

# **NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY**

## **CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION**

***As of and for the Year Ended June 30, 2019***

***And Report of Independent Auditor***

**NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY**  
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## **Report of Independent Auditor**

To the Board of Directors  
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, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management’s Responsibility for the Consolidated 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2019, 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**

### **Adoption of New Accounting Standard**

As described in Note 1 to the consolidated financial statements, the Center adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities* effective July 1, 2018. Our opinion is not modified with respect to this matter.

### **Report of Supplementary 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, 2019, 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 solely 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 effectiveness of the Center’s 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 Bekaert LLP". The signature is written in a cursive, flowing style.

Raleigh, North Carolina  
August 29, 2019

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*JUNE 30, 2019*

### ASSETS

Cash and cash equivalents	\$ 6,535,164
Investments	17,487,203
Receivables:	
Accrued interest receivable	66,002
Miscellaneous receivables	149,434
Grants and contributions receivable	26,000
Notes receivable, net	<u>6,402,057</u>
Total Receivables, Net	6,643,493
Other assets	153,914
Property, plant, and equipment, net	<u>8,927,003</u>
<b>Total Assets</b>	<b><u>\$ 39,746,777</u></b>

### LIABILITIES AND NET ASSETS

Accounts payable and accrued expenses	\$ 619,924
Grants and contracts payable	5,274,864
Capital lease payable	<u>8,754</u>
Total Liabilities	<u>5,903,542</u>
Net Assets:	
Without donor restrictions	32,036,523
With donor restrictions	<u>1,806,712</u>
Total Net Assets	<u>33,843,235</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 39,746,777</u></b>

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

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Revenues, Gains, and Other Support Without Donor Restrictions:

Grants and contracts:

State of North Carolina	\$ 14,050,338
Net investment income	978,137
Hamner Conference Center	375,175
Other, net	688,361
Net assets released from restrictions	<u>2,089,429</u>

Total Revenues, Gains, and Other Support Without Donor Restrictions	<u>18,181,440</u>
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Program Expenses:

Science and Technology Development	4,417,942
Statewide Development	1,069,801
Emerging Company Development	3,357,307
Emerging Sector Development	513,061
AgBio Initiatives	2,127,967
Bioscience Industrial Development	1,731,472
Hamner Conference Center	786,579
Life Science Intelligence	1,782,371
Other programs	<u>43,395</u>

Total Program Expenses	15,829,895
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General and administrative	<u>2,246,065</u>
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Total Expenses	<u>18,075,960</u>
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Change in net assets without donor restrictions	<u>105,480</u>
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Revenues With Donor Restrictions:

Contributions	38,157
Net assets released from restrictions	<u>(2,089,429)</u>

Change in net assets with donor restrictions	<u>(2,051,272)</u>
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Change in total net assets	<u>(1,945,792)</u>
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Beginning net assets as previously reported	36,182,911
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Accounting change (Note 1)	<u>(393,884)</u>
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Beginning net assets - adjusted	<u>35,789,027</u>
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Net assets, end of year	<u><u>\$ 33,843,235</u></u>
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# **NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY**

## **CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

*YEAR ENDED JUNE 30, 2019*

	<b>Salaries and Benefits</b>	<b>General Operations and Contractors</b>	<b>Facilities and Maintenance</b>	<b>Grants and Contributions</b>	<b>Depreciation Expense</b>	<b>Other Expenses</b>	<b>Total</b>
Expenses:							
Program Expenses:							
Science and Technology Development	\$ 938,545	\$ 225,653	\$ 49,785	\$ 3,141,044	\$ 62,915	\$ -	\$ 4,417,942
Statewide Development	819,903	249,898	-	-	-	-	1,069,801
Emerging Company Development	1,233,891	267,050	65,451	1,633,378	82,714	74,823	3,357,307
Emerging Sector Development	284,103	194,843	15,070	-	19,045	-	513,061
AgBio Initiatives	1,085,615	901,838	57,586	-	72,774	10,154	2,127,967
Bioscience Industrial Development	729,412	484,473	38,691	430,000	48,896	-	1,731,472
Life Science Intelligence	318,250	360,022	47,844	-	60,463	-	786,579
Hamner Conference Center	1,114,690	533,830	59,128	-	74,723	-	1,782,371
Other programs	-	43,395	-	-	-	-	43,395
Total Program Expenses	6,524,409	3,261,002	333,555	5,204,422	421,530	84,977	15,829,895
Supporting Services:							
General and administrative	905,387	716,812	251,183	55,250	317,433	-	2,246,065
Total Expenses	<u>\$ 7,429,796</u>	<u>\$ 3,977,814</u>	<u>\$ 584,738</u>	<u>\$ 5,259,672</u>	<u>\$ 738,963</u>	<u>\$ 84,977</u>	<u>\$ 18,075,960</u>

The accompanying notes to the consolidated financial statements are an integral part of this statement.

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2019

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### Cash flows from operating activities:

Change in net assets	\$ (1,945,792)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	738,963
Net realized and unrealized gain on investments	(2,680,652)
Increase (decrease) in cash due to changes in:	
Accrued interest receivable	758,768
Miscellaneous receivables	19,803
Notes receivable	(1,251,411)
Other assets	(8,909)
Accounts payable and accrued expenses	49,630
Grants and contracts payable	(404,661)
Net cash used in operating activities	<u>(4,724,261)</u>

### Cash flows from investing activities:

Purchase of property, plant, and equipment	(591,169)
Proceeds from sale of investments	163,067
Purchase of investments	<u>(516,724)</u>
Net cash used in investing activities	<u>(944,826)</u>

### Cash flows from financing activities:

Payments on capital lease	<u>(2,236)</u>
Net cash used in financing activities	<u>(2,236)</u>

Net decrease in cash and cash equivalents	(5,671,323)
Cash and cash equivalents, beginning of year	<u>12,206,487</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,535,164</u></u>



# **NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2019

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### **Note 1—Organization and summary of significant accounting policies**

*Organization and Purpose* – The North Carolina Biotechnology Center (“Biotechnology Center” or “NC Biotech”) 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 (collectively the “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:

*Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center. These net assets may be used at the discretion of the Center’s management and the Board of Directors. The Center has chosen to provide further classification information about net assets without donor restrictions in sub classifications as follows:

*Board-Designated* – Represents resources set aside by the Board of Directors to be used for specific activities within guidelines established by the Board of Directors.

*Invested in Property, Plant, and Equipment* – Represents net assets invested in the Center’s property, plant, and equipment, net of accumulated depreciation.

*Undesignated* – Represents the cumulative net assets without donor restrictions excluding those net assets invested in property and equipment and designated for specific activities.

*Net Assets With Donor Restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center or by the passage of time. Other donor restrictions may be perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled) 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.

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

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

*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.

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. Private equity investments include equity investments in private biotechnology/bioscience companies and venture capital funds. Investments in stock include equity shares held in private biotechnology/bioscience companies. These private equity and private stock investments without readily determinable fair values are carried at the lower of cost or fair value. For investments without readily determinable fair values, 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 statement of financial position and activities. 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 \$200,855 at June 30, 2019. 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. The Biotechnology Center did not receive net profits in excess of the \$150,000 threshold in 2019.

*Notes Receivable* – 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 is accounting for the loans as programmatic investments using an inherent contribution approach.

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

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

The inherent contribution approach requires the Center to estimate the expected future cash flows from each loan in determining the portion of the loan that is expected to be collected during the course of the loan repayment term. Management's judgment regarding expected cash flows is based on evaluation of the facts and circumstances available at the time of issuing the loan. Any difference between the discounted cash flows from the estimated future payments and the loan amounts disbursed is reflected as a contribution expense in the year the loan issued. The notes receivable net of the related discount on notes receivable totaled \$6,402,057 at June 30, 2019. The Biotechnology Center's other receivables are considered to be fully collectible.

Historically, the Center has recorded the Economic Development Finance Program loans on the consolidated statement of financial position as the amount of the principal issued less the allowance for uncollectible loans receivable. For the year starting July 1, 2018, the Center adopted the inherent contribution approach to account for its programmatic investments within the loan program. The effect of this change was a one-time adjustment (decrease) net assets in the amount of \$393,884 as of June 30, 2018.

*Miscellaneous Receivables* – Miscellaneous receivables are comprised of receivables due to the Biotechnology Center related to charges for the use of their facilities and for sales and use tax. Miscellaneous receivables are considered to be fully collectible as of June 30, 2019.

*Other Assets* – Other assets are comprised of the Biotechnology Center's prepaid expenses. Prepaid expenses include prepaid insurance and prepaid subscription fees.

*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.

*Net Assets* – Certain net assets without donor restrictions have been designated for specific purposes by the Board of Directors. At June 30, 2019, net assets without donor restrictions have designated for specific purposes consisted of the following:

Investments in property, plant, and equipment	\$ 8,927,003
Board-designated program and operating reserve	8,000,000
Undesignated	15,109,520
	<u>\$ 32,036,523</u>

The board-designated reserve policy is intended to provide a source of funds for situations such as a sudden increase in expenses, an opportunity to build long-term capacity, an important program opportunity, an uninsured loss, an investment in infrastructure, or to bridge a short-term funding gap. A reserve is not intended to replace a permanent loss of funds or eliminate an ongoing budget gap.

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

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

Net assets with donor restrictions are available for the following purposes at June 30, 2019:

AgBiotech	\$ 425,287
Other programs	1,381,425
	<u>\$ 1,806,712</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time. In 2019, purpose restrictions were accomplished by incurring \$2,089,429 in expenses related to statewide and economic development, AgBiotech, and other programs.

*Contributions* – Contributions are recognized as revenues at the time the contribution or unconditional promise to give 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 Grant 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 77% of its unrestricted revenues from the State of North Carolina in 2019.

*Functional Expenses* – The costs of providing the various programs and supporting activities of the Center have been summarized on a functional basis in the consolidated statement of functional expenses. Direct identifiable expenses are charged to programs and supporting services. Expenses related to more than one function, including portions of salaries and benefits, general operations and contractors, facilities and maintenance, and depreciation are allocated to the various programs and supporting services based proportion of compensation ratios and time allocations.

*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 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, 2019.

*Use of Estimates* – The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ("U.S. 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.

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

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

**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. U.S. 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. U.S. 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.

**Recently Issued Accounting Pronouncements** – In February 2016, the Financial Accounting Standards Board (the “FASB”), issued a new accounting standard, Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*, which says Lessees will be required to recognize a lease liability and a right-of-use asset for all leases, operating and capital, at the commencement date. The new standard will be effective for the Center on July 1, 2021. Early adoption is permitted. The Center is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326)* on Measurement of Credit Losses on Financial Instruments. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The update is effective for the Center on July 1, 2021. Early adoption is permitted. The Center is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued a new accounting standard, ASU 2016-15, *Statement of Cash Flows (Topic 230)*, which provides classification guidance over many areas of the cash flow statement. The new standard will be effective for the Center on July 1, 2020. Early adoption is permitted. The Center is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

In June 2018, the FASB issued a new accounting standard, ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides clarification and improvements to the guidance around contributions or cash and other assets received and made by not-for-profit organizations. The new standard will be effective for the Center on July 1, 2019 for contributions received and July 1, 2020 for contributions made. Early adoption is permitted. The Center is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

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

*Accounting Pronouncement Adopted in 2019* – In August 2016, the FASB issued a new accounting standard, ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which changes the presentation and disclosure requirements to provide more relevant information about their resources to donors, grantors, creditors, and other users. These changes include qualitative and quantitative disclosures on liquidity and availability of resources, changes to net asset classes, investment returns, and reporting expenses by both function and nature. The Center has adjusted the presentation of these consolidated financial statements accordingly.

*Subsequent Events* – In connection with the preparation of the consolidated financial statements and in accordance with U.S. GAAP, the Biotechnology Center considered for disclosure subsequent events that occurred after the consolidated statement of financial position date of June 30, 2019 through August 29, 2019, which was the date the consolidated financial statements were available to be issued. On July 30, 2019, the Center signed an amendment to our lease for our office space located in Winston-Salem, North Carolina increasing the annual rental rate.

### Note 2—Liquidity and availability

The table below represent financial assets available for general expenditures with one year at June 30, 2019:

Cash and cash equivalents	\$ 6,535,164
Miscellaneous receivables	149,434
Operating investments	17,487,203
Accrued interest	66,002
Grants and contributions receivable	26,000
Notes receivable, net - current portion	680,243
	<u>24,944,046</u>
Less financial assets limited to use by donor-restrictions	<u>(1,806,712)</u>
Financial assets available for general expenditures within one year	<u>\$ 23,137,334</u>

As part of the Center's liquidity management plan, its structures its financial assets to be available as its obligations come due. Cash and cash equivalents and operating investments include board-designated funds that the Center does not intended to use to fund operations, however, these amounts are available upon approval of the Board and have, therefore, been included in financial assets available for expenditure.

General expenditures includes general and administrative expenses as well as program expenses and grant and contract commitments expected to be paid in the subsequent year. The Center manages its cash available to meet general expenditures based on operating within a prudent range of financial soundness and stability, maintaining sufficient liquid assets, and maintaining adequate reserves.

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

### Note 3—Investments

The carrying values of investments at June 30, 2019 are as follows:

	Carrying Value	Cost
Treasury notes and governmental bonds	\$ 16,574,208	\$ 16,415,536
Stocks	713,710	746,756
Private equity investments	199,285	367,094
	<u>\$ 17,487,203</u>	<u>\$ 17,529,386</u>

At June 30, 2019, the carrying 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	Total
Investments at fair value				
Treasury notes	\$ 16,343,185	\$ -	\$ -	\$ 16,343,185
Governmental bonds	-	231,023	-	231,023
Total investments at fair value	<u>\$ 16,343,185</u>	<u>\$ 231,023</u>	<u>\$ -</u>	16,574,208
Investments carried at cost, less adjustments for impairment				912,995
Total investments				<u>\$ 17,487,203</u>

The following table summarizes investment return for the year ended June 30, 2019:

Interest and dividends	\$ 697,651
Net realized and unrealized gains on investments	280,486
	<u>\$ 978,137</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, 2019, the Biotechnology Center received warrants to purchase 6,439,139 common and preferred shares with exercise prices ranging from \$0.01 to \$63.34 per share. These warrants expire at various dates through 2029. Management has determined the value of the warrants to be immaterial and, accordingly, they are not reflected in the consolidated financial statements.

During the year ended June 30, 2019, the Biotechnology Center did not exercise the warrants held with any company.

As of June 30, 2019, the Biotechnology Center has capital contribution commitments to various venture capital funds totaling \$213,269. These funds will be invested in future years as capital calls are made by the various venture capital fund managers.

# **NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*JUNE 30, 2019*

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### **Note 4—Notes receivable**

Notes receivable at June 30, 2019 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 7.25%. Principal and interest is payable three to five years from the execution of each note or renegotiation. Due in 2020.	\$ 39,034
Notes receivable from various State life science companies under Small Business Research Loans. Interest rates on these notes vary from 6.25% to 8.50%. Generally, principal and interest are payable one to three years from execution of each note or renegotiation. Due at various dates through 2024.	5,621,690
Notes receivable from various State life science companies under Strategic Growth Loans. Interest rates on these notes vary from 6.50% to 7.75%. Generally, principal and interest are payable one to three years from the execution of the note or renegotiation. Due at various dates through 2023.	1,416,726
Notes receivable from various State life science companies under Company Inception Loans. Interest rates on these notes vary from 6.50% to 8.75%. Generally, principal and interest are due one to three years from the execution of each note or renegotiation. Due at various dates through 2022.	<u>362,022</u>
Total notes receivable	7,439,472
Less discount on loans receivable	<u>(1,037,415)</u>
	<u><u>\$ 6,402,057</u></u>

In connection with Economic Development Finance Awards, the Center has \$3,122,500 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 5—Contributions receivable**

Contributions receivable consisted of the following at June 30, 2019:

Unconditional promises expected to be collected in:	
Less than one year	<u><u>\$ 26,000</u></u>



# **NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*JUNE 30, 2019*

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### **Note 6—Property, plant, and equipment**

A summary of property, plant, and equipment at June 30, 2019 follows:

Building	\$ 17,839,131
Construction in process	422,968
Furniture, fixtures, and equipment	<u>2,403,942</u>
	20,666,041
Less accumulated depreciation	<u>(11,739,038)</u>
Property, plant, and equipment, net	<u><u>\$ 8,927,003</u></u>

Depreciation expense totaled \$738,963 for the year ended June 30, 2019.

### **Note 7—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, 2019 are expected to be paid as follows:

2020	\$ 3,055,241
2021	1,651,821
2022	<u>567,802</u>
	<u><u>\$ 5,274,864</u></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, 2019, these outstanding commitments total \$700,000.

### **Note 8—Interest income**

Interest income of \$292,675 was earned during the year ended June 30, 2019, primarily by investing in money market accounts and government securities. Interest income on notes receivable in 2019 totaled \$403,310.

### **Note 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, \$543,000 was contributed to the plan during the year ended June 30, 2019. The plan is self-directed, with the majority of participants electing mutual funds. Additionally, 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.

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019

### Note 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. 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, 2019 are as follows:

2020	\$ 37,268
2021	22,940
	<u>\$ 60,208</u>

Total rental expense for operating leases in 2019 was \$81,024.

### Note 11—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, 2020	\$ 10,260
Less amount representing interest	<u>(1,506)</u>
Present value of future minimum capital lease payments	<u>\$ 8,754</u>

The gross and net book value of the related equipment at June 30, 2019, is as follows:

Cost	\$ 13,171
Accumulated depreciation	<u>(7,944)</u>
	<u>\$ 5,227</u>

### Note 12—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 grants, loans, or contract awards. Total grants, loans, or contract awards to these entities totaled \$3,035,554 in 2019. 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, 2019*

	N.C. Biotechnology Center	N.C. Bioscience Ventures, LLC	Total June 30, 2019	Elimination Entries	Consolidated June 30, 2019
<b>ASSETS</b>					
Cash and cash equivalents	\$ 4,868,531	\$ 1,666,633	\$ 6,535,164	\$ -	\$ 6,535,164
Investments:					
Marketable securities	16,574,208	-	16,574,208	-	16,574,208
Other investments	912,995	-	912,995	-	912,995
Total Investments	17,487,203	-	17,487,203	-	17,487,203
Receivables:					
Accrued interest receivable	66,002	-	66,002	-	66,002
Miscellaneous receivables	149,434	-	149,434	-	149,434
Grants and contributions receivable	26,000	-	26,000	-	26,000
Notes receivable, net	6,402,057	-	6,402,057	-	6,402,057
Total Receivables	6,643,493	-	6,643,493	-	6,643,493
Other assets	153,914	-	153,914	-	153,914
Property, plant, and equipment, net	8,927,003	-	8,927,003	-	8,927,003
Investment in subsidiary	1,666,633	-	1,666,633	(1,666,633) <sup>(1)</sup>	-
<b>Total Assets</b>	<b>\$ 39,746,777</b>	<b>\$ 1,666,633</b>	<b>\$ 41,413,410</b>	<b>\$ (1,666,633)</b>	<b>\$ 39,746,777</b>
<b>LIABILITIES AND NET ASSETS</b>					
Accounts payable and accrued expenses	\$ 619,924	\$ -	\$ 619,924	\$ -	\$ 619,924
Grants and contracts payable	5,274,864	-	5,274,864	-	5,274,864
Capital lease payable	8,754	-	8,754	-	8,754
Total Liabilities	5,903,542	-	5,903,542	-	5,903,542
Net Assets:					
Without donor restrictions	32,036,523	1,666,633	33,703,156	(1,666,633) <sup>(1)</sup>	32,036,523
With donor restrictions	1,806,712	-	1,806,712	-	1,806,712
Total Net Assets	33,843,235	1,666,633	35,509,868	(1,666,633)	33,843,235
<b>Total Liabilities and Net Assets</b>	<b>\$ 39,746,777</b>	<b>\$ 1,666,633</b>	<b>\$ 41,413,410</b>	<b>\$ (1,666,633)</b>	<b>\$ 39,746,777</b>

<sup>(1)</sup> To eliminate investment in subsidiary.

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## CONSOLIDATING SCHEDULE OF ACTIVITIES

YEAR ENDED JUNE 30, 2019

	N.C. Biotechnology Center	N.C. Bioscience Ventures, LLC	Total June 30, 2019	Elimination Entries	Consolidated June 30, 2019
Revenues, Gains (Losses), and Other Support Without Donor Restrictions:					
Grants and contracts:					
State of North Carolina	\$ 14,050,338	\$ -	\$ 14,050,338	\$ -	\$ 14,050,338
Net investment income	976,471	1,666	978,137	-	978,137
Hamner Conference Center	375,175	-	375,175	-	375,175
Other, net	690,027	-	690,027	(1,666)	688,361
Net assets released from restrictions	2,089,429	-	2,089,429	-	2,089,429
Total Revenues, Gains (Losses), and Other Support Without Donor Restrictions	18,181,440	1,666	18,183,106	(1,666)	18,181,440
Program Expenses:					
Science and Technology Development	4,417,942	-	4,417,942	-	4,417,942
Statewide Development	1,069,801	-	1,069,801	-	1,069,801
Emerging Company Development	3,357,307	-	3,357,307	-	3,357,307
Emerging Sector Development	513,061	-	513,061	-	513,061
AgBio Initiatives	2,127,967	-	2,127,967	-	2,127,967
Bioscience Industrial Development	1,731,472	-	1,731,472	-	1,731,472
Hamner Conference Center	786,579	-	786,579	-	786,579
Life Science Intelligence	1,782,371	-	1,782,371	-	1,782,371
Other programs	43,395	-	43,395	-	43,395
Total Program Expenses	15,829,895	-	15,829,895	-	15,829,895
General and administrative	2,246,065	-	2,246,065	-	2,246,065
Total Expenses	18,075,960	-	18,075,960	-	18,075,960
Change in net assets without donor restrictions	105,480	1,666	107,146	(1,666)	105,480
Revenues With Donor Restrictions:					
Contributions	38,157	-	38,157	-	38,157
Net assets released from restrictions	(2,089,429)	-	(2,089,429)	-	(2,089,429)
Change in net assets with donor restrictions	(2,051,272)	-	(2,051,272)	-	(2,051,272)
Change in total net assets	(1,945,792)	1,666	(1,944,126)	(1,666)	(1,945,792)
Beginning nets assets as previously reported	36,182,911	1,664,967	37,847,878	(1,664,967)	36,182,911
Accounting change (Note 1)	(393,884)	-	(393,884)	-	(393,884)
Beginning net assets - adjusted	35,789,027	1,664,967	37,453,994	(1,664,967)	35,789,027
Net assets, end of year	\$ 33,843,235	\$ 1,666,633	\$ 35,509,868	\$ (1,666,633)	\$ 33,843,235

<sup>(1)</sup> To eliminate investment in subsidiary.

# NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

## SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2019

<u>Grantor/Program</u>	<u>Award Number</u>	<u>Revenues</u>	<u>Expenditures</u>
<b>Federal Awards:</b>			
U.S. Department of Agriculture			
<i>National Institute of Food and Agriculture (NIFA)</i>	10.312	\$ -	\$ 662,634
<b>State Awards:</b>			
N.C. Department of Commerce	None	14,050,338	14,050,338
<i>State Appropriation for Programs &amp; Operations*</i>			
<i>Collaborative Funding Grants</i>			
N.C. Department of Agriculture & Consumer Affairs			
Feasibility of Purple Carrot Production	19-026-2010	5,808	13,808
Hemp Fungal Disease Management	19-026-2012	5,140	5,140
<b>Total Federal and State Awards</b>		<u>\$ 14,061,286</u>	<u>\$ 14,731,920</u>

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

# **NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY**

## **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**

*YEAR ENDED JUNE 30, 2019*

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### **Note 1—General**

The schedule of expenditures of federal and state awards (the “Schedule”) presents the activities of all federal and state financial awards programs of the Biotechnology Center. All federal and state financial awards passed through other government agencies are included in the Schedule.

The Biotechnology Center has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

The Biotechnology Center has not contacted or made awards to any subrecipients.

### **Note 2—Basis of accounting**

The Schedule includes the federal and state grant activity of the Biotechnology Center and is prepared on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the consolidated financial statements.

## **COMPLIANCE SECTION**



**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  
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 statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 29, 2019.

**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.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The script is cursive and fluid, with the letters "C", "B", and "L" being particularly prominent.

Raleigh, North Carolina  
August 29, 2019