



NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

***As of and for the Years Ended June 30, 2016
and 2015***

And Report of Independent Auditor

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY
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Report of Independent Auditor

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

We have audited the accompanying consolidated financial statements of the North Carolina Biotechnology Center and Subsidiary (the "Center") (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, 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 consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Supplemental Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2016, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

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

Raleigh, North Carolina
August 29, 2016

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 16,793,454	\$ 22,956,930
Investments:		
Marketable securities	4,997,176	-
Other investments	384,384	451,168
Total Investments	5,381,560	451,168
Receivables:		
Accrued interest receivable	910,746	633,609
Miscellaneous receivables	134,036	237,305
Contributions receivable	6,500	55,657
Notes receivable	10,986,404	9,850,310
Allowance for uncollectible accrued interest and notes receivable	(6,970,809)	(6,417,419)
Total Receivables	5,066,877	4,359,462
Other assets	211,970	182,135
Property, plant, and equipment, net	9,587,083	10,078,704
Total Assets	\$ 37,040,944	\$ 38,028,399
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 571,271	\$ 576,709
Grants and contracts payable	8,329,783	7,868,390
Capital lease payable	2,916	19,546
Total Liabilities	8,903,970	8,464,645
Net Assets:		
Unrestricted Net Assets:		
Designated for specific purposes	27,691,928	29,026,898
Undesignated	(61,663)	(111,304)
Temporarily restricted	506,709	648,160
Total Net Assets	28,136,974	29,563,754
Total Liabilities and Net Assets	\$ 37,040,944	\$ 38,028,399

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

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Unrestricted Revenues, Gains, and Other Support:		
Grants and Contracts:		
State of North Carolina	\$ 13,600,338	\$ 13,600,338
Interest and dividends	658,795	462,274
Hamner Conference Center	483,535	344,333
Net realized and unrealized gain on investments	613	108,669
Other, net	467,582	387,233
Net assets released from restrictions	477,675	795,116
	<u>15,688,538</u>	<u>15,697,963</u>
Total Unrestricted Revenues, Gains, and Other Support		
Program Expenses:		
Science and technology development	4,016,503	3,470,760
Business and technology development	3,325,515	2,640,783
AgBio initiatives	1,324,944	1,322,078
Statewide development	996,430	995,571
Bioscience industrial development	1,092,567	709,170
NC Bio Pavilion	263,670	417,485
Biodefense	644,816	550,239
Centers of innovation	511,638	518,887
Library services	1,251,206	1,205,993
Other programs	131,986	126,045
Hamner Conference Center	666,916	452,196
General and administrative	2,747,676	2,795,804
	<u>16,973,867</u>	<u>15,205,011</u>
Total Expenses		
Change in unrestricted net assets	<u>(1,285,329)</u>	<u>492,952</u>
Temporarily Restricted Revenues:		
Grants:		
Other	124,157	49,157
Contributions	212,067	612,960
Net assets released from restrictions	(477,675)	(795,116)
Change in temporarily restricted net assets	<u>(141,451)</u>	<u>(132,999)</u>
Change in total net assets	(1,426,780)	359,953
Net assets, beginning of year	<u>29,563,754</u>	<u>29,203,801</u>
Net assets, end of year	<u>\$ 28,136,974</u>	<u>\$ 29,563,754</u>

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

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in total net assets	\$ (1,426,780)	\$ 359,953
Adjustments to reconcile change in total net assets to net cash used in operating activities:		
Depreciation	742,910	826,863
Net realized and unrealized gain on investments	(613)	(108,669)
Increase (decrease) in cash due to changes in:		
Notes receivable	(1,136,094)	(1,355,919)
Allowance for uncollectible accrued interest, loan, and notes receivable	553,390	994,427
Accrued interest receivable	(277,137)	(79,911)
Contributions receivable	49,157	90,642
Miscellaneous receivables	103,269	40,633
Other assets	(29,835)	(48,123)
Accounts payable and accrued expenses	(5,438)	11,747
Grants and contracts payable	461,393	(844,067)
Net cash used in operating activities	<u>(965,778)</u>	<u>(112,424)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(251,289)	(23,729)
Proceeds from sale of investments	591,811	126,875
Purchase of investments	<u>(5,521,590)</u>	<u>(31,822)</u>
Net cash provided by (used in) investing activities	<u>(5,181,068)</u>	<u>71,324</u>
Cash flows from financing activities:		
Payment on capital lease	<u>(16,630)</u>	<u>(19,308)</u>
Net cash used in financing activities	<u>(16,630)</u>	<u>(19,308)</u>
Net decrease in cash	(6,163,476)	(60,408)
Cash, beginning of year	<u>22,956,930</u>	<u>23,017,338</u>
Cash, end of year	<u>\$ 16,793,454</u>	<u>\$ 22,956,930</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 1,113</u>	<u>\$ 3,231</u>

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

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

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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

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

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statements of financial position and activities and changes in net assets. The Biotechnology Center periodically reviews its investments for declines in fair value below cost basis and records an allowance for unrealized losses. The allowance for investment declines in fair value below cost was \$397,991 and \$414,311 at June 30, 2016 and 2015, respectively. The Biotechnology Center believes that the costs of its investments are recoverable in all material respects.

Under a profit sharing agreement with the State of North Carolina, the Biotechnology Center and the State will share equally the net profits in excess of \$150,000 on any individual investment made with State funds by the Biotechnology Center after July 1, 1997. No excess profits were received by the Biotechnology Center in 2016 or 2015.

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 \$6,970,809 and \$6,417,419 at June 30, 2016 and 2015, respectively. The Biotechnology Center's other receivables are considered to be fully collectible.

Property, Plant, and Equipment - Property, plant, and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of three to eight years for furniture, fixtures, and equipment and 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 Executive Committee of the Board of Directors.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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, 2016 and 2015, unrestricted net assets designated for specific purposes consisted of the following:

	2016	2015
Property, plant, and equipment	\$ 9,587,083	\$ 10,078,704
Future economic development investment	10,220,461	10,997,026
Stocks and equity investments	384,384	451,168
Program commitments	7,500,000	7,500,000
	<u>\$ 27,691,928</u>	<u>\$ 29,026,898</u>

Temporarily restricted net assets are available for the following purposes at June 30, 2016 and 2015:

	2016	2015
Statewide and economic development	\$ 37,809	\$ 38,229
Exchange group activities	122,480	152,933
AgBiotech	309,829	436,003
Other programs	36,591	20,995
	<u>\$ 506,709</u>	<u>\$ 648,160</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time. In 2016 and 2015, purpose restrictions were accomplished by incurring \$477,675 and \$795,116, respectively, in expenses related to statewide and economic development, exchange group 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, 2016 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% of its unrestricted revenues from the State of North Carolina in 2016 and 2015.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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 \$2,540,307 and \$2,441,934 for the years ended June 30, 2016 and 2015, 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 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, 2016. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined the Organization had no significant uncertain income tax positions at June 30, 2016.

Use of Estimates - The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

Subsequent Events - In connection with the preparation of the consolidated financial statements and in accordance with GAAP, the Biotechnology Center considered for disclosure subsequent events that occurred after the statement of financial position date of June 30, 2016 through August 29, 2016, which was the date the consolidated financial statements were available to be issued. No subsequent events were noted that required disclosure in the consolidated financial statements.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 2—Investments

The carrying values of investments at June 30, 2016 and 2015 were as follows:

	2016	2015
Government securities	\$ 4,997,176	\$ -
Stocks	82,716	60,064
Private equity investments	301,668	391,104
	<u>\$ 5,381,560</u>	<u>\$ 451,168</u>

At June 30, 2016, the fair value of the Biotechnology Center's investments were determined based on:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Government securities	\$ 4,266,200	\$ 730,976	\$ -	\$ 4,997,176
Stocks	22,684	45,054	40,354	108,092
Private equity investments	-	-	446,031	446,031
	<u>\$ 4,288,884</u>	<u>\$ 776,030</u>	<u>\$ 486,385</u>	<u>\$ 5,551,299</u>

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

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Stocks	\$ -	\$ -	\$ 60,064	\$ 60,064
Private equity investments	-	-	528,318	528,318
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 588,382</u>	<u>\$ 588,382</u>

At June 30, 2016, investment securities carried at fair value based on quoted prices in active markets (all Level 1 Measurements) consist of the following:

	2016	
	Cost	Fair Value
Government securities	\$ 4,257,910	\$ 4,266,200
Stock	22,652	22,684
	<u>\$ 4,280,562</u>	<u>\$ 4,288,884</u>

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 2—Investments (continued)

The activity for investments, measured at fair value based on significant unobservable information for the period July 1, 2015 to June 30, 2016 is as follows:

	<u>Level 3 Assets</u>
Investments:	
Beginning balance, July 1, 2015	\$ 588,382
Purchases	31,845
Sales	(70,214)
Unrealized loss, net	(43,918)
Recategorization from Level 3 to Level 2	(19,710)
Ending balance, June 30, 2016	<u>\$ 486,385</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, 2016, the Biotechnology Center received warrants to purchase 4,236,251 common and preferred shares with exercise prices ranging from \$0.01 to \$30.61 per share. These warrants expire at various dates through 2026. 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, 2016, the Biotechnology Center has capital contribution commitments to various venture capital funds totaling \$197,537. 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, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Notes receivable:		
One note receivable from a state life science company under Small Business Innovation Research awards. Interest rate on the note is 6.25%. Principal and interest is payable three to five years from the execution of each note or renegotiation. Due May 2017.	\$ 63,230	\$ 63,230
Notes receivable from various state life science companies under Business Development Loans. Loans outstanding at end of 2015 were fully repaid in 2016.	-	32,970
Notes receivable from various state life science 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 2019.	7,795,309	6,467,081
Notes receivable from various state life science companies under Strategic Growth Loans. Interest rates on these notes vary from 4.25% to 6.5%. Generally, principal and interest are payable one to three years from the execution of the note or renegotiation. Due at various dates through 2019.	2,251,090	2,300,980

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 3—Notes receivable (continued)

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

\$	173,460	\$	190,245
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Notes receivable from various state life science companies under Company Inception Loans. Interest rates on these notes vary from 4.25% to 6.5%. Generally, principal and interest are due one to three years from the execution of each note or renegotiation. Due at various dates through 2019.

	703,315	795,804
Total notes receivable	10,986,404	9,850,310
Accrued interest receivable	898,102	633,609
Less allowance for uncollectible interest and notes receivable	(6,970,809)	(6,417,419)
Notes receivable and accrued interest receivable, net	\$ 4,913,697	\$ 4,066,500

Note 4—Contributions receivable

Contributions receivable consisted of the following at June 30, 2016 and 2015:

	2016	2015
Unconditional promises expected to be collected in:		
Less than one year	\$ 6,500	\$ 55,657

Note 5—Property, plant, and equipment

A summary of property, plant, and equipment at June 30, 2016 and 2015 follows:

	2016	2015
Building	\$ 17,158,550	\$ 17,158,550
Construction in progress	208,605	-
Furniture, fixtures, and equipment	2,552,401	2,819,382
	19,919,556	19,977,932
Less accumulated depreciation	(10,332,473)	(9,899,228)
Property, plant, and equipment, net	\$ 9,587,083	\$ 10,078,704

Depreciation expense totaled \$742,910 and \$826,863 for the years ended June 30, 2016 and 2015, respectively.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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, 2016 are expected to be paid as follows:

2017	\$ 6,598,892
2018	1,730,891
	<u>\$ 8,329,783</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, 2016, these outstanding commitments total \$997,537.

Note 7—Interest income

Interest income of \$50,250 and \$41,012 was earned during the years ended June 30, 2016 and 2015, respectively, primarily by investing in money market accounts and government securities. Interest income on notes receivable in 2016 and 2015 totaled \$608,545 and \$421,262, respectively.

Note 8—Benefit plans

The Biotechnology Center has a defined contribution money purchase pension plan covering all qualified employees who have completed one year of service. The Biotechnology Center's contribution is 11.00% of pre-tax compensation for eligible employees. Employees are fully vested in the plan assets upon participation. Approximately \$485,915 and \$455,184 was contributed to the plan during the years ended June 30, 2016 and 2015, 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.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Note 9—Operating leases (continued)

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, 2016 are as follows:

2017	\$	30,374
2018		21,260
2019		21,260
2020		21,260
2021		17,717
	<u>\$</u>	<u>111,871</u>

Total rental expense for operating leases in 2016 and 2015 was \$49,519 and \$51,942, 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:

Year ending June 30, 2017	\$	3,080
Less amount representing interest		<u>(164)</u>
Present value of future minimum capital lease payments	<u>\$</u>	<u>2,916</u>

The gross and net book value of the related equipment at June 30, 2016 is as follows:

Cost	\$	12,963
Accumulated depreciation		<u>(10,803)</u>
	<u>\$</u>	<u>2,160</u>

Note 11—Related parties

Certain members of the Board of Directors are affiliated with State colleges and universities or biotechnology/bioscience companies to which the Biotechnology Center makes grant or contract awards. Total grant or contract awards to these entities totaled \$2,027,997 in 2016 and \$2,006,802 in 2015. Board members abstain from voting on matters related to his or her organization.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

JUNE 30, 2016

	Programs and Operating Fund	Plant Fund	Economic Development Investment Fund	NCBC Bioscience Investment Fund	Total NCBC	N.C. Bioscience Ventures, LLC	Total June 30, 2016	Elimination Entries	Consolidated June 30, 2016
ASSETS									
Cash and cash equivalents	\$ 10,241,507	\$ 1,138,574	\$ 3,751,733	\$ -	\$ 15,131,814	\$ 1,661,640	\$ 16,793,454	\$ -	\$ 16,793,454
Investments:									
Marketable securities	2,498,588	-	2,498,588	-	4,997,176	-	4,997,176	-	4,997,176
Other investments	-	-	384,384	-	384,384	-	384,384	-	384,384
Total Investments	2,498,588	-	2,882,972	-	5,381,560	-	5,381,560	-	5,381,560
Receivables:									
Accrued interest receivable	6,322	-	904,424	-	910,746	-	910,746	-	910,746
Miscellaneous receivables	134,036	-	-	-	134,036	-	134,036	-	134,036
Contributions receivable	6,500	-	-	-	6,500	-	6,500	-	6,500
Notes receivable	-	-	10,986,404	-	10,986,404	-	10,986,404	-	10,986,404
Allowance for uncollectible accrued interest and notes receivable	-	-	(6,970,809)	-	(6,970,809)	-	(6,970,809)	-	(6,970,809)
Total Receivables	146,858	-	4,920,019	-	5,066,877	-	5,066,877	-	5,066,877
Other assets	211,620	350	-	-	211,970	-	211,970	-	211,970
Property, plant, and equipment, net	-	9,587,083	-	-	9,587,083	-	9,587,083	-	9,587,083
Investment in subsidiary	-	-	-	1,661,640	1,661,640	-	1,661,640	(1,661,640) ⁽¹⁾	-
Total Assets	\$ 13,098,573	\$ 10,726,007	\$ 11,554,724	\$ 1,661,640	\$ 37,040,944	\$ 1,661,640	\$ 33,321,024	\$ (1,661,640)	\$ 37,040,944
LIABILITIES AND NET ASSETS									
Accounts payable and accrued expenses	\$ 571,271	\$ -	\$ -	\$ -	\$ 571,271	\$ -	\$ 571,271	\$ -	\$ 571,271
Grants and contracts payable	5,718,264	-	2,611,519	-	8,329,783	-	8,329,783	-	8,329,783
Capital lease payable	-	2,916	-	-	2,916	-	2,916	-	2,916
Total Liabilities	6,289,535	2,916	2,611,519	-	8,903,970	-	8,903,970	-	8,903,970
Net Assets:									
Unrestricted Net Assets:									
Designated for specific purposes	7,500,000	9,587,083	8,943,205	1,661,640	27,691,928	1,661,640	29,353,568	(1,661,640) ⁽¹⁾	27,691,928
Undesignated	(1,197,671)	1,136,008	-	-	(61,663)	-	(61,663)	-	(61,663)
Total Unrestricted Net Assets	6,302,329	10,723,091	8,943,205	1,661,640	27,630,265	1,661,640	29,291,905	(1,661,640)	27,630,265
Temporarily restricted net assets	506,709	-	-	-	506,709	-	506,709	-	506,709
Total Net Assets	6,809,038	10,723,091	8,943,205	1,661,640	28,136,974	1,661,640	29,798,614	(1,661,640)	28,136,974
Total Liabilities and Net Assets	\$ 13,098,573	\$ 10,726,007	\$ 11,554,724	\$ 1,661,640	\$ 37,040,944	\$ 1,661,640	\$ 38,702,584	\$ (1,661,640)	\$ 37,040,944

(1) To eliminate investment in subsidiary.

NORTH CAROLINA BIOTECHNOLOGY CENTER AND SUBSIDIARY

CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2016

	Programs and Operating Fund	Plant Fund	Economic Development Investment Fund	NCBC Bioscience Investment Fund	Total NCBC	N.C. Bioscience Ventures, LLC	Total June 30, 2016	Elimination Entries	Consolidated June 30, 2016
Unrestricted Revenues, Gains (Losses), and Other Support:									
Grants and Contracts:									
State of North Carolina	\$ 11,850,338	\$ -	\$ 1,750,000	\$ -	\$ 13,600,338	\$ -	\$ 13,600,338	\$ -	\$ 13,600,338
Interest and dividends	39,844	42	617,244	-	657,130	1,665	658,795	-	658,795
Hamner Conference Center	483,535	-	-	-	483,535	-	483,535	-	483,535
Net realized and unrealized gain (loss) on investments	4,287	-	(3,674)	-	613	-	613	-	613
Other, net	446,175	-	21,811	151,261	619,247	-	619,247	(151,665) ⁽¹⁾	467,582
Net assets released from restrictions	477,675	-	-	-	477,675	-	477,675	-	477,675
Total Unrestricted Revenues, Gains (Losses), and Other Support	13,301,854	42	2,385,381	151,261	15,838,538	1,665	15,840,203	(151,665)	15,688,538
Program Expenses:									
Science and technology development	4,016,503	-	-	-	4,016,503	-	4,016,503	-	4,016,503
Business and technology development	1,145,524	-	2,329,991	-	3,475,515	(150,000)	3,325,515	-	3,325,515
AgBio initiatives	1,324,944	-	-	-	1,324,944	-	1,324,944	-	1,324,944
Statewide development	996,430	-	-	-	996,430	-	996,430	-	996,430
Bioscience industrial development	1,092,567	-	-	-	1,092,567	-	1,092,567	-	1,092,567
NC Bio Pavilion	263,670	-	-	-	263,670	-	263,670	-	263,670
Biodefense	469,816	-	175,000	-	644,816	-	644,816	-	644,816
Centers of innovation	511,638	-	-	-	511,638	-	511,638	-	511,638
Library services	1,251,206	-	-	-	1,251,206	-	1,251,206	-	1,251,206
Other programs	131,986	-	-	-	131,986	-	131,986	-	131,986
Hamner Conference Center	666,916	-	-	-	666,916	-	666,916	-	666,916
General and administrative	2,185,269	562,407	-	-	2,747,676	404	2,748,080	(404) ⁽¹⁾	2,747,676
Total Expenses	14,056,469	562,407	2,504,991	-	17,123,867	(149,596)	16,974,271	(404)	16,973,867
Change in unrestricted net assets before net operating transfers	(754,615)	(562,365)	(119,610)	151,261	(1,285,329)	151,261	(1,134,068)	(151,261)	(1,285,329)
Net transfers	1,094,377	(219,377)	(875,000)	-	-	-	-	-	-
Change in unrestricted net assets	339,762	(781,742)	(994,610)	151,261	(1,285,329)	151,261	(1,134,068)	(151,261)	(1,285,329)
Temporarily Restricted Revenues:									
Grants:									
Other	124,157	-	-	-	124,157	-	124,157	-	124,157
Contributions	212,067	-	-	-	212,067	-	212,067	-	212,067
Net assets released from restrictions	(477,675)	-	-	-	(477,675)	-	(477,675)	-	(477,675)
Change in temporarily restricted net assets	(141,451)	-	-	-	(141,451)	-	(141,451)	-	(141,451)
Change in total net assets	198,311	(781,742)	(994,610)	151,261	(1,426,780)	151,261	(1,275,519)	(151,261)	(1,426,780)
Net assets, beginning 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
Net assets, end of year	\$ 6,809,038	\$ 10,723,091	\$ 8,943,205	\$ 1,661,640	\$ 28,136,974	\$ 1,661,640	\$ 29,798,614	\$ (1,661,640)	\$ 28,136,974

(1) To eliminate investment in subsidiary.

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

AS OF JUNE 30, 2016

<u>Grantor/Program</u>	<u>State Award Number</u>	<u>Revenues</u>	<u>Expenditures</u>
State Awards:			
NC Department of Commerce <i>State Appropriation for Programs & Operations*</i>	None	\$ 13,600,338	\$ 13,600,338
NC State University - Kenan Institute <i>Collaborative Funding Grants</i>	None	<u>75,000</u>	<u>75,000</u>
Total State Awards		<u>\$ 13,675,338</u>	<u>\$ 13,675,338</u>

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

* Programs having compliance requirements that could have a direct and material effect on Center's financial 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, 2016 and 2015, 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 consolidated financial statements, and have issued our report thereon dated August 29, 2016.

Internal Control over Financial Reporting

In planning and performing our audits 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, as described below we consider to be a significant deficiency.

Criteria: The Center is responsible for presenting financial statements in accordance with accounting principles generally accepted in the United States of America.

Condition: During the course of the audit, the Center's internal controls related to financial statement reporting did not identify a presentation and disclosure matter within the "cash and cash equivalents" and "investments in marketable securities" captions on the consolidated statement of financial position.

Effect:	Investments in marketable securities were improperly classified as cash and cash equivalents. Accordingly, the presentation of the statement of cash flows and certain disclosures were affected.
Cause:	An oversight during the preparation and review process of the consolidated financial statements failed to identify the misclassification.
Recommendation:	We recommend the Center continue to monitor, evaluate and implement effective, appropriate internal controls related to financial statement reporting to ensure the financial statements are properly prepared and presented in accordance with accounting principles generally accepted in the United States of America.
Management Response:	The Center agrees with the comment. During fiscal year 2016, management purchased certain investments in marketable securities to provide for additional interest income while maintaining liquidity. These marketable securities have maturity dates of less than three years. During the annual financial statement closing process, management mislabeled the financial statement caption.
Corrective Action Plan:	The Center has strengthened their financial statement close process to more closely review financial statement captions to ensure that they appropriately describe the amounts included therein.

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*.

Center's Response to Findings

The Center's response and corrective action plan above was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 29, 2016

This audit required 311 audit hours at a cost of \$52,500.