

Approved: 4-03-08
Date

MINUTES OF THE SENATE AGRICULTURE COMMITTEE

The meeting was called to order by Chairman Mark Taddiken at 8:30 a.m. on March 5, 2008 in Room 423-S of the Capitol.

All members were present except:

Tim Huelskamp- excused
Ralph Ostmeyer- excused

Committee staff present:

Raney Gilliland, Kansas Legislative Research Department
Emalene Correll, Kansas Legislative Research Department
Jason Thompson, Office of Revisor of Statutes
Matt Todd, Office of Revisor of Statutes
Judy Seitz, Committee Assistant

Conferees appearing before the Committee:

Gary Hanson, Public Wholesale Water Supply District #25 (PWWSD)

Others attending:

See attached list.

Chairman Taddiken noted that copies of a 2007 Progress Report from the Kansas Bioscience Authority (KBA) (Attachment 1) which had been mentioned in yesterday's meeting, had been distributed to Committee members.

Chairman Taddiken also said that there have been some questions regarding the status of **SB 595-Agricultural products; labeling requirements**. He said there have been discussions with the Kansas Department of Agriculture (KDA) and Secretary Polansky has indicated that the labeling issue can be addressed with rules and regulations. Chairman Taddiken said considering the broadness of **SB 595** that he does not intend to work it at this time. If the labeling issues need to be addressed in the future, perhaps this matter should be addressed by an interim committee.

The hearing on **SB 559-Water supply and distribution districts, acquisition of grounds** continued.

Gary Hanson, Public Wholesale Water Supply District #25 (PWWSD), spoke in opposition to **SB 559** (Attachment 2). Applications have been filed with the Division of Water Resources (DWR) to develop a ground water supply in the Kansas River basin east of Lawrence. Those applications are pending. He said that this bill would put an end to the use of eminent domain for any purpose.

Mr. Hanson took questions from the Committee.

Chairman Taddiken said the Committee has a copy of a memorandum from Lane Letourneau, Environmental Scientist, Division of Water Resources, KDA which answers questions raised at the hearing on February 25, (Attachment 3).

Staff also answered questions.

Paul Graves, Assistant Chief Engineer, Division of Water Resources, KDA, answered questions from the Committee.

Burke Griggs, Stevens & Brand, spoke in support of **SB 559**. Mr. Griggs had offered testimony at the hearing on February 25.

Chairman Taddiken closed the hearing on **SB 559**.

Senator Pine introduced visitors Mikayla Lowe and Brandon Hawks from Jefferson County.

CONTINUATION SHEET

MINUTES OF THE Senate Agriculture Committee at 8:30 a.m. on March 5, 2008 in Room 423-S of the Capitol.

Chairman Taddiken and Vice Chairman Pine introduced a **Substitute for SB 559** which would restrict a municipal water district from gaining access to land to obtain a water right. Jason Thompson, Office of the Revisor of Statutes, noted that the change would only restrict the ability to exercise the power of eminent domain to access land for the purpose of water rights.

There was discussion on the proposed **Substitute for SB 559**.

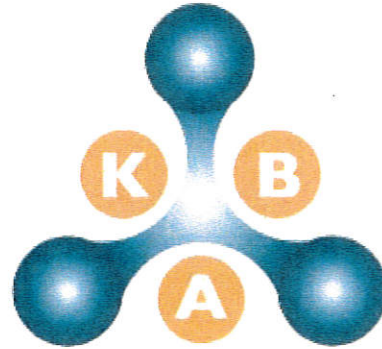
Staff will work on language to make the bill clearer.

Meeting adjourned.

SENATE AGRICULTURE COMMITTEE GUEST LIST

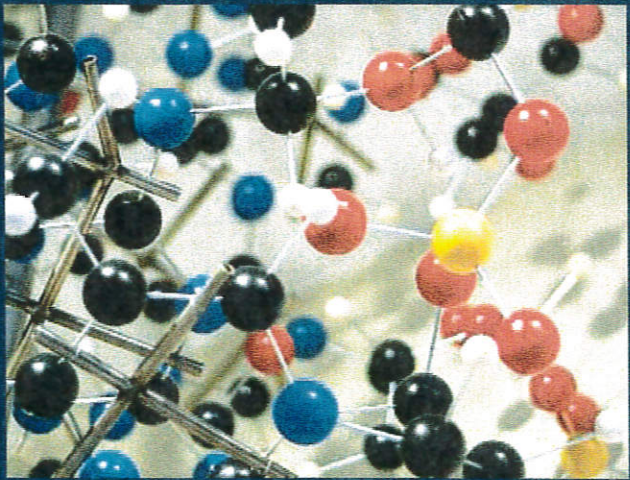
DATE: 3-5-08

NAME	REPRESENTING
SEAN MILLER	CAPITOL STRATEGIES
ERIC ARNER	WaterOne
Kevin Breone	KRUG
Gregory Shipe	^{River} Kansas Valley Growers
Mark Reis	Ks. River Valley Growers
JOHN PENDLETON	" "
Kent Astren	Ks Farm Bureau
Paul Graves	KS Dept. of Agriculture
GARY HANSON	Public Wholesale Dist #25
Pat Lehman	KRWA
CU Cotswold	KDA
Dana Peterson	KAWG
Leslie Kaufman	Kc Co-op Council
Burk Giggis	Greg Shipe, Ks River Val. Growers
Diana Simpson	KGFA-KAKA
Joe Furd	KWO
John Luckman	Bartlett Bartlett & West
Larry Wray	Public Wholesale #25
U. D. Sulth	Bartlett & West



KANSAS BIOSCIENCE
AUTHORITY

PARTNERS IN BIOSCIENCE GROWTH



Senate Agriculture Committee
3-5-08
Attachment 1



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*The Kansas Bioscience Authority's
mission is to advance Kansas'
leadership in bioscience research
and industry.*

THE KANSAS BIOSCIENCE AUTHORITY is a \$581 million initiative created by the visionary Kansas Economic Growth Act of 2004 to expand the state's world-class research capacity and bioscience clusters; support the growth of bioscience startups; and stimulate bioscience business expansion and attraction.

By providing financial and business assistance to bioscience researchers and companies, the KBA is strategically contributing to the creation of jobs, attracting capital investment and research dollars to the state, and improving Kansans' quality of life through bioscience advancements.

The authority is an independent entity of the state governed by an 11-person board of directors that includes prominent local and national leaders in industry and academia.

FUNDING COMMITMENTS MADE TO RESEARCHERS AND BUSINESSES*

(in millions)



*pending achievement of milestones

FUNDS PROVIDED TO THE KBA THROUGH THE KANSAS ECONOMIC GROWTH ACT

(in millions)



INVESTMENT OUTCOMES*

	Jobs	Capital Expenditures	Research Dollars	Capital Investment
PROJECTED	4,321	\$1,112,910,238	\$5,045,904	\$65,300,000
REALIZED	808	\$ 132,720,324	\$3,322,384	\$43,112,926

*From inception through November 2007

WITH NEW PROGRAMS AND INFRASTRUCTURE put in place in 2007, the Kansas Bioscience Authority significantly increased its capacity to assist bioscience researchers and businesses. Funding commitments for new projects quadrupled from fiscal year 2006 to fiscal year 2007, and the amount of funding paid to researchers and businesses that achieved established milestones in FY07 increased by more than 2000 percent, demonstrating positive momentum and a solid pipeline of bioscience growth in Kansas. The growth is already becoming evident in jobs created; research dollars attracted; and capital expenditures and investments made.



*Thomas V. Thornton,
President and CEO*

The year was one of great progress for bioscience in Kansas. Our researchers developed promising pharmaceuticals to improve the health of millions. Bioenergy enterprises forged ahead with exciting new technologies that will allow us to better meet our own energy needs. And our plant and animal health sectors expanded on their already stellar reputations.

All of this activity brought new jobs, new investments, and new research dollars to our state.

OVER THE LONG TERM, OUR CONTRIBUTION
TO THE ADVANCE OF BIOSCIENCE
TECHNOLOGY IN KANSAS WILL GO FAR
BEYOND THE AMOUNT OF MONEY WE INVEST.

The year was one of great progress for the Kansas Bio-science Authority as well. After two years of organizational and programmatic development following the passage of the Kansas Economic Growth Act, we became fully operational in 2007, charging forward with our mission to advance Kansas' national leadership in bioscience.

We established clear programs so bioscience companies and researchers can easily access the assistance available to them. We established board governance guidelines to maximize transparency and accountability. And we traveled the state from Garden City to Pittsburg to Overland Park to build on areas of bio strength such as biomaterials, plant and animal health, biofuels, biomaterials, drug discovery, healthcare information technology, and oncology.

INVESTMENT OVERVIEW

In fiscal year 2007, which ended June 30th, the KBA chose promising investment opportunities and made funding commitments of \$20.3 million to 22 projects. In the first five months of the current fiscal year, we committed another \$10.7 million for a total of \$35.7 million committed since the authority's inception.

These investments are supporting bioscience throughout the business cycle, from research and development to commercialization to expansion and attraction. In all of our assistance, we aim to use KBA funds as leverage to help researchers and business attract other investments in their work. We want our contribution to matter — to be a dealmaker, not merely back-up funds.

Some of our more newsworthy investments included grants to support technology advances for the early detection of breast cancer; to enable the tracking of meat products through the supply chain to ensure food safety; to develop crops that contain natural proteins that can save the lives of children worldwide; to reduce the mortality of premature babies by helping them get proper nutrition; and to develop a 92-acre bioscience park in Olathe that will bring researchers and leading businesses together for significant collaboration and success.

A PIVOTAL ROLE

We are building on our existing success and making Kansas a national leader in bioscience. This is a realistic and attainable goal. Last year, for example, the federal government selected Manhattan, Kansas, as one of five finalists in the nation for a prestigious and job-enhancing \$451 million biodefense laboratory. The inclusion of

IN 2008, WE EXPECT OUR BIOSCIENCE INVESTMENTS
WILL INCREASE SIZABLY, BOTH IN ACTUAL FUNDS
EXPENDED AND COMMITMENTS MADE.

Kansas on this select list illustrates the growing reputation of Kansas as a top-tier bioscience state.

Through the KBA, the state is making a significant commitment to expand on this success. As such, we are becoming a focal point for evaluating, supporting, and promoting bioscience growth throughout Kansas.

We plan to invest approximately \$581 million in bioscience over the next 10 years or so. And since we are an independent entity of the state, governed by a board of directors comprised of prominent local and national leaders in business, agriculture, finance and academia, we can be nimble and aggressive in meeting the needs of the always changing bioscience industry.

We also are fortunate to live in a state with leaders in both the executive and legislative branches totally committed to bioscience success. The unstinting support of our elected officials and state agencies has allowed us to offer seamless assistance to researchers and businesses looking to grow in Kansas.

Further, we have been able to form unique partnerships within the public and private sectors — universities, research scientists, commercial businesses, private investors, venture capitalists, and government officials.

This spirit of collaboration is at the core what we do, and it allows us to present a united Kansas team — and all the support that represents — when working to accelerate the growth of bioscience in our state.

Over the long term, our contribution to the advance of bioscience technology in Kansas will go far beyond the amount of money we invest. It will include the promotion of an environment of cooperation and coordination that effectively nurtures bioscience growth.

A BRIGHT FUTURE

We got off to an excellent start and finished the year on a strong note. In 2008, we expect our bioscience investments will increase sizably, both in actual funds expended and commitments made. In addition, we expect to continue growing the partnerships that will materially leverage the funds we provide the bioscience community.

This will keep us on the upward trajectory we've seen this year, while providing additional lift in the form of exciting new initiatives such the Kansas Bioscience Centers of Innovation, which will create specialized research centers in the state's areas of expertise, and Heartland Bio-Ventures, which will provide hands-on business assistance to increase risk capital investment in Kansas bioscience.

The result will be continued growth in jobs, capital investment, research dollars, and private investment capital coming into our state, not to mention the amazing bioscience advances that will improve the quality of life in Kansas.

Our accomplishments in this endeavor would not be possible without the active participation of our board of directors and our partners in academia, business, and government. To each of them I extend my most grateful appreciation.

Sincerely,



Tom Thornton
President/CEO

November 30, 2007

**INVESTMENTS APPROVED
IN FISCAL YEAR 2007**

(July 1, 2006 – June 30, 2007)

RESEARCH AND DEVELOPMENT

National Bio and Agro-Defense Facility, Manhattan: Award to support the attraction of a \$451 million federal laboratory to Kansas to research and develop countermeasures to animal, human, and zoonotic diseases. Kansas is in the group of five finalists for the facility.

COMMERCIALIZATION

Sunflower Integrated Bioenergy Center, Holcomb: Award for Phase I and II projects to the National Institute for Strategic Technology Acquisition and Commercialization (NISTAC) to identify and commercialize renewable energy technology for western Kansas (7/13/06, 1/9/07).

COMMERCIALIZATION: R&D VOUCHER

CritiTech, Lawrence: Award to create smaller and more uniform particles in the area of drug delivery by expanding capacity to perform feasibility and development projects for pharmaceutical companies (7/13/06).

Nutri-Shield, Courtland: Award to assist in developing and transitioning a process for synthesizing sorbic acid from the carbohydrate fraction of corn from proven lab scale to a plant setting (7/13/06).

MGP Ingredients, Atchison: Award to support the development of biobased, biodegradable resins designed to economically replace plastic resin (7/13/06).

RETENTION AND ATTRACTION

OncoImmune, DeSoto: Award to support technology for the early detection of cancer, in particular breast cancer, with the company's establishment of North American headquarters in Kansas (10/12/06).

American Ingredients Company, Lenexa: Award to a leading researcher and manufacturer of functional bakery ingredients and health products to relocate its headquarters to Lenexa (7/13/06).

Topeka Chamber of Commerce, Topeka: Award for due diligence to facilitate the attraction process of a plant-made pharmaceutical and plant-made industrial products company (7/13/06).

Junction City, Kansas / Ventria Bioscience: Award to support the attraction of Ventria Bioscience, a plant-made pharmaceutical and plant-made industrial products company, to grow genetically modified rice that can be processed into pharmaceutical, medical food ingredients and bioprocessing ingredients (10/12/06).

Edenspace Systems Corporation, Junction City: Award to support crop engineering to lower the cost of cellulosic ethanol. The company has been awarded more than \$2.8 million in development funding from the U.S. Department of Energy and has signed several key development agreements (3/13/07).

Hospira, McPherson: Award to a global specialty pharmaceutical and medication delivery company to encourage qualified students to investigate careers in the biosciences and to hire recently graduated scientists from Kansas universities at the company's expanded McPherson plant (1/9/07).

INFRASTRUCTURE

City of Manhattan, Kansas / National Institute for Strategic Technology Acquisition and Commercialization: Award for construction of and equipment for web lab incubator space (7/13/06).

Kansas Bioscience Park, Olathe: Award for the development of a 92-acre bioscience park that will be home to the K-State Olathe Innovation Campus and a number of growing bioscience companies (1/9/07).

Wet Lab Upgrade KU Medical Center, Kansas City: Award to upgrade the wet lab at the Kansas City Biotechnology Development Center at the KUMC Research Institute (7/13/06 and 1/9/07).

Wet Lab Planning and Architecture, Olathe: Award for planning and architectural work for the Kansas Bioscience Park (7/13/06).

OTHER

KansasBIO: Assistance supports Kansas' outreach and attraction activities at the annual BIO International Convention, the preeminent gathering of tens of thousands of bioscientists and business and a top Kansas marketing opportunity (10/12/06, 9/28/07).

Kansas City Area Development Council: Assistance to support the development of a business recruitment plan by the KC metropolitan area's umbrella economic development organization (7/13/06).

Kansas City Area Life Sciences Institute: Matching funds to support a federal planning grant for a regional wet lab incubator to be located at KU Medical Center (7/13/06).

Kansas Bioscience Centers of Innovation: Funding for planning grants for a consortia of research institutions and private companies to focus on research and development in core technology areas that establish international research excellence and lead to high commercial payoff in new products and processes (5/25/07).

Heartland BioVentures: Funding for a business assistance program to grow bioscience companies and help them raise venture capital investment (5/25/07).

Kansas Bioscience Fund: Funding to increase the amount of private investment capital available in Kansas for bioscience companies in the seed or early stage (5/25/07).

INVESTMENTS APPROVED IN FIRST FIVE MONTHS OF FISCAL YEAR 2008 (July 2007 - November 2007)

CritiTech, Lawrence: Award to support the manufacture of fine-particle pharmaceuticals and to pursue an investigational new drug application for Nanotax, a cancer-fighting drug (9/28/07).

City of Emporia, Kansas/Renewable Energy Group: Award over 10 years to support the attraction of the nation's leader in biodiesel marketing, which plans to build a commercial-scale, multiple feedstock biodiesel production facility in Emporia (7/10/07).

Deciphera Pharmaceuticals, Lawrence: Award to support the expansion of research space for the development and commercialization of technology that fights cancer, inflammation, cardiovascular disease, and other disorders by preventing cell malfunction (7/10/07 and 11/26/07).

Fort Dodge Animal Health, Overland Park: Award for the expansion of North American research and development laboratories in Olathe (7/10/07).

Thermo Fisher Scientific, Lenexa: Award for expansion of a manufacturing facility for a wide range of high-quality microbiology products used in clinical, industrial, research, and academic laboratories (9/28/07).

Kansas Environmental Management Associates, Topeka: Award for a collaboration with the Advanced Manufacturing Institute to develop, construct, and operate a farm-scale phosphorous recovery system to remove up to 75 percent of the phosphorous from cattle feedlot lagoon water (9/28/07).

OsteoGeneX, Lawrence: Award for the development of a small molecule inhibitor of the new bone anabolic target sclerostin for the treatment of osteoporosis and related bone disorders (7/10/07).

KC BioMediX, Lawrence: Award to help commercialize technologies developed at the University of Kansas for the care and treatment of infants born prematurely, particularly assisting with the problem of non-nutritive sucking (7/10/07).

Innovia Medical, Lenexa: Award to commercialize an FDA-approved product called EarCheck, which utilizes the only technology for the rapid detection of middle ear fluid, a key indication of ear infections (7/10/07).

Edenspace Systems Corporation, Junction City: Two awards to support breakthroughs in lowering processing costs and increasing yields of biofuels from sorghum, corn, and switchgrass (11/26/07).

Stalks and stems

Edenspace Systems Corporation has long been expert in environmental technology, using plants to remove harmful materials such as arsenic and lead from the environment. The company considered plants to be helpful scavengers for eliminating destructive by-products of any manufacturing process. However, as its research evolved, it recognized the opportunity to harness this same technology for a different application — using waste material in corn-based ethanol as a source of energy. Rather than just producing fuel from the residue of the food crop, Edenspace found the entire corn plant could be used for fuel production.

The great idea: less waste, more fuel, and more profits for farmers.

Current ethanol production typically yields 40 to 50 percent of the energy from the cornstarch of the plant. The rest ends up in the leaves and stalk, which are left on the ground after harvesting corn.

Edenspace's expertise is enhancing crops to double the yield of corn-based ethanol. As the company completes the formation of its proprietary process, EnergyCorn, by converting cellulose

from the leaves and stalks into sugars and then adding yeast, it will generate additional ethanol from the same acreage of corn. Farmers will be able to eliminate waste from their harvesting process, increasing their incomes because they will have more to sell per acre of land.

With this technology advancement, Edenspace needed room to expand, and it knew it had to be where the action is: the Midwest. It had to be near a large agricultural university with a top-flight faculty and student body. The company also needed access to farmers and cooperatives growing corn and sorghum.

Company officials interviewed leaders from 12 states, and the list was quickly pared to four finalists. In those four locations, the company began intensive discussions with state, local and city governments, universities, and other companies in related industries. In that process, Edenspace talked to the KBA.

Edenspace found the overall Kansas approach well integrated, consistent, and cooperative. The company was invited to move anywhere in the state, and the process to select a specific location lacked the unhelpful competitiveness and

"THE KBA'S COMMITMENTS TO DATE HAVE BEEN IMPORTANT TO US IN OUR DECISION TO COME TO KANSAS, NOT JUST THE MONETARY AMOUNT, BUT THE CONSISTENT SUPPORT AS WELL."

*Bruce Ferguson
Chief Executive Officer, Edenspace*





infighting the company sensed in other states. This made it easier for Edenspace to make an informed decision — here in Kansas.

In March of 2007, the KBA awarded Edenspace \$200,000 in seed money for a new 20,000 sq. ft. facility in Junction City, Kansas. The company's expansion in Junction City will add about 30 jobs to the area and continue the growth of the biofuels sector in Kansas.

Part of the KBA's strategy involves industrial clustering, the process of locating like-minded companies, services, and products in contiguous areas to benefit consumers and accelerate industrial growth.

Edenspace recognized that the accelerated commercialization of its bioenergy process would be possible by moving from the East Coast to the heartland. Others in the industry are finding success in Kansas as well, and the sector is poised for strong growth in 2008.



(Left): Edenspace grows various corn lines in its greenhouse to produce immature embryos for subsequent transformation with Edenspace genes. *(Above left):* When most people think of corn, they envision an ear of corn on their dinner plate. But Edenspace is interested in everything that's been left back on the field, the leaves and stems in particular. Those can be converted from long chains of glucose molecules, called cellulose, into the individual glucose sugars that can then be fermented by yeast into ethanol. *(Above right):* Christa Linsenmeyer, research associate at Edenspace, analyzes transgenic DNA in the laboratory.

"We have some very exciting life sciences companies in various stages of development here in our region, and with support from the Kansas Bioscience Authority, we have a much better opportunity to be successful and to grow and retain them here."

Sam Campbell, Co-founder of CritiTech



(Right): CritiTech's CMP crystallizer operators go through a checklist before starting the equipment that performs a patented process of transforming standard drug compounds into submicron crystals. (Above left): CritiTech's development lab houses a new coating unit as well as a large supply of CO₂ cylinders for the production of supercritical CO₂, the basis of CritiTech's technology. (Above right): Before starting a new crystallization run, lines are flushed and filters are cleaned and examined to maximize submicron crystal collection during production.

Bench to bedside

Cancer is a dreaded disease, but Kansas researchers at universities and companies such as CritiTech are helping us face it with greater hope.

CritiTech started a decade ago as an outgrowth of studies by the company's co-founder, University of Kansas Professor Bala Subramaniam. The research, dealing with super-critical fluid technology, enabled the company to develop its first drug, which is intended to fight ovarian and pancreatic cancers.

Nanotax[®], now in Phase I clinical trials with the U.S. Food and Drug Administration, builds on the success of a drug with a long history with the FDA. The company has improved the drug's formulation by increasing the effectiveness of the medicine and by reducing the side effects brought about by the harsh solvent previously used as the drug delivery system.

The company's advancements don't stop there. It also has developed a manufacturing process that addresses the inherent weakness in the drug delivery systems of existing pharmaceuticals. CritiTech estimates that 30 to 40 percent of the drugs in the development pipeline today will not find a place in the market because they have significant drug delivery issues. But CritiTech's process allows drug material to be reformulated, leading to improvements to existing drugs as well as drugs not yet ready for market.

The KBA awarded \$260,000 to CritiTech at a critical juncture in the company's development,

and the company views the KBA's involvement as instrumental in its early success. CritiTech said the KBA is helping steer a process developed in the university lab more quickly to the patient's bedside. In fact, the company plans to hire 25 to 30 employees as Nanotax works its way through the FDA process over the next three years.

Many other researchers and businesses are advancing bioscience in Kansas to improve human health through pharmaceuticals and nutraceuticals, creating a vibrant and entrepreneurial life sciences economy. The KBA's \$130,000 investment in OsteoGeneX is helping another Lawrence-based company further its research and development of a groundbreaking treatment designed to stop the advance of osteoporosis and related bone disorders. And KBA support provided to Junction City for the benefit of Ventria Bioscience has led to the production of rice in Kansas with natural proteins expected to benefit children around the world suffering from acute diarrhea, which is the second leading killer of children under the age of five, claiming two million lives annually.

Spinoffs from the vibrant human health research community in Kansas, particularly in the Kansas City-to-Lawrence corridor, are changing lives and growing the economy. The KBA is providing vital resources to nurture exponential growth in the sector.



NANOTAX[®] WILL TARGET OVARIAN AND PANCREATIC CANCER. IN 2007, THE AMERICAN CANCER SOCIETY FORECAST APPROXIMATELY 37,000 NEW CASES OF PANCREATIC CANCER AND 22,000 NEW CASES OF OVARIAN CANCER PER ANNUM.

1-11

Seamless collaboration

Academia, business, and government work together seamlessly to support bioscience growth and success in Kansas. The positive results of this collaborative, can-do approach abound, but one prominent example — the Kansas Bioscience Park — shows just how big our horizons have become.

In this project, the city of Olathe set forth a big vision for growth, donating 92 acres of valuable real estate for bioscience development to be managed by the KBA. City officials, Kansas State University, and the KBA then charted a course to create a world-class business park where all the facets of job creation; company recruitment and investment; and leading-edge research in the bioscience industry could happen in one location.

The demand for such a dynamic place has proven strong.

To begin, Kansas State University signed on to build the K-State Olathe Innovation Campus to expand its bioscience research capabilities, and Fort Dodge Animal Health, a world-class corporate leader in animal health, announced it would expand at the park with KBA assistance, bringing

a \$40 million research and development facility to be staffed by more than 200 employees.

Fort Dodge made its decision after speaking with various municipalities in Missouri, Kansas, and Iowa about options for expansion. As discussions began in earnest with the KBA, Fort Dodge learned that K-State was planning its campus in the park, which was appealing due to ongoing collaborative projects between K-State and Fort Dodge.

The Kansas Bioscience Park location proved mutually beneficial and reinforces the KBA's strategy of promoting industrial clustering, where commonality of thought and processes, as well as products and services, can lead to further development in the related industries.

Fort Dodge's new facility will encompass multiple laboratories, providing the company with the ability to conduct research and development in animal health products from early stage to taking products to market. Further, it will be able to scale to a manufacturing phase when needed, bringing additional jobs and capital investment.

Olathe estimates the entire park will generate about \$2.4 million in annual tax revenue, \$150

"THIS UNIQUE COLLABORATION
WILL PROVIDE FORT DODGE THE
OPPORTUNITY TO INCREASE OUR
R&D CAPABILITIES, WHICH IS THE LIFE
BLOOD OF OUR COMPANY."

*Rick DeLuca, President
Fort Dodge Animal Health*





million in capital investment, and 3,000 new jobs with an average salary of \$57,000.

Interest in the Kansas Bioscience Park remains high, and we expect to commit the remaining space at the park in 2008. The reasons are clear: The city and state are providing innovative tools to stimulate bioscience growth; university researchers and biobusinesses will benefit from opportunities for close collaboration; and the setting creates an environment for success from early stage bio research to full-scale commercialization.

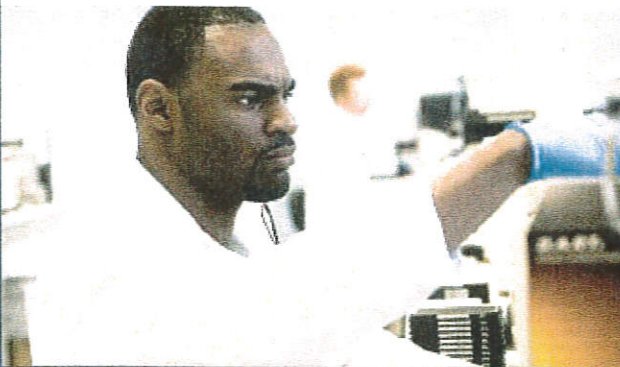


Graphic by Erinn Barcomb-Peterson

(Left): Dr. Steve Chu, senior vice president of global research and development, conducts testing in the laboratory at the company's headquarters in Overland Park. *(Above left):* Fort Dodge Animal Health is a leader not only in the development of vaccines for livestock, but also for companion animals such as dogs and cats. In 1999, for instance, the company developed a new line of its popular Duramune® canine vaccine, which offers dog owners broader protection against two clinically significant strains of *Leptospira*, a contagious disease that can result in chronic liver and kidney disease or even fatality. *(Above right):* Fort Dodge often collaborates with K-State on research projects, a relationship that will be strengthened by both organizations' presence at the Kansas Bioscience Park. Recently, the company donated \$120,000 to K-State to establish the Fort Dodge Animal Health ProMeris and Research Fellowship Fund.

"It's always interesting when you can attract an overseas company to come to the greater Kansas City area... and we have a really great working relationship with the Kansas Bioscience Authority."

Don Marvin, CEO of IdentiGEN



(Above, left) Because Lawrence, Kansas, is home to the University of Kansas, IdentiGEN gained immediate access to some of the brightest scientific minds in Kansas. This proved to be a decisive advantage when IdentiGEN began to staff its new laboratory in Lawrence. (Above) Compared to the size of its livestock market in Ireland, IdentiGEN views the American market as an unparalleled opportunity to expand its revenues and build a sizable production complex in Kansas. The U.S. livestock market is the largest in the world. It includes nearly 100 million cattle in inventory, and about one-third come to market each year. In addition, more than 100 million hogs were processed and sold last year. Inasmuch as no DNA-based identification is being done in the U.S. market, IdentiGEN believes it is poised to become a major factor in the marketing of meat products in the U.S.



1-14



Attracting overseas firms

Successful bioscience companies outside the U.S. looking to establish North American headquarters are finding there's no place like home in Kansas.

Case in point: Dublin, Ireland-based IdentiGEN started operations in Lawrence this year after finding the right mix of bioscience expertise, researchers, agricultural resources, central location, and private-public support, including a \$125,000 voucher provided by the KBA in FY06 for research and scientific equipment.

IdentiGEN is the creator of a unique DNA-based system that enables meat producers to verify the quality of meat products and identify their precise origin. The tracing system enhances food safety and consumer confidence by allowing meat sellers to affix the IdentiGEN TraceBack label, a symbol of quality European consumers have come to rely on.

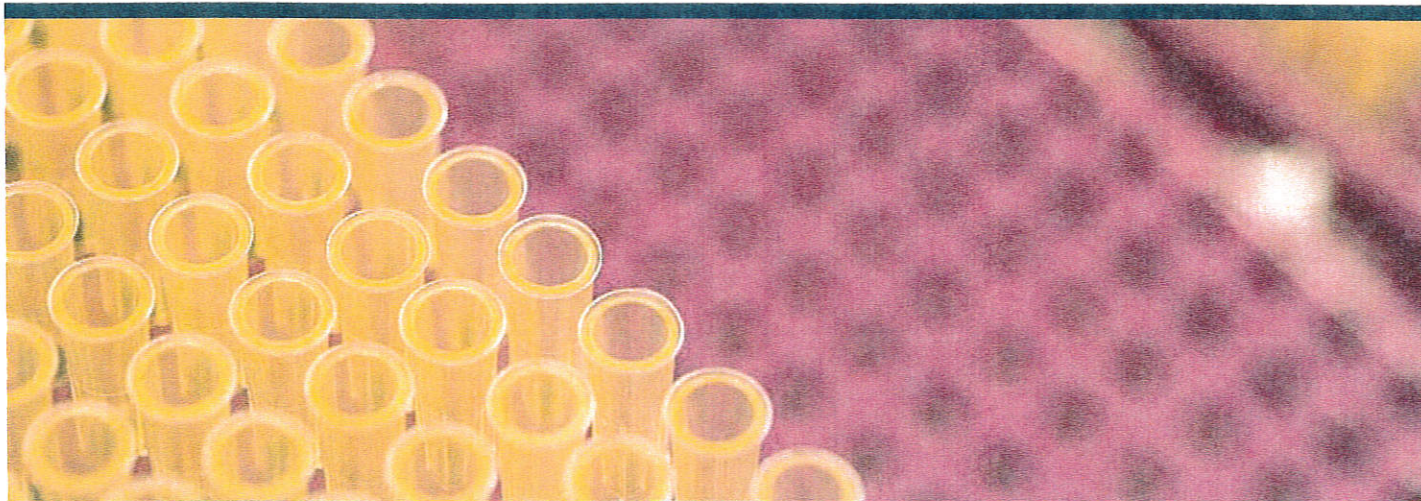
With recent outbreaks of E. coli contamination in the U.S. meat supply fueling demand for increased food safety from American households, IdentiGEN's DNA technology is expected to bring enormous changes to the grocery industry in North America. Not only is it expected to increase profits for grocers who sell meat with the IdentiGEN seal of approval, it should increase public health and safety in the event of any food

contamination, as meat packers and grocery chains can quickly identify the source of any problems.

IdentiGEN is positioned to achieve substantial growth in the U.S., with a meat production market much larger than in Ireland. The company's proprietary position in DNA testing is also well established, and its process has been approved by the U.S. Department of Agriculture. This has enabled IdentiGEN to begin pilot programs with several large grocery chains in the U.S.

IdentiGEN's growth in Kansas is already a reality, with the company doubling its lab space and expecting to hire a workforce of 200 to 300 within three to five years. It is joined by other companies such as U.K.-based OncImmune that have chosen Kansas for North American headquarters as well.

OncImmune, which will make DeSoto its U.S. base, has developed a blood test that promises to detect breast cancer cells much earlier than detection through other means such as mammograms. With assistance from the KBA, the company is working with the University of Kansas and KU Medical Center to expand that technology into the detection of other types of cancer. In the next year, the company plans to add 30 jobs, on its way to 225 new employees in the next several years.



1-15

Green with algae

With high gas prices and uncertainty in world oil markets, many Americans are looking for alternative sources of fuel — particularly sources that can increase our country's energy independence and reduce pollution concerns.

The KBA has been doing its part to provide solutions by supporting innovative biofuels efforts underway in Kansas. The Sunflower Integrated Bioenergy Center is one example.

Sunflower Electric Power Corporation is a cop based in Hays serving approximately 400,000 people in 34 counties in western Kansas. The National Institute for Strategic Technology Acquisition and Commercialization (NISTAC) in Manhattan is the commercialization arm of Kansas State University. The two have partnered, with funding from the KBA, to create renewable energy for western Kansas in a joint project called the Sunflower Integrated Bioenergy Center.

The intellectual core of the proposed bioenergy center was developed by K-State researchers, and its energy source is perhaps the most unlikely of resources — green algae.

While algae is one of the most primitive plant forms, its ability to convert sunlight, carbon dioxide, and nutrients into oil for biodiesel and starch

for ethanol makes it extremely attractive for renewable energy.

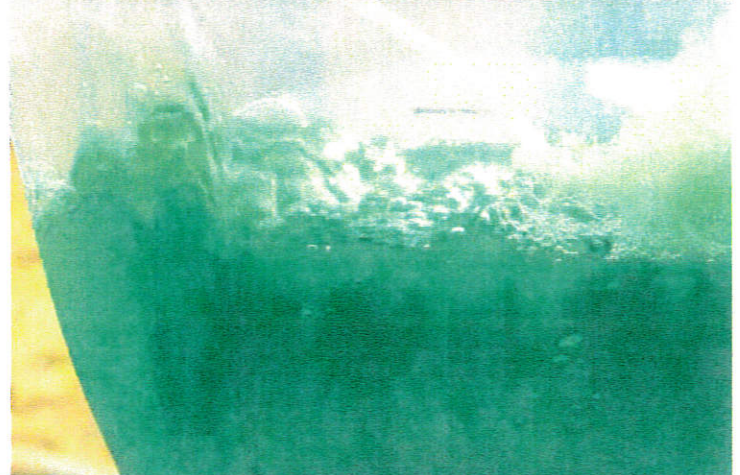
Recognizing the potential of algae, NISTAC and Sunflower envision a bioenergy center that would create an ultra-efficient “closed-loop system” by incorporating an ethanol plant, a biodiesel plant, a dairy, an anaerobic digester, an algae reactor, and a coal-based power plant all within the same system.

A Sunflower site in Holcomb, with its ready access to livestock, crops, and land, as well as Sunflower's expertise in rural energy development, make it a natural choice for bioenergy development.

Once completed, the Sunflower Integrated Bioenergy Center will be a first-of-its-kind power plant that can efficiently generate enough electricity to handle many of the energy needs of western Kansas. Through its integrated approach, each phase of the operation will feed the next part of the process with the waste generated from the previous phase of production.

What makes the bioenergy center so unique is that it will integrate the production of algae as its main resource for energy production. The algae don't need much to get started: a little sunlight;

SOYBEANS PRODUCE AROUND 50 GALLONS OF BIODIESEL PER ACRE PER YEAR. IN CONTRAST, ONE ACRE OF ALGAE COULD PRODUCE 8,000 GALLONS OF BIODIESEL PER YEAR.





nutrients, which the anaerobic digester produces as a waste product; and wastewater derived from the coal and ethanol plants on the property.

As an added bonus, the carbon dioxide generated from the warm flue gas that coal plants generate can be used to accelerate the algae growth.

The KBA has gathered several partners, both commercial and governmental, and is providing as much as \$500,000 for this project with the idea that this innovative biotechnology could eventually be exported to other parts of the country. The bioenergy center could add as many as 161 jobs and provide significant financial returns, which could be invested back into the state for further research and development.



(Above): Sunflower has contracted with GreenFuel Technologies Corporation, experts in CO₂ recovery, to develop the algae farm subsystem. This past summer, the company installed a mobile laboratory on the site to do extensive testing. *(Left):* Once the algae farm subsystem is operational, the algae will be harvested daily and converted into a broad range of biofuels or high-value animal feed supplements.

Plant and animal health

PROTECTING AMERICA

Kansas has long been an international leader in plant and animal health, with our tremendous strengths in agri-business and veterinary medicine.

With this leadership comes a real responsibility to protect the country's food supply, and Kansas has taken this responsibility seriously, developing its research capability to defend against potential terrorist attacks on our agriculture industry.

This research capability is attracting notice.

Two years ago, the U.S. Department of Homeland Security launched a highly competitive national search process to determine where to build a \$451-million National Bio and Agro-Defense Facility (NBAF). The facility, which will employ 250 to 300 employees, will serve as an important national asset in the effort to protect our country's food supply from disease and agro-terrorism.

Kansas answered the call and brought together a spectacular coalition of university researchers and academic leaders; city, county, and state officials; government agencies; animal and plant

producer groups; bioscience industry members; and many others to make the case that Kansas is the best home for the facility — on the merits.

The coalition, with strong support from the KBA, has been thoroughly organized and highly responsive to the federal government's needs, clearly articulating the advantages Kansas offers: a central location, the world's largest concentration of animal-health vaccine manufacturers, transportation infrastructure, highly skilled workforce, integrated human-health and agriculture biosecurity research capacity and facilities, and deep public-private support.

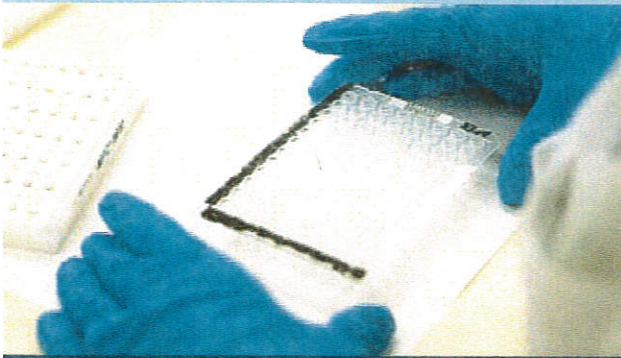
Evidence of these strengths can be found in K-State's Biosecurity Research Institute, which has attracted some of the world's top researchers in the field to do their work in Kansas, and Kansas' prominence in the KC Animal Health Corridor, which is home to nearly 32 percent of total sales in the \$15.2 billion global animal health market.

Further, the KBA has created the Collaborative Biosecurity Research Initiative to bolster



our unique biosecurity research capabilities and facilities, allowing animal and public health threats to be confronted more effectively. Through this initiative, researchers from around the country will collaborate with Kansas scientists to perform research not possible at other institutions.

In July, Kansas' leadership in plant and animal health was validated when the state advanced to the third round in the selection process to become one of only five finalists for the NBAF, bringing further attention to the state's expertise. A final decision on the NBAF is expected in late 2008.



NBAF | **IN KANSAS** | 
Heartland BioAgro Consortium

Programs and partners

The KBA is looking to selectively partner with bioscience companies, research institutions, inventors, entrepreneurs and investment professionals to substantially advance Kansas' vibrant bioscience industry. This is facilitated through the following programs.

The Kansas Bioscience Eminent Scholars Program is designed to recruit distinguished bioscience researchers to conduct their research and commercialization activities at Kansas research institutions.

The Kansas Bioscience Rising Stars Program helps retain and advance Kansas best and brightest bioscience scholars.

The Kansas Bioscience Federal Matching Fund builds research excellence at Kansas' universities and research institutions in ways that benefit our bioscience economy.

Heartland BioVentures is a business assistance program under development by the KBA. It is designed to facilitate risk capital investment in Kansas bioscience companies.

The Kansas R&D Voucher Program provides funding to Kansas bioscience companies, in partnership with a Kansas research university, company, or institution, for proof-of-concept research and development activities and

ancillary activities necessary to commercialize bioscience technologies.

The Kansas Bioscience Attraction & Retention Program helps to create, retain and expand bioscience job opportunities for Kansans. The KBA will partner with the Kansas Department of Commerce and regional economic development organizations to facilitate the retention and attraction of bioscience companies with strong growth potential.

The Bioscience Tax Investment Incentive Program allows direct payments to a bioscience company in the amount of 50 percent of its Kansas net operating loss, up to \$1 million annually.

Full eligibility requirements and application forms are available at www.kansasbioauthority.org or by calling or writing the KBA. A printed program guide with detailed information is also available upon request.

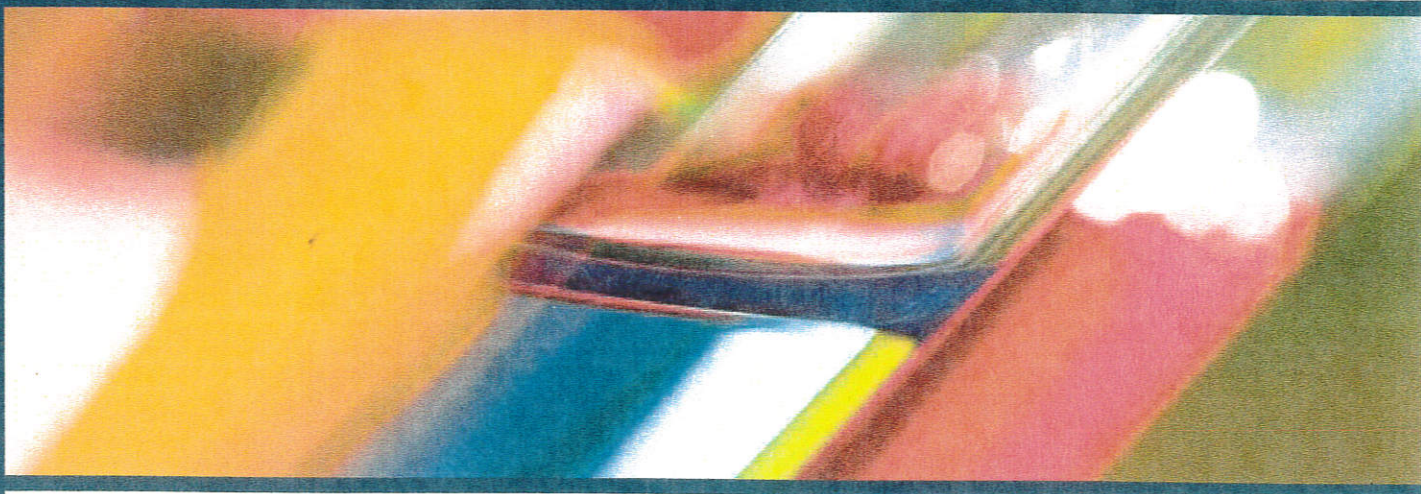
Kansas Bioscience Authority
25501 West Valley Parkway, Suite 100
Olathe, Kansas 66061

Phone: 913-397-8300

Email: info@kansasbioauthority.org



The KBA collaborates closely with the Kansas Department of Commerce, the Kansas Technology Enterprise Corporation, and KansasBIO to provide a full range of support for bioscience growth in Kansas — in a way that is accessible and understandable to researchers and companies in need of assistance.



CORPORATE OFFICERS AND BOARD OF DIRECTORS



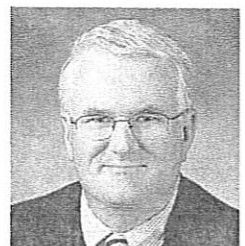
THOMAS V. THORNTON
President and
Chief Executive Officer



SANDRA A. J. LAWRENCE
Board Chairwoman
Executive Vice President
and Chief Financial Officer
Children's Mercy Hospitals & Clinics



BILL SANFORD
Board Vice Chairman
President and Chief Executive Officer
Nanoscale Materials, Inc.



ED MCKECHINE
Board Secretary and Treasurer
Executive Vice President
and Chief Commercial Officer
Watco Companies



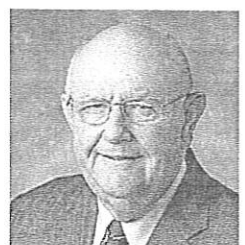
JANICE KATTERHENRY
Chief Financial Officer and
Chief Operating Officer



DAVID FRANZ, D.V.M., PH.D.*
Vice President and
Chief Biological Scientist
Midwest Research Institute
**Agricultural expert*



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President and Chief Executive Officer
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of America



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Visiting Professor and
Executive-in-Residence
Kansas State University



ANGELA KREPS
President
KansasBio

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INDEPENDENT AUDITORS' REPORT



To the Board of Directors
Kansas Bioscience Authority
Olathe, Kansas

We have audited the accompanying balance sheets of the Kansas Bioscience Authority (Authority), a Component Unit of the State of Kansas, as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year ended June 30, 2007, and the period from April 19, 2004 (date of inception) to June 30, 2006. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kansas Bioscience Authority as of June 30, 2007 and 2006, and changes in its financial position and its cash flows for the year ended June 30, 2007, and the period from April 19, 2004 (date of inception) through June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as listed on the table of contents is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Allen, Gibbs & Houlik, L.C.

Allen, Gibbs & Houlik, L.C.
September 28, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007, and the Period From April 19, 2004, (Date of Inception) to June 30, 2006

This annual financial report of the Kansas Bioscience Authority (KBA) consists of two sections: management's discussion and analysis (MD&A) and basic financial statements. This section of the report presents MD&A of financial position and changes in financial position for the year ended June 30, 2007, and from the date of the authority's inception (April 2004) through June 30, 2006. This information is being presented to provide additional information regarding the activities of the KBA and to meet the disclosure requirements of Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The KBA 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.



Janice Katterhenry, CFO

FINANCIAL HIGHLIGHTS

- The authority's total assets more than doubled from June 30, 2006, to June 30, 2007, from \$24,014,176 to \$48,395,321, through the funds received from the state of Kansas or to be received from the state generated from the Emerging Industry Investment Act (EIIA). These funds have been invested in cash, short-term investments and long-term investments, which make up \$40.6 million of the total assets including accrued interest. Accounts receivable from the state of \$6.4 million is the other significant amount of the total assets.
- Revenues were derived mainly from two sources: appropriations from the state and investment income. The main source of revenue was the funding mechanism provided by the EIIA, which totaled \$26.1 million in fiscal year 2007.
- The KBA's board of directors approved commitments totaling \$24,970,288 through fiscal year 2007; of that amount, \$21,011,560 remains outstanding.
- The board approved an additional \$13,205,000 for bioscience activities at the first board meeting in fiscal year 2008, leaving an outstanding committed balance of \$34,216,560.
- The authority's operating expenses in fiscal year 2007 were \$957,398 other than for grants and awards, compared to \$837,572 for the period of April 2004 to June 30, 2006.
- The KBA's total net assets increased by \$23,755,834, which will allow the authority to invest these resources for the purposes of bioscience.

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Year Ended June 30, 2007, and the Period From April 19, 2004, (Date of Inception) to June 30, 2006

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 KBA, both financial and capital, short-term and long-term, using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector companies. The resulting net assets presented in the statement are displayed as restricted or unrestricted. Assets are restricted when their use is subject to external limits such as legal agreements or statutes. Assets falling outside this category are characterized as unrestricted. Over time, changes in net assets may serve as a useful indicator of whether the financial position of the authority is improving or deteriorating.

All of the current year's revenues and expenses of the KBA are accounted for in the *statement of revenues, expenses, and changes in net assets*. This statement measures the activities of the authority's operations over the past year and presents the excess of revenues over expenses and change in net assets. It can be used to determine whether the KBA 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 did cash come from?," "What was cash used for?," and "What was the change in cash balance during the reporting period?"

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

CONDENSED FINANCIAL INFORMATION

Balance Sheet

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

	2007	2006
Assets		
Current assets	\$15,844,091	\$17,011,144
Capital assets	94,687	—
Other noncurrent assets	32,456,543	7,003,032
Total assets	<u>\$48,395,321</u>	<u>\$24,014,176</u>
Liabilities		
Current liabilities	\$ 647,396	\$ 22,085
Total liabilities	<u>647,396</u>	<u>22,085</u>
Net assets		
Invested in capital assets	94,687	—
Unrestricted	47,653,238	23,992,091
Total net assets	<u>47,747,925</u>	<u>23,992,091</u>
Total liabilities and net assets	<u>\$48,395,321</u>	<u>\$24,014,176</u>

Statement of Revenues, Expenses, and Changes in Net Assets

The following table presents a condensed statement of revenues, expenses, and changes in net assets from June 30, 2007, and the period from April 19, 2004, (inception) to June 30, 2006:

	2007	2006
Revenues		
Operating revenues	\$ 19,060	\$ —
Appropriations from state of Kansas	26,122,392	24,721,619
Investment income	1,352,392	278,091
Total revenues	<u>27,493,844</u>	<u>24,999,710</u>
Expenses		
Grants and awards	2,780,612	170,047
Other	957,398	837,572
Total operating expenses	<u>3,738,010</u>	<u>1,007,619</u>
Excess of revenues over expenses	23,755,834	23,992,091
Total net assets, beginning of period	23,992,091	—
Total net assets, end of period	<u>\$47,747,925</u>	<u>\$23,992,091</u>

Assets, liabilities and changes in net assets:

The net assets grew to \$47,747,925 from inception (April 2004) to June 2007; the increase from June 2006 to June 2007 was \$23,755,834. The growth in the net assets resulted from the appropriations received from the state of Kansas via the Emerging Industry Investment Act. This increase was a result of job growth in bioscience companies from April 2004 through June 2007 over the base year of 2003. The net assets also were reduced by operating expenses. See also the financial highlights on page 21.

The KBA expended funds of \$2,780,612 toward committed investments in fiscal year 2007 compared to \$170,047 in fiscal year 2006. An additional \$1,008,067 was paid in 2007 under a note agreement, for a total of \$3,958,726 paid since inception. The authority's board of directors approved commitments of \$20,345,288 in fiscal year 2007 and a total of \$24,970,288 since inception through June 30, 2007.

CAPITAL ASSET ACTIVITY

Capital assets include furniture, office and computer equipment purchased in fiscal 2007. See additional information in note 3 to the financial statements.

ECONOMIC FACTORS

The authority's board also approved guidelines and programs in the last quarter of fiscal 2007 intended to provide clear and concise description of the programs set forth by the legislature when it approved the Kansas Economic Growth Act in 2004. These program guidelines set forth the priorities to expand the state's bioscience R&D enterprise, commercialize bioscience discoveries, and provide for the research infrastructure necessary to expand the bioscience industry in Kansas. The programs approved are the Eminent Scholars, Rising Stars, Matching Fund, Research and Development Vouchers, Retention and Attraction, Bioscience Tax Investment Incentives, and Heartland BioVentures. A brief description of these programs is provided in the footnotes (page 28). Of the funds committed to date, they would be broken down by program as follows:

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MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

Year Ended June 30, 2007, and the Period From April 19, 2004, (Date of Inception) to June 30, 2006

Program:	Fiscal 2007	Inception through Fiscal 2007
Retention and Attraction	\$ 4,777,388	\$ 8,977,388
Research and Development Voucher	128,700	253,700
Infrastructure	8,850,000	8,850,000
Other	6,589,200	6,889,200
Total	<u>\$20,345,288</u>	<u>\$24,970,288</u>

The significant commitment in infrastructure was approved for \$7,600,000 to provide for a bioscience park in Olathe, Kansas. The city of Olathe plans to donate approximately 90 acres of land to the Kansas Bioscience Authority and Kansas State University (KSU) to create the Kansas Bioscience Park and K-State Olathe Innovation Campus. The KBA's board of directors approved the entry into a benefit district to build the infrastructure at the campus/park to facilitate the growth and expansion of bioscience companies.

The "other" category includes two priority projects the authority's board approved; one is to increase the quantity of high-quality research and the other is to foster the formation and growth of bioscience startups. The hub of the authority's research capacity investment strategy is the Kansas Bioscience Centers of Innovation. Through this program, Kansas can address its dual need to build strong, world-class bioscience research centers in its research institutions and to assist existing and emerging bioscience industries in capturing new knowledge and research findings for their product and production functions. The board approved \$1,000,000 towards planning grants of up to \$200,000 identified as seven areas of core bioscience technology and research strength. These areas are biomaterials; animal sciences; environmental applications; drug discovery; delivery, and pharmacogenomics; health-related information technology; oncology; and plant sciences.

Also approved is \$4,600,000 to establish Heartland BioVentures. The principal goal of this initiative is to improve companies' access to venture capital by providing assistance and pre-venture financing to early stage bioscience firms to fundamentally address business, technology, management and other strategic issues critical to their success. The services, resources and networks of Heartland BioVentures and its partners will help bioscience startups develop products, raise capital and go to market.

The KBA is establishing a tracking and monitoring system to ensure milestone compliance for each of its investments, as well as to track outcome metrics. As the programs and projects mentioned above are funded, they will be monitored and reported against.

The authority has established a base of assets to invest in its mission of attracting bioscience entities that will increase employment, encourage research and development, commercialize bioscience discoveries, and provide for the research infrastructure necessary to expand the bioscience industry in Kansas. The ability to continue to invest in the KBA's mission is dependent on the growth of bioscience companies' payrolls.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide stakeholders in the KBA with a general overview of the authority's finances and to show the authority's accountability for the resources it receives, invests, and expends. If you have questions about this report, or need additional financial information, please contact Ms. Janice Katterhenry, CFO, at Kansas Bioscience Authority, 25501 W. Valley Pkwy., Ste. 100, Olathe, KS 66061.

BALANCE SHEETS

June 30, 2007 and 2006

ASSETS

	2007	2006
Current Assets		
Cash and cash equivalents	\$ 1,063,302	\$ 752,447
Investments in securities	8,019,851	11,427,073
Receivable from State of Kansas	6,355,062	4,747,642
Accrued interest receivable	393,672	76,982
Prepaid expenses	12,204	7,000
Total current assets	<u>15,844,091</u>	<u>17,011,144</u>
Other Assets		
Deposits	4,500	-
Investments in securities	31,443,976	7,003,032
Note receivable	1,008,067	-
Property and equipment, net	94,687	-
Total other assets	<u>32,551,230</u>	<u>7,003,032</u>
Total assets	<u>\$48,395,321</u>	<u>\$24,014,176</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 621,198	\$ 22,085
Payroll liabilities payable	18,617	-
Compensated absences	7,581	-
Total current liabilities	<u>647,396</u>	<u>22,085</u>
Total liabilities	<u>647,396</u>	<u>22,085</u>
Net Assets		
Invested in capital assets	94,687	-
Unrestricted	47,653,238	23,992,091
Total net assets	<u>47,747,925</u>	<u>23,992,091</u>
Total liabilities and net assets	<u>\$48,395,321</u>	<u>\$24,014,176</u>

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

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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2007, and the Period From April 19, 2004, (Date of Inception) Through June 30, 2006

	2007	2006
Operating revenues:		
Contributions	\$ 6,000	\$ -
Interest income	13,060	-
Total operating revenues	19,060	-
Operating expenses:		
Grants and awards	2,780,612	170,047
Contractual and consulting services	146,805	549,772
Wages and benefits	316,139	-
Board fees and reimbursed expense	37,384	48,658
Meeting and travel expenses	41,608	29,076
Depreciation	10,075	-
Dues and subscriptions	10,058	10,000
Insurance	13,904	14,246
Legal services	159,338	118,623
Marketing	26,473	-
Office expense	67,118	29,197
Office services	88,915	38,000
Rent	39,581	-
Total operating expenses	3,738,010	1,007,619
Operating loss	(3,718,950)	(1,007,619)
Nonoperating revenues and expenses:		
Appropriations from the State of Kansas –		
Emerging Industry Investment Act	26,122,392	24,721,619
Investment income	1,352,392	278,091
Total nonoperating revenues	27,474,784	24,999,710
Excess of revenues over expenses	23,755,834	23,992,091
Net assets, beginning of period	23,992,091	-
Net assets, end of period	\$47,747,925	\$23,992,091

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

STATEMENTS OF CASH FLOWS

Year Ended June 30, 2007, and the Period From April 19, 2004, (Date of Inception) Through June 30, 2006

	2007	2006
Cash flows from operating activities:		
Cash received from others	\$ 6,000	\$ -
Cash paid to others	(4,107,335)	(992,534)
Net cash from operating activities	<u>(4,101,335)</u>	<u>(992,534)</u>
Cash flows from capital and related financing activities:		
Purchase of property and equipment	(104,762)	-
Net cash from capital and related financing activities	<u>(104,762)</u>	<u>-</u>
Cash flows from noncapital financing activities:		
Cash received from State of Kansas	24,514,972	19,973,977
Net cash from noncapital financing activities	<u>24,514,972</u>	<u>19,973,977</u>
Cash flows from investing activities:		
Purchases of investment securities	(21,033,722)	(18,430,105)
Investment income	1,035,702	201,109
Net cash from investing activities	<u>(19,998,020)</u>	<u>(18,228,996)</u>
Net change in cash	310,855	752,447
Cash and cash equivalents at beginning of year	752,447	-
Cash and cash equivalents at end of period	<u>\$ 1,063,302</u>	<u>\$ 752,447</u>
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (3,718,950)	\$ (1,007,619)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	10,075	-
Changes in assets and liabilities:		
Prepaid expenses and deposits	(9,704)	(7,000)
Notes receivable	(1,008,067)	-
Accounts payable	599,113	22,085
Payroll liabilities and compensated absences	26,198	-
Net cash from operating activities	<u>\$ (4,101,335)</u>	<u>\$ (992,534)</u>

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Kansas Bioscience Authority is an independent instrumentality of the state of Kansas. Its enabling statutes are found in K.S.A. 74-99b01 et seq. as amended and supplemented. The authority was created on April 19, 2004, with the passage of the Kansas Economic Growth Act (KEGA), a comprehensive economic development act designed to meet the needs of the changing Kansas economy. The authority was created to make Kansas the most desirable state in which to conduct, facilitate, support, fund and perform bioscience research, development of commercialization, to make Kansas a national leader in bioscience, and to create jobs, foster economic growth, advance scientific knowledge and improve the quality of life for the citizens of the state of Kansas.

Accounting principles generally accepted in the United States of America require that the reporting entity include: (1) the primary government, (2) organizations for which the government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading. The KBA is financially accountable to the state, and the state exercises oversight responsibility on financial interdependency and selection of governing board members. The state has the ability to significantly influence operations and accountability for fiscal matters, special financing relationships, and scope of public service. The authority is included in the state's financial reporting entity, and the authority's transactions are reported in the State's Comprehensive Annual Financial Report as a component unit.

KEGA provided a funding mechanism through the Emerging Industry Investment Act based on the growth of state withholding taxes payable from employees of bioscience-related companies. State taxes that exceed the base-year measurement of such taxes accrue to the authority for investment. This mechanism makes it unnecessary to raise taxes or reallocate amounts from other state budgets. Revenues that accrue belong exclusively to the KBA and are not part of the state treasury.

Programs that the KBA will use in its investment in the biosciences are the:

- **Matching Fund Program:** Matches research dollars from federal, private and other sources of support, expanding the state's ability to attract federal research dollars.
- **Research and Development Voucher Program:** Provides funding to Kansas bioscience companies, in partnership with a Kansas research university, company, or institution, for proof-of-concept research and development activities and ancillary activities necessary to commercialize bioscience technologies. This program is designed to provide early stage financing and commercialization support for high-potential but high-risk innovations.
- **Bioscience Tax Investment Incentive Program:** Allows direct payment to a bioscience company in the amount of 50% of its Kansas net operating loss, up to \$1 million annually. Useful for business attraction or retention activities.
- **Eminent Scholars Program:** Designed to recruit distinguished bioscience researchers to conduct their research and commercialization activities at Kansas research institutions. An eminent scholar is an individual acknowledged as a scholar of distinction by national measures. The program will enhance the national eminence of selected outstanding academic research programs in the biosciences at Kansas universities and make important, direct contributions to Kansas capabilities for research and innovation in the biosciences.

- **Rising Stars Program:** Will retain and advance Kansas' best and brightest bioscience scholars. A "rising star" must be a researcher with a proven track record of grant productivity and team leadership in a research environment; researcher must demonstrate an interest in applying research to commercial opportunities that build Kansas' bioscience economy and most likely be a candidate for the National Academy of Science.
- **Attraction and Retention Program:** Will create, retain and expand bioscience job opportunities for all Kansans. The program will facilitate the retention and attraction of bioscience companies with strong growth potential and has the ability to add high-quality jobs, develop or recruit bioscience researchers, and partners with Kansas research institutions.
- **Heartland BioVentures:** Is a business assistance program under development to facilitate risk capital investment in Kansas bioscience companies. The principal goal is to provide assistance and pre-venture financing to early stage bioscience firms to fundamentally address business, technology, management and other strategic issues critical to their success and, thus, improve their access to venture capital.
- **Centers of Innovation:** Addresses the dual needs of building strong, world-class bioscience research centers in higher education and private research organizations and assisting existing and emerging bioscience industries in capturing new knowledge and research findings for their product and production functions.

Basis of Accounting

The KBA is organized as a proprietary activity. Transactions are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is utilized. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

The authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with an entity's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

As required by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the KBA has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless FASB and/or APB pronouncements conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

Cash and Cash Equivalents

For purposes of the statement of cash flows, the authority's cash equivalents are defined as short-term highly liquid investments that are readily convertible to cash with an original maturity of three months or less.

Investments

Investments are reported at fair value. As of June 30, 2007, investments consist of funds invested in municipal securities and various government agency obligations.

Capital Assets

Capital assets are carried at historical cost less depreciation or amortization. Individual items with an initial cost of more than \$1,000 are capitalized. Major renewals and betterments are capitalized, and maintenance and repairs, which do not improve or extend the life of the respective assets, are charged against earnings in the current period. Depreciation and amortization are provided on the straight-line method over estimated useful lives ranging from three to 15 years.

Revenue Recognition and Receivables

Revenues generated under the Emerging Industry Investment Act from state withholding taxes as described under "Reporting Entity" above are considered voluntary nonexchange transactions to the authority. As such, revenue is recognized by the authority in the time period in which the withholdings are collected by the state. Receivables consist of amounts owed to the authority from the state of Kansas. Given the nature of the receivables, no amounts are considered uncollectible by management.

Net Assets

Net assets are classified as follows:

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

Invested in capital assets – represents the authority's total investment in capital assets.

Revenues and Expenses

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

Operating revenues – include activities that have the characteristics of an exchange transaction.

Nonoperating revenues – include activities that have the characteristics of non-exchange transactions such as grant award and tax revenues that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34.

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

Operating Expenses – include activities that have the characteristics of an exchange transaction such as a) employee salaries, benefits, and related expenses; b) supplies and other services; c) professional fees; and d) depreciation expenses related to capital assets.

Nonoperating Expenses – include activities that have the characteristics of non-exchange transactions such as grant award expenses, plus expenses not meeting the above definition for operating expenses.

Income Taxes

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

Reclassifications

Certain operating expenses on the statement of revenues, expenses and changes in net assets for the period ended June 30, 2006, have been reclassified to be consistent with classifications adopted for the year ended June 30, 2007.

NOTE 2 – CASH AND INVESTMENTS

As of June 30, 2007 and 2006, the KBA had balances of \$1,063,302 and \$752,447, respectively, of cash and money market investments, held in an account with a local investment company.

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

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the authority will not be able to recover the value of its deposits or investments that are in the possession of an outside party. None of the KBA's deposits are subject to custodial credit risk as deposits are less than FDIC insurance coverage limits. However, the underlying securities of \$39,463,827 of investments are held by the investment's counterparty.

Credit Risk. As of June 30, 2007, the authority was invested in municipal securities and government agency securities including FHMLC, FFCB, FHLB, and FNMA securities. The municipal and government agency securities were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. Under the authority's investment policy, only AAA-rated securities were considered for investment.

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. Up to 30% can be invested in federal mortgage-backed securities and 10% can be invested in collateralized mortgage obligations. As of June 30, 2007, more than 5% of the KBA's investments are held in the following securities: FHLB (46%), FHMLC (20%), and FNMA (29%).

NOTES TO THE FINANCIAL STATEMENTS, CONTINUED

Interest Rate Risk. Interest rate risk relates to the exposure to fair value losses arising from the fluctuations in interest rates. Under the authority's investment policy, no less than 80% of the investment portfolio is limited to a maximum maturity of five years, with at least 20%, but no more than 80%, maturing in a two-year period. Also, no more than 20% of the investments may have a maximum maturity up to eight years. As of June 30, the authority had the following investment maturities:

Investment Type	June 30, 2007			
	Fair Value	Less than 90 days	90 days – 1 year	1 – 5 years
Municipal Securities	\$ 900,000	\$ 900,000	\$ –	\$ –
Government Securities	38,563,827	1,566,543	5,553,308	31,443,976
Total	<u>\$39,463,827</u>	<u>\$2,466,543</u>	<u>\$5,553,308</u>	<u>\$31,443,976</u>

Investment Type	June 30, 2006			
	Fair Value	Less than 90 days	90 days – 1 year	1 – 5 years
U.S. Treasury Bills	\$ 2,865,138	\$2,133,580	\$ 731,558	\$ –
Municipal Securities	1,275,000	1,275,000	–	–
Government Securities	14,289,967	1,184,565	6,102,370	7,003,032
	<u>\$18,430,105</u>	<u>\$4,593,145</u>	<u>\$6,833,928</u>	<u>\$ 7,003,032</u>

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30 was as follows:

	July 1, 2006 Balance	Increases	Decreases	June 30, 2007 Balance
Furniture and equipment	\$ –	\$ 99,262	\$ –	\$ 99,262
Leasehold improvements	–	5,500	–	5,500
Total capital assets being depreciated	–	104,762	–	104,762
Less accumulated depreciation:				
Furniture and equipment	–	(9,800)	–	(9,800)
Leasehold improvements	–	(275)	–	(275)
Total accumulated depreciation	–	(10,075)	–	(10,075)
Total capital assets, net	<u>\$ –</u>	<u>\$ 94,687</u>	<u>\$ –</u>	<u>\$ 94,687</u>

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NOTE 4 – LEASES

The authority entered into a noncancelable operating lease for office space for October 1, 2006 through October 1, 2011.

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

Fiscal Year End	
2008	\$ 51,441
2009	51,441
2010	53,103
2011	54,864
2012	13,817
Total future minimum lease payments	<u>\$224,666</u>

The total rental expense included in the financials for the years ended June 30, 2007 and 2006 was \$39,581 and \$0, respectively.

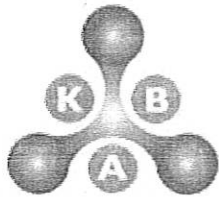
NOTE 5 – NOTE RECEIVABLE

In February 2007, the authority entered into an agreement with a bioscience company to assist in its performance of bioscience research, development and commercialization, and creation of new jobs. The agreement provides for a maximum advance of \$2,000,000. As of June 30, 2007, \$1,008,067 was outstanding under the agreement, which included \$13,060 of accrued interest. The note includes an interest rate of 6%, is secured by all equipment of the company, and is payable in full in February 2012, less any employee credits. These credits allow for the amounts owed under the agreement to be reduced by \$250,000 for every 25 new full-time equivalent positions created in Kansas, after maintenance of such positions for a consecutive 365-day period. As of June 30, 2007, no employee credits had been earned by the bioscience company.

NOTE 6 – COMMITMENTS

The KBA invests its resources through various programs as outlined in Note 1. The terms of each funded project vary, but generally the investees are required to meet milestones to receive funding. Such milestones may include adding a certain number of employees in Kansas, recruiting students or researchers into bioscience studies, and investing in new bioscience equipment or facility expansion, among others. Therefore, projects approved by the authority do not become obligations until the milestones are met and payment becomes probable. As of June 30, 2007, the authority had \$21,011,559 of outstanding, approved commitments for various projects. Subsequent to June 30, 2007, an additional \$13,205,000 was committed by the authority for additional projects.

Each funded project has different terms and arrangements for funding. These projects have payment terms attached to milestones that cover periods from one to 10 years. Management evaluates and projects future cash flow payments based on information about the status of each program. As of June 30, 2007, it is estimated that approximately \$15,000,000 will be paid out in fiscal 2008 from the projects outstanding as of June 30, 2007, and those approved subsequent to year-end in July 2007. This projection does not include payments on additional projects that may be funded in fiscal 2008 and is subject to change based on the achievement of milestones. Actual future cash flows could differ from the estimates as of June 30, 2007.



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OF COUNSEL
QUENTIN E. KURTZ

WALTER G. STUMBO
(1911-1998)

March 5, 2008

Senator Mark Taddiken, Chairman
Senate Agriculture Committee

RE: SB559

Dear Chairman Taddiken and Members of the Committee:

Our firm represents Public Wholesale Water Supply District No. 25 (PWWSD No. 25). We oppose SB559.

PWWSD No. 25 is a newly formed public wholesale district whose members currently consist of three rural water districts. Each of these districts anticipates a future shortage of water to supply the needs of their customers and have agreed to develop a regional supply through the PWWSD as a way to meet those future needs.

The members of PWWSD No. 25 have participated in two regional water supply studies. The most feasible option identified to date is to develop a ground water supply in the Kansas River basin east of Lawrence. Applications have been filed with the Division of Water Resources (DWR) and those applications are pending.

Tests are needed to determine the viability of these applications. Certain area landowners have been approached for the purpose of obtaining temporary access to their property to drill test water wells, then plug those wells, repair any damage and vacate the property, all within a period of 120 days. Generous offers have been made. The landowners have adamantly refused that access.

PWWSD No. 25 does not propose to acquire anyone's water rights through eminent domain. Any rights the District may ultimately acquire will be as the result of application by the PWWSD to the DWR, not through eminent domain.

Section 3 of the Bill would make it all but impossible for PWWSD No. 25 to function, and would similarly affect all currently operating and future PWWSD's. Although the

*Senate Agriculture Committee
3-5-08
Attachment 2*

proponents appear to be targeting the acquisition of "water rights" through eminent domain, that is not the way the Bill is phrased. It would put an end to the use of eminent domain for any purpose. PWWSD's (including No. 25) frequently need to run pipelines long distances, acquire sites for water towers, pump stations, treatment facilities and the like. Passage of SB559 would kill PWWSD's ability to acquire sites for these facilities in a fair and efficient manner.

Regional solutions to the State's ground and public water supply needs are encouraged by the regulatory and funding agencies. PWWSD's are an important part of the solution to solving the future needs of Kansans. Legislature should not take away this important tool.

Respectfully,

A handwritten signature in black ink, appearing to read "Gary H. Hanson", with a long horizontal flourish extending to the right.

GARY H. HANSON

Kansas Department Of Agriculture
Division of Water Resources

Memorandum

To: Constantine Cotsoradis
Deputy Secretary

Date: Feb 25, 2008

From: Lane P. Letourneau
Environmental Scientist

RE: Committee Hearing, SB 559

This morning I took notes regarding the discussion on SB 559.

- 1) Has anyone used eminent domain to condemn water rights?
No. I am not aware of it in my twenty years experience. It is used to obtain property.
- 2) Is PWS 25 eligible to Assurance District Water?
Yes. Assurance water is surface water and groundwater from a well located a quarter mile from the stream.
- 3) Does PWS 25 fall under the jurisdiction of the Water Transfer Act(WTA)?
No. The WTA defines a water transfer meaning moving 2000 acre feet 35 miles. The three applications in question total 1854.54 acre feet.

Senate Agriculture Committee
3-5-08
Attachment 3