes an interest rate of six percentage points over the Wall Street Journal Prime Rate, adjusted on a calendar quarterly basis (9.25% at June 30, 2013) and is due in October 2015. The terms of repayment of the note and accrued interest, which began on May 23, 2013, are set forth in the agreement based on two specific scenarios. 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, 2013 and 2012. 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, 2013 and 2012, no employee credits had been earned by the bioscience company.

In March 2012, the Authority entered into an agreement with a bioscience company for a maximum advance of \$1,263,795 which was subsequently disbursed in August 2012. As of June 30, 2013 and 2012, \$1,329,365 and \$0, respectively, was outstanding under the agreement, which included \$65,570 and \$0, respectively, of accrued interest. The note includes an interest rate of three percentage points over the Wall Street Journal Prime Rate, adjusted annually (6.25% at June 30, 2013) and is due in March 2017. The agreement is secured by all equipment of the company.

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NOTES TO FINANCIAL STATEMENTS

NOTE 4 – PORTFOLIO INVESTMENTS

Portfolio investments consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
Debt securities, at cost	\$ 1,907,929	\$ 7,107,414
Equity securities, at cost	8,621,410	2,258,550
Equity securities, at fair value	3,593,874	--
Equity securities, limited liability companies	385,933	174,928
Venture capital limited partnerships	<u>10,135,838</u>	<u>8,119,616</u>
	24,644,984	17,660,508
Less current portion of debt securities	<u>1,907,929</u>	<u>5,812,930</u>
	<u>\$ 22,737,055</u>	<u>\$ 11,847,578</u>

At June 30, 2013 and 2012, 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.

In June 2013, one bioscience company in which the Authority owned preferred stock issued an initial public offering (IPO) prospectus. In accordance with the Authority's accounting policies, this investment was deemed to have a readily determinable fair value as of June 30, 2013. As a result, the investment, previously recorded at cost, is now recorded at fair value as of June 30, 2013, resulting in a fair value adjustment of \$2,116,725, which is recognized in the accompanying statement of revenues, expenses and changes in net position.

Additionally, the prospectus indicated that the bioscience company intended to award common shares to preferred stockholders in satisfaction of an 8% accumulated dividend. This declaration to pay dividends resulted in the Authority recording dividends receivable at June 30, 2013 of \$180,138, equivalent to the fair value of common stock issued to the Authority.

Management estimates of accumulated dividends not yet declared on other investments as of June 30, 2013 are \$115,329.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 5 – CAPITAL ASSETS

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

	July 1, 2012 Balance	Increases	Decreases	June 30, 2013 Balance
Capital assets not being depreciated:				
Land	\$ 420,699	--	--	\$ 420,699
Building	13,398,239	8,670	--	13,406,909
Furniture and equipment	1,244,571	129,260	(17,960)	1,355,871
Total capital assets being depreciated	14,642,810	137,930	(17,960)	14,762,780
Less accumulated depreciation:				
Building	(397,628)	(343,563)	--	(741,191)
Furniture and equipment	(347,225)	(169,541)	17,960	(498,806)
Total accumulated depreciation	(744,853)	(513,104)	17,960	(1,239,997)
Total capital assets being depreciated, net	13,897,957	(375,174)	--	13,522,783
Total capital assets, net	<u>\$ 14,318,656</u>	<u>\$ (375,174)</u>	<u>\$ --</u>	<u>\$ 13,943,482</u>

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

The Authority has invested its resources through various programs, and continues to invest through its Direct Equity Program 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 securing a matching amount of financing from other sources, 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, 2013, the Authority had \$67,840,655 of outstanding approved commitments for various projects. Portions of the outstanding approved commitments for the Kansas Bioscience Park and Venture Accelerator facility totaling \$12,454,959 are included in special assessments payable, accrued interest payable and bonds payable. Subsequent to June 30, 2013, the Authority committed \$1.6 million for two additional projects and released previously-approved commitments totaling \$582,829.

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, 2013, it is estimated that approximately \$26.7 million will be paid out in fiscal 2014 for the projects outstanding as of June 30, 2013 and those approved subsequent to year-end through September 30, 2013. This projection does not include payments on additional projects that may be funded in fiscal 2014 and is subject to change based on the achievement of milestones and any future commitment releases. Actual future cash flows could differ from the estimates as of June 30, 2013.

The Authority's ability to meet cash requirements on existing investment and operating expense commitments is dependent upon the State of Kansas making funding provisions as outlined in current statutes (as discussed in Note 1). Income generated by equity investments and the potential liquidation of those investments could also be used to fund those cash requirements.

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, 2013, \$29.6 million had been released leaving \$20.4 million committed for the Fund. This commitment is payable subject to capital calls by the venture capital limited partnerships. At June 30, 2013, \$7.3 million is 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 \$109,895 and \$118,495 for the years ended June 30, 2013 and 2012, respectively. The Authority also offers a 457(b) plan which allows for employees to defer wages up to the amounts allowed by the IRS.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – LAND HELD FOR DEVELOPMENT AND SPECIAL ASSESSMENTS PAYABLE

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 was 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, 2013 and 2012 was \$104,933 and \$113,428, respectively. The expense is included in operating expense grants and awards. The Authority anticipates allocating the cost of the special assessments payable on the land held for development to companies that want to build facilities in the Kansas Bioscience Park.

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

<u>Year Ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	173,399	77,950	251,349
2019 - 2023	866,998	299,808	1,166,806
2024 - 2028	866,998	149,905	1,016,903
2029 - 2030	346,800	17,988	364,788
	<u>\$ 2,947,791</u>	<u>\$ 917,412</u>	<u>\$ 3,865,203</u>

NOTE 9 – BONDS PAYABLE

During fiscal year 2010, the City of Olathe issued 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

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 9 – BONDS PAYABLE (CONTINUED)

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 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.

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>
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	508,700	327,860	836,560
2019 – 2022	7,142,030	970,673	8,112,703
	<u>\$ 9,456,201</u>	<u>\$ 2,818,455</u>	<u>\$ 12,274,656</u>

NOTE 10 – LONG TERM LIABILITIES

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

	<u>July 1, 2012 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2013 Balance</u>	<u>Amounts due within one year</u>
Bonds payable	\$ 9,855,689	\$ --	\$ (399,488)	\$ 9,456,201	\$ 419,204
Special assessments payable	3,121,190	--	(173,399)	2,947,791	173,399
	<u>\$ 12,976,879</u>	<u>\$ --</u>	<u>\$ (572,887)</u>	<u>\$ 12,403,992</u>	<u>\$ 592,603</u>
	<u>July 1, 2011 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012 Balance</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>

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

NOTE 11 – POST-EMPLOYMENT OBLIGATIONS

The Authority may at times enter into incentive based executive retention agreements with certain key executives of the organization, which are approved by the board of directors. During 2013, a key executive left the Authority under “good reasons” as defined by the executive retention agreement. The agreement requires severance compensation of base salary and reimbursement of out-of-pocket costs of COBRA benefits for twelve months, unless the individual obtains employment prior to the end of the twelve months. At June 30, 2013, the Authority has recorded approximately \$126,000 of severance compensation under this agreement, which is recorded with accrued liabilities on the balance sheet.

SUPPLEMENTARY INFORMATION

KANSAS BIOSCIENCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)
SCHEDULE OF COMMITMENTS
JUNE 30, 2013

Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/13	Total Remaining To Be Paid
Projects fully paid and/or released		\$ 4,775,000	\$ 242,000	\$ 4,533,000	\$ 4,533,000	\$ -
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	700,000	300,000
Caravan Ingredients	7/13/2006	1,000,000	30,000	970,000	570,000	400,000
Junction City, KS (Ventria)	10/12/2006	1,000,000	-	1,000,000	-	1,000,000
Kansas Bioscience Park/K-State Campus	1/9/2007	7,600,000	2,264,523	5,335,477	1,052,569	4,282,908
Projects fully paid and/or released		7,825,288	515,735	7,309,553	7,309,553	-
FY 2007 Totals		18,425,288	2,810,258	15,615,030	9,632,122	5,982,908
City of Emporia, KS (REG)	7/10/2007	300,000	-	300,000	-	300,000
Projects fully paid and/or released		32,210,232	11,501,108	20,709,124	20,709,124	-
FY 2008 Totals		32,510,232	11,501,108	21,009,124	20,709,124	300,000
WCGME research centers	10/28/2008	5,880,000	-	5,880,000	4,165,500	1,714,500
Via Christi/Wichita State Univ cluster hire	10/28/2008	327,500	-	327,500	255,000	72,500
NBAF DHS (Schmallenberg Virus)	1/12/2009	92,884,687	92,016,172	868,515	457,822	410,693
KBP Venture Accelerator	1/27/2009	19,000,000	-	19,000,000	5,912,107	13,087,893
Wahl/Hixon renovation	03/09/2009	26,400,000	-	26,400,000	13,200,000	13,200,000
KU/VC Wichita Clinical Trials	5/19/2009	500,000	-	500,000	346,596	153,404
Projects fully paid and/or released		32,046,417	6,556,799	25,489,618	25,489,618	-
FY 2009 Totals		177,038,604	98,572,971	78,465,633	49,826,643	28,638,990
KBA Growth Fund	10/8/2009	50,000,000	29,626,665	20,373,335	13,068,164	7,305,171
Eminent Scholar - KU (Volkin)	11/9/2009	2,490,185	-	2,490,185	2,268,160	222,025
CCRI KSU - UTCC	11/10/2009	500,000	-	500,000	375,000	125,000
AGCO DOE RERDG	1/26/2010	1,500,000	-	1,500,000	1,244,800	255,200
Eminent Scholar - KU (Srivastava)	1/26/2010	1,775,000	-	1,775,000	1,265,000	510,000
KSU CBRI PRRS	1/26/2010	500,000	-	500,000	428,793	71,207
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	550,000	150,000
SAFC Bioscience	3/9/2010	250,000	-	250,000	145,000	105,000
Cargill Expansion and Attraction	5/10/2010	750,000	-	750,000	500,000	250,000
CBRI ABADRU - Rift Valley Fever	5/10/2010	498,917	-	498,917	300,000	198,917
CCRI KU Fabian	5/10/2010	249,975	-	249,975	215,000	34,975
PRA Intl Expansion and Attraction	5/10/2010	350,000	-	350,000	150,000	200,000
Kansas Cancer Operations Phase II	5/24/2010	693,000	-	693,000	683,000	10,000
NBAF Phase VI	5/24/2010	700,000	284,262	415,738	390,738	25,000
NBAF Research	5/24/2010	500,000	-	500,000	131,322	368,678
Projects fully paid and/or released		6,405,322	1,550,000	4,855,322	4,855,322	-
FY 2010 Totals		68,112,399	31,460,927	36,651,472	26,819,889	9,831,583
Rising Star-KU (Xu)	7/27/2010	780,000	-	780,000	770,000	10,000
Rising Star-KU (Nie)	7/27/2010	850,000	850,000	-	-	-
Eminent Scholar - KU (Anant)	10/11/2010	1,450,000	-	1,450,000	950,000	500,000
Eminent Scholar - KU (Bhalla)	10/11/2010	2,051,000	-	2,051,000	1,551,000	500,000
Eminent Scholar - KU (Godwin)	10/11/2010	3,362,500	-	3,362,500	2,187,500	1,175,000
Eminent Scholar - KU (Welch)	10/11/2010	1,575,000	-	1,575,000	849,167	725,833
CEEZAD	12/21/2010	4,000,000	-	4,000,000	1,385,000	2,615,000
The Learning Collaborative	12/21/2010	500,000	-	500,000	400,000	100,000
Plastikon Healthcare Attraction	1/24/2011	750,000	-	750,000	200,000	550,000
Heartland BioVentures NDDA Support	1/24/2011	175,000	-	175,000	174,500	500
POCI - Crititech (Nanotax Ph I Clinical Trial)	2/07/2011	197,500	-	197,500	157,500	40,000
KSU Feed Technology Center Matching	3/1/2011	1,500,000	-	1,500,000	1,400,000	100,000
Evogen Expansion & Attraction	3/1/2011	500,000	-	500,000	200,000	300,000
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	351,218	76,852
OsteoGeneX Matching (BIRD)	5/9/2011	450,000	-	450,000	375,000	75,000
Pinnacle NIH SBIR Ph I/Ph II Matching	5/9/2011	424,895	-	424,895	375,000	49,895
Projects fully paid and/or released		10,506,366	2,366,378	8,139,988	8,139,988	-
FY 2011 Totals		30,274,009	3,216,378	27,057,631	19,615,361	7,442,270

(Continued)

KANSAS BIOSCIENCE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)
SCHEDULE OF COMMITMENTS
JUNE 30, 2013

Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date at 6/30/13	Total Remaining To Be Paid
POCI - Phlogistix	7/13/2011	98,890	-	98,890	81,000	17,890
Rising Star - KU (Perez)	7/25/2011	1,084,450	-	1,084,450	715,250	369,200
Deciphera R&D Voucher	7/25/2011	1,583,122	-	1,583,122	1,144,413	438,709
Argentia Expansion & Attraction	7/25/2011	400,000	-	400,000	50,000	350,000
POCI - Oncimmune	8/11/2011	58,600	-	58,600	30,000	28,600
Ceva Expansion & Attraction 2011	10/31/2011	550,000	-	550,000	375,000	175,000
JCB Laboratories Expansion	10/31/2011	225,000	-	225,000	150,000	75,000
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	293,750	356,250
POCI - CAFO's BEST Waste Solutions	12/08/2011	72,398	-	72,398	62,398	10,000
Aptakon NCI SBIR Matching (Antibodies)	3/06/2012	74,996	-	74,996	65,000	9,996
Aratana R&D Voucher	3/06/2012	1,333,333	-	1,333,333	512,475	820,858
Rising Star - KU (Detamore)	3/06/2012	612,502	-	612,502	324,168	288,334
POCI - 3B Pharmaceuticals	5/10/2012	147,589	-	147,589	-	147,589
POCI - Effexus Pharmaceuticals	5/10/2012	165,000	-	165,000	110,000	55,000
Creche Innovations Expansion & Attraction	6/20/2012	500,000	-	500,000	50,000	450,000
EMCI Expansion & Attraction	6/20/2012	1,000,000	-	1,000,000	175,000	825,000
EMCI R&D Voucher	6/20/2012	595,000	-	595,000	16,528	578,472
Eminent Scholar - KSU (Riviere)	6/20/2012	4,897,196	-	4,897,196	1,374,873	3,522,323
Orbis NIH SBIR Phase 1 - Pain Mgmt	6/20/2012	126,530	-	126,530	70,000	56,530
Xenometrics Expansion & Attraction	6/20/2012	1,000,000	-	1,000,000	500,000	500,000
Projects fully paid and/or released		9,156,432	1,728,237	7,428,195	7,428,195	-
FY 2012 Totals		24,536,038	1,728,237	22,807,801	13,528,050	9,279,751
Bayer Expansion - Shawnee Facility	7/24/2012	750,000	-	750,000	-	750,000
KBCI HPI Advanced Plant Design - FY 13	7/24/2012	2,500,000	-	2,500,000	2,300,000	200,000
Life Sciences Manufacturing Planning Grant	7/24/2012	250,000	250,000	-	-	-
KBCI Center of Innovation Transition	7/24/2012	1,000,000	1,000,000	-	-	-
Kansas Bioscience Park - Brokerage Fees	7/24/2012	220,000	-	220,000	-	220,000
Kansas Cancer Operations Phase IV	7/24/2012	300,000	-	300,000	17,170	282,830
POCI - KSU (Mastitis in Dairy Cattle)	10/4/2012	151,210	-	151,210	14,331	136,879
Parnell, Inc. Expansion & Attraction	11/20/2012	400,000	-	400,000	-	400,000
VBRC Expansion & Attraction	11/20/2012	300,000	-	300,000	-	300,000
POCI - eNovation	12/3/2012	73,097	-	73,097	55,729	17,368
Aratana Therapeutics - Series C Pref Equity	1/22/2013	324,148	-	324,148	324,148	-
PRA E&A - Early Development Research	1/22/2013	400,000	-	400,000	-	400,000
Syntech Research Lab Services E&A	1/22/2013	1,000,000	-	1,000,000	-	1,000,000
POCI - HylaPharm	1/22/2013	200,000	-	200,000	19,900	180,100
KABB Center Transition Agreement	1/22/2013	1,243,437	-	1,243,437	368,461	874,976
Novita Therapeutics Equity - Round Three	3/4/2013	375,000	-	375,000	375,000	-
Aratana Therapeutics - Common Equity	6/10/2013	153,000	-	153,000	-	153,000
Green Dot Holdings Equity	6/10/2013	750,000	-	750,000	-	750,000
SmartVet USA Loan	6/10/2013	700,000	-	700,000	-	700,000
FY 2013 Totals		\$ 11,089,892	\$ 1,250,000	\$ 9,839,892	\$ 3,474,739	\$ 6,365,153
Totals		\$ 366,761,462	\$ 150,781,879	\$ 215,979,583	\$ 148,138,928	\$ 67,840,655

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the Kansas Bioscience Authority (Authority) which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

October 29, 2013
Wichita, Kansas