CONSOLIDATED FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION

As of and for the Years Ended June 30, 2015 and 2014

And Report of Independent Auditor



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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 statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Biotechnology Center and Subsidiary as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Emphasis of Matter

As discussed in Note 12 to the consolidated financial statements, the Center has elected to change how certain expenses are classified. The prior year expense classifications have changed in order for the presentation of expenses to be consistent with the current year presentation. Our opinion is not modified with respect to that matter.

Supplemental Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2015, 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.

Raleigh, North Carolina August 31, 2015

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash	\$ 22,956,930	\$ 23,017,338
Investments	451,168	437,552
Receivables:		
Accrued interest receivable	633,609	553,698
Miscellaneous receivables	237,305	277,938
Contributions receivable	55,657	146,299
Notes receivable	9,850,310	8,494,391
Allowance for uncollectible accrued interest and		
notes receivable	(6,417,419)	(5,422,992)
Total receivables, net	4,359,462	4,049,334
Other assets	182,135	134,012
Property, plant, and equipment, net	10,078,704	10,881,838
Total Assets	\$ 38,028,399	\$ 38,520,074
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 576,709	\$ 564,962
Grants and contracts payable	7,868,390	8,712,457
Capital lease payable	19,546	38,854
Total Liabilities	8,464,645	9,316,273
Net Assets: Unrestricted net assets:		
Designated for specific purposes	29,026,898	28,787,811
Undesignated	(111,304)	(365,169)
Temporarily restricted	648,160	781,159
Total Net Assets	29,563,754	29,203,801
Total Liabilities and Net Assets	\$ 38,028,399	\$ 38,520,074

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Unrestricted revenues, gains, and other support:		
Grants and contracts:		
State of North Carolina	\$ 13,600,338	\$ 12,600,338
Interest and dividends	462,274	516,800
Hamner Conference Center	344,333	304,677
Net realized and unrealized gain on investments	108,669	407,458
Other, net	387,233	155,241
Net assets released from restrictions	795,116	872,374
Total unrestricted revenues, gains, and		
other support	15,697,963	14,856,888
Expenses:		
Science and technology development	3,470,760	3,469,917
Business and technology development	2,640,783	2,617,245
AgBio initiatives	1,322,078	1,013,775
Statewide development	995,571	1,078,834
Bioscience industrial development	709,170	590,793
NC Bio pavilion	417,485	394,697
Biodefense	550,239	-
Centers of innovation	518,887	1,125,379
Library services	1,205,993	1,046,457
Other programs	126,045	89,490
Education and training	-	385,642
Hamner conference center	452,196	513,999
General and administrative	2,795,804	3,309,044
Total expenses	15,205,011	15,635,272
Change in unrestricted net assets	492,952	(778,384)
Temporarily restricted revenues:		
Grants	49,157	-
Contributions	612,960	680,984
Net assets released from restrictions	(795,116)	(872,374)
Change in temporarily restricted net assets	(132,999)	(191,390)
Change in total net assets	359,953	(969,774)
Net assets, beginning of year	29,203,801	30,173,575
Net assets, end of year	\$ 29,563,754	\$ 29,203,801

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 AND 2014

		2015		2014
Cash flows from operating activities:				
Change in total net assets	\$	359,953	\$	(969,774)
Adjustments to reconcile change in total net assets to net cash	Ψ	333,333	*	(000,111)
provided by operating activities:				
Depreciation		826,863		869,821
Net realized and unrealized gain on investments		(108,669)		(407,458)
Increase (decrease) in cash due to changes in:				
Notes receivable	(1,355,919)		(479,086)
Allowance for uncollectible accrued interest, loan, and				
notes receivable		994,427		219,496
Accrued interest receivable		(79,911)		(113,876)
Contributions receivable		90,642		373,701
Miscellaneous receivables		40,633		2,711
Other assets		(48, 123)		(27,875)
Accounts payable and accrued expenses		11,747		129,695
Grants and contracts payable		(844,067)		(1,847,786)
Net cash used in operating activities		(112,424)		(2,250,431)
Cash flows from investing activities:				
Purchase of property and equipment		(23,729)		(16,995)
Proceeds from sale of investments		126,875		75,760
Purchase of investments		(31,822)		414,064
Net cash provided by investing activities		71,324		472,829
Cash flows from financing activities:				
Payment on capital lease		(19,308)		(17,366)
Net cash used in financing activities		(19,308)		(17,366)
Net decrease in cash	0	(60,408)		(1,794,968)
Cash, beginning of year		3,017,338		24,812,306
Cash, end of year	\$ 2	2,956,930	\$ 2	23,017,338
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	\$	3,231	\$	5,174

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 1—Organization and summary of significant accounting policies

Organization and Purpose – The North Carolina Biotechnology Center ("Biotechnology Center," "NCBiotech" 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 and commercial paper, consistent with guidelines established by the Board of Directors. These guidelines require that the Biotechnology Center invest only in certain financial instruments considered to be both conservative and adequately diversified. The Executive Committee and the Equity Investment Committee periodically review the Biotechnology Center's investment portfolio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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

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

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

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

Under a profit sharing agreement with the State of North Carolina, the Biotechnology Center and the State will share equally the net profits in excess of \$150,000 on any individual investment made with State funds by the Biotechnology Center after July 1, 1997. No excess profits were received by the Biotechnology Center in 2015. Profit sharing of \$9,044 to the State of North Carolina resulted from excess profits of \$18,088 received in 2014.

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. Since 1988, most awards to such companies have been in the form of notes, and all amounts, including interest, are to be repaid in full within one to seven years of the date of each underlying note. Under certain circumstances, the maturity date of these notes may be extended. Management has considered each company's ability to repay the notes 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 \$6,417,419 and \$5,422,992 at June 30, 2015 and 2014, respectively. The Biotechnology Center's other receivables are considered to be fully collectible.

Property, Plant, and Equipment – Property, plant, and equipment are recorded at cost. The Center capitalizes all purchases of property and equipment in excess of \$1,000. Depreciation is provided using the straight-line method over the estimated useful lives of three to eight years for furniture, fixtures, and equipment and thirty years for the Biotechnology Center's permanent headquarters.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 and 2014, unrestricted net assets designated for specific purposes consisted of the following:

	2015	2014
Property, plant, and equipment	\$ 10,078,704	\$ 10,881,838
Future economic development investment	10,997,026	9,968,421
Stocks and equity investments	451,168	437,552
Program commitments	7,500,000	7,500,000
	\$ 29,026,898	\$ 28,787,811

Temporarily restricted net assets are available for the following purposes at June 30, 2015 and 2014:

	 2015		2014
Statewide and economic development	\$ 38,229	\$	200,780
Intellectual exchange activities	152,933		141,848
AgBiotech	436,003		425,339
Other programs	 20,995		13,192
	\$ 648,160	\$	781,159

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time. In 2015 and 2014, purpose restrictions were accomplished by incurring \$795,116 and \$872,374, respectively, in expenses related to statewide and economic development, intellectual exchange activities, AgBiotech, and other programs.

Contributions – Contributions are recognized as revenues at fair value at the time the contribution or unconditional pledge, net of estimated uncollectible amounts, is received. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using risk adjusted interest rates applicable to the year in which the promise is expected to be received. Contributions receivable at June 30, 2015, are expected to be received within one year.

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

Recognition of Funding – Funds are granted periodically from private and public agencies for specific purposes or to aid the Biotechnology Center's general operation and sustain its continued existence. Funds appropriated for specific purposes are deemed to be earned and reported as revenue when the Biotechnology Center has incurred expenditures in compliance with the grant agreement. Such amounts received, but not yet earned, are reported as deferred revenues. The Biotechnology Center received 87% and 85% of its unrestricted revenues from the State of North Carolina in 2015 and 2014, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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

Functional Allocation of Expenses – The costs of providing the various programs and activities of the Biotechnology Center have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. Certain general and administrative expenses totaling \$2,441,934 and \$2,822,670 for the years ended June 30, 2015 and 2014, respectively, have been allocated among the programs and activities benefited.

Income Taxes – The Biotechnology Center is exempt from federal income taxes on related income under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). Accordingly, no provision for income taxes has been made. As a single member limited liability company, Ventures is a disregarded entity for income tax purposes. The Center's federal Exempt Organization Business Income Tax Returns (Form 990T) for 2014, 2013 and 2012 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes. Management believes that the Center continues to satisfy the requirements of a tax-exempt organization at June 30, 2015. Management has evaluated all other tax positions that could have a significant effect on the consolidated financial statements and determined the Center had no significant uncertain income tax positions at June 30, 2015.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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

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, 2015 through August 31, 2015, 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, 2015 and 2014 were as follows:

		2015		2015 2014		
Stocks	\$	60,064	\$	40,354		
Private equity investments		391,104		397,198		
	\$	451,168	\$	437,552		

At June 30, 2015, the fair value of the Biotechnology Center's investments were determined based on:

	Quoted Prices in Active Markets (Level 1)		Othe Observ Inpu (Level	able ts	bservable Inputs Level 3)	Fa	air Value
Stocks Private equity investments	\$	- -	\$	-	\$ 60,064 528,318	\$	60,064 528,318
	\$		\$	-	\$ 588,382	\$	588,382

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

	Quoted Prices in Active Markets (Level 1)		Oth Observ Inpu (Leve	able Its	1	bservable Inputs Level 3)	Fa	ir Value
Stocks	\$	-	\$	-	\$	40,354	\$	40,354
Private equity investments			-			524,888		524,888
	\$		\$		\$	565,242	\$	565,242

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 2—Investments (continued)

The activity for investments, measured at fair value based on significant unobservable information for the period July 1, 2014 to June 30, 2015 is as follows:

	Level 3	
		Assets
Investments:		
Beginning balance, July 1, 2014	\$	565,242
Purchases		51,532
Sales		(27,567)
Total net unrealized loss		(825)
Ending balance, June 30, 2015	\$	588,382

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, 2015, the Biotechnology Center received warrants to purchase 3,707,125 common and preferred shares with exercise prices ranging from \$0.01 to \$30.61 per share. These warrants expire at various dates through 2025. Management has determined the value of the warrants to be immaterial, and accordingly, they are not reflected in the consolidated financial statements.

As of June 30, 2015, the Biotechnology Center has capital contribution commitments to various venture capital funds totaling \$136,095. 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, 2015 and 2014 consisted of the following:

	2015	2014
Notes receivable:	 	
Notes receivable from various state biotechnology companies under Economic Development Finance awards. Interest rates on these notes vary from 7.00% to 8.25%. Generally, principal and interest are payable one to five years from the execution of each note. Due at various dates through 2015.	\$ -	\$ 283,842
Notes receivable from various state biotechnology companies under Small Business Innovation Research awards. Interest rates on these notes are 4.25% to 6.25%. Generally, principal and interest are payable one to five years from the execution of each note or renegotiation.		
Due at various dates through 2017.	63,230	63,230

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 3—Notes receivable (continued)

	2015	2014
Notes receivable from various state biotechnology companies under Business Development Loans. Interest rates on these notes are 4.25% to 6.25%. Generally, principal and interest are payable one to five years from the execution of each note or renegotiation. Due at various dates through 2016.	\$ 32,970	\$ 69,723
Notes receivable from various state biotechnology companies under Small Business Research Loans. Interest rates on these notes vary from 4.25% to 9.25%. Generally, principal and interest are payable one to three years from the execution of each note or renegotiation. Due at various dates through 2018.	6,467,081	5,306,444
Notes receivable from various state biotechnology companies under Strategic Growth Loans. Interest rates on these notes vary from 4.25% to 6.25%. Generally, principal and interest are payable one to three years from the execution of the note or renegotiation. Due at various dates through 2018.	2,300,980	1,695,308
Notes receivable from various state biotechnology companies under Technology Enhancement & Acceleration Model Loans. Interest rates on these notes vary from 4.25% to 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 2017.	190,245	199,475
Notes receivable from various state biotechnology companies under Company Inception Loans. Interest rates on these notes vary from 4.25% to 8.00%. Generally, principal and interest are due one to three years from the execution of each note or renegotiation. Due at various dates through 2018.	795,804	876,369
Total notes receivable	9,850,310	8,494,391
Accrued interest receivable Less allowance for uncollectible accrued interest and	633,609	553,698
notes receivable	(6,417,419)	(5,422,992)
Notes receivable and accrued interest receivable, net	\$ 4,066,500	\$ 3,625,097

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 4—Contributions receivable

Unconditional promises to give are expected to be realized in one year or less and are classified as temporarily restricted net assets in the statement of activities. Unconditional promises to give amounted to \$55,657 and \$146,299 for the years ended June 30, 2015 and 2014.

Note 5—Property, plant, and equipment

A summary of property, plant, and equipment at June 30, 2015 and 2014 follows:

	2015	2014
Building	\$ 17,158,550	\$ 17,158,550
Furniture, fixtures, and equipment	2,819,382	2,834,687
	19,977,932	19,993,237
Less accumulated depreciation	(9,899,228)	(9,111,399)
Property, plant, and equipment, net	\$ 10,078,704	\$ 10,881,838

Depreciation expense totaled \$826,863 and \$869,821 for the years ended June 30, 2015 and 2014, respectively.

Note 6—Grants and contracts payable

The Biotechnology Center has committed grants and other contracts to various research programs, primarily through major universities and biotechnology companies located in North Carolina. Grants and contracts payable at June 30, 2015 are expected to be paid as follows:

2016	\$ 5,787,292
2017	2,081,098_
	\$ 7,868,390

The Biotechnology Center has commitments to various entities for funding through the centers of economic development award program. Certain conditions must be met by the entities for these commitments to become grant awards. As of June 30, 2015 these outstanding commitments total \$450,000.

Note 7—Interest income

Interest income of \$41,012 and \$84,695 was earned during the years ended June 30, 2015 and 2014, respectively, primarily by investing in money market accounts. Interest income on notes receivable in 2015 and 2014 totaled \$421,262 and \$432,105, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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% of pre-tax compensation for eligible employees. Employees are fully vested in the plan assets upon participation. Approximately \$455,184 and \$512,148 was contributed to the plan during the years ended June 30, 2015 and 2014, respectively. The plan is self-directed, with the majority of participants electing mutual funds. Additionally, after six months of employment, all regular employees are eligible to participate in a 403(b)(7), tax-deferred supplemental retirement plan. Participants may contribute subject to prevailing Internal Revenue Service regulations.

Note 9—Operating leases

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

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

The Biotechnology Center also leases office space for certain regional offices as well as some office equipment under noncancelable operating leases. Future minimum lease payments under these leases as of June 30, 2015 are as follows:

2016 2017	\$ 24,888 770
	\$ 25,658

Total rental expense for operating leases in 2015 and 2014 was \$51,942 and \$58,063, respectively.

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:

2016	\$ 17,744
2017	3,080
Less: amount representing interest	20,824 (1,278)
Present value of future minimum capital lease payments	\$ 19,546

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

Note 10—Capital leases (continued)

The gross and net book value of the related equipment at June 30, 2015 is as follows:

Cost	\$ 75,842
Accumulated depreciation	 (59,299)
	\$ 16,543

Note 11—Related parties

Certain members of the Board of Directors are affiliated with state colleges and universities or biotechnology/bioscience companies to which the Biotechnology Center makes grant or contract awards. Total grant or contract awards to these entities totaled \$2,006,802 in 2015 and \$2,122,949 in 2014. Board members abstain from voting on matters related to his or her organization.

Note 12—Reclassifications

Certain prior year balances have been reclassified to be consistent with the current year presentation. The change in classification had no impact on net assets or the financial position as previously reported. The Center decided to include all Program management expenses within each program function in the current year presentation. The Program management expenses from the prior year have been eliminated and reclassified into each individual program function. In addition, the Center added the following expense program functions in the current year to more clearly present the individual programs within the Center: Bioscience industrial development, NC Bio pavilion and Biodefense.



CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2015

ASSETS		ograms & perating Fund		Plant Fund	De	economic velopment vestment Fund		NCBC Bioscience nvestment Fund		Total NCBC		N.C. oscience entures, LLC	Jun	Total e 30, 2015		mination Entries		nsolidated e 30, 2015
Cash	\$	12,534,167	\$	1,452,949	\$	7,309,435	\$	_	\$	21,296,551	\$	1,660,379	\$	22,956,930	\$	_	\$	22,956,930
Investments	Ψ	2,001,101	Ψ	, 102,010	Ψ	451,168	Ψ	_	Ψ	451.168	Ψ	,000,070	Ψ	451,168	Ψ	_	Ψ	451.168
Receivables:						101, 100				101,100				10,100				101,100
Accrued interest receivable		_				633,609		_		633,609		_		633,609		_		633,609
Miscellaneous receivables		237,305		_		-		_		237,305		_		237,305		_		237,305
Contributions receivable		55,657		_		_		_		55,657		_		55,657		_		55,657
Notes receivable		-		_		9,850,310		_		9,850,310		_		9.850,310		_		9,850,310
Allowance for uncollectible accrued						3,000,010				3,000,010				3,000,010				0,000,010
interest and notes receivable		_		_		(6,417,419)		_		(6,417,419)		_		(6,417,419)		_		(6,417,419)
Total receivables, net	-	292,962				4,066,500		_		4,359,462				4,359,462		_		4,359,462
Other assets		181,785		350		1,000,000			_	182,135				182,135				182,135
Property, plant, and equipment, net		2,700		10,078,704		_		_		10,078,704		_		10,078,704		_		10,078,704
Investment in subsidiary		_		0,070,704		_		1,510,379		1,510,379		_		1,510,379		(1,510,379) (1)		5,070,704
Total Assets	\$	13,008,914	\$	11,532,003	\$	11,827,103	\$		\$	37,878,399	\$	1,660,379	\$	39,538,778	\$	(1,510,379)	\$	38.028.399
LIABILITIES AND NET ASSETS		2,000,011		1,002,000		1,021,100		10.0,0.0	<u> </u>	0.1,0.10,000	Ť	1000,070	<u> </u>	30,000,770	<u> </u>	(40.0,0.0)	<u> </u>	00,020,000
Accounts payable and accrued expenses	\$	565,392	\$	7,624	\$	3,693	\$	_		576,709	\$	_	\$	576,709	\$	_	\$	576,709
Grants and contracts payable	*	5,832,795	•	-,	*	1,885,595	*	_		7,718,390	•	150,000	*	7,868,390	•	_	*	7,868,390
Capital lease payable		-		19,546		-		_		19,546		-		19,546		_		19,546
Total Liabilities		6,398,187		27,170		1,889,288		_		8,314,645		150,000		8,464,645				8,464,645
Net assets:		0,000,101		21,110		,000,000				0,011,010		80,000		0, 10 1,0 10				0, 10 1,0 10
Unrestricted net assets:																		
Designated for specific purposes		7,500,000		10,078,704		9,937,815		1,510,379		29,026,898		1,510,379		30,537,277		(1,510,379) (1)		29,026,898
Undesignated		(1,537,433)		1,426,129		-, ,		,,-		(111,304)		-		(111,304)		-		(111,304)
Total unrestricted net assets	-	5,962,567		11,504,833		9,937,815		1,510,379		28,915,594		1,510,379		30,425,973		(1,510,379)		28,915,594
Temporarily restricted net assets		648,160		-		-,,		-		648,160		-		648,160		-		648,160
Total Net Assets		6,610,727		11,504,833		9,937,815		1,510,379	_	29,563,754		1,510,379		31,074,133		(1,510,379)		29,563,754
Total Liabilities and Net Assets	\$	13,008,914	\$		\$	11,827,103	\$	1,510,379	\$		\$	1,660,379	\$	39,538,778	\$	(1,510,379)	\$	38,028,399
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⁽¹⁾ To eliminate investment in subsidiary.

CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2015

	Programs & Operating Fund	Plant Fund	Economic Development Investment Fund	NCBC Bioscience Investment Fund	Total NCBC	N.C. Bioscience Ventures, LLC	Total June 30, 2015	Elimination Entries	Consolidated June 30, 2015
Unrestricted revenues, gains, and other support:									
Grants and contracts:									
State of North Carolina	* //-	\$ -	\$ 1,849,994	\$ -		\$ -	\$ 13,600,338	\$ -	\$ 13,600,338
Interest and dividends	34,730	251	424,465	-	459,446	2,828	462,274	-	462,274
Hamner Conference Center	344,333	-	-	-	344,333	-	344,333	-	344,333
Net realized and unrealized gain on investments	-	-	108,669	-	108,669	-	108,669	=	108,669
Other, net	255,067	-	21,502	(136,508)	140,061	110,803	250,864	136,369 (1)	387,233
Net assets released from restrictions	795,116	-			795,116		795,116		795,116
Total unrestricted revenues, gains, and other support	13,179,590	251	2,404,630	(136,508)	15,447,963	113,631	15,561,594	136,369	15,697,963
Expenses:									
Science and technology development	3,470,760	-	-	-	3,470,760	-	3,470,760	=	3,470,760
Business and technology development	1,389,883	-	1,000,900	-	2,390,783	250,000	2,640,783	=	2,640,783
AgBio initiatives	1,322,078	-		-	1,322,078		1,322,078	=	1,322,078
Statewide development	995,571	-	-	-	995,571	-	995,571	-	995,571
Bioscience industrial development	709,170	-	-	-	709,170	-	709,170	-	709,170
NC Bio pavillion	417,485	-	-	-	417,485	-	417,485	-	417,485
Biodefense	325,239	-	225,000	-	550,239	-	550,239	-	550,239
Centers of innovation	518,887	-	-	-	518,887	-	518,887	-	518,887
Library services	1,205,993	-	-	-	1,205,993	-	1,205,993	-	1,205,993
Other programs	126,045	-	-	-	126,045	-	126,045	-	126,045
Hamner conference center	452,196	-	-	-	452,196	-	452,196	-	452,196
General and administrative	1,947,445	848,359			2,795,804	139	2,795,943	<u>(139)</u> (1	2,795,804
Total expenses	12,880,752	848,359	1,225,900		14,955,011	250,139	15,205,150	(139)	15,205,011
Change in unrestricted net assets	298,838	(848,108)	1,178,730	(136,508)	492,952	(136,508)	356,444	136,508	492,952
Temporarily restricted revenues:									
Grants	49,157	-	-	-	49,157	-	49,157	-	49,157
Contributions	612,960	-	-	-	612,960	-	612,960	-	612,960
Net assets released from restrictions	(795,116)	-			(795,116)		(795,116)		(795,116)
Change in temporarily restricted net assets	(132,999)	-			(132,999)		(132,999)	<u>-</u> _	(132,999)
Change in total net assets	165,839	(848,108)	1,178,730	(136,508)	359,953	(136,508)	223,445	136,508	359,953
Net assets, beginning of year	6,444,888	12,352,941	8,759,085	1,646,887	29,203,801	1,646,887	30,850,688	(1,646,887)	29,203,801
Net assets, end of year	\$ 6,610,727	\$ 11,504,833	\$ 9,937,815	\$ 1,510,379	\$ 29,563,754	\$ 1,510,379	\$ 31,074,133	\$ (1,510,379)	\$ 29,563,754
(1) The assets, end of year	Ψ 0,010,121	<u>ψ 1,+,</u>	<u>UO, 100, 100</u>	ψ ισισισίσ	ψ Δΰ,ΟΟΟ,10Η	ψ 1,010,0/3	ψ 5,017,00	ψ ((J D(J) 3)	Ψ 23,000,13

⁽¹⁾ To eliminate investment in subsidiary.

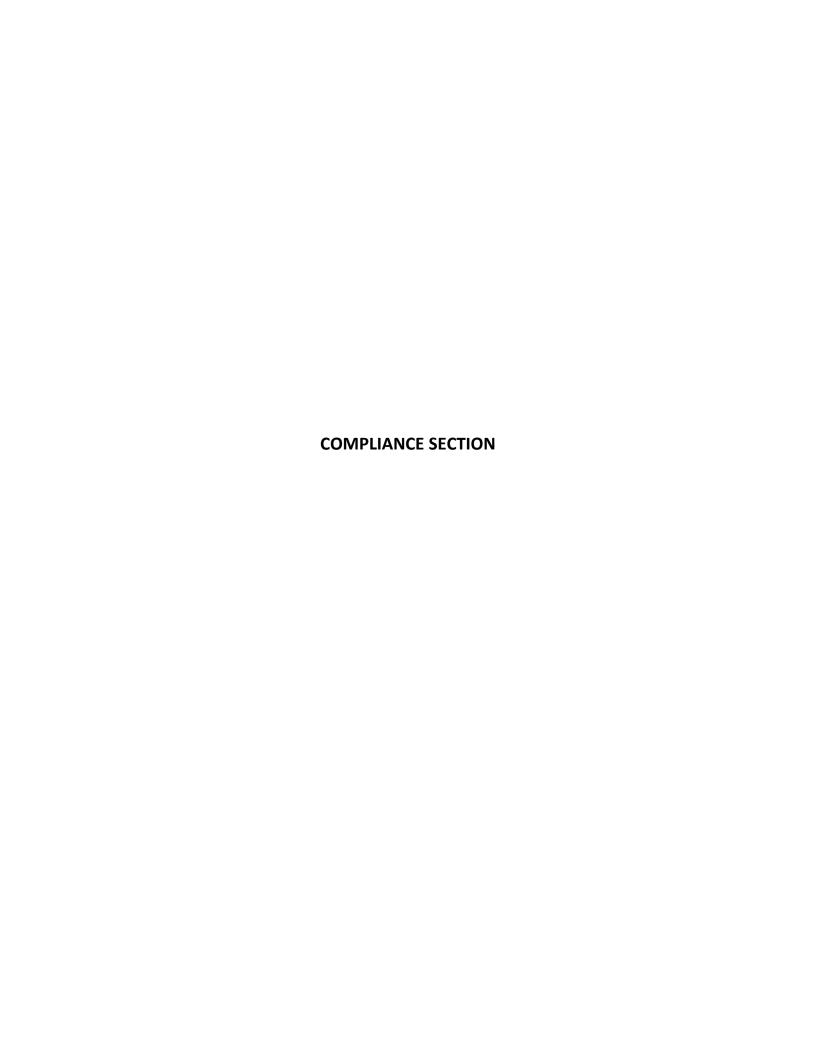
SCHEDULE OF EXPENDITURES OF STATE AWARDS

AS OF JUNE 30, 2015

<u>Grantor/Program</u>	State Award Number	Revenues	Expenditures
State Awards:			
NC Department of Commerce State Appropriation for Programs & Operations*	None	\$ 13,600,338	\$ 13,600,338
NC State University - Kenan Institute Collaborative Funding Grants	None	80,000	80,000
Total State Awards		\$ 13,680,338	\$ 13,680,338

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

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





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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the North Carolina Biotechnology Center and Subsidiary (the "Center") (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 31, 2015.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Raleigh, North Carolina August 31, 2015

This audit required 285 audit hours at a cost of \$52,500.