



**NORTH CAROLINA BIOTECHNOLOGY
CENTER AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
AND ACCOMPANYING INFORMATION**

As of and for the Year Ended June 30, 2017

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
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 statement of financial position as of June 30, 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to 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 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 audit. We conducted our audit 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Emphasis of Matter

As described in Note 12 to the consolidated financial statements, the Center recorded an adjustment to net assets as of June 30, 2016. Our opinion is not modified with respect to this matter.

Supplemental Information

Our audit was 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 audit 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, 2017, 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.

Cherry Bekaert LLP

Raleigh, North Carolina
August 29, 2017

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

ASSETS

Cash and cash equivalents	\$ 16,123,353
Investments:	
Marketable securities	8,649,419
Other investments	<u>361,103</u>
Total Investments	<u>9,010,522</u>
Receivables:	
Accrued interest receivable	1,007,473
Miscellaneous receivables	164,604
Grants and contributions receivable	1,084,692
Notes receivable	12,841,874
Allowance for uncollectible accrued interest and notes receivable	<u>(7,566,769)</u>
Total Receivables, Net	7,531,874
Other assets	134,565
Property, plant, and equipment, net	<u>9,351,506</u>
Total Assets	<u>\$ 42,151,820</u>

LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 486,671
Grants and contracts payable	5,825,740
Capital lease payable	<u>13,011</u>
Total Liabilities	<u>6,325,422</u>
Net Assets:	
Unrestricted net assets:	
Designated for specific purposes	29,749,922
Temporarily restricted net assets	<u>6,076,476</u>
Total Net Assets	<u>35,826,398</u>
Total Liabilities and Net Assets	<u>\$ 42,151,820</u>

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017

Unrestricted Revenues, Gains (Losses), and Other Support:

Grants and contracts:

State of North Carolina	\$ 13,600,338
Interest and dividends	882,215
Hamner Conference Center	448,839
Net realized and unrealized loss on investments	(71,161)
Other, net	395,817
Net assets released from restrictions	<u>627,572</u>

Total Unrestricted Revenues, Gains, and Other Support	<u>15,883,620</u>
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Program Expenses:

Science and technology development	3,569,620
Business and technology development	2,475,397
AgBio initiatives	1,710,879
Statewide development	1,112,756
Bioscience industrial development	1,421,718
Sector development	936,463
Life Science Intelligence	1,418,567
Hamner Conference Center	719,643
Other programs	<u>200,034</u>

Total Program Expenses	13,565,077
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General and administrative	<u>2,810,405</u>
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Total Expenses	<u>16,375,482</u>
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Change in unrestricted net assets	<u>(491,862)</u>
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Temporarily restricted revenues:

Grants:

Federal	1,873,987
Other	<u>4,022,500</u>

Total Grants	5,896,487
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Contributions	300,852
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Net assets released from restrictions	<u>(627,572)</u>
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Change in temporarily restricted net assets	<u>5,569,767</u>
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Change in total net assets	<u>5,077,905</u>
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Beginning net assets as previously reported	28,136,974
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Accounting change (Note 12)	<u>2,611,519</u>
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Beginning net assets - adjusted	<u>30,748,493</u>
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Net assets, end of year	<u><u>\$ 35,826,398</u></u>
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NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

Cash flows from operating activities:

Change in total net assets	\$ 5,077,905
Adjustments to reconcile change in total net assets to net cash provided by operating activities:	
Depreciation	643,076
Net realized and unrealized loss on investments	71,161
Increase (decrease) in cash due to changes in:	
Accrued interest receivable	(96,727)
Miscellaneous receivables	(30,568)
Grants and contributions receivable	(1,078,192)
Notes receivable	(1,855,470)
Allowance for uncollectible accrued interest, loan, and notes receivable	595,960
Other assets	77,405
Accounts payable and accrued expenses	(84,600)
Grants and contracts payable	107,477
Net cash provided by operating activities	<u>3,427,427</u>

Cash flows from investing activities:

Purchase of property, plant, and equipment	(407,500)
Proceeds from sale of investments	4,068,043
Purchase of investments	<u>(7,768,166)</u>
Net cash used in investing activities	<u>(4,107,623)</u>

Cash flows from financing activities:

Financing of capital lease	13,170
Payments on capital lease	<u>(3,075)</u>
Net cash provided by financing activities	<u>10,095</u>

Net decrease in cash	(670,101)
Cash, beginning of year	<u>16,793,454</u>
Cash, end of year	<u>\$ 16,123,353</u>

Supplemental disclosure of cash flow information:

Cash paid during the year for interest	<u>\$ 1,590</u>
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NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

Note 1—Organization and summary of significant accounting policies

Organization and Purpose - The North Carolina Biotechnology Center ("Biotechnology Center," "NC Biotech" or the "Center") was incorporated in 1984 for the purpose of furthering economic development and job creation in North Carolina through biotechnology research, commercial development, and education statewide. Since that time the biotechnology sector has become more broadly defined as the life science sector. The Center's activities are tailored to the specialized task of converting scientific and technological discoveries into commercially feasible products and services. The Center's support includes low-interest loans and business services to young life science companies, grants to research universities to help commercialize promising technologies, and sector support through targeted investments, partnering, and company recruitment.

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 life science 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, commercial paper, and obligations of the United States Government 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. The Center holds cash and cash equivalents at several major financial institutions, which often exceed insurance limits set by the Federal Deposit Insurance Corporation. 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, 2017

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. The Biotechnology Center periodically reviews its investments for declines in fair value below cost basis and records an allowance for unrealized losses. The allowance for investment declines in fair value below cost was \$454,473 at June 30, 2017. The Biotechnology Center believes that the costs of most of its investments are recoverable in all material respects.

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. No excess profits were received by the Biotechnology Center in 2017.

Receivables - Through its Economic Development Finance Program, the Biotechnology Center supports research and development projects of young and growing life science companies that may not yet qualify for conventional forms of financial assistance. This support has been in the form of a loan. The companies sign a promissory note, 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 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 and notes receivable totaled \$7,566,769 at June 30, 2017. 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 3 to 8 years for furniture, fixtures, and equipment and 30 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 Board of Directors.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017, unrestricted net assets designated for specific purposes consisted of the following:

Property, plant, and equipment	\$ 9,351,506
Future economic development investment	12,537,314
Stocks and equity investments	361,102
Program commitments	<u>7,500,000</u>
	<u>\$ 29,749,922</u>

Temporarily restricted net assets are available for the following purposes at June 30, 2017:

Statewide and economic development	\$ 49,133
Exchange group activities	150,575
AgBiotech	1,824,811
Other programs	<u>4,051,957</u>
	<u>\$ 6,076,476</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time. In 2017, purpose restrictions were accomplished by incurring \$627,572, in expenses related to statewide and economic development, exchange group activities, AgBiotech, and other programs.

Grants and Contributions - Grants and contributions are recognized as revenues at the time the grant, contribution or unconditional pledge is received, net of estimated uncollectible amounts.

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 86% of its unrestricted revenues from the State of North Carolina in 2017.

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 \$2,323,489 for the year ended June 30, 2017, 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.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

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

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, 2017.

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, 2017 through August 29, 2017, 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.

Note 2—Investments

The carrying values of investments at June 30, 2017 are as follows:

Marketable securities	\$ 8,649,419
Stocks	107,956
Private equity investments	253,147
	<u>\$ 9,010,522</u>

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

Note 2—Investments (continued)

At June 30, 2017, 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
Marketable securities				
Treasury notes	\$ 5,153,291	\$ -	\$ -	\$ 5,153,291
Governmental bonds	-	3,496,128	-	3,496,128
Stocks	29,480	-	78,476	107,956
Private equity investments	-	-	385,631	385,631
	<u>\$ 5,182,771</u>	<u>\$ 3,496,128</u>	<u>\$ 464,107</u>	<u>\$ 9,143,006</u>

At June 30, 2017, investment securities carried at fair value consist of the following:

	Cost	Fair Value
Marketable securities		
Treasury notes	\$ 5,153,291	\$ 5,153,291
Governmental bonds	3,520,432	3,496,128
Stock	22,652	29,480
	<u>\$ 8,696,375</u>	<u>\$ 8,678,899</u>

The activity for investments, measured at fair value based on significant unobservable information for the period July 1, 2016 to June 30, 2017, is as follows:

	Level 3 Assets
Investments:	
Beginning balance, July 1, 2016	\$ 486,385
Purchases	70,938
Sales	(14,646)
Net unrealized loss	(78,570)
Ending balance, June 30, 2017	<u>\$ 464,107</u>

In connection with Economic Development Finance awards, the Biotechnology Center receives the right to purchase stock in various life science companies if certain conditions are met. As of June 30, 2017, the Biotechnology Center received warrants to purchase 5,273,609 common and preferred shares with exercise prices ranging from \$0.01 to \$63.34 per share. These warrants expire at various dates through 2027. Management has determined the value of the warrants to be immaterial, and accordingly, they are not reflected in the consolidated financial statements.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

Note 2—Investments (continued)

As of June 30, 2017, the Biotechnology Center has capital contribution commitments to various venture capital funds totaling \$172,721. 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, 2017 consisted of the following:

One note receivable from a state life science company under Small Business Innovation Research awards. Interest rate on the note is 6.25%. Principal and interest is payable three to five years from the execution of each note or renegotiation. Due in 2017.

\$ 63,230

Notes receivable from various state life science companies under Small Business Research Loans. Interest rates on these notes vary from 4.25% to 10.00%. Generally, principal and interest are payable one to three years from execution of each note or renegotiation. Due at various dates through 2022.

9,552,448

Notes receivable from various state life science companies under Strategic Growth Loans. Interest rates on these notes vary from 4.25% to 7.00%. Generally, principal and interest are payable one to three years from the execution of the note or renegotiation. Due at various dates through 2022.

2,284,991

Notes receivable from various state life science companies under Technology Enhancement & Acceleration Model Loans. Interest rate on these notes is 6.25%. Generally, principal and interest are due one to five years from the execution of each note or renegotiation. Due at various dates through 2018.

148,216

Notes receivable from various state life science companies under Company Inception Loans. Interest rates on these notes vary from 4.25% to 7.25%. Generally, principal and interest are due one to three years from the execution of each note or renegotiation. Due at various dates through 2022.

792,989

Total notes receivable

12,841,874

Accrued interest receivable

977,079

Less allowance for uncollectible interest and notes receivable

(7,566,769)

Notes receivable and accrued interest receivable, net

\$6,252,184

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

Note 3—Notes receivable (continued)

In connection with Economic Development Finance Awards, the Center has \$3,751,530 in contractual loan commitments to start-up life science companies that have not yet been disbursed. The Center has reserved cash to cover these commitments, which will be disbursed to the companies in future years as they meet defined project milestones.

Note 4—Contributions receivable

Contributions receivable consisted of the following at June 30, 2017:

Unconditional promises expected to be collected in:

Less than one year	<u>\$ 1,084,692</u>
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Note 5—Property, plant, and equipment

A summary of property, plant, and equipment at June 30, 2017 follows:

Building	\$ 17,692,493
Furniture, fixtures, and equipment	<u>2,609,706</u>
	20,302,199
Less accumulated depreciation	<u>(10,950,693)</u>
Property, plant, and equipment, net	<u>\$ 9,351,506</u>

Depreciation expense totaled \$643,076 for the year ended June 30, 2017.

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, 2017 are expected to be paid as follows:

2018	\$ 2,396,363
2019	2,894,600
2020	429,434
2021	<u>105,343</u>
	<u>\$ 5,825,740</u>

The Biotechnology Center has commitments to various entities for funding through the centers of innovation and economic development award programs. Certain conditions must be met by the entities for these commitments to become grant awards. As of June 30, 2017 these outstanding commitments total \$1,163,000.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

Note 7—Interest income

Interest income of \$120,728 was earned during the year ended June 30, 2017, primarily by investing in money market accounts and government securities. Interest income on notes receivable in 2017 totaled \$761,487.

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 \$529,000 was contributed to the plan during the year ended June 30, 2017. 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, 2017 are as follows:

2018	\$ 47,338
2019	23,492
2020	22,100
2021	18,557
2022	840
2023	140
	<u>\$ 112,467</u>

Total rental expense for operating leases in 2017 was \$79,556.

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, 2018	\$ 16,740
Less amount representing interest	<u>(3,729)</u>
Present value of future minimum capital lease payments	<u>\$ 13,011</u>

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

Note 10—Capital leases (continued)

The gross and net book value of the related equipment at June 30, 2017 is as follows:

Cost	\$ 13,171
Accumulated depreciation	(209)
	<u>\$ 12,962</u>

Note 11—Related parties

Certain members of the Board of Directors are affiliated with state and private 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 \$2,294,970 in 2017. Board members abstain from voting on matters related to his or her organization.

Note 12—Accounting change

Historically, the Center recognized liabilities for unfunded loan commitments made under its Economic Development Finance Program at the time the Equity Investment Committee of the Board of Directors approved each loan application. The Center determined that these unfunded loan commitments are more appropriately disclosed in the notes to the consolidated financial statements until the point in time in which the loan is disbursed and the note receivable is recognized, net of an allowance for doubtful accounts. The effect of reversing the liability as of June 30, 2016 was to decrease liabilities and increase net assets by \$2,611,519. Loan commitments as of June 30, 2017 are further disclosed in Note 3.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2017

	Programs & Operating Fund	Plant Fund	Economic Development Investment Fund	NCBC Bioscience Investment Fund	Total NCBC	N.C. Bioscience Ventures, LLC	Total June 30, 2017	Elimination Entries	Consolidated June 30, 2017
ASSETS									
Cash and cash equivalents	\$ 10,537,791	\$ 713,456	\$ 3,208,803	\$ -	\$ 14,460,050	\$ 1,663,303	\$ 16,123,353	\$ -	\$ 16,123,353
Investments:									
Marketable securities	6,193,997	-	2,455,422	-	8,649,419	-	8,649,419	-	8,649,419
Other investments	-	-	361,103	-	361,103	-	361,103	-	361,103
Total Investments	6,193,997	-	2,816,525	-	9,010,522	-	9,010,522	-	9,010,522
Receivables:									
Accrued interest receivable	22,299	-	985,174	-	1,007,473	-	1,007,473	-	1,007,473
Miscellaneous receivables	164,604	-	-	-	164,604	-	164,604	-	164,604
Grants and contributions receivable	1,084,692	-	-	-	1,084,692	-	1,084,692	-	1,084,692
Notes receivable	-	-	12,841,874	-	12,841,874	-	12,841,874	-	12,841,874
Allowance for uncollectible accrued interest and notes receivable	-	-	(7,566,769)	-	(7,566,769)	-	(7,566,769)	-	(7,566,769)
Total Receivables	1,271,595	-	6,260,279	-	7,531,874	-	7,531,874	-	7,531,874
Other assets	134,225	340	-	-	134,565	-	134,565	-	134,565
Property, plant, and equipment, net	-	9,351,506	-	-	9,351,506	-	9,351,506	-	9,351,506
Investment in subsidiary	-	-	-	1,663,303	1,663,303	-	1,663,303	(1,663,303) ⁽¹⁾	-
Total Assets	\$ 18,137,608	\$ 10,065,302	\$ 12,285,607	\$ 1,663,303	\$ 42,151,820	\$ 1,663,303	\$ 43,815,123	\$ (1,663,303)	\$ 42,151,820
LIABILITIES AND NET ASSETS									
Accounts payable and accrued expenses	\$ 486,328	\$ 343	\$ -	\$ -	486,671	\$ -	486,671	\$ -	\$ 486,671
Grants and contracts payable	5,825,740	-	-	-	5,825,740	-	5,825,740	-	5,825,740
Capital lease payable	-	13,011	-	-	13,011	-	13,011	-	13,011
Total Liabilities	6,312,068	13,354	-	-	6,325,422	-	6,325,422	-	6,325,422
Net Assets:									
Unrestricted net assets:									
Designated for specific purposes	5,749,064	10,051,948	12,285,607	1,663,303	29,749,922	1,663,303	31,413,225	(1,663,303) ⁽¹⁾	29,749,922
Total Unrestricted Net Assets	5,749,064	10,051,948	12,285,607	1,663,303	29,749,922	1,663,303	31,413,225	(1,663,303)	29,749,922
Temporarily restricted net assets	6,076,476	-	-	-	6,076,476	-	6,076,476	-	6,076,476
Total Net Assets	11,825,540	10,051,948	12,285,607	1,663,303	35,826,398	1,663,303	37,489,701	(1,663,303)	35,826,398
Total Liabilities and Net Assets	\$ 18,137,608	\$ 10,065,302	\$ 12,285,607	\$ 1,663,303	\$ 42,151,820	\$ 1,663,303	\$ 43,815,123	\$ (1,663,303)	\$ 42,151,820

⁽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, 2017

	Programs & Operating Fund	Plant Fund	Economic Development Investment Fund	NCBC Bioscience Investment Fund	Total NCBC	N.C. Bioscience Ventures, LLC	Total June 30, 2017	Elimination Entries	Consolidated June 30, 2017
Unrestricted Revenues, Gains (Losses), and Other Support:									
Grants and contracts:									
State of North Carolina	\$ 12,354,338	\$ -	\$ 1,246,000	\$ -	\$ 13,600,338	\$ -	\$ 13,600,338	\$ -	\$ 13,600,338
Interest and dividends	86,825	-	793,727	-	880,552	1,663	882,215	-	882,215
Hamner Conference Center	448,839	-	-	-	448,839	-	448,839	-	448,839
Net realized and unrealized loss on investments	(36,085)	-	(35,076)	-	(71,161)	-	(71,161)	-	(71,161)
Other, net	390,425	-	5,392	1,663	397,480	-	397,480	(1,663) ⁽¹⁾	395,817
Net assets released from restrictions	627,572	-	-	-	627,572	-	627,572	-	627,572
Total Unrestricted Revenues, Gains, and Other Support	13,871,914	-	2,010,043	1,663	15,883,620	1,663	15,885,283	(1,663)	15,883,620
Program Expenses:									
Science and technology development	3,569,620	-	-	-	3,569,620	-	3,569,620	-	3,569,620
Business and technology development	1,256,168	-	1,219,229	-	2,475,397	-	2,475,397	-	2,475,397
AgBio initiatives	1,710,879	-	-	-	1,710,879	-	1,710,879	-	1,710,879
Statewide development	1,112,756	-	-	-	1,112,756	-	1,112,756	-	1,112,756
Bioscience industrial development	1,421,718	-	-	-	1,421,718	-	1,421,718	-	1,421,718
Sector development	936,463	-	-	-	936,463	-	936,463	-	936,463
Life Science Intelligence	1,418,567	-	-	-	1,418,567	-	1,418,567	-	1,418,567
Hamner Conference Center	719,643	-	-	-	719,643	-	719,643	-	719,643
Other programs	200,034	-	-	-	200,034	-	200,034	-	200,034
Total Program Expenses	12,345,848	-	1,219,229	-	13,565,077	-	13,565,077	-	13,565,077
General and administrative	2,138,816	662,979	8,610	-	2,810,405	-	2,810,405	-	2,810,405
Total Expenses	14,484,664	662,979	1,227,839	-	16,375,482	-	16,375,482	-	16,375,482
Change in unrestricted net assets before net operating transfers	(612,750)	(662,979)	782,204	1,663	(491,862)	1,663	(490,199)	(1,663) ⁽¹⁾	(491,862)
Net transfers	29,485	(8,164)	(21,321)	-	-	-	-	-	-
Change in unrestricted net assets	(583,265)	(671,143)	760,883	1,663	(491,862)	1,663	(490,199)	(1,663)	(491,862)
Temporarily Restricted Revenues:									
Grants:									
Other	5,896,487	-	-	-	5,896,487	-	5,896,487	-	5,896,487
Contributions	300,852	-	-	-	300,852	-	300,852	-	300,852
Net assets released from restrictions	(627,572)	-	-	-	(627,572)	-	(627,572)	-	(627,572)
Change in temporarily restricted net assets	5,569,767	-	-	-	5,569,767	-	5,569,767	-	5,569,767
Change in total net assets	4,986,502	(671,143)	760,883	1,663	5,077,905	1,663	5,079,568	(1,663)	5,077,905
Beginning nets assets as previously reported	6,809,038	10,723,091	8,943,205	1,661,640	28,136,974	1,661,640	29,798,614	(1,661,640)	28,136,974
Accounting change (Note 12)	-	-	2,611,519	-	2,611,519	-	2,611,519	-	2,611,519
Beginning net assets - adjusted	6,809,038	10,723,091	11,554,724	1,661,640	30,748,493	1,661,640	32,410,133	(1,661,640)	30,748,493
Net assets, end of year	\$ 11,795,540	\$ 10,051,948	\$ 12,315,607	\$ 1,663,303	\$ 35,826,398	\$ 1,663,303	\$ 37,489,701	\$ (1,663,303)	\$ 35,826,398

(1) To eliminate investment in subsidiary.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

SCHEDULE OF EXPENDITURES OF STATE AWARDS

YEAR ENDED JUNE 30, 2017

<u>Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Revenues</u>	<u>Expenditures</u>
Federal Awards:			
US Department of Agriculture			
<i>National Institute of Food and Agriculture (NIFA)</i>	10.312	\$ 1,873,987	\$ 240,387
State Awards:			
NC Department of Commerce	None	13,600,338	13,600,338
<i>State Appropriation for Programs & Operations*</i>			
NC State University - Kenan Institute	None	20,000	20,000
<i>Collaborative Funding Grants</i>			
Total Federal and State Awards		\$ 15,494,325	\$ 13,860,725

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 statements.

**Report of Independent Auditor 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 audit 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, 2017, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated August 29, 2017.

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 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.

Cherry Bekart LLP

Raleigh, North Carolina
August 29, 2017