

BIOSCIENCE AND TECHNOLOGY BUSINESS CENTER, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2019
TOGETHER WITH ACCOUNTANT'S COMPILATION REPORT

BIOSCIENCE AND TECHNOLOGY BUSINESS CENTER, INC.

**FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019**

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To the Board of Directors
Bioscience and Technology Business Center, Inc.
Lawrence, Kansas

Management is responsible for the accompanying financial statements of Bioscience and Technology Business Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019 and the related statements of activities, functional expenses and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements, nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Accounting principles generally accepted in the United States of America require the consolidation of for-profit or nonprofit entities which the Organization has a controlling financial interest in, as well as the combination of entities which the Organization has both an economic interest in and control over. Management has elected to omit the consolidation and combination of Kaw, Inc. and Lawrence Regional Technology Center, Inc. in the accompanying financial statements. The effect of this departure from accounting principles generally accepted in the United States of America on the financial statements has not been determined.

We also performed a compilation engagement on the adjustments for the establishment of an allowance for doubtful that was applied to restate the December 31, 2018 financial statements. We have not audited or reviewed the adjustments that were applied to restate the December 31, 2018 financial statements and do not express an opinion, a conclusion, nor provide any assurance about whether the adjustments that were applied to restate the December 31, 2018 financial statements are in accordance with accounting principles generally accepted in the United States of America.

The financial statements and supplemental information of Bioscience and Technology Business Center, Inc. as of December 31, 2018, prior to adjustment, were subjected to a compilation engagement by other accountants, whose report dated January 16, 2019, stated that they have not audited or reviewed the 2018 financial statements and, accordingly, do not express an opinion, conclusion, nor provide any form of assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

We are not independent with respect to Bioscience and Technology Business Center, Inc.

Summers, Spencer & Company P.A.

Summers, Spencer & Company, P.A.

Lawrence, Kansas

February 29, 2020

BIOSCIENCE AND TECHNOLOGY BUSINESS CENTER, INC.

STATEMENT OF FINANCIAL POSITION

December 31,	2019
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,118,719
Accounts receivable, net	339,283
Prepaid expenses	23,250
<i>Total current assets</i>	1,481,252
Other assets	
Cash restricted for expansion of facilities	457,250
Due from related parties	212,749
Notes receivable, net	35,040
<i>Total other assets</i>	705,039
Fixed assets, net	16,102,278
<i>Total assets</i>	\$ 18,288,569
LIABILITIES AND NET ASSETS	
Current liabilities	
Accounts payable and credit card payable	\$ 189,272
Prepaid incentives	81,500
Deferred rent	9,328
Accrued interest	280,428
Accrued payroll taxes	11,830
Lease deposits	71,993
Notes payable, short term	74,614
<i>Total current liabilities</i>	718,965
Long-term liabilities	
Notes payable, long-term	9,799,087
<i>Total long-term liabilities</i>	9,799,087
<i>Total liabilities</i>	10,518,052
Net assets	
Without donor restrictions	
Undesignated	7,313,267
<i>Total net assets without donor restrictions</i>	7,313,267
With donor restrictions	
Purpose restrictions	457,250
<i>Total net assets with donor restrictions</i>	457,250
<i>Total net assets</i>	7,770,517
<i>Total liabilities and net assets</i>	\$ 18,288,569

BIOSCIENCE AND TECHNOLOGY BUSINESS CENTER, INC.

STATEMENT OF ACTIVITIES

For the year ended December 31,	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Advisory services	\$ 299,468	\$ -	\$ 299,468
Contractual services	19,800	-	19,800
Internet and phone income	32,894	-	32,894
Interest income	11,969	-	11,969
Management fee income	126,000	-	126,000
Partner contributions	421,200	500,000	921,200
Reimbursed expenses	774	-	774
Rental income	1,289,239	-	1,289,239
Amounts released from restrictions	42,750	(42,750)	-
<i>Total revenues</i>	2,244,094	457,250	2,701,344
Expenses			
Economic development programs	2,867,513	-	2,867,513
General and administrative	213,127	-	213,127
<i>Total expenses</i>	3,080,640	-	3,080,640
Change in net assets	(836,546)	457,250	(379,296)
Net assets, beginning of year (restated)	8,149,813	-	8,149,813
Net assets, end of year	\$ 7,313,267	\$ 457,250	\$ 7,770,517

BIOSCIENCE AND TECHNOLOGY BUSINESS CENTER, INC.

STATEMENT OF CASH FLOWS

For the year ended December 31,	2019
Cash flows from operating activities	
Change in net assets	\$ (379,296)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	553,622
Contributions received for Phase III	(500,000)
<i>(Increase) decrease in operating assets:</i>	
Accounts receivable, net	32,886
Prepaid expenses	(10,841)
<i>Increase (decrease) in operating liabilities:</i>	
Accounts payable and credit card payable	106,773
Prepaid incentives	81,500
Deferred rent	9,328
Accrued interest	22,986
Accrued payroll taxes	1,881
Lease deposits	(47,219)
<i>Net cash used in operating activities</i>	(128,380)
Cash flows from investing activities	
Advances to related parties	(76,200)
Issuance of notes receivable	(10,000)
Purchase of fixed assets	(42,750)
<i>Net cash used in investing activities</i>	(128,950)
Cash flows from financing activities	
Proceeds from contributions restricted for Phase III	500,000
Payments on notes payable	(93,823)
<i>Net cash provided by financing activities</i>	406,177
Net increase in cash and cash equivalents	148,847
Cash, cash equivalents and restricted cash, beginning of year	1,427,122
Cash, cash equivalents and restricted cash, end of year	\$ 1,575,969
Supplemental disclosure of cash flow information	
Cash paid during the year for interest	\$ 421,101

BIOSCIENCE AND TECHNOLOGY BUSINESS CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31,	2019		
	Economic Development Programs	General and Administrative	Total
Expenses			
Administrative expense	\$ -	\$ 31,365	\$ 31,365
Repairs and maintenance	450,119	-	450,119
Computer and IT service	-	2,299	2,299
Interest expense	444,087	-	444,087
Depreciation	553,622	-	553,622
Facility cost	99,574	-	99,574
Insurance	85,729	8,890	94,619
Salaries and wages	670,360	100,971	771,331
Internet and computer	11,521	-	11,521
Management fee expense	6,049	-	6,049
Marketing and advertising	-	19,912	19,912
Meals and entertainment	-	8,077	8,077
Professional development	-	60	60
Professional fees	-	21,323	21,323
Rent expense	26,000	-	26,000
Retirement	36,671	5,478	42,149
Payroll taxes	49,019	7,151	56,170
Real estate taxes	75,999	-	75,999
Telephone	31,502	3,894	35,396
Travel	-	3,707	3,707
Utilities	327,261	-	327,261
<i>Total expenses</i>	\$ 2,867,513	\$ 213,127	\$ 3,080,640

BIOSCIENCE AND TECHNOLOGY BUSINESS CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Nature of organization

Bioscience and Technology Business Center, Inc. (the Organization or BTBC) is a not-for-profit organization, located in Lawrence, Kansas. The Organization is an economic development enterprise that seeks to serve the needs of technology and life science companies by providing 1) the BTBC facilities on the University of Kansas (KU) and the Kansas University Medical Center (KUMC) campuses, 2) business development services, 3) collaborative research projects with KU and KUMC, 4) recruitment and relocation assistance, 4) access to capital networks and 5) access to the vast BTBC network of resources. BTBC was incorporated in the state of Kansas in 2006 and is a collaborative effort of KU, the City of Lawrence Kansas, Douglas County Kansas, and the Chamber of Lawrence Kansas.

Note 2 – Summary of significant accounting policies

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Therefore, revenues are recorded when earned and expenses are recorded when incurred.

Net assets

The Organization follows generally accepted accounting principles for non-profit organizations and reports information regarding its financial position and activities according to two classes of net assets; without donor restrictions and with donor restrictions, which are reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Donated services

No amounts have been reflected in the financial statements for donated services. The Organization pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but do not meet the criteria for recognition.

Cash and cash equivalents

The Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents. These balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to federally insured limits. Amounts in excess of these limits were \$1,080,721 at December 31, 2019.

BIOSCIENCE AND TECHNOLOGY BUSINESS CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Accounts receivable and notes receivable

Accounts and notes receivables represent amounts due less an estimate made for doubtful receivables based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectable based on management's experience as well as the nature of the receivable. At December 31, 2019, the allowance for doubtful accounts for accounts receivable and notes receivable was \$122,965 and \$21,308, respectively. Recoveries of receivables previously written off are recorded as revenue when received.

Property and equipment

Property and equipment are recorded at cost. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	40 years
Furniture and equipment	5 - 10 years

Income taxes

The Organization is exempt from income taxes under section 501(c)(6) of the Internal Revenue Code as provided by a determination letter received from the Internal Revenue Service.

The Organization's income tax returns are subject to review and examination by federal authorities. The Organization is not aware of any activities that are subject to tax on unrelated business income or excise or other taxes.

Revenue recognition

The Organization receives contributions from local businesses and state, county and local governments. Certain contributions received by the Organization include donor-imposed restrictions that require that certain conditions be met. The income from these contributions are recognized as the conditions are met. Contribution funds received but not yet recognized as revenue are recorded as deferred conditional contributions on the statement of financial position. As of December 31, 2019, there were no deferred conditional contributions.

The Organization has analyzed the provisions of the FASB's ASC Topic 606, *Revenue from Contracts with Customers*, and has concluded that no material changes are necessary to conform with the new standard. The Organization enters into contracts with the customers for advisory, management fee, internet and phone services and other contractual services. Performance obligations relate to providing these services to customers and revenue is recognized over time as the transfer of control of services is passed on to the customer. As such, the Organization believes that the direct input method (time elapsed) is the best measure of progress and most representative of services performed. Payment is due based on negotiated terms per contract in the month of service.

Customer accounts included in accounts receivable, net on the statement of financial position totaled \$174,825 and \$124,565 as of December 31, 2019 and 2018, respectively.

Recently adopted accounting guidance

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides a robust framework for addressing revenue recognition issues and replaces most of the existing revenue recognition guidance including industry-specific guidance, in current U.S. GAAP. The standard is effective for nonpublic entities for periods beginning after December 15, 2018. Accordingly, the Organization has adopted this guidance as of January 1, 2019.

BIOSCIENCE AND TECHNOLOGY BUSINESS CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 320): *Restricted Cash*, which provides specific guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The guidance in ASU 2016-18 is effective for annual financial statements issued for fiscal years beginning after December 15, 2018. Accordingly, the Organization has adopted this guidance as of January 1, 2019. The statement of cash flows now explains the change during the year in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Made*. The guidance assists entities in (1) evaluating whether transactions should be accounted for as contributions or as exchange transactions and (2) determining whether a contribution is conditional. The standard is effective for fiscal years beginning after December 31, 2018. Accordingly, the Organization has adopted this guidance as of January 1, 2019.

Note 3 – Liquidity and availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents	\$ 1,118,719
Accounts receivable	339,283
Total	<u>\$ 1,458,002</u>

The Organization regularly monitors liquidity to meet its operating needs, commitments and obligations, while striving to maximize the investments of its available funds. For purposes of analyzing resources available to meet general expenditures over the next 12 months, the Organization considers all expenditures related to its ongoing mission. The Organization anticipates collecting sufficient revenue from rental income, partner contributions and other sources to cover general expenditures not covered by donor-restricted resources.

Note 4 – Cash, cash equivalents and restricted cash

For purposes of the balance sheet and the statements of cash flows, cash and cash equivalents consist of cash and other highly liquid resources, such as investments in certificates of deposit and money market funds, with an original maturity of three months or less when purchased. Restricted cash consists of those amounts restricted for expansion of facilities. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the totals of the same such amounts presented in the statement of cash flows as of December 31, 2019:

Cash and cash equivalents	\$ 1,118,719
Cash restricted for expansion of facilities	457,250
Total cash, cash equivalents and restricted cash	<u>\$ 1,575,969</u>

Note 5 – Property and equipment

Property and equipment consisted of the following at December 31, 2019:

Building and improvements	\$ 18,679,488
Furniture and equipment	847,249
Construction in progress	42,750
Total cost	<u>19,569,487</u>
Less accumulated depreciation	<u>(3,467,209)</u>
Net property and equipment	<u>\$ 16,102,278</u>

BIOSCIENCE AND TECHNOLOGY BUSINESS CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Depreciation expense charged to operations is \$553,622 for the year ended December 31, 2019.

Construction in progress at December 31, 2019 includes costs incurred to date to complete construction of Phase III of the Organization. No depreciation was taken on these capitalized costs as they were not placed in service as of December 31, 2019.

Note 6 – Notes payable

Notes payable consist of three notes entered into with the University of Kansas Center for Research, Inc. (KUCR) and one note with KU Endowment (KUEA).

The first note with KUCR was entered into on June 21, 2010 with an original balance of \$1,000,000. The note is payable in annual payments of \$75,000 including principal and interest through June 2031, at which time the remaining principal is due. The interest rate is fixed at 4.25% and the outstanding balance at December 31, 2019 was \$652,516. The note is collateralized by an assignment of payments, insurance and rents.

The second note with KUCR is an amendment to the original note described in the previous paragraph. The amended note was entered into on December 15, 2010 and provided an additional principal of \$100,000. The amended portion of the note is payable in annual payments of \$12,500 including principal and interest through December 2020, at which time the remaining principal is due. The interest rate is fixed at 4.25% and the outstanding balance at December 31, 2019 was \$11,903. The amended portion of the note is collateralized by an assignment of payments, insurance and rents.

The third note with KUCR was entered into on March 29, 2017, with an original balance of \$4,000,000. The note is payable in interest only payments of \$100,000 through March 2021. After that the note is payable in annual payments of \$291,711 including principal and interest through March 2038, at which time the remaining principal is due. The interest rate is fixed at 2.5% and the outstanding balance at December 31, 2019 was \$4,000,000. The note is collateralized by an assignment of rents.

A construction loan was obtained from KUEA for construction of Phase II of BTBC. The construction loan was entered into in January 2014 and was fully financed in August 2014 in the amount of \$5,500,000. The note is payable in semi-annual payments of \$328,000 including principal and interest through May 2045, at which time the remaining principal is due. The interest rate is variable (Prime Rate + 1%) and is adjusted annually. The rate at December 31, 2019 was 6% and the outstanding balance at December 31, 2019 was \$5,209,282. The note is collateralized by an assignment of rents.

Future principal maturities are summarized as follows:

2020	\$ 74,614
2021	257,357
2022	265,227
2023	273,364
2024	231,532
Thereafter	<u>8,771,607</u>
	<u>\$ 9,873,701</u>

Note 7 – Leasing activities

The Organization leases office space to its tenants under operating leases. Certain portions of the buildings of the Organization were under operating leases with its tenants as of December 31, 2019. The cost of these portions totaled \$18,025,706 at December 31, 2019 and is included in fixed assets in the accompanying statement of financial position. Accumulated depreciation on the portion of buildings under operating leases was \$2,716,447 at December 31, 2019.

Note 8 – Net assets with donor restrictions

Net assets with donor restrictions in the amount of \$457,250 were restricted to the construction of Phase III of the Organization as of December 31, 2019.

BIOSCIENCE AND TECHNOLOGY BUSINESS CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

Note 9 – Functional expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function and allocated on a reasonable basis that is consistently applied. The expenses that are allocated are insurance, payroll and intern expense, retirement and taxes, which are allocated on the basis of estimates of time and effort.

Note 10 – Retirement plan

The Organization has implemented a simplified employee pension plan. Full-time employees who and are at least 21 years of age become eligible after twelve months of employment. Contributions to the plan are determined as a percentage of each covered employee's salary. Contributions for the year ended December 31, 2019 were \$42,149.

Note 11 – Risk management

The Organization is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the Organization carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 12 – Contingencies

Certain grants received by the Organization include grantor imposed stipulations that require repayment of funding in the event specific defaults. In no event shall the total cumulative repayment exceed the amount funded.

Note 13 – Related parties

The Organization owns 100% of the shares in Kaw, Inc. (a for-profit corporation). Management has elected to omit the consolidation of Kaw, Inc. in its financial statements. The Organization advanced Kaw Inc. \$76,200 in the year ended December 31, 2019. As of December 31, 2019, Kaw Inc. owes the Organization \$237,053, of which \$28,000 is included in accounts receivable and \$209,053 and is included in the due from related parties in the statement of financial position. The Organization recorded \$6,000 in advisory service revenue from Kaw, Inc. during the year ended December 31, 2019.

The Organization shares a common Board of Directors with Lawrence Regional Technology Center, Inc. (a non-profit corporation). Management has elected to omit the combination of Lawrence Regional Technology Center, Inc. in its financial statements. The Organization advanced Lawrence Regional Technology Center, Inc. \$2,050 in the year ended December 31, 2019. As of December 31, 2019, Lawrence Regional Technology Center, Inc. owes the Organization \$22,346, of which \$18,650 is included in accounts receivable and \$3,696 and is included in the due from related parties in the statement of financial position. The Organization recorded \$6,000 in advisory service revenue from Lawrence Regional Technology Center, Inc. during the year ended December 31, 2019.

Note 14 – Pending accounting pronouncements

In February 2016, FASB issued ASU 2016-02, *Leases*, which, among other things, requires the recognition of lease assets and lease liabilities for operating leases on the statement of financial position for lessees, and the disclosure of key information about leasing arrangements. The standard is effective for fiscal years beginning after December 15, 2020. Early application is permitted. The standard will need to be applied retrospectively in the year adopted. It is management's responsibility to ensure appropriate adoption of ASU 2016-02. The effects of this change on the Organization's financial statements have not yet been determined.

Note 15 – Subsequent events

Management has evaluated subsequent events through February 29, 2020, the date which the financial statements were available to be issued.