



NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION

As of and for the Years Ended June 30, 2014 and 2013

And Report of Independent Auditor

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY
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Report of Independent Auditor

To the Board of Directors of
The North Carolina Biotechnology Center and Subsidiary
Research Triangle Park, North Carolina

We have audited the accompanying consolidated financial statements of the North Carolina Biotechnology Center and Subsidiary (the "Center") (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Biotechnology Center and Subsidiary as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Center has elected to change how certain expenses are classified. The prior year expense classifications have changed in order for the presentation of expenses to be consistent with the current year presentation. Our opinion is not modified with respect to that matter.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Cherry Bekant LLP". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
August 29, 2014

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 23,017,338	\$ 24,812,306
Investments	437,552	519,918
Receivables:		
Accrued interest receivable	553,698	439,822
Miscellaneous receivables	277,938	280,649
Contributions receivable	146,299	520,000
Notes receivable	8,494,391	8,015,305
Allowance for uncollectible accrued interest, loan, and notes receivable	<u>(5,422,992)</u>	<u>(5,203,496)</u>
Total receivables, net	4,049,334	4,052,280
Other assets	134,012	106,137
Property, plant, and equipment, net	<u>10,881,838</u>	<u>11,734,664</u>
Total assets	<u><u>\$ 38,520,074</u></u>	<u><u>\$ 41,225,305</u></u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 564,962	\$ 435,267
Grants and contracts payable	8,712,457	10,560,243
Capital lease payable	<u>38,854</u>	<u>56,220</u>
Total liabilities	<u>9,316,273</u>	<u>11,051,730</u>
Net assets:		
Unrestricted net assets:		
Designated for specific purposes	28,787,811	30,314,638
Undesignated	(365,169)	(1,113,612)
Temporarily restricted	<u>781,159</u>	<u>972,549</u>
Total net assets	<u>29,203,801</u>	<u>30,173,575</u>
Total liabilities and net assets	<u><u>\$ 38,520,074</u></u>	<u><u>\$ 41,225,305</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Unrestricted revenues, gains/(losses), and other support:		
Grants and contracts:		
State of North Carolina	\$ 12,600,338	\$ 17,200,676
Interest and dividends	516,800	362,236
Hamner Conference Center	304,677	270,324
Net realized and unrealized gain(loss) on investments	407,458	(10,178)
Other, net	155,241	102,253
Net assets released from restrictions	872,374	909,622
Total unrestricted revenues, gains(losses), and other support	14,856,888	18,834,933
Expenses:		
Science and technology development	2,681,733	5,378,986
Statewide development	1,324,545	1,559,798
Business and technology development	1,383,882	2,059,614
Education and training	3,447	700,364
Hamner Conference Center	727,516	827,043
Library and information services	705,847	771,891
Centers of Innovation	700,025	1,531,919
AgBio initiatives	297,499	288,276
Other programs	218,379	459,731
Program management	4,685,821	5,434,139
General and administrative	2,906,578	2,738,237
Total expenses	15,635,272	21,749,998
Change in unrestricted net assets	(778,384)	(2,915,065)
Temporarily restricted revenues:		
Contributions	680,984	883,677
Net assets released from restrictions	(872,374)	(909,622)
Change in temporarily restricted net assets	(191,390)	(25,945)
Change in total net assets	(969,774)	(2,941,010)
Net assets, beginning of year	30,173,575	33,114,585
Net assets, end of year	\$ 29,203,801	\$ 30,173,575

The accompanying notes are an integral part of these consolidated financial statements.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in total net assets	\$ (969,774)	\$ (2,941,010)
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation	869,821	882,154
Net realized and unrealized (gain)loss on investments	(407,458)	10,178
Increase (decrease) in cash due to changes in:		
Notes receivable	(479,086)	608,588
Allowance for uncollectible accrued interest, loan, and notes receivable	219,496	(418,147)
Accrued interest receivable	(113,876)	51,601
Contributions receivable	373,701	250,000
Miscellaneous receivables	2,711	63,180
Other assets	(27,875)	29,963
Accounts payable and accrued expenses	129,695	(9,763)
Grants and contracts payable	<u>(1,847,786)</u>	<u>2,936,352</u>
Net cash provided by or used in operating activities	<u>(2,250,431)</u>	<u>1,463,096</u>
Cash flows from investing activities:		
Purchase of property and equipment	(16,995)	(186,957)
Proceeds from sale of investments	75,760	39,755
Purchase of investments	<u>414,064</u>	<u>(30,906)</u>
Net cash provided by or used in investing activities	<u>472,829</u>	<u>(178,108)</u>
Cash flows from financing activities:		
Payment on capital lease	<u>(17,366)</u>	<u>(15,618)</u>
Net cash used in financing activities	<u>(17,366)</u>	<u>(15,618)</u>
Net increase (decrease) in cash	(1,794,968)	1,269,370
Cash, beginning of year	<u>24,812,306</u>	<u>23,542,936</u>
Cash, end of year	<u><u>\$ 23,017,338</u></u>	<u><u>\$ 24,812,306</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 5,174	\$ 6,921

The accompanying notes are an integral part of these consolidated financial statements.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1—Organization and summary of significant accounting policies

Organization and Purpose – The North Carolina Biotechnology Center (“Biotechnology Center” or “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.

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.

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.

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 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 Center holds cash and cash equivalents at several major financial institutions, which often exceed insurance limits set by the Federal Deposit Insurance Corporation (FDIC). The Center has not historically experienced any losses due to such concentration of risk.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1—Organization and summary of significant accounting policies (continued)

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 received net profits of \$18,088 in excess of the \$150,000 threshold in 2014. This resulted in a profit sharing of \$9,044 to the State of North Carolina in 2014. No excess profits were received in fiscal year 2013.

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 the note, and has recorded an allowance for uncollectible receivables. The allowance for uncollectible accrued interest, loan, and notes receivable totaled \$5,422,992 and \$5,203,496 at June 30, 2014 and 2013, 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.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1—Organization and summary of significant accounting policies (continued)

Net Assets – Certain unrestricted net assets have been designated for specific purposes by the Board of Directors. At June 30, 2014 and 2013, unrestricted net assets designated for specific purposes consisted of the following:

	2014	2013
Property, plant, and equipment	\$ 10,881,838	\$ 11,734,664
Future economic development investment	9,968,421	9,995,698
Stocks and equity investments	437,552	519,918
Program commitments	7,500,000	8,064,358
	<u>\$ 28,787,811</u>	<u>\$ 30,314,638</u>

Temporarily restricted net assets are available for the following purposes at June 30, 2014 and 2013:

	2014	2013
Statewide and economic development	\$ 200,780	\$ 220,952
Intellectual exchange activities	141,848	137,862
AgBiotech	425,339	500,409
Other programs	13,192	113,326
	<u>\$ 781,159</u>	<u>\$ 972,549</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time. In 2014 and 2013, purpose restrictions were accomplished by incurring \$872,374 and \$909,622, respectively, in expenses related to statewide and economic development, intellectual exchange activities, AgBiotech, and other programs.

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 expected to be received. Contributions receivable at June 30, 2014, are expected to be received within one year.

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 85% and 91% of its unrestricted revenues from the State of North Carolina in 2014 and 2013, respectively.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1—Organization and summary of significant accounting policies (continued)

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 \$1,190,603 and \$1,141,350 for the years ended June 30, 2014 and 2013, 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 Center's federal Exempt Organization Business Income Tax Returns (Form 990T) for 2013, 2012, and 2011 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

The 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 Center continues to satisfy the requirements of a tax-exempt organization at June 30, 2014. Management has evaluated all other tax positions that could have a significant effect on the consolidated financial statements and determined the Center had no significant uncertain income tax positions at June 30, 2014.

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.

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.

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, 2014 through August 29, 2014, 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.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1—Organization and summary of significant accounting policies (continued)

Reclassifications – Certain prior year balances have been reclassified to be consistent with the current year presentation. The change in classification had no impact on net assets or the financial position as previously reported. The AgBio Summer Workshop program was reported as Education and training in the prior year. The expense associated with this program is reported as AgBio initiatives for current year presentation. The Technology Enhancement Grant and the Industrial Fellowship and Internship Grants were recorded as Other Programs in the prior year. The expenses associated with these programs are reported as Business and technology development for current year presentation. The total amount reclassified for all programs was \$412,146 in 2014 and \$606,844 in 2013.

Note 2—Investments

The carrying values of investments at June 30, 2014 and 2013 were as follows:

	2014	2013
Stocks	\$ 40,354	\$ 70,518
Private equity investments	397,198	449,400
	<u>\$ 437,552</u>	<u>\$ 519,918</u>

At June 30, 2014, the fair value of the Biotechnology Center's investments were determined based on:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Stocks	\$ -	\$ -	\$ 40,354	\$ 40,354
Private equity investments	-	-	524,888	524,888
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 565,242</u>	<u>\$ 565,242</u>

At June 30, 2013, the fair value of the Biotechnology Center's investments were determined based on:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Stocks	\$ -	\$ -	\$ 70,518	\$ 70,518
Private equity investments	-	-	609,628	609,628
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 680,146</u>	<u>\$ 680,146</u>

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 2—Investments (continued)

The activity for investments, measured at fair value based on significant unobservable information for the period July 1, 2013 to June 30, 2014 is as follows:

	Level 3 Assets
Investments:	
Beginning balance, July 1, 2013	\$ 680,146
Purchases	22,000
Sales	(86,749)
Total net unrealized loss	(50,155)
Ending balance, June 30, 2014	<u>\$ 565,242</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, 2014, the Biotechnology Center received warrants to purchase 3,033,872 common and preferred shares with exercise prices ranging from \$0.01 to \$30.61 per share. These warrants expire at various dates through 2024. 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, 2014, the Biotechnology Center has capital contribution commitments to various venture capital funds totaling \$166,832. These funds will be invested in future years as capital calls are made by the various venture capital fund managers.

Note 3—Notes receivable

Notes receivable at June 30, 2014 and 2013 consisted of the following:

	2014	2013
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.	\$ 283,842	\$ 283,842
Notes receivable from various state biotechnology companies under Small Business Innovation Research awards.		
Interest rates on these notes are 4.25% to 6.25%.		
Generally, principal and interest are payable one to five years from the execution of each note or renegotiation.		
Due at various dates through 2017.	63,230	108,611

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 3—Notes receivable (continued)

	<u>2014</u>	<u>2013</u>
Notes receivable from various state biotechnology companies under Business Development Loans. Interest rates on these notes are 4.25% to 6.25%. Generally, principal and interest are payable one to five years from the execution of each note or renegotiation. Due at various dates through 2015.	\$ 69,723	\$ 126,315
Notes receivable from various state biotechnology companies under Small Business Research Loans. Interest rates on these notes vary from 4.25% to 8.25%. Generally, principal and interest are payable one to three years from the execution of each note or renegotiation. Due at various dates through 2017.	5,306,444	4,633,358
Notes receivable from various state biotechnology companies under Strategic Growth Loans. Interest rates on these notes vary from 4.25% to 5.00%. Generally, principal and interest are payable one to three years from the execution of the note or renegotiation. Due at various dates through 2017.	1,695,308	2,065,003
Notes receivable from various state biotechnology companies under Technology Enhancement & Acceleration Model Loans. Interest rates on these notes are 4.25%. Generally, principal and interest are due one to five years from the execution of each note or renegotiation. Due at various dates through 2015.	199,475	199,475
Notes receivable from various state biotechnology companies under Company Inception Loans. Interest rates on these notes vary from 4.25% to 6.25%. Generally, principal and interest are due one to three years from the execution of each note or renegotiation. Due at various dates through 2017.	<u>876,369</u>	<u>598,701</u>
Total notes receivable	8,494,391	8,015,305
Less allowance for uncollectible loan and notes receivable	<u>(5,422,992)</u>	<u>(5,203,496)</u>
Loan and notes receivable, net	<u><u>\$ 3,071,399</u></u>	<u><u>\$ 2,811,809</u></u>

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 4—Contributions receivable

Contributions receivable consisted of the following at June 30, 2014 and 2013:

	2014	2013
Unconditional promises expected to be collected in:		
Less than one year	\$ 146,299	\$ 515,000
One year to five years	-	5,000
	<u>\$ 146,299</u>	<u>\$ 520,000</u>

Note 5—Property, plant, and equipment

A summary of property, plant, and equipment at June 30, 2014 and 2013 follows:

	2014	2013
Building	\$ 17,158,550	\$ 17,158,550
Furniture, fixtures, and equipment	2,834,687	2,874,782
	19,993,237	20,033,332
Less accumulated depreciation	<u>(9,111,399)</u>	<u>(8,298,668)</u>
Property, plant, and equipment, net	<u>\$ 10,881,838</u>	<u>\$ 11,734,664</u>

Depreciation expense totaled \$869,821 and \$882,154 for the years ended June 30, 2014 and 2013, respectively.

Note 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, 2014 are expected to be paid as follows:

2015	\$ 6,455,654
2016	2,256,803
	<u>\$ 8,712,457</u>

The Biotechnology Center has commitments to various entities for funding through the economic development award program. Certain conditions must be met by the entities for these commitments to become grant awards. As of June 30, 2014 these outstanding commitments total \$300,000.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 7—Interest income

Interest income of \$84,695 and \$28,950 was earned during the years ended June 30, 2014 and 2013, respectively, primarily by investing in money market accounts. Interest income on notes and loan receivable in 2014 and 2013 totaled \$432,105 and \$333,286, respectively.

Note 8—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 \$512,148 and \$564,990 was contributed to the plan during the years ended June 30, 2014 and 2013, 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.

Note 9—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. The Biotechnology Center pays all costs of insurance, taxes, and maintenance as defined in the lease agreement.

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, 2014 are as follows:

2015	\$ 29,112
2016	5,022
2017	770
	<hr/>
	\$ 34,904

Total rental expense for operating leases in 2014 and 2013 was \$58,063 and \$61,045, respectively.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 10—Capital leases

The 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,

2015	\$ 22,539
2016	17,744
2017	<u>3,080</u>
	43,363
Less: amount representing interest	<u>(4,509)</u>
Present value of future minimum capital lease payments	<u><u>\$ 38,854</u></u>

The gross and net book value of the related equipment at June 30, 2014 is as follows:

Cost	\$ 75,842
Accumulated depreciation	<u>(40,986)</u>
	<u><u>\$ 34,856</u></u>

Note 11—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 \$3,675,140 in 2014 and \$5,971,879 in 2013. Board members abstain from voting on matters related to his or her organization.

SUPPLEMENTAL INFORMATION

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2014

	Programs & Operating Fund	Plant Fund	Economic Development Investment Fund	NCBC Bioscience Investment Fund	Total NCBC	N.C. Bioscience Ventures, LLC	Total June 30, 2014	Elimination Entries	Consolidated June 30, 2014
ASSETS									
Cash	\$ 12,696,775	\$ 1,511,953	\$ 6,590,514	\$ -	\$ 20,799,242	\$ 2,218,096	\$ 23,017,338	\$ -	\$ 23,017,338
Investments	-	-	437,552	-	437,552	-	437,552	-	437,552
Receivables:									
Accrued interest receivable	-	-	553,698	-	553,698	-	553,698	-	553,698
Miscellaneous receivables	497,557	10,000	191,081	-	698,638	-	698,638	(420,700) (1)	277,938
Contributions receivable	141,299	5,000	-	-	146,299	-	146,299	-	146,299
Notes receivable	-	-	8,494,391	-	8,494,391	-	8,494,391	-	8,494,391
Allowance for uncollectible accrued interest, loan, and notes receivable	-	-	(5,422,992)	-	(5,422,992)	-	(5,422,992)	-	(5,422,992)
Total receivables, net	638,856	15,000	3,816,178	-	4,470,034	-	4,470,034	(420,700)	4,049,334
Other assets	133,662	350	-	-	134,012	-	134,012	-	134,012
Property, plant, and equipment, net	-	10,881,838	-	-	10,881,838	-	10,881,838	-	10,881,838
Investment in subsidiary	-	-	-	1,646,887	1,646,887	-	1,646,887	(1,646,887) (1)	-
Total assets	\$ 13,469,293	\$ 12,409,141	\$ 10,844,244	\$ 1,646,887	\$ 38,369,565	\$ 2,218,096	\$ 40,587,661	\$ (2,067,587)	\$ 38,520,074
LIABILITIES AND NET ASSETS									
Accounts payable and accrued expenses	\$ 422,107	\$ 17,346	\$ 125,000	\$ -	564,453	\$ 421,209	\$ 985,662	\$ (420,700) (1)	\$ 564,962
Grants and contracts payable	6,602,298	-	1,960,159	-	8,562,457	150,000	8,712,457	-	8,712,457
Capital lease payable	-	38,854	-	-	38,854	-	38,854	-	38,854
Total liabilities	7,024,405	56,200	2,085,159	-	9,165,764	571,209	9,736,973	(420,700)	9,316,273
Net assets:									
Unrestricted net assets:									
Designated for specific purposes	7,500,000	10,881,839	8,759,085	1,646,887	28,787,811	1,646,887	30,434,698	(1,646,887) (1)	28,787,811
Undesignated	(1,836,271)	1,471,102	-	-	(365,169)	-	(365,169)	-	(365,169)
Total unrestricted net assets	5,663,729	12,352,941	8,759,085	1,646,887	28,422,642	1,646,887	30,069,529	(1,646,887)	28,422,642
Temporarily restricted net assets	781,159	-	-	-	781,159	-	781,159	-	781,159
Total net assets	6,444,888	12,352,941	8,759,085	1,646,887	29,203,801	1,646,887	30,850,688	(1,646,887)	29,203,801
Total liabilities and net assets	\$ 13,469,293	\$ 12,409,141	\$ 10,844,244	\$ 1,646,887	\$ 38,369,565	\$ 2,218,096	\$ 40,587,661	\$ (2,067,587)	\$ 38,520,074

(1) To eliminate investment in subsidiary.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2014

	Programs & Operating Fund	Plant Fund	Economic Development Investment Fund	NCBC Bioscience Investment Fund	Total NCBC	N.C. Bioscience Ventures, LLC	Total June 30, 2014	Elimination Entries	Consolidated June 30, 2014
Unrestricted revenues, gains/(losses), and other support:									
Grants and contracts:									
State of North Carolina	\$ 12,600,338	\$ -	\$ -	\$ -	\$ 12,600,338	\$ -	\$ 12,600,338	\$ -	\$ 12,600,338
Interest and dividends	52,979	2,053	449,074	-	504,106	12,694	516,800	-	516,800
Hamner Conference Center	304,677	-	-	-	304,677	-	304,677	-	304,677
Net realized and unrealized loss on investments	-	-	395,742	-	395,742	11,716	407,458	-	407,458
Other, net	129,397	-	26,662	(397,108)	(241,049)	-	(241,049)	396,290 (1)	155,241
Net assets released from restrictions	872,374	-	-	-	872,374	-	872,374	-	872,374
Total unrestricted revenues, gains/(losses), and other support	13,959,765	2,053	871,478	(397,108)	14,436,188	24,410	14,460,598	396,290	14,856,888
Expenses:									
Science and technology development	2,681,733	-	-	-	2,681,733	-	2,681,733	-	2,681,733
Statewide development	1,324,545	-	-	-	1,324,545	-	1,324,545	-	1,324,545
Business and technology development	379,168	-	584,014	-	963,182	420,700	1,383,882	-	1,383,882
Education and training grants	3,447	-	-	-	3,447	-	3,447	-	3,447
Hamner Conference Center	727,516	-	-	-	727,516	-	727,516	-	727,516
Library and information services	705,847	-	-	-	705,847	-	705,847	-	705,847
Centers of Innovation	700,025	-	-	-	700,025	-	700,025	-	700,025
AgBio initiatives	297,499	-	-	-	297,499	-	297,499	-	297,499
Other programs	218,379	-	-	-	218,379	-	218,379	-	218,379
Program management	4,685,821	-	-	-	4,685,821	-	4,685,821	-	4,685,821
General and administrative	2,020,515	886,063	-	-	2,906,578	818	2,907,396	(818) (1)	2,906,578
Total expenses	13,744,495	886,063	584,014	-	15,214,572	421,518	15,636,090	(818)	15,635,272
Change in unrestricted net assets	215,270	(884,010)	287,464	(397,108)	(778,384)	(397,108)	(1,175,492)	397,108	(778,384)
Temporarily restricted revenues:									
Contributions	680,984	-	-	-	680,984	-	680,984	-	680,984
Net assets released from restrictions	(872,374)	-	-	-	(872,374)	-	(872,374)	-	(872,374)
Change in temporarily restricted net assets	(191,390)	-	-	-	(191,390)	-	(191,390)	-	(191,390)
Change in total net assets	23,880	(884,010)	287,464	(397,108)	(969,774)	(397,108)	(1,366,882)	397,108	(969,774)
Net assets, beginning of year	6,421,008	13,236,951	8,471,621	2,043,995	30,173,575	2,043,995	32,217,570	(2,043,995)	30,173,575
Net assets, end of year	\$ 6,444,888	\$ 12,352,941	\$ 8,759,085	\$ 1,646,887	\$ 29,203,801	\$ 1,646,887	\$ 30,850,688	\$ (1,646,887)	\$ 29,203,801

(1) To eliminate investment in subsidiary.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY
SCHEDULE OF EXPENDITURES OF STATE AWARDS

AS OF JUNE 30, 2014

<u>Grantor/Program</u>	<u>State Award Number</u>	<u>Revenues</u>	<u>Expenditures</u>
State Awards:			
NC Department of Commerce <i>State Appropriation for Programs & Operations*</i>	None	\$ 12,600,338	\$ 12,600,338
Golden LEAF Foundation <i>BioMoto STEM Project</i>	None	141,299	30,604
Golden LEAF Foundation <i>Crop Commercialization Center</i>	None	150,000	78,161
NC State University - Kenan Institute <i>Collaborative Funding Grants</i>	None	80,000	80,000
Total State Awards		\$ 12,971,637	\$ 12,789,103

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 Center's financial consolidated statements.

COMPLIANCE SECTION

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

To the Board of Directors of
North Carolina Biotechnology Center and Subsidiary
Research Triangle Park, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the North Carolina Biotechnology Center and Subsidiary (the "Center") (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 29, 2014.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Cherry Bekant LLP". The signature is written in a cursive, flowing style.

Raleigh, North Carolina
August 29, 2014

This audit required 263 audit hours at a cost of \$52,500.