



**North
Carolina
Biotechnology
Center**

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October 4, 2012

TO: The Honorable Phil Berger, President Pro Tempore of the Senate
The Honorable Thom Tillis, Speaker of the House of Representatives
The Honorable Janet Cowell, State Treasurer
Mr. Grayson G. Kelley, Senior Deputy Attorney General
Mr. Mark Trogon, Fiscal Research Division

FROM: Patricia J. Gravinese, CPA
Controller

SUBJECT: Annual Audit Report

As required by the *Profit Sharing Agreement Between the State of North Carolina and the North Carolina Biotechnology Center*, and as required by our *State Appropriation Grant for FY 2012*, enclosed are the North Carolina Biotechnology Center's Consolidated Financial Statements and Compliance Reports (with Auditors' Report Thereon) for the fiscal year ending June 30, 2012.

If you have any comments or questions regarding this information, please do not hesitate to call me at (919) 541-9366.

cc: Kristin Walker, Fiscal Research

Enclosures

ASHEVILLE

CHARLOTTE

GREENVILLE

RESEARCH TRIANGLE PARK

WILMINGTON

WINSTON-SALEM

**NORTH CAROLINA BIOTECHNOLOGY CENTER
AND SUBSIDIARY**

**Consolidated Financial Statements
and
Accompanying Information**

Years Ended June 30, 2012 and 2011

**NORTH CAROLINA BIOTECHNOLOGY CENTER
AND SUBSIDIARY**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The North Carolina Biotechnology Center and Subsidiary

We have audited the accompanying consolidated statements of financial position of the North Carolina Biotechnology Center and Subsidiary (the "Center") (a nonprofit organization) as of June 30, 2012 and 2011, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2012, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements of the Center taken as a whole. The consolidating information and accompanying schedule of expenditures of federal and state awards, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Cherry Bekaert & Holland L.L.P.

Raleigh, North Carolina
September 6, 2012

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Consolidated Statements of Financial Position

June 30, 2012 and 2011

Assets	2012	2011
Cash	\$ 23,542,936	\$ 27,534,270
Investments	538,945	584,639
Receivables:		
Accrued interest receivable	491,423	979,865
Miscellaneous receivables	343,829	372,149
Contributions receivable	770,000	1,449,936
Notes receivable	8,623,893	7,896,135
Allowance for uncollectible accrued interest, loan, and notes receivable	(5,621,643)	(5,795,794)
Total receivables, net	4,607,502	4,902,291
Other assets	136,100	171,977
Property, plant, and equipment, net	12,429,861	13,219,898
Total assets	\$ 41,255,344	\$ 46,413,075
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 445,030	\$ 313,985
Grants and contracts payable	7,623,891	7,623,999
Note payable	—	5,000,000
Capital lease payable	71,838	—
Total liabilities	8,140,759	12,937,984
Net assets:		
Unrestricted net assets:		
Designated for specific purposes	31,436,822	32,565,118
Undesignated	679,269	98,932
Temporarily restricted	998,494	811,041
Total net assets	33,114,585	33,475,091
Total liabilities and net assets	\$ 41,255,344	\$ 46,413,075

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Activities and Changes in Net Assets

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenues, gains/(losses), and other support:		
Grants and contracts:		
State of North Carolina	\$ 17,551,710	\$ 18,819,334
Interest and dividends	315,125	627,973
Hamner Conference Center	211,706	197,129
Net realized and unrealized gain/(loss) on investments	(44,892)	2,184,925
Other, net	133,895	547,191
Net assets released from restrictions	994,724	1,258,067
	<u>19,162,268</u>	<u>23,634,619</u>
Total unrestricted revenues, gains, and other support		
Expenses:		
Science and technology development	4,094,316	3,510,150
Statewide development	1,643,326	1,622,326
Business and technology development	416,464	652,940
Education and training grants	609,512	623,872
Hamner Conference Center	766,556	691,679
Library and information services	722,679	645,960
Centers of Innovation	1,680,000	1,959,016
AgBio Initiatives	210,554	86,328
Other programs	1,078,927	909,925
Program management	5,557,712	5,380,939
General and administrative	2,930,181	3,485,022
	<u>19,710,227</u>	<u>19,568,157</u>
Total expenses		
Change in unrestricted net assets	<u>(547,959)</u>	<u>4,066,462</u>
Temporarily restricted revenues:		
Grants and contracts:		
State of North Carolina	150,000	400,000
Federal Government	—	130,000
Contributions	1,032,177	682,836
Net assets released from restrictions	(994,724)	(1,258,067)
	<u>187,453</u>	<u>(45,231)</u>
Change in temporarily restricted net assets		
Change in total net assets	<u>(360,506)</u>	<u>4,021,231</u>
Net assets, beginning of year	<u>33,475,091</u>	<u>29,453,860</u>
Net assets, end of year	<u>\$ 33,114,585</u>	<u>\$ 33,475,091</u>

See accompanying notes to consolidated financial statements.

**NORTH CAROLINA BIOTECHNOLOGY CENTER
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Consolidated Statements of Cash Flows

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in total net assets	\$ (360,506)	\$ 4,021,231
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation	931,828	792,678
Net realized and unrealized (gain)/loss on investments	44,892	(2,184,925)
Increase (decrease) in cash due to changes in:		
Notes receivable	(727,758)	(1,749,768)
Allowance for uncollectible accrued interest, loan, and notes receivable	(174,151)	1,153,495
Accrued interest receivable	488,442	37,508
Contributions receivable	679,936	1,437,828
Miscellaneous receivables	28,320	14,293
Other assets	35,877	181,249
Accounts payable and accrued expenses	131,045	(1,379,891)
Grants and contracts payable	(108)	(1,950,349)
Net cash provided by operating activities	<u>1,077,817</u>	<u>373,349</u>
Cash flows from investing activities:		
Purchase of property and equipment	(65,949)	(2,514,191)
Proceeds from sale of investments	44,251	2,343,748
Purchase of investments	(43,449)	(26,648)
Net cash (used) by investing activities	<u>(65,147)</u>	<u>(197,091)</u>
Cash flows from financing activities:		
Proceeds (payment) on note payable	(5,000,000)	5,000,000
Payment on capital lease	(4,004)	—
Net cash (used)/provided by financing activities	<u>(5,004,004)</u>	<u>5,000,000</u>
Net increase (decrease) in cash	(3,991,334)	5,176,258
Cash, beginning of year	27,534,270	22,358,012
Cash, end of year	<u>\$ 23,542,936</u>	<u>\$ 27,534,270</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 100,446	\$ 73,852
Assets acquired from capital lease obligations	\$ 75,842	\$ -

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements
June 30, 2012 and 2011

(1) Organization and Summary of Significant Accounting Policies

(a) *Organization and Purpose*

The North Carolina Biotechnology Center (Biotechnology Center) was incorporated in 1984 for the purpose of furthering economic development in North Carolina through education, research, and commercial development in biotechnology. The Biotechnology Center aids the biotechnology-related efforts of researchers, businesses, state and federal governments, and other agencies primarily through awards of research grants restricted to specific programs.

The North Carolina Bioscience Ventures, LLC (Ventures) is a wholly owned subsidiary of the Biotechnology Center established for the purpose of promoting the development of the bioscience industry in North Carolina.

(b) *Basis of Accounting and Presentation*

The consolidated financial statements have been prepared using the accrual basis of accounting.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Biotechnology Center and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Biotechnology Center and/or the passage of time.

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions or is time-restricted. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

(c) *Principles of Consolidation*

The consolidated financial statements include the financial statements of the North Carolina Biotechnology Center and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

(d) *Significant Accounting Policies*

The following significant accounting policies have been used in the preparation of the consolidated financial statements:

Cash and Investments

The Biotechnology Center invests funds not immediately needed for day-to-day operations in short-term investments, primarily certificates of deposit and commercial paper, consistent with guidelines established by the Board of Directors. These guidelines require that the Biotechnology Center invest only in certain financial instruments considered to be both

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conservative and adequately diversified. The Executive Committee and the Equity Investment Committee periodically review the Biotechnology Center's investment portfolio.

Cash and cash equivalents consist of unrestricted cash accounts and highly liquid investments with an original maturity of three months or less, when purchased. Cash and cash equivalents are carried at cost, which approximates fair value. The Company holds cash and cash equivalents at several major financial institutions, which often exceed insurance limits set by the Federal Deposit Insurance Corporation ("FDIC"). The Company has not historically experienced any losses due to such concentration of risk.

Investments are generally recorded at fair value. The fair values of all debt and equity securities with readily determinable fair values are based on quoted market prices. The equity method of accounting is used to account for certain equity investments where the Biotechnology Center's ownership is considered to be more than minor, but less than 50%. Private equity investments include equity investments in private biotechnology/bioscience companies and venture capital funds. In the case of certain less marketable investments, principally private equity investments that are not accounted for on the equity method, investments are carried at the lower of cost or fair value. For these less marketable securities, the determination of fair value requires the use of estimates, which are based on information provided by the fund managers or general partners and knowledge of events or changes in circumstances that would have a significant impact on the value of the investment. Because of the inherent uncertainty in the use of estimates, fair values that are based on estimates may differ from the fair values that would have been used had a ready market for the investments existed.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position and activities and changes in net assets.

Under a profit sharing agreement with the State of North Carolina, the Biotechnology Center and the State will share equally the net profits in excess of \$150,000 on any individual investment made with State funds by the Biotechnology Center after July 1, 1997. The Biotechnology Center did not receive any profits in excess of the \$150,000 threshold during fiscal year 2012. However, in 2011 the profits in excess of \$150,000 were \$205,688 which resulted in profit sharing to the state of North Carolina of \$102,844.

Receivables

Through its Economic Development Finance Program, the Biotechnology Center supports research and development projects of young and growing biotechnology/bioscience companies that may not yet qualify for conventional forms of financial assistance. Since 1988, most awards to such companies have been in the form of notes, and all amounts, including interest, are to be repaid in full within one to seven years of the date of each underlying note. Under certain circumstances, the maturity date of these notes may be extended. Management has considered each company's ability to repay the notes, loan and accrued interest, including the financial condition of the company and the repayment terms of

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Notes to Consolidated Financial Statements
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the note, and has recorded an allowance for uncollectible receivables. The allowance for uncollectible accrued interest, loan, and notes receivable totaled \$5,621,643 and \$5,795,794 at June 30, 2012 and 2011, respectively. The Biotechnology Center's other receivables are considered to be fully collectible.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of three to eight years for furniture, fixtures, and equipment and thirty years for the Biotechnology Center's permanent headquarters.

Recognition of Grant Awards and Grants Payable

Grant awards and the corresponding grants payable are recognized at the time the grant award is approved by the Executive Committee of the Board of Directors.

Net Assets

Certain unrestricted net assets have been designated for specific purposes by the board of directors. At June 30, 2012 and 2011, unrestricted net assets designated for specific purposes consisted of the following:

	<u>2012</u>	<u>2011</u>
Property, plant, and equipment	\$ 12,429,861	\$ 13,219,898
Future economic development investment	11,151,816	8,520,581
Stocks and equity investments	538,945	584,639
Program commitments	7,316,200	6,240,000
Other	—	4,000,000
	<u>\$ 31,436,822</u>	<u>\$ 32,565,118</u>

Temporarily restricted net assets are available for the following purposes at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Statewide and economic development	\$ 269,218	\$ 373,173
Intellectual exchange activities	145,241	143,093
AgBiotech	431,305	—
Other programs	152,730	294,775
	<u>\$ 998,494</u>	<u>\$ 811,041</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time. In 2012 and 2011, purpose restrictions were accomplished by incurring \$994,724 and \$1,258,067, respectively, in expenses related to statewide development, intellectual exchange activities, AgBiotech, and other programs.

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Contributions

Contributions are recognized as revenues at fair value at the time the contribution or unconditional pledge, net of estimated uncollectible amounts, is received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the year in which the promise is received (.21% during the year ended June 30, 2012). Amortization of the discount as of June 30, 2012 was immaterial and not included in contribution revenue.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value as of the date of the gift.

Recognition of Funding

Funds are granted periodically from private and public agencies for specific purposes or to aid the Biotechnology Center's general operation and sustain its continued existence. Funds appropriated for specific purposes are deemed to be earned and reported as revenue when the Biotechnology Center has incurred expenditures in compliance with the grant agreement. Such amounts received, but not yet earned, are reported as deferred revenues.

The Biotechnology Center received 92% and 80% of its unrestricted revenues from the State of North Carolina in 2012 and 2011, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and activities of the Biotechnology Center have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Certain general and administrative expenses totaling \$1,294,511 and \$1,289,245 for the years ended June 30, 2012 and 2011, respectively, have been allocated among the programs and activities benefited.

Income Taxes

The Biotechnology Center is exempt from federal income taxes on related income under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). Accordingly, no provision for income taxes has been made. As a single member limited liability company, Ventures is a disregarded entity for income tax purposes.

The Biotechnology Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes. Management believes that the Biotechnology Center continues to satisfy the requirements of a tax-exempt organization at June 30, 2012. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the Biotechnology Center had no significant uncertain income tax positions at June 30, 2012.

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Notes to Consolidated Financial Statements
June 30, 2012 and 2011

(e) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(f) Fair Value Hierarchy

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques as well as instruments for which the determination of fair value requires significant management judgment or estimation.

(g) Subsequent Events

In connection with the preparation of the consolidated financial statements and in accordance with GAAP, the Biotechnology Center considered for disclosure subsequent events that occurred after the statement of financial position date of June 30, 2012 through September 6, 2012, which was the date the consolidated financial statements were available to be issued. No subsequent events were noted that required disclosure in the financial statements.

(h) Reclassifications

Certain prior year balances have been reclassified to conform to current year presentation. These reclassifications had no impact on net assets or the financial position as previously reported.

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Notes to Consolidated Financial Statements
June 30, 2012 and 2011

(2) Investments

The carrying values of investments at June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Stocks	\$ 71,775	\$ 64,465
Private equity investments	467,170	520,174
	<u>\$ 538,945</u>	<u>\$ 584,639</u>

At June 30, 2012, the fair value of the Biotechnology Center's investments was determined based on:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value
Stocks	\$ 1,257	\$ —	\$ 70,518	\$ 71,775
Private equity investments	—	—	637,911	637,911
	<u>\$ 1,257</u>	<u>\$ —</u>	<u>\$ 708,429</u>	<u>\$ 709,686</u>

At June 30, 2011, the fair value of the Biotechnology Center's investments was determined based on:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Fair value
Stocks	\$ 9,781	\$ —	\$ 62,126	\$ 71,907
Private equity investments	—	—	762,015	762,015
	<u>\$ 9,781</u>	<u>\$ —</u>	<u>\$ 824,141</u>	<u>\$ 833,922</u>

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Notes to Consolidated Financial Statements
June 30, 2012 and 2011

The activity for investments, measured at fair value based on significant unobservable information for the period July 1, 2011 to June 30, 2012 is as follows:

	Level 3
	Assets
Investments:	
Beginning balance, July 1, 2011	\$ 824,141
Purchases	43,450
Sales	(33,082)
Total net unrealized loss	<u>(126,080)</u>
Ending balance, June 30, 2012	<u>\$ 708,429</u>

In connection with Economic Development Finance awards, the Biotechnology Center receives the right to purchase stock in various biotechnology/bioscience companies if certain conditions are met. As of June 30, 2012, the Biotechnology Center received warrants to purchase 2,598,331 common and preferred shares with exercise prices ranging from \$0.01 to \$30.61 per share. These warrants expire at various dates through 2022. Management has determined the value of the warrants to be immaterial, and accordingly, they are not reflected in the consolidated financial statements.

As of June 30, 2012, the Biotechnology Center has capital contribution commitments to various venture capital funds totaling \$209,754. These funds will be invested in future years as capital calls are made by the various venture capital fund managers.

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Notes to Consolidated Financial Statements
June 30, 2012 and 2011

(3) Notes Receivable

Notes receivable at June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Notes receivable:		
Notes receivable from various state biotechnology companies under Economic Development Finance awards. Interest rates on these notes vary from 7.00% to 8.25%. Generally, principal and interest are payable one to five years from the execution of each note. Due at various dates through 2014.	\$ 436,862	\$ 437,113
Notes receivable from various state biotechnology companies under Small Business Innovation Research awards. Interest rates on these notes are 4.25%. Generally, principal and interest are payable one to five years from the execution of each note. Due at various dates through 2014.	141,284	210,361
Notes receivable from various state biotechnology companies under Business Development Loans. Interest rates on these notes vary from 4.25% to 9.25%. Generally, principal and interest are payable one to five years from the execution of each note. Due at various dates through 2014.	192,087	216,543
Notes receivable from various state biotechnology companies under Small Business Research Loans. Interest rates on these notes vary from 4.25% to 9.25%. Generally, principal and interest are payable one to seven years from the execution of each note. Due at various dates through 2015.	4,844,685	4,514,180
Notes receivable from various state biotechnology companies under Strategic Growth Loans. Interest rates on these notes vary from 4.25% to 8.75%. Generally, principal and interest are payable one to five years from the execution of the note. Due at various dates through 2015.	2,183,314	1,835,991

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Notes to Consolidated Financial Statements
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Notes receivable from various state biotechnology companies under Technology Enhancement & Acceleration Model Loans. Interest rates on these notes vary from 4.25% to 7.00%. Generally, principal and interest are due one to five years from the execution of each note. Due at various dates through 2015.	196,885	196,540
Notes receivable from various state biotechnology companies under Company Inception Loans. Interest rates on these notes vary from 4.25% to 6.00%. Generally, principal and interest are due one to three years from the execution of each note. Due at various dates through 2015.	<u>628,776</u>	<u>485,407</u>
Total notes receivable	8,623,893	7,896,135
Less allowance for uncollectible loan and notes receivable	<u>(5,621,643)</u>	<u>(5,795,794)</u>
Loan and notes receivable, net	<u>\$ 3,002,250</u>	<u>\$ 2,100,341</u>

(4) Contributions Receivable

Contributions receivable consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unconditional promises expected to be collected in:		
Less than one year	\$ 550,000	\$ 999,936
One year to five years	<u>220,000</u>	<u>450,000</u>
	<u>\$ 770,000</u>	<u>\$ 1,449,936</u>

(5) Property, Plant, and Equipment

A summary of property, plant, and equipment at June 30, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Building	\$ 17,158,550	\$ 17,142,954
Furniture, fixtures, and equipment	<u>2,758,100</u>	<u>2,657,735</u>
	19,916,650	19,800,689
Less accumulated depreciation	<u>(7,486,789)</u>	<u>(6,580,791)</u>
Property, plant, and equipment, net	<u>\$ 12,429,861</u>	<u>\$ 13,219,898</u>

Depreciation expense totaled \$931,828 and \$792,678 for the years ended June 30, 2012 and 2011, respectively.

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Notes to Consolidated Financial Statements
June 30, 2012 and 2011

(6) Grants and Contracts Payable

The Biotechnology Center has committed grants and other contracts to various research programs, primarily through major universities and biotechnology companies located in North Carolina. Grants and contracts payable at June 30, 2012 are expected to be paid as follows:

2013	\$	5,454,988
2014		<u>2,168,903</u>
	\$	<u><u>7,623,891</u></u>

(7) Note Payable

In 2012, the principal balance of \$5,000,000 on the unsecured note was paid. Interest expense incurred on the note payable for the year ended June 30, 2012 was \$100,446.

(8) Interest Income

Interest income of \$57,781 and \$101,265 was earned during the years ended June 30, 2012 and 2011, respectively, primarily by investing in money market accounts. Interest income on notes and loan receivable in 2012 and 2011 totaled \$247,356 and \$513,048, respectively.

(9) Benefit Plans

The Biotechnology Center has a defined contribution money purchase pension plan covering all qualified employees who have completed one year of service. The Biotechnology Center's contribution is 11.00% of pre-tax compensation for eligible employees. Employees are fully vested in the plan assets upon participation. Approximately \$522,316 and \$481,891 was contributed to the plan during the years ended June 30, 2012 and 2011, respectively. The plan is self-directed, with the majority of participants electing mutual funds. Additionally, after six months of employment, all regular employees are eligible to participate in a 403(b)(7), tax-deferred supplemental retirement plan. Participants may contribute subject to prevailing Internal Revenue Service regulations.

(10) Operating Leases

The Biotechnology Center has acquired the right to use the land on which its building is constructed through an operating lease agreement, which expires on December 31, 2089 with another nonprofit organization, the Triangle Universities Center for Advanced Studies, Inc. (TUCASI). Title to the land remains with TUCASI.

Payments to TUCASI under the agreement are at the nominal rate of \$1 per year, and the Biotechnology Center pays all costs of insurance, taxes, and maintenance as defined in the lease agreement.

**NORTH CAROLINA BIOTECHNOLOGY CENTER
AND SUBSIDIARY**

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

The Biotechnology Center also leases office space for certain regional offices as well as some office equipment under noncancelable operating leases. Future minimum lease payments under these leases as of June 30, 2012 are as follows:

2013	\$	58,826
2014		40,196
2015		21,072
2016		840
2017		<u>770</u>
	\$	<u><u>121,704</u></u>

Total rental expense for operating leases in 2012 and 2011 was \$96,629 and \$109,673, respectively.

(11) Capital leases

The Biotechnology Center leases equipment under the terms of long-term capital leases. Future minimum lease payments under the capital leases are as follows:

Year Ending June 30		
2013	\$	22,539
2014		22,539
2015		22,539
2016		17,744
2017		<u>3,080</u>
		<u>88,441</u>
Less: amount representing interest		<u>(16,603)</u>
Present value of future minimum capital lease payments	\$	<u><u>71,838</u></u>

The gross and net book value of the related equipment at June 30, 2012 is as follows:

Cost	\$	75,842
Accumulated depreciation		<u>(4,362)</u>
	\$	<u><u>71,480</u></u>

There was no equipment leased under the terms of long-term capital leases as of June 30, 2011.

**NORTH CAROLINA BIOTECHNOLOGY CENTER
AND SUBSIDIARY**

Notes to Consolidated Financial Statements
June 30, 2012 and 2011

(12) Related Parties

Certain members of the Board of Directors are affiliated with state colleges and universities or biotechnology/bioscience companies to which the Biotechnology Center makes grant or contract awards. Total grant or contract awards to these entities totaled \$4,627,171 in 2012 and \$4,337,989 in 2011. Board members abstain from voting on matters related to his or her organization.

**NORTH CAROLINA BIOTECHNOLOGY CENTER
AND SUBSIDIARY**

Consolidating Schedule of Financial Position

June 30, 2012

(Unaudited)

Assets	Programs & Operating Fund	Plant Fund	Economic Development Investment Fund	NCBC Bioscience Investment Fund	Total NCBC	N.C. Bioscience Ventures, LLC	Total June 30, 2012	Elimination entries	Consolidated June 30, 2012
Cash	\$ 15,266,880	174,639	5,150,160	—	20,591,679	2,951,257	23,542,936	—	23,542,936
Investments	—	—	538,945	—	538,945	—	538,945	—	538,945
Receivables:									
Accrued interest receivable	—	—	491,423	—	491,423	—	491,423	—	491,423
Miscellaneous receivables	198,106	10,000	—	—	208,106	135,723	343,829	—	343,829
Contributions receivable	330,000	440,000	—	—	770,000	—	770,000	—	770,000
Notes receivable	—	—	8,623,893	—	8,623,893	—	8,623,893	—	8,623,893
Allowance for uncollectible accrued interest, loan, and notes receivable	—	—	(5,621,643)	—	(5,621,643)	—	—	—	—
Total receivables, net	528,106	450,000	3,493,673	—	4,471,779	135,723	4,607,502	—	4,607,502
Other assets	76,185	59,915	—	—	136,100	—	136,100	—	136,100
Property, plant, and equipment, net	—	12,429,861	—	—	12,429,861	—	12,429,861	—	12,429,861
Investment in subsidiary	—	—	—	3,086,980	3,086,980	—	3,086,980	(3,086,980) (1)	—
Total assets	\$ 15,871,171	13,114,415	9,182,778	3,086,980	41,255,344	3,086,980	44,342,324	(3,086,980)	41,255,344
Liabilities and Net Assets									
Accounts payable and accrued expenses	\$ 390,016	55,014	—	—	445,030	—	445,030	—	445,030
Grants and contracts payable	7,044,894	—	578,997	—	7,623,891	—	7,623,891	—	7,623,891
Note payable	—	—	—	—	—	—	—	—	—
Capital lease payable	—	71,838	—	—	71,838	—	71,838	—	71,838
Total liabilities	7,434,910	126,852	578,997	—	8,140,759	—	8,140,759	—	8,140,759
Net assets:									
Unrestricted net assets:									
Designated for specific purposes	7,316,200	12,429,861	8,603,781	3,086,980	31,436,822	3,086,980	34,523,802	(3,086,980)	31,436,822
Undesignated	121,567	557,702	—	—	679,269	—	679,269	—	679,269
Total unrestricted net assets	7,437,767	12,987,563	8,603,781	3,086,980	32,116,091	3,086,980	35,203,071	(3,086,980)	32,116,091
Temporarily restricted net assets	998,494	—	—	—	998,494	—	998,494	—	998,494
Total net assets	8,436,261	12,987,563	8,603,781	3,086,980	33,114,585	3,086,980	36,201,565	(3,086,980)	33,114,585
Total liabilities and net assets	\$ 15,871,171	13,114,415	9,182,778	3,086,980	41,255,344	3,086,980	44,342,324	(3,086,980)	41,255,344

(1) To eliminate investment in subsidiary.

See accompanying independent auditors' report.

**NORTH CAROLINA BIOTECHNOLOGY CENTER
AND SUBSIDIARY**

Consolidating Schedule of Activities and Changes in Net Assets

Year ended June 30, 2012

(Unaudited)

	Programs & Operating Fund	Plant Fund	Economic Development Investment Fund	NCBC Bioscience Investment Fund	Total NCBC	N.C. Bioscience Ventures, LLC	Total June 30, 2012	Elimination entries	Consolidated June 30, 2012
Unrestricted revenues, (losses) gains, and other support:									
Grants and contracts:									
State of North Carolina	\$ 16,234,710	—	1,317,000	—	17,551,710	—	17,551,710	—	17,551,710
Interest and dividends	21,742	28,385	255,010	—	305,137	9,988	315,125	—	315,125
Hamner Conference Center	211,706	—	—	—	211,706	—	211,706	—	211,706
Net realized and unrealized gain/(loss) on investments	—	—	(44,892)	—	(44,892)	—	(44,892)	—	(44,892)
Other, net	68,995	—	118,894	(744,006)	(556,117)	—	(556,117)	690,012	133,895
Net assets released from restrictions	994,724	—	—	—	994,724	—	994,724	—	994,724
Total unrestricted revenues, gains/(losses), and other support	17,531,877	28,385	1,646,012	(744,006)	18,462,268	9,988	18,472,256	690,012	19,162,268
Expenses:									
Science and technology development	4,094,316	—	—	—	4,094,316	—	4,094,316	—	4,094,316
Statewide development	1,643,326	—	—	—	1,643,326	—	1,643,326	—	1,643,326
Business and technology development	609,512	—	(283,536)	—	(283,536)	700,000	416,464	—	416,464
Education and training grants	766,556	—	—	—	766,556	—	766,556	—	766,556
Hamner Conference Center	718,197	4,482	—	—	722,679	—	722,679	—	722,679
Library and information services	1,680,000	—	—	—	1,680,000	—	1,680,000	—	1,680,000
Centers of Innovation	210,554	—	—	—	210,554	—	210,554	—	210,554
AgBio Initiatives	1,078,927	—	—	—	1,078,927	—	1,078,927	—	1,078,927
Other programs	5,557,712	—	—	—	5,557,712	—	5,557,712	—	5,557,712
Program management	1,801,514	1,128,667	—	—	2,930,181	53,994	2,984,175	(53,994)	2,930,181
General and administrative	18,160,614	1,133,149	(283,536)	—	19,010,227	753,994	19,764,221	(53,994)	19,710,227
Total expenses	(628,737)	(1,104,764)	1,929,548	(744,006)	(547,959)	(744,006)	(1,291,965)	744,006	(547,959)
Change in unrestricted net assets before net operating transfers	1,812,716	(1,812,716)	—	—	—	—	—	—	—
Net transfers	1,183,979	(2,917,480)	1,929,548	(744,006)	(547,959)	(744,006)	(1,291,965)	744,006	(547,959)
Change in unrestricted net assets	150,000	—	—	—	150,000	—	150,000	—	150,000
Temporarily restricted revenues:									
Grants and contracts:									
State of North Carolina	1,032,177	—	—	—	1,032,177	—	1,032,177	—	1,032,177
Federal Government	(994,724)	—	—	—	(994,724)	—	(994,724)	—	(994,724)
Contributions	187,453	—	—	—	187,453	—	187,453	—	187,453
Net assets released from restrictions	1,371,432	(2,917,480)	1,929,548	(744,006)	(360,506)	(744,006)	(1,104,512)	744,006	(360,506)
Change in temporarily restricted net assets	7,064,829	15,905,043	6,674,233	3,830,986	33,475,091	3,830,986	37,306,077	(3,830,986)	33,475,091
Change in total net assets	8,436,261	12,987,563	8,603,781	3,086,980	33,114,585	3,086,980	36,201,565	(3,086,980)	33,114,585
Net assets, beginning of year									
Net assets, end of year									
(1) To eliminate investment in subsidiary.									
(2) To eliminate intercompany transactions.									

See accompanying independent auditors' report.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY
Schedule of Expenditures of Federal and State Awards
As of June 30, 2012

<u>Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Revenues</u>	<u>Expenditures</u>
Federal Awards:			
US Small Business Administration	59.000	\$ 130,000	\$ 9,311
<i>To support Industrial Fellowship Program</i>			
Total Federal Awards		<u>130,000</u>	<u>9,311</u>
State Awards:			
NC Department of Commerce	None	17,551,710	17,551,710
<i>State Appropriation for Programs & Operations*</i>			
Golden LEAF Foundation	None	350,000	93,910
<i>AgBiotech Initiative</i>			
Golden LEAF Foundation	None	300,000	64,458
<i>BioMoto STEM Project</i>			
Golden LEAF Foundation	None	150,000	-
<i>Crop Commercialization Center</i>			
NC State University - Kenan Institute	None	80,000	80,000
<i>Collaborative Funding Grants</i>			
Total State Awards		<u>18,431,710</u>	<u>17,790,078</u>
Total Federal and State Awards		<u>\$ 18,561,710</u>	<u>\$ 17,799,389</u>

Note: The information on this schedule has been prepared on the accrual basis of accounting.

* - Programs having compliance requirements that could have a direct and material effect on the organization's financial statements.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
The North Carolina Biotechnology Center and Subsidiary

We have audited the consolidated financial statements of the North Carolina Biotechnology Center and Subsidiary (the "Center") (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Center's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit Committee, the Board of Directors, management of the Center, others within the entity, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Cherry Bekaert & Holland L.L.P.

Raleigh, North Carolina
September 6, 2012

