



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

FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014
And
Independent Auditor's Report



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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kansas Bioscience Authority

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, 2015 and 2014, 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, 2015 and 2014, 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.



Emphasis-of-Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming the Authority will continue as a going concern. As discussed in note 2 to the financial statements, recent legislative activity includes a significant reduction in the Authority's funding as well as the introduction of a bill which, if passed, would terminate the Authority's operations and transfer its assets and obligations to the Kansas Department of Commerce. Management's plans regarding those matters also are described in note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 November 6, 2015 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, 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.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
November 6, 2015

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**KANSAS BIOSCIENCE AUTHORITY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2015 and 2014**

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, 2015 and 2014.

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 as a global destination for bioscience innovation, commercialization and growth. 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 \$32.4 million at June 30, 2015; \$38.3 million at June 30, 2014; and \$41.8 million at June 30, 2013.
- Since the Authority's inception, its board of directors has approved \$278.8 million in net commitments through June 30, 2015. The Authority's board of directors approved \$5.9 million in net new commitments to bioscience companies in fiscal year 2015, and \$4.6 million of commitments approved in previous years was released during the fiscal year. Most commitments to bioscience companies are contingent upon the achievement of milestones, while commitments to venture capital and private equity funds can be drawn upon by each fund under the terms of the individual agreements; at June 30, 2015 the total amount remaining to be paid on these commitments was \$95.6 million, including \$63.4 million on commitments to venture capital and private equity funds. For the period beginning July 1, 2015 and ending November 6, 2015, the Authority's board approved \$670,733 for two new commitments, a follow-on convertible note portfolio investment and a note receivable, and the Authority released \$58.6 million in commitments approved in previous fiscal years.
- The Receivable from the State of Kansas decreased by \$684,226 in fiscal year 2015 due to reduced growth in bioscience company payroll tax withholdings, which is partially the result of changes in the state income tax structure. That receivable increased by \$915,706 in fiscal year 2014 due to growth in bioscience company payroll tax withholdings.
- Capital assets decreased by \$490,915 in fiscal year 2015 due to depreciation expense of \$500,365, which was slightly offset by building additions totaling \$9,450. Capital assets decreased by \$499,043 in fiscal year 2014 due to depreciation expense of \$514,703, which more than offset office equipment purchases and building additions totaling \$15,660.
- Other assets decreased by \$3.2 million in fiscal year 2015 primarily due to a \$2.5 million decrease in notes receivable and a \$791,080 decrease in portfolio investments. Notes receivable decreased due to the receipt of \$1.3 million in payments from borrowers and a \$1.3 million impairment of an outstanding loan balance, slightly offset by \$85,814 in interest earned on loan balances. The decrease in portfolio investments was due to several factors: impairment of two investments by a total of \$5.8 million, a \$1.8 million decrease in an investment in a bioscience company due to the sale of shares and a 3% decline in share price of the remaining shares, and a \$375,000 settlement of a convertible note were mostly offset by additional investments of \$6.4 million in six commitments approved in fiscal year 2015 and one that was approved in fiscal year 2014 as well as a \$731,588 net increase in the Authority's investment in four venture capital funds. Other assets increased by \$35,851 in fiscal year 2014 due to a series of offsetting factors. Portfolio investments increased by \$1.9 million due to new or follow-on investments in three bioscience companies totaling \$2.4 million and a \$1.1 million increase in the Authority's investment in four venture capital funds, which were offset by a \$702,043 decrease in convertible debt investments due primarily to the impairment of a

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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convertible debenture and a \$924,408 decrease in the fair value of the Authority's common stock investment in a bioscience company due to the sale of shares. Notes receivable decreased by \$1.6 million due to the receipt of \$891,564 in payments on outstanding loan balances, a \$250,000 loan forgiveness credit earned by a bioscience company by reaching and maintaining a specified employee headcount, and a \$1.2 million loss resulting from a loan modification and settlement agreement. Partially offsetting these note receivable decreases were a new loan of \$420,000 extended to a bioscience company to construct a manufacturing facility in Kansas and accrued interest of \$306,013 earned on outstanding loan balances. Other accounts receivable decreased by \$285,990 due to receipt in fiscal year 2014 of a stock dividend declared in fiscal year 2013 and grant reimbursements from two federal agencies.

- Current liabilities increased by \$688,879 in fiscal year 2015 primarily due to a \$631,442 increase in the amount of milestone payments earned but not yet paid as of the end of the fiscal year. However, the number of milestone payments earned but not yet paid decreased from six at the end of fiscal 2014 to three at the end of fiscal 2015. Payroll-related accrued liabilities and the principal portion of industrial revenue bonds due in the next twelve months also contributed to the fiscal year 2015 increase. Current liabilities decreased by \$1.0 million in fiscal year 2014 due to a \$924,702 decrease in milestone payments earned but not yet paid as of the end of the fiscal year and payment during the fiscal year of post-employment obligations owed at the end of the previous 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 by \$635,116 in fiscal year 2015 due to \$461,717 in bond principal and \$173,399 in special assessments that became current during the fiscal year. Long-term liabilities decreased by \$613,329 in fiscal year 2014 due to \$439,930 in bond principal and \$173,399 in special assessments that became current during the fiscal year.
- Total operating and nonoperating revenues decreased by \$7.1 million in fiscal year 2015 primarily due to a \$6.6 million decrease in realized and unrealized gains on an equity investment in common stock recorded at fair value, a \$2.1 million decrease in realized gains on the Authority's venture capital fund investments and a \$234,171 decrease in interest earned on convertible note and loan balances. Partially offsetting these decreases were \$458,174 in royalty income resulting from the buyout of a royalty agreement by a bioscience company and an increase of \$1.4 million in transfers from the State of Kansas. Although the growth in bioscience payroll tax withholdings has decreased due to changes in state income tax rates and tax brackets, an increase in the annual funding transfer cap in fiscal year 2015 meant that the Authority was allowed to receive more of that growth than was allowed in the previous fiscal year. In fiscal year 2014, total operating and nonoperating revenues increased by \$12.5 million due to a \$4.7 million increase in realized and unrealized gains on an equity investment recorded at fair value, \$4.6 million in realized gains from the Authority's venture capital fund investments, and a \$4.1 million increase in transfers from the State of Kansas. The increase in transfers from the State of Kansas was a result of growth in bioscience company payroll tax withholdings and the state legislature's decision to allow the full amount of Authority funding included in the fiscal year 2014 state budget to be transferred to the Authority instead of retaining a portion in the state general fund as was done in previous years. Partially offsetting these revenue increases were a \$634,850 decrease in dividend and interest income and a \$294,198 decrease in federal grant revenue and Venture Accelerator incubator rent income.

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- Grants and awards decreased by \$2.3 million, or 20%, in fiscal year 2015 and by \$8.9 million, or 43%, in fiscal year 2014. These decreases are primarily the 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. An additional factor contributing to these decreases was an investment strategy shift during fiscal year 2013 away from making both grant and equity investments to making primarily equity investments. Equity investments are included in Portfolio investments rather than Grants and awards expense.
- Operating expenses other than Grants and awards increased by \$4.1 million in fiscal year 2015 due to a \$4.3 million net increase in portfolio investment and note receivable impairments and other investment losses. Partially offsetting these increases was a net decrease of \$146,868 in all other operating expense categories with marketing and consulting expenses experiencing the largest decreases. The \$1.1 million increase in other operating expenses in fiscal year 2014 was a result of \$2.2 million in portfolio investment impairments and other investment losses. Partially offsetting these increases was a \$1.0 million reduction in salary and benefit costs, consulting costs and depreciation expense. The depreciation expense reduction was due to the absence in fiscal year 2014 of the one-time impact of implementing GASB Statement No. 65 in fiscal year 2013.

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.

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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CONDENSED FINANCIAL INFORMATION

Balance Sheet

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Assets			
Cash and securities	\$ 32,368,261	\$ 38,265,976	\$ 41,774,749
Receivable from State of Kansas	997,663	1,681,889	766,183
Capital assets	12,953,524	13,444,439	13,943,482
Other assets	36,528,705	39,769,792	39,733,941
Total assets	<u>\$ 82,848,153</u>	<u>\$ 93,162,096</u>	<u>\$ 96,218,355</u>
Liabilities			
Current liabilities	\$ 2,385,564	\$ 1,696,685	\$ 2,716,690
Long-term liabilities	10,562,944	11,198,060	11,811,389
Total liabilities	<u>12,948,508</u>	<u>12,894,745</u>	<u>14,528,079</u>
Net position			
Net investment in capital assets	4,230,988	4,273,606	4,345,789
Restricted for development	5,824,875	5,659,840	5,494,098
Unrestricted	59,843,782	70,333,905	71,850,389
Total net position	<u>69,899,645</u>	<u>80,267,351</u>	<u>81,690,276</u>
Total liabilities and net position	<u>\$ 82,848,153</u>	<u>\$ 93,162,096</u>	<u>\$ 96,218,355</u>

Statement of Revenues, Expenses, and Changes in Net Position

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues			
Operating revenues	\$ 3,719,702	\$ 12,160,962	\$ 3,767,761
Transfers from State of Kansas	6,315,774	4,915,706	766,183
Investment income	66,440	148,756	176,635
Total revenues	<u>10,101,916</u>	<u>17,225,424</u>	<u>4,710,579</u>
Expenses			
Grants and awards	9,288,617	11,616,711	20,531,994
Other	11,181,005	7,031,638	5,894,099
Total operating expenses	<u>20,469,622</u>	<u>18,648,349</u>	<u>26,426,093</u>
Change in net position	(10,367,706)	(1,422,925)	(21,715,514)
Total net position, beginning of period	80,267,351	81,690,276	103,405,790
Total net position, end of period	<u>\$ 69,899,645</u>	<u>\$ 80,267,351</u>	<u>\$ 81,690,276</u>

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ASSETS, LIABILITIES AND CHANGES IN NET POSITION

The Authority's net position decreased by \$10.4 million to \$69.9 million at June 30, 2015 as compared to \$80.3 million at June 30, 2014. Income generated by the Authority's portfolio investments in fiscal year 2015 was not sufficient to fill the gap created by the redirection of \$22 million of fiscal year 2015 funding to the State General Fund. A net position decrease of \$1.4 million in fiscal year 2014 was the result of the redirection of \$25.0 million of the Authority's fiscal year 2014 funding to the State General Fund, offset by an \$8.9 million reduction in Grants and awards expense, a \$9.3 million increase in income generated by the Authority's portfolio investments and a \$4.2 million increase in transfers from the State of Kansas.

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 2015 the Authority expended \$9,450 for Venture Accelerator additions. In fiscal year 2014 the Authority expended \$14,402 for Venture Accelerator additions and \$1,258 for equipment and furniture.

DEBT ACTIVITY

Debt at June 30, 2015 included \$8.6 million in industrial revenue bond financing and \$2.6 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 9, 10 and 11 to the financial statements.

ECONOMIC FACTORS

The Kansas Economic Growth Act provided a funding mechanism through the Emerging Industry Investment Act based on the growth of state withholding taxes payable from employees of bioscience-related companies. Revenues that accrue belong to the Authority and are not part of the state treasury; however, given the state of the state's economy the transfers to the Authority were capped at \$7.0 million for the fiscal year ended June 30, 2015 and \$4.0 million for the fiscal year ended June 30, 2014. These 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 2016 have been capped at \$7.0 million, which is net of amounts to be transferred directly to the Wichita State University and Kansas State University funds mentioned above and \$22.0 million to be redirected to the State General Fund. However, as discussed in Note 2, the amount received in 2016 may be an amount less than \$7 million.

In past years a key strategy for the Authority was to focus its investments in bioscience 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 and agribusiness, uses a

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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 invested dollars, attracting external capital to the state, and attracting and growing economic-based jobs.

The funds committed through June 30, 2015 are as follows:

<u>Commitment Type</u>	<u>Committed in Fiscal 2015</u>	<u>Committed through Fiscal 2015</u>
Portfolio Investments	\$ 5,949,981	\$ 102,476,076
Notes Receivable	--	5,683,795
Grants	--	170,613,664
Total	<u>\$ 5,949,981</u>	<u>\$ 278,773,535</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 2015 the Authority's board of directors approved \$5.9 million in commitments for equity investments in six Kansas bioscience companies. Four commitments were made as follow-on investments to companies that were already part of the Authority's portfolio, while two were made to companies that were new to the portfolio. Approved investments in bioscience companies, all of which have been funded, were made in the form of preferred stock, preferred interests, common stock and Class A units. The Authority also paid \$1.8 million in capital calls, including \$614,391 in management fees and expenses, to the venture capital and private equity funds to which it had previously made commitments while receiving \$2.9 million in distributed exit proceeds from those funds.

Additional transactions impacting the Authority's portfolio investments in the fiscal year included two impairments totaling \$5.8 million. A bioscience company in which the Authority held a \$5.6 million common stock investment reorganized its equity capitalization structure, including a 10-for-1 common stock reverse split. The carrying value of this investment was subsequently impaired by \$5.5 million. In addition, \$689,567 in principal and accrued but unpaid interest on a convertible debenture investment in a bioscience company was settled for \$375,000 and the remaining investment balance was impaired. Lastly, the Authority sold approximately two-thirds of its common stock investment in a publicly-traded bioscience company on the exchange over the course of the fiscal year, realizing gains of \$1.8 million on the transactions.

In August 2015 the Authority terminated its partnership agreement with the SIH Bluemont Bio and Ag Fund by paying the fund \$739,688. This settlement payment represented two quarters of fund management fees and \$139,688 in organizational and fund expenses. The remaining unfunded commitment of \$58.4 million was then released, with no further obligations or commitments to the respective fund.

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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 4 to the financial statements. The Authority's board of directors did not approve any new loan commitments in fiscal year 2015. One loan with an unfunded commitment of \$280,000 was paid in full by the borrower, including all outstanding principal and accrued but unpaid interest owed on its loan as well as a settlement with the Authority on an associated royalty agreement that had been intended to service the loan. Another company paid the remaining balance on its loan pursuant to the terms of a settlement reached with the Authority in fiscal year 2014. A third company made three scheduled quarterly payments on its loan before declaring bankruptcy, which resulted in the Authority impairing the outstanding loan balance by \$1.3 million.

Grants

Due to the Authority's strategic shift toward a market-based, sustainable financial model in the 2013 fiscal year, the Authority's board of directors did not approve any new grant commitments during fiscal year 2015. Grant commitments approved in previous fiscal years totaling \$4.3 million were released during fiscal year 2015 after the Authority determined that the bioscience companies and research institutions to which the commitments had been made would not be able to meet the required milestones specified in the grant agreements.

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 and Chief Operating 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, 2015 and 2014

ASSETS

	2015	2014
Current assets:		
Cash and cash equivalents	\$ 16,683,840	\$ 10,741,146
Investments in securities	15,381,910	19,282,127
Receivable from State of Kansas	997,663	1,681,889
Other accounts receivable	50,012	52,609
Portfolio investments, current	839,916	3,347,729
Notes receivable, current	195,508	1,460,021
Accrued interest	52,192	110,818
Other current assets	161,642	80,730
Total current assets	34,362,683	36,757,069
Noncurrent assets:		
Investments in securities	250,319	8,131,885
Portfolio investments	24,969,873	23,253,140
Notes receivable	2,011,357	3,275,166
Total long term investments	27,231,549	34,660,191
Capital assets		
Land	420,699	420,699
Building	13,430,761	13,421,311
Furniture and equipment	1,357,129	1,357,129
	15,208,589	15,199,139
Less accumulated depreciation	(2,255,065)	(1,754,700)
Total capital assets	12,953,524	13,444,439
Other assets		
Land held for development	8,300,397	8,300,397
Total assets	\$ 82,848,153	\$ 93,162,096

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BALANCE SHEETS

June 30, 2015 and 2014

LIABILITIES AND NET POSITION

	<u>2015</u>	<u>2014</u>
Current liabilities:		
Accounts payable	\$ 1,468,699	\$ 838,629
Bonds payable, current	461,717	439,930
Special assessments payable, current	173,399	173,399
Accrued liabilities	236,778	196,758
Accrued interest payable	44,971	47,969
	<u>2,385,564</u>	<u>1,696,685</u>
Total current liabilities		
Long term liabilities:		
Bonds payable	8,135,350	8,597,067
Special assessments payable	2,427,594	2,600,993
	<u>10,562,944</u>	<u>11,198,060</u>
Total long term liabilities		
Total liabilities	<u>12,948,508</u>	<u>12,894,745</u>
Commitments (see note 7)		
Net position:		
Net investment in capital assets	4,230,988	4,273,606
Restricted for development	5,824,875	5,659,840
Unrestricted	59,843,782	70,333,905
	<u>69,899,645</u>	<u>80,267,351</u>
Total net position		
Total liabilities and net position	<u>\$ 82,848,153</u>	<u>\$ 93,162,096</u>

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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues:		
Federal grant revenue	\$ 10,830	\$ 97,177
Rent income	323,520	179,769
Interest and other operating income	674,262	445,042
Unrealized and realized gains on equity investments	263,428	6,863,008
Gain from limited partnership funds	2,447,662	4,575,966
Total operating revenues	3,719,702	12,160,962
Operating expenses:		
Grants and awards	9,288,617	11,616,711
Wages and benefits	2,434,919	2,342,453
Board fees and reimbursed expenses	19,846	8,549
Meeting and travel expenses	139,026	85,167
Depreciation and amortization	500,365	514,703
Dues and subscriptions	28,726	19,475
Insurance	81,516	96,926
Contractual and consulting services	194,477	262,156
Contractual and consulting federal grants	2,363	92,290
Legal services	143,096	152,559
Marketing	88,466	197,333
Office expense	222,817	234,922
Real estate tax	29,821	30,838
Utilities	107,967	102,903
Impairment of equity investment	5,535,506	-
Impairment of notes receivable	1,294,444	1,203,325
Impairment of debt investments	314,567	805,692
Loss from equity method investments	43,083	882,347
Total operating expenses	20,469,622	18,648,349
Operating loss	(16,749,920)	(6,487,387)
Nonoperating revenues and expenses:		
Transfers from the State of Kansas - Emerging Industry Investment Act	6,315,774	4,915,706
Investment income, net	66,440	148,756
Total nonoperating revenues	6,382,214	5,064,462
Change in net position	(10,367,706)	(1,422,925)
Net position, beginning of period	80,267,351	81,690,276
Net position, end of period	\$ 69,899,645	\$ 80,267,351

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

STATEMENT OF CASH FLOWS

Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities:		
Cash paid to others	\$ (11,785,808)	\$ (16,395,800)
Cash received from federal grants	22,040	239,157
Cash received from repayment of notes receivable	1,319,693	891,564
Cash received from others	763,577	158,975
Net cash used for operating activities	(9,680,498)	(15,106,104)
Cash Flows from Capital and Related Financing Activities:		
Purchase of capital assets	(9,450)	(15,660)
Payments on bonds payable	(439,930)	(419,204)
Payments for special assessments on capital assets	(8,323)	(8,323)
Net cash used for capital and related financing activities	(457,703)	(443,187)
Cash Flows from Noncapital Financing Activities:		
Payments for special assessments on land held for development	(165,076)	(165,076)
Cash received from State of Kansas	7,000,000	4,000,000
Net cash provided by noncapital financing activities	6,834,924	3,834,924
Cash Flows from Investing Activities:		
Proceeds from sales and payments on purchases of investments in securities, net	11,781,783	1,229,491
Purchases of portfolio investments	(8,044,326)	(4,586,555)
Proceeds from sales of portfolio investments	5,008,448	12,643,394
Settlement of portfolio investments	375,000	-
Investment income, net	125,066	187,591
Net cash provided by investing activities	9,245,971	9,473,921
Net change in cash and cash equivalents	5,942,694	(2,240,446)
Cash and cash equivalents, beginning of period	10,741,146	12,981,592
Cash and cash equivalents, end of period	\$ 16,683,840	\$ 10,741,146

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

STATEMENT OF CASH FLOWS

Years Ended June 30, 2015 and 2014

Reconciliation of Operating Loss to Net Cash from

Operating Activities:

Operating loss	\$ (16,749,920)	\$ (6,487,387)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	500,365	514,703
Unrealized and realized gains on equity investments	(263,428)	(6,863,008)
Gain from limited partnership funds	(2,447,662)	(4,575,966)
Loss from equity method investments	43,083	882,347
Impairment of debt securities	314,567	805,692
Impairment of equity securities	5,535,506	-
Impairment of notes receivable	1,294,444	1,203,325
Changes in assets and liabilities:		
Other current assets	(80,912)	15,168
Accrued interest	(210,873)	(445,042)
Other accounts receivable	2,597	105,852
Notes receivable	1,319,693	721,564
Accounts payable	1,025,020	(875,164)
Accrued liabilities and interest payable	37,022	(108,188)
Net cash used for operating activities	<u>\$ (9,680,498)</u>	<u>\$ (15,106,104)</u>

Supplemental Disclosures

Noncash investing and financing activities		
Stock dividend received on equity investment	\$ -	\$ 180,138
In-kind distribution from limited partnership funds	-	63,944
	<u>\$ -</u>	<u>\$ 244,082</u>

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

NOTES TO THE FINANCIAL STATEMENTS

(1) Reporting Entity and Significant Accounting Policies

Reporting Entity

The Kansas Bioscience Authority (Authority) is an independent instrumentality of the State of Kansas ("Kansas" or "State"). 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 creates value for Kansas through investments in bioscience, designed to lead Kansas to becoming a global destination for bioscience innovation, commercialization, and growth. The Authority is designed to 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. The Authority's financial statements are comprised solely of the operations of the Authority.

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, net of other allocations determined at the discretion of the state. This mechanism makes it unnecessary to raise taxes or reallocate amounts from other state budgets. During the 2015 and 2014 legislative sessions, the transfers to the Authority from the State were limited to \$7.0 million and \$4.0 million for the fiscal years ended June 30, 2015 and 2014, respectively. During the fiscal year ended June 30, 2015 the State allocated funding generated by KEGA to other state-funded entities 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 Orthopedic Research — Wichita State University Fund, and \$22 million to the State General Fund. During the fiscal year ended June 30, 2014 the state allocated funding generated by KEGA to other state-funded entities 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 Orthopedic Research — Wichita State University Fund, and \$25 million to the State General Fund.

Under current state statute, funding transferred from the State to the Authority will be limited to \$13 million for the fiscal year ending June 30, 2016, after redirection of \$22 million to the State General Fund. However, \$6 million of direct transfers by the State to the other state funded entities mentioned previously will reduce the Authority's fiscal year 2016 funding transfer limit from \$13 million to \$7 million. As discussed in note 2, transfers to the Authority in 2015 and 2014 have been significantly less than originally anticipated, and future funding transfers could be significantly impacted by budgetary constraints in the State of Kansas.

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

NOTES TO THE FINANCIAL STATEMENTS

(1) Reporting Entity and Significant Accounting Policies (continued)

Upon formation, the Authority achieved its strategic objectives and mission through direct grants and awards in support of certain projects at bioscience companies. While the Authority may still award grants to such companies, the Authority's current focus is to use 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. The Authority may also achieve its mission through the investment in venture fund limited partnerships which support the bioscience sector.

Programs the Authority has used in making prior 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
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

NOTES TO THE FINANCIAL STATEMENTS

(1) Reporting Entity and 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 marketable debt securities are initially reported on the trade date basis at cost, and subsequently reported at fair value with the change in fair value recorded as a component of net investment income within nonoperating revenues and expenses. As of June 30, 2015 and 2014, investments consisted of certificates of deposit with original maturities greater than 90 days, 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. Interest income is recorded when earned as a component of investment income. Debt securities with a remaining maturity of one year or less are reported as current assets.

Revenue Recognition and Receivables

Revenues generated under the Emerging Industry Investment Act (EIIA) 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 therefore are not available for transfer to the Authority. No other amounts are considered uncollectible by management.

Other accounts receivable consists of rental fees due from tenants of the Authority's Venture Accelerator Incubator, which represents the land and building held by the Authority for its operations as well as to provide operating space for lease to bioscience companies in Kansas.

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

NOTES TO THE FINANCIAL STATEMENTS

(1) Reporting Entity and Significant Accounting Policies (continued)

Income Taxes

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

Portfolio Investments

Direct debt and equity financing (which may include common and/or preferred stock, convertible debt, and warrants) 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 entities 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 as non-current assets. 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 such an event occurs, the Authority establishes a fair value for the investment based on a quoted market price, and the investment is recorded from that date forward at fair value in accordance with GASB No. 31, *Accounting and Financial Reporting for Certain Investments and Certain Investment Pools* (GASB 31), with unrealized gains and losses recorded as a component of revenues and expenses, and may be classified as a current asset if disposal of the securities is expected in the next 12-month period. Warrants and other similar rights held generally do not meet the criteria to be classified as derivative financial instruments and are recorded at the cost basis.

The Authority's equity investments generally result in obtaining a noncontrolling interest in the investee company, and holding less than 40% of the voting stock of the investee. Once the Authority's ownership reaches or exceeds 20% of a corporation's voting stock (3% for limited liability companies), the Authority evaluates whether the equity method of accounting should be applied.

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

The Authority holds equity investments in certain limited liability companies for which it was determined the Authority has significant influence, and therefore are accounted for using the equity method, with an adjustment to the Authority's investment account for its proportionate share of income or loss from the investee.

Portfolio investments also include investments in venture capital limited partnerships recorded at the initial cost basis, adjusted for the Authority's share of the fund's realized gains and losses, which are recorded as a component of operating income. Unrealized gains and losses recorded by the underlying partnership are not recorded by the Authority until realized; therefore, the amounts reflected in the financial statements differ from the net asset value reported by the limited partnerships. As of June 30, 2015, the Authority had unrealized gains of approximately \$5.2 million related to its venture capital limited partnerships.

Certain debt and equity portfolio investments were issued in combination with royalty agreements to be paid to the Authority contingent on the portfolio company reaching a specific revenue threshold. As of June 30, 2015 and 2014 no asset or income from these agreements has been recorded.

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

NOTES TO THE FINANCIAL STATEMENTS

(1) Reporting Entity and Significant Accounting Policies (continued)

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 or incurred losses. The terms of some note agreements have provisions that allow for forgiveness or conversion into equity (see note 3) if certain contingencies are met. Forgiveness of such amounts is recorded as a reduction of the receivable when earned by the borrower, with a corresponding expense reflected in grants and awards. Management evaluates the notes receivable for collectability in a manner that is similar to the other-than-temporary impairment evaluation as explained below. As of June 30, 2015, \$500,000 in notes receivable included contingencies eligible for forgiveness.

Other-Than-Temporary-Impairment

Portfolio investments and notes receivable which have experienced an other-than-temporary (OTTI) decline in fair value are written down to estimated fair value, establishing a new cost basis, with the amount of the impairment included in expense as a loss. The review for OTTI includes an analysis of the facts and circumstances of each individual investment, including length of time impaired, creditworthiness of the company, and future expectations for that investment's performance.

The determination of fair value requires the use of estimates, which are based on information provided by the portfolio companies and knowledge of events or changes in circumstances that would have a significant impact on the fair value of the investment. The estimates are derived from the following (not all inclusive): quarterly financial information, 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. Donated capital assets are recorded at their estimated fair value on the date of donation. 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 when incurred. Depreciation is provided on the straight-line method over estimated useful lives ranging from 3 to 39 years.

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

NOTES TO THE FINANCIAL STATEMENTS

(1) Reporting Entity and Significant Accounting Policies (continued)

Land Held for Development

Land held for development consists of land donated to the Authority and the cost of special assessment improvements charged to the Authority for its use in attracting and developing further bioscience investment in Kansas. The land was initially recorded at its estimated fair value on the date of grant and includes the capitalized cost of certain improvements which have been financed through a special assessment payable by the Authority. The carrying value is subject to ongoing impairment evaluation; however, no impairment was identified during fiscal year 2015 or 2014. Such land may be donated as a grant to companies as an incentive for future development. Upon grant, the fair 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. If the Authority is ever found to be in default of the land development agreement, the City of Olathe holds an exclusive irrevocable option to repurchase the undeveloped land for essentially no consideration.

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 the Authority's principal ongoing operations and include activities that have the characteristics of an exchange transaction. Operating revenues include realized and unrealized gains from portfolio investments (losses are classified as operating expenses).
- **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. The Authority classifies expenses considered to be directly associated with meeting its mission of providing funding to Kansas bioscience companies and research institutions as grants and awards, including interest expense on bonds and special assessments as well as management fees paid to venture capital partnership general partners.

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

NOTES TO THE FINANCIAL STATEMENTS

(1) Reporting Entity and Significant Accounting Policies (continued)

- **Nonoperating expenses** — include activities that have the characteristics of nonexchange transactions as well as expenses not meeting the above definition for operating expenses.

Recent Accounting Pronouncements

In March 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72, *Fair Value Measurement and Application*. The statement provides guidance for determining a fair value measurement for financial reporting purposes, including guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement requires the Authority to measure portfolio investments at fair value. The statement was effective for financial statement periods beginning after June 15, 2015 (July 1, 2016).

(2) Legislative Activities

The Authority's ability to continue its investment activities and to meet its obligations and outstanding commitments is dependent on the receipt of funding as provided by the EIIA. The Kansas legislature engaged in several discussions surrounding the budget for the State, which included the introduction of a bill which, if passed as presented, would terminate and dissolve the Authority and transfer its net assets and obligations to the Commerce Department of the State of Kansas. The bill was not voted upon during the 2015 legislative session; however, it remains active for two years. It is uncertain if the bill will ultimately be voted upon and become law. The Kansas legislature will reconvene again in early 2016, at which time additional decisions regarding the Authority's operations and funding levels may be made.

Due to a reallocation of funding, the Authority did not receive the full funding originally allocated under the terms of the EIIA agreement during the year ended June 30, 2015. As a result of the uncertainties surrounding the intent of the State of Kansas with regard to the continued existence of the Authority and level of funding to be provided, the Authority has temporarily discontinued further new investment activities and has focused operations on the existing portfolio of investments. Additionally, subsequent to June 30, 2015, the Authority executed a plan to scale down staffing to the level required to maintain the existing portfolio of investments. Costs of \$1,077,926 associated with this plan have been paid in 2016. Similar agreements have been executed with the remaining personnel.

The reduction in funding received by the Authority has also resulted in potential liquidity constraints regarding the ability to meet outstanding commitments as they become due. In addition to the suspension of additional new investment activities, the Authority has also negotiated a termination of its limited partnership agreement with a private equity fund, resulting in the termination of a \$58,360,312 unfunded commitment (see note 5). Management projects the Authority has sufficient cash and marketable securities on hand to meet its obligations for the next year, however, continued reduction in funding levels could impair its ability to meet long term obligations. It is anticipated the State of Kansas would be responsible for honoring any such obligations upon dissolution or insolvency of the Authority.

(3) Cash and Investments in Securities

As of June 30, 2015 and 2014, the Authority had balances of \$16,683,840 and \$10,741,146 respectively, of cash and cash equivalents.

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

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

NOTES TO THE FINANCIAL STATEMENTS

(3) Cash and Investments in Securities (continued)

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 investment securities that are in the possession of an outside party. At June 30, 2015 and 2014, none of the Authority's deposits were exposed to custodial credit risk. At June 30, 2015 the Authority's uninsured deposits were fully collateralized by a letter of credit issued by a financial institution. Uninsured deposits at June 30, 2014 were fully collateralized by securities held by the financial institution in the Authority's name. Also, as of June 30, 2015 and 2014, underlying investment securities of the Authority with a fair value of \$15,632,229 and \$27,414,012, respectively, were held by the same financial institution.

Credit Risk. As of June 30, 2015 and 2014, the Authority held investment securities in a managed fund (UBS-U.S. Ultra Short Duration fund) consisting of certificates of deposit, corporate bonds, asset backed securities, municipal bonds, federal agency securities and U.S. Treasury securities. As of June 30, 2015, the Authority also held investments in commercial paper with original maturities of less than 90 days. These securities have been classified as cash equivalents. Under the Authority's investment policy, individual securities held must be investment grade. For Standard and Poor's this would include 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. The UBS-U.S. Ultra Short Duration fund had an average credit quality of holdings of Aa3 and Aa2 at June 30, 2015 and 2014, respectively.

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 securities portfolio can be invested in securities issued or guaranteed by any one corporate issuer. As of June 30, 2015 and 2014, the Authority did not have any investments that exceeded 5% of the investment portfolio that were issued or guaranteed by any one corporate issuer.

Interest Rate Risk. Interest rate risk relates to the exposure to fair value changes on debt instruments arising from fluctuations in interest rates. Exposure to changes in fair value losses arising from increasing interest rates are managed by investment policy guidelines, which limit the duration of the investments held. The Authority's policy states that 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 remaining investment maturities based on the weighted average maturity method:

<u>Investment Type</u>	<u>Fair Value</u>	<u>June 30, 2015</u>			
		<u>Less than 90 days</u>	<u>90 days - 1 year</u>	<u>1 - 5 years</u>	<u>5-10 years</u>
Government securities	\$ 3,019,361	\$ -	\$ 2,769,042	\$ 250,319	\$ -
Corporate bonds	7,183,954	-	7,183,954	-	-
Asset backed	5,428,914	-	5,428,914	-	-
Total	\$ 15,632,229	\$ -	\$ 15,381,910	\$ 250,319	\$ -

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

NOTES TO THE FINANCIAL STATEMENTS

(3) Cash and Investments in Securities (continued)

Investment Type	Fair Value	June 30, 2014			
		Less than 90 days	90 days - 1 year	1 - 5 years	5-10 years
Government securities	\$ 10,672,720	\$ -	\$ 9,922,240	\$ 750,480	\$ -
Corporate bonds	7,980,968	-	7,980,968	-	-
Asset backed	7,381,405	-	-	7,381,405	-
Municipal securities	528,153	528,153	-	-	-
Certificates of deposit	850,766	-	850,766	-	-
Total	\$ 27,414,012	\$ 528,153	\$ 18,753,974	\$ 8,131,885	\$ -

Investment securities are priced utilizing industry-standard models that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Municipal securities are valued using a type of matrix, or grid, pricing in which securities are benchmarked against U.S. treasury rates based on credit rating. Investments in FDIC-insured, fixed-rate certificates of deposits are valued using a net present value model that discounts the future cash flows at the current market rates.

(4) 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 fiscal year 2014. The note includes a stated interest rate of 6%, secured by all equipment of the borrower, 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 unpaid principal and accrued interest on the agreement into equity. During the year ended June 30, 2014, the bioscience company earned one employee credit of \$250,000 and paid \$461,564 toward the outstanding balance due on the note, leaving an outstanding balance at year-end of \$2,236,835 including unpaid interest. During the year ended June 30, 2015, no employee credits were earned and the bioscience company paid \$722,866 toward the outstanding balance due on the note. In June 2015 the borrower filed for bankruptcy protection, resulting in an impairment loss of \$1,294,444, which is recognized in the accompanying statements of revenues, expenses and changes in net position. The remaining net carrying value of the receivable was \$219,525 as of June 30, 2015.

In February 2009, the Authority entered into an agreement with a bioscience company for a maximum advance of \$1.5 million. The note included an interest rate of six percentage points over the Wall Street Journal Prime Rate, adjusted on a calendar quarterly basis, and was due in October 2015. In January 2014 the borrower defaulted on the note, resulting in a settlement agreement with the Authority in April 2014 which provided that upon payment by the company of \$500,000, the Authority would cancel the remaining balance of the note (including accrued interest) and release its lien on the note collateral. The settlement agreement also included a royalty agreement between the bioscience company and the Authority, in which the Authority will receive 4% of the company's revenue if and when \$15 million in sales is achieved, with a maximum amount receivable equal to the balance of the foregone interest and principal. The receivable balance was \$170,000 and \$0 at June 30, 2014 and 2015, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS

(4) Notes Receivable (continued)

As a result of the settlement agreement, the Authority incurred an impairment loss of \$1,203,325, which is recognized in the accompanying statements of revenues, expenses and changes in net position for the year ended June 30, 2014. The Authority has not received any royalty payments, and has not recorded any amounts receivable under the royalty agreement to date.

In August 2010, the Authority entered into an agreement with a bioscience company for a maximum advance of \$500,000 at an interest-free rate, to be repaid by August 2015. Principal of \$500,000 was outstanding under the agreement at June 30, 2015 and 2014; however, employee credits allow for amounts owed under the agreement to be reduced by \$250,000 for every 40 new full-time equivalent positions created by the borrower in the state of Kansas, after maintenance of such positions for a consecutive 365-day period. Revenue credits that also allow for amounts owed under the agreement to be reduced by \$250,000 may be earned through the attainment of annual net revenue in excess of \$15 million for the preceding 365-day period. As of June 30, 2015 and 2014, no credits had been earned by the borrower. In April 2014 the agreement was amended and restated to extend the maturity date to November 2017, provide for interest to accrue on any outstanding principal balance commencing August 12, 2015 and establish a payment schedule of ten quarterly installment payments commencing on August 12, 2015, less any employee credits and or revenue credits earned. Interest shall accrue on the unpaid principal balance at three percentage points over the Wall Street Journal Prime Rate, adjusted monthly.

In March 2012, the Authority entered into an agreement with a bioscience company for a maximum advance of \$1,263,795. As of June 30, 2015 and 2014, \$1,487,339 and \$1,408,352, respectively, was outstanding under the agreement, which included \$223,544 and \$144,557, respectively, of accrued unpaid interest. The note accrues interest at a rate of three percentage points over the Wall Street Journal Prime Rate, adjusted annually (6.25% at June 30, 2015) and all unpaid principal and interest is due in March 2017. The agreement is secured by all equipment of the borrower.

In September 2013, the Authority entered into an agreement with a bioscience company for a maximum advance of \$700,000, of which \$420,000 was advanced as of June 30, 2014. The note included an interest rate equal to two percentage points over the Wall Street Journal Prime Rate, adjusted annually (5.25% at June 30, 2014), with interest accrual beginning July 1, 2014, and was due in September 2018. The agreement provided for interest-only payments until maturity, with the first such payment to be received in August 2014 dependent upon the terms of a royalty agreement between the company and the Authority. During the year ended June 30, 2015, the borrower repaid the loan and accrued interest, and settled the royalty agreement for \$458,174, which is included in Interest and other operating income.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

(5) Portfolio Investments

Portfolio investments consisted of the following at June 30:

	2015	2014
<i>Fair Value:</i>		
Marketable equity securities	839,916	2,669,466
<i>Cost Basis:</i>		
Convertible debt investments	1,141,377	1,205,886
Venture capital limited partnership interests	11,946,729	11,215,141
Non-marketable equity instruments	10,940,268	10,775,794
<i>Equity Method:</i>		
Limited liability company equity interests	941,499	734,582
	25,809,789	26,600,869
Less current portion - equity securities	839,916	2,669,466
Less current portion - convertible debt investments	-	678,263
	\$ 24,969,873	\$ 23,253,140

At June 30, 2015 and 2014, the Authority also held warrants and other equity rights for the purchase or acquisition of common stock in certain portfolio companies (see note 1) acquired in connection with debt or equity financing transactions. Such warrants and other equity rights are only exercisable upon contingent events, which primarily represent default on amounts due the Authority under debt financing and convertible debt. Because these companies are start-up ventures, the fair value of these warrants and equity rights is not readily determinable; therefore, no related amounts are included in these financial statements.

In 2013, one portfolio company in which the Authority owned preferred stock completed 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 and therefore the Authority recorded the investment at its fair value, classified as a current asset. Changes in the fair value of these marketable equity securities of (\$1,499,346) and \$63,670 were recognized in the accompanying statement of revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014, respectively. The Authority sold a portion of these securities in fiscal year 2015 and 2014, resulting in net proceeds of \$2,092,978 and \$8,031,482 respectively, and a realized gain of \$1,762,774 and \$6,799,338 respectively.

In October 2014, the Authority agreed to restructure and modify the outstanding terms of a convertible debt instrument issued by a portfolio company in order to advance the company's ability to contribute to the biosciences in the state of Kansas. As a result, the Authority received \$375,000 in cash and the remaining balance of the convertible debt and accrued interest receivable was canceled, resulting in an impairment loss of approximately \$314,567. The Authority retained certain warrants in the portfolio company which were previously acquired in connection with the debt issuance.

During fiscal year 2015, the Authority recorded an impairment loss of \$5,535,506 on an equity investment in a portfolio company resulting from a substantial decrease in the fair value of the equity investment that was considered other than temporary. The decrease in fair value resulted from several factors, including the dilution in value due to a capital structure reorganization and the terms of an additional round of financing completed by the portfolio company.

During fiscal year 2014, the Authority incurred an impairment loss of \$805,692 on a convertible debt investment in which the borrower notified the Authority they would not be able to make their scheduled payment, and the company would be discontinuing its operations.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

(6) Capital Assets (continued)

Due to the events discussed in note 2, the Authority performed a review of its capital assets for impairment as of June 30, 2015 and determined that the capital assets will continue to be used for their original purposes, and therefore, a triggering event has not occurred. However, should the building and land be used for an alternative purpose, the carrying value may exceed the fair value.

The Authority, along with the City of Olathe, Kansas (the City) and Kansas State University entered into a development agreement, dated September 20, 2007, to develop real property situated in Johnson County, Kansas for the purposes of developing a biosciences business park. As part of that agreement, the Authority agreed to construct at least one additional building every five years in order to expand the bioscience park. In the event of the Authority does not meet the agreed upon development schedule, and this default is uncured within one year of notice, the City has the irrevocable option to purchase all undeveloped land back for essentially no consideration.

(7) Commitments and Contingencies

The Authority has invested its resources through various programs, most recently through its Direct Equity Program as discussed in note 1. The Authority applies various evaluation criteria in determining whether to proceed with an investment and the terms of each investment vary. However, the investees are generally required to meet milestones to receive an initial round of funding and additional subsequent 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. Contingent funding arrangements approved by the Authority do not become obligations until the milestones are met or capital calls are issued and payment becomes probable.

As of June 30, 2015, the Authority had agreed to \$95,559,645 in approved unfunded commitments to Kansas bioscience companies, research institutions, bond lending agencies and venture capital funds for various projects (including a \$59.4 million commitment to a private equity fund, of which \$58,360,312 was eliminated subsequent to June 30, 2015). Commitments to portfolio companies are generally contingent upon the grantee meeting various performance or other contingencies to achieve actual funding. Commitments to venture capital funds are contingent upon capital calls being issued by the fund's general partner. Portions of the outstanding approved commitments for the Kansas Bioscience Park and Venture Accelerator facility totaling \$11,243,031 are included in special assessments payable, accrued interest payable and bonds payable.

Each project has different terms and arrangements with respect to funding. Commitments 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 project. As of June 30, 2015, it is estimated that approximately \$14.9 million will be paid in fiscal year 2016 for the commitments outstanding as of June 30, 2015 and those approved subsequent to year-end through November 6, 2015.

This projection does not include payments on additional commitments that may be approved by the Authority's board of directors in fiscal 2016 and is subject to change based on the achievement of milestones and any future commitment releases as well as the timing of capital calls by the respective venture capital funds. Actual future cash flows could differ from the estimates as of June 30, 2015. Amounts due in connection with these commitments are not recorded in the accompanying financial statements until the contingency is met and the amounts become contractually payable.

**KANSAS BIOSCIENCE AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

(7) Commitments and Contingencies (continued)

The Authority's ability to meet cash requirements on existing investments, unfunded commitments and operating expense commitments is dependent upon the state of Kansas making funding provisions as outlined in current statutes (as discussed in note 1 and 2). Income generated by investment securities and the potential liquidation of those investments may also be used to fund those cash requirements.

The Authority's portfolio investments include investments in externally managed venture capital limited liability partnerships which were made in connection with a previously-approved commitment to stimulate venture capital activity in Kansas for the bioscience industry. As of June 30, 2015, the carrying value of the Authority's investment in the venture capital partnerships approved as part of this commitment, consisting of five separate partnerships, was \$11,946,729. Amounts invested in these partnerships are generally subject to redemption restrictions, which restrict the Authority's ability to liquidate the investment prior to distributions by the respective partnerships. The Authority's investment in these partnerships includes certain unfunded commitments, which are payable subject to capital calls by the venture capital limited partnerships. At June 30, 2015, \$63,426,766 was subject to call. Management fees and other fund expenses paid to these partnerships of \$614,391 and \$580,222 are included in grants and awards expense in the accompanying statements of revenues, expenses, and changes in net position for the years ended June 30, 2015 and 2014, respectively.

Subsequent to June 30, 2015, the Authority has approved two new commitments totaling \$670,733 and has released \$225,000 in previously-committed funds in addition to the \$58,360,312 venture fund commitment release discussed in note 5.

(8) Retirement Plan

The Authority has a 401(a) plan (Plan) which allows for a discretionary employer contribution of up to 8% based on the amount of the employee's elective deferral. Employer contributions to the Plan were \$98,461 and \$97,151 for the years ended June 30, 2015 and 2014, respectively. The Authority also offers a 457(b) plan which allows employees to defer wages up to the amounts allowed by the IRS.

(9) 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 special assessment is payable in annual installments through 2030, plus interest thereon. The Cooperative Development Agreement between the Authority and Kansas State University calls for a ratable share of the special assessments payable to be allocated on a square footage basis to any land granted by the Authority to companies that want to build facilities in the Kansas Bioscience Park. Interest expense for the fiscal years ended June 30, 2015 and 2014 was \$92,940 and \$98,935, respectively and is included in operating expense grants and awards in the accompanying statements of revenues, expenses, and changes in net position.

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NOTES TO THE FINANCIAL STATEMENTS

(9) Land Held for Development and Special Assessments Payable (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>
2016	\$ 173,399	\$ 89,942	\$ 263,341
2017	173,399	83,946	257,345
2018	173,399	77,950	251,349
2019	173,399	71,954	245,353
2020	173,399	65,958	239,357
2021-2025	866,995	239,847	1,106,842
2026-2030	867,003	89,943	956,946
	<u>\$ 2,600,993</u>	<u>\$ 719,540</u>	<u>\$ 3,320,533</u>

Management believes the fair value of the land held for development exceeds its carrying value, and therefore, no impairment losses have been recorded during the fiscal years ended June 30, 2015 or 2014. However, should the land be re-designated and used for an alternative purpose, the carrying value may exceed its fair value.

(10) 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 matures on December 1, 2021. On December 6, 2011 and again on November 24, 2014 the Authority selected a 3-year interest rate period for the Series 2009A bonds, resulting in a fixed rate equal to the contractual 3-year rate floor of 3.3% through November 2017.

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 and again on November 24, 2014 the Authority selected a 3-year interest rate period for the Series 2009B bonds resulting in a 5.0% rate (the rate floor) through November 2017. The Authority began making monthly principal and interest payments on 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.

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NOTES TO THE FINANCIAL STATEMENTS

(10) Bonds Payable (continued)

Interest expense for the years ended June 30, 2015 and 2014 was \$390,379 and \$409,220, respectively and is included in operating expense grants and awards in the accompanying statements of revenues, expenses, and changes in net position. Future 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, 2017: 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>
2016	\$ 461,717	\$ 370,572	\$ 832,289
2017	484,620	349,751	834,371
2018	508,700	327,860	836,560
2019	445,765	305,850	751,615
2020	403,182	287,972	691,154
2021 - 2022	6,293,083	376,852	6,669,935
	<u>\$ 8,597,067</u>	<u>\$ 2,018,857</u>	<u>\$ 10,615,924</u>

(11) Long Term Liabilities

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

	<u>July 1, 2014</u>			<u>June 30, 2015</u>	<u>Amounts due</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>within one</u>
					<u>year</u>
Bonds Payable	\$ 9,036,997	\$ -	\$ (439,930)	\$ 8,597,067	\$ 461,717
Special Assessments Payable	2,774,392	-	(173,399)	2,600,993	173,399
	<u>\$ 11,811,389</u>	<u>\$ -</u>	<u>\$ (613,329)</u>	<u>\$ 11,198,060</u>	<u>\$ 635,116</u>
	<u>July 1, 2013</u>			<u>June 30, 2014</u>	<u>Amounts due</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>within one</u>
					<u>year</u>
Bonds Payable	\$ 9,456,201	\$ -	\$ (419,204)	\$ 9,036,997	\$ 439,930
Special Assessments Payable	2,947,791	-	(173,399)	2,774,392	173,399
	<u>\$ 12,403,992</u>	<u>\$ -</u>	<u>\$ (592,603)</u>	<u>\$ 11,811,389</u>	<u>\$ 613,329</u>

SUPPLEMENTARY INFORMATION

**KANSAS BIOSCIENCE AUTHORITY
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SCHEDULE OF COMMITMENTS

Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date	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	900,000	100,000
Caravan Ingredients	7/13/2006	1,000,000	80,000	920,000	820,000	100,000
Junction City, KS (Ventria)	10/12/2006	1,000,000	600,000	400,000	-	400,000
Kansas Bioscience Park/K-State Campus	1/9/2007	7,600,000	2,264,523	5,335,477	1,654,286	3,681,191
Projects fully paid and/or released		7,825,288	515,735	7,309,553	7,309,553	-
	FY 2007 Totals	18,425,288	3,460,258	14,965,030	10,683,839	4,281,191
Projects fully paid and/or released		32,510,232	11,801,108	20,709,124	20,709,124	-
	FY 2008 Totals	32,510,232	11,801,108	20,709,124	20,709,124	-
WCGME research centers	10/28/2008	5,880,000	979,200	4,900,800	4,410,600	490,200
NBAF DHS (Schmallenberg Virus)	1/12/2009	92,884,687	92,016,172	868,515	627,965	240,550
KBP Venture Accelerator	1/27/2009	19,000,000	-	19,000,000	7,574,841	11,425,159
Wahl/Hixon renovation	03/09/2009	26,400,000	-	26,400,000	18,480,000	7,920,000
KU/VC Wichita Clinical Trials	5/19/2009	500,000	-	500,000	346,596	153,404
Projects fully paid and/or released		32,373,917	6,556,799	25,817,118	25,817,118	-
	FY 2009 Totals	177,038,604	99,552,171	77,486,433	57,257,120	20,229,313
KBA Growth Fund	10/8/2009	50,000,000	29,626,666	20,373,334	16,346,568	4,026,766
Eminent Scholar - KU Srivastava	1/26/2010	1,775,000	-	1,775,000	1,765,000	10,000
KSU CBRI PRRS	1/26/2010	500,000	-	500,000	428,793	71,207
Cargill Expansion and Attraction	5/10/2010	750,000	-	750,000	600,000	150,000
CBRI ABADRU - Rift Valley Fever	5/10/2010	498,917	-	498,917	400,000	98,917
NBAF Research	5/24/2010	500,000	-	500,000	321,079	178,921
Projects fully paid and/or released		14,088,482	1,984,960	12,103,522	12,103,522	-
	FY 2010 Totals	68,112,399	31,611,626	36,500,773	31,964,962	4,535,811
Rising Star-KU (Xu)	7/27/2010					
Eminent Scholar - KU (Anant)	10/11/2010	1,450,000	-	1,450,000	1,440,000	10,000
Eminent Scholar - KU (Godwin)	10/11/2010	3,362,500	-	3,362,500	3,287,500	75,000
Eminent Scholar - KU (Welch)	10/11/2010	1,575,000	-	1,575,000	1,429,167	145,833
CEEZAD	12/21/2010	4,000,000	-	4,000,000	2,385,000	1,615,000
The Learning Collaborative	12/21/2010	500,000	-	500,000	450,000	50,000
Plastikon Healthcare Attraction	1/24/2011	750,000	450,000	300,000	200,000	100,000
Projects fully paid and/or released		18,636,509	4,304,398	14,332,111	14,332,111	-
	FY 2011 Totals	30,274,009	4,754,398	25,519,611	23,523,778	1,995,833

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SCHEDULE OF COMMITMENTS

Project	Date Approved	Funds Originally Committed	Commitments Released	Funds Currently Committed	Total Paid to Date	Remaining To Be Paid
Argenta Expansion & Attraction	7/25/2011	400,000	-	400,000	100,000	300,000
POCI - Oncimmune	8/11/2011	58,600	-	58,600	30,000	28,600
Rising Star - KU (Tunge)	10/31/2011	650,000	-	650,000	293,750	356,250
Rising Star - KU (Detamore)	3/06/2012	612,502	-	612,502	514,169	98,333
POCI - Effexus Pharmaceuticals	5/10/2012	165,000	-	165,000	150,000	15,000
EMCI Expansion & Attraction	6/20/2012	1,000,000	475,000	525,000	175,000	350,000
EMCI R&D Voucher	6/20/2012	595,000	-	595,000	171,889	423,111
Eminent Scholar - KSU (Riviere)	6/20/2012	4,897,196	-	4,897,196	2,767,393	2,129,803
Xenometrics Expansion & Attraction	6/20/2012	1,000,000	250,000	750,000	625,000	125,000
Projects fully paid and/or released		15,157,740	3,020,653	12,137,087	12,137,087	-
FY 2012 Totals		24,536,038	3,745,653	20,790,385	16,964,288	3,826,097
KBCI HPI Advanced Plant Design - FY 13	7/24/2012	2,500,000	-	2,500,000	2,400,000	100,000
Kansas Bioscience Park - Brokerage Fees	7/24/2012	220,000	-	220,000	-	220,000
VBRC Expansion & Attraction	11/20/2012	300,000	-	300,000	-	300,000
PRA E&A - Early Development Research	1/22/2013	400,000	-	400,000	300,000	100,000
Syntech Research Lab Services E&A	1/22/2013	1,000,000	-	1,000,000	450,000	550,000
POCI - HylaPharm	1/22/2013	200,000	-	200,000	178,600	21,400
Projects fully paid and/or released		6,469,892	1,870,694	4,599,198	4,599,198	-
FY 2013 Totals		11,089,892	1,870,694	9,219,198	7,927,798	1,291,400
SIH Bluemont Bio & Ag Fund	4/29/2014	60,000,000	-	60,000,000	600,000	59,400,000
Projects fully paid and/or released		3,100,000	-	3,100,000	3,100,000	-
FY 2014 Totals		63,100,000	-	63,100,000	3,700,000	59,400,000
Projects fully paid and/or released		7,950,000	2,000,019	5,949,981	5,949,981	-
FY 2015 Totals		7,950,000	2,000,019	5,949,981	5,949,981	-
Totals		437,811,462	159,037,927	278,773,535	183,213,890	95,559,645



**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, 2015, 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 November 6, 2015.

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.

Kansas City, Missouri
November 6, 2015

Mayer Hoffman McCann P.C.