# UNCW RESEARCH FOUNDATION
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Year Ended June 30, 2014

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Report of Independent Auditors

To the Board of Directors
UNCW Research Foundation
Wilmington, North Carolina

Report on the financial statements

We have audited the accompanying financial statements of UNCW Research Foundation (the “Foundation”) (a nonprofit organization) which comprise the statement of net position as of June 30, 2014 and the related statements of activities and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the 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 entity’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 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 financial statements referred to above present fairly, in all material respects, the net position of UNCW Research Foundation as of June 30, 2014, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.
Other matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Foundation as a whole. The combining statements of net position and activities and changes in net assets (“combining financial statements”) are presented for purposes of additional analysis and are not a required part of the financial statements. The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other 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 basic financial statements as a whole.

[Signature]
Durham, North Carolina
September 16, 2014
Financial analysis

The UNCW Research Foundation (the "Foundation") provides the following Management’s Discussion and Analysis ("MD&A") as an overview of the financial activities for the fiscal year ended June 30, 2014. The MD&A identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the previous year is presented to provide a better understanding of the financial information.

Using the financial statements

The Foundation’s financial report includes three basic comprehensive financial statements that depict the financial activity and fiscal condition of the Foundation for the current year: the Statement of Net Position; the Statement of Activities and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles. The accrual basis of accounting has been used to prepare the statements. This method of accounting requires that revenues and assets are recognized when the service is provided. Expenses and liabilities are recognized when others provide services, regardless of when cash is exchanged.

The Statement of Net Position includes all the Foundation's assets and liabilities. The Foundation’s net position (the monetary difference between total assets and total liabilities) is one indicator of the Foundation’s financial viability. Over time, changes in net position provide information on the improvement or erosion of the Foundation’s financial condition when considered with non-financial facts.

The Statement of Activities and Changes in Net Position presents the revenues earned and expenses incurred during the fiscal year. Financial activities are reported as either operating or nonoperating.

Another important factor to consider when evaluating the financial viability of the Foundation is the ability to meet financial obligations as they mature. The Statement of Cash Flows presents information that allows the reader to evaluate the Foundation’s ability to meet its financial obligations on a current basis.

Financial highlights

The Foundation includes the activities of the single member entities, UNCW Corporation Research I, LLC ("Research I") and MARBIONC Development Group, LLC ("MDG"), The CREST Millennial Campus, LLC ("CMC"), and UNCW Entrepreneurship Center, LLC ("EC") in support of its charitable, scientific and educational purposes. Explanation of their individual activities is located in the Statement of Net Position and the Statement of Activities and Changes in Net Position.
Statement of net position

The Statement of Net Position presents the assets, liabilities, and net position (total assets minus total liabilities) of the Foundation. This statement provides a fiscal snapshot of the Foundation’s financial position as of June 30, 2014. The data provides readers of this statement with information on assets available to continue operations, amounts due to vendors, and the net position available for expenditures by the Foundation.

Condensed Statement of Financial Position
June 30, as indicated

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$156,572</td>
<td>$177,192</td>
<td>$(20,620)</td>
<td>-12%</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>89,267</td>
<td>117</td>
<td>89,150</td>
<td>76197%</td>
</tr>
<tr>
<td>Pledges receivable - current</td>
<td>-</td>
<td>23,750</td>
<td>(23,750)</td>
<td>100%</td>
</tr>
<tr>
<td>Pledges receivable - noncurrent</td>
<td>99,590</td>
<td>104,007</td>
<td>(4,417)</td>
<td>-4%</td>
</tr>
<tr>
<td>Prepaids</td>
<td>32,546</td>
<td></td>
<td>32,546</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>377,975</td>
<td>305,066</td>
<td>72,909</td>
<td>24%</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits payable</td>
<td>2,300</td>
<td></td>
<td>2,300</td>
<td></td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>3,500</td>
<td>18,142</td>
<td>(14,642)</td>
<td>-81%</td>
</tr>
<tr>
<td>Unearned revenue</td>
<td>43,892</td>
<td>28,986</td>
<td>14,906</td>
<td>51%</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>49,692</td>
<td>47,128</td>
<td>2,564</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Net position</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>257,713</td>
<td>257,938</td>
<td>(225)</td>
<td>0%</td>
</tr>
<tr>
<td>Restricted for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expendable- Research</td>
<td>70,570</td>
<td></td>
<td>70,570</td>
<td></td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>$328,283</td>
<td>$257,938</td>
<td>$70,345</td>
<td>27%</td>
</tr>
</tbody>
</table>

Overall, the Foundation’s net position increased by $70,345 to $328,283, compared to $257,938 in 2013, a 27% increase. Primary factors contributing to this increase was a new agreement entered into with the City of Wilmington, North Carolina, sales of intellectual properties, multi-year license agreements with various customers, and premises use agreements for activities at the Center for Innovation and Entrepreneurship.

Cash and cash equivalent assets totaled $156,572, compared to $177,192, a decrease of $20,620 and is attributed primarily to the Foundation making a royalty distribution to the University related to revenues received from multi-year license agreements in the amount of $83,625.
Accounts receivable assets totaled $89,267, an increase of $89,150 which primarily represents a $70,000 receivable from the City of Wilmington and outstanding receivables for MDG in the amount of $14,000.

Prepaid assets totaled $32,546 with no amount reported in 2013. This represents the portion of royalty distributions made to University that are recognized over the period of the license agreements.

Unearned revenue liability totaled $43,892, compared to $28,896 in 2013, an increase of $14,906. Revenues from multi-year license agreements are recorded over time and the increase represents increased sales made during the current year.

The net position of the Foundation and its component units are as follows:

Activities directly through the Foundation had a net position totaling $108,655, a $62,749 increase over 2013. The single members LLC’s net position and changes are as follows: MDG ended the year with net position of $75,885, a $17,413 increase over 2013; Research I ended the year with net position of $2,436, a $271 increase over 2013; EC ended the year with net position of $141,705, a $9,887 decrease from 2013; CMC ended the year with a net position of ($400), a $200 decrease over 2013.

Explanation of the activities contributing to these changes is contained in the Statement of Activities and Changes in Net Position.

**Statement of activities and changes in net position**

Changes in total net position as presented on the Statement of Activities section are based on the activity reported in the Statement of Activities and Changes in Net Position. The purpose of this statement is to present the revenues received by the Foundation and the expenses paid by the Foundation.

Operating revenues are received for providing goods and services to various customers as well as contributions. Operating expenses are used to acquire or produce the goods and services provided in return for the operating revenue, and to carry out the mission of the Foundation.
### Condensed Statement of Activities and Changes in Net Position
For the Year Ended June 30, as indicated

<table>
<thead>
<tr>
<th>Revenue:</th>
<th>2014</th>
<th>2013</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cellular revenue</td>
<td>$42,000</td>
<td>$42,000</td>
<td>$</td>
<td>0%</td>
</tr>
<tr>
<td>Charges for services</td>
<td>104,115</td>
<td>48,437</td>
<td>55,678</td>
<td>115%</td>
</tr>
<tr>
<td>Contributions</td>
<td>26,733</td>
<td>205,257</td>
<td>(178,524)</td>
<td>-87%</td>
</tr>
<tr>
<td>Grants</td>
<td>83,000</td>
<td>40,000</td>
<td>43,000</td>
<td>113%</td>
</tr>
<tr>
<td>Special projects</td>
<td>140,000</td>
<td></td>
<td>140,000</td>
<td></td>
</tr>
<tr>
<td>Other revenues</td>
<td>55,917</td>
<td>53,618</td>
<td>2,299</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>453,765</td>
<td>389,312</td>
<td>64,453</td>
<td>17%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses:</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted services</td>
<td>35,190</td>
<td>57,041</td>
<td>(21,851)</td>
<td>-38%</td>
</tr>
<tr>
<td>Cellular expenses</td>
<td>42,000</td>
<td>42,000</td>
<td></td>
<td>0%</td>
</tr>
<tr>
<td>Cost of services</td>
<td>39,485</td>
<td>6,243</td>
<td>33,242</td>
<td>532%</td>
</tr>
<tr>
<td>Grant subagreements</td>
<td>85,000</td>
<td>40,000</td>
<td>45,000</td>
<td>113%</td>
</tr>
<tr>
<td>Other expenses</td>
<td>181,745</td>
<td>41,145</td>
<td>140,600</td>
<td>342%</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>383,420</td>
<td>186,429</td>
<td>196,991</td>
<td>106%</td>
</tr>
</tbody>
</table>

Changes in net position

Net position, beginning of year

<table>
<thead>
<tr>
<th>Net position, end of year</th>
<th>2014</th>
<th>2013</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$328,283</td>
<td>$257,938</td>
<td>$70,345</td>
<td></td>
</tr>
</tbody>
</table>

The Foundation had total revenues of $453,765 compared to $389,312 in 2013, a 17% increase. Charges for services accounted for $104,115 compared to $48,437 in 2013, an increase of $55,678. Charges for services represents increased revenues from MDG and premises use license agreement revenue. Contribution revenue accounted for $26,733 compared to $205,257 in 2013, a decrease of $178,524. The decrease is due to a significant amount of contributions and pledges made to the EC during the first year of operation in 2013. Special project revenue totaled $140,000 with no amount reported for 2013. Special project revenue represents revenue received from the City of Wilmington, North Carolina.

The Foundation had total expenses of $383,420 compared to $186,429 in 2013, a 106% increase. Other expenses totaled $181,745 compared to $41,145 in 2013, an increase of $140,600. The increase in other expenses is primarily related to royalty distributions made to the University in the amount of $51,079 and program expenses of $70,000 related to funding received from the City of Wilmington.

The activities of the Foundation and its component units are as follows:

Revenues received directly by the Foundation were $304,224 compared to $90,815 in 2013, a 234% increase. Expenses were $241,475 compared to $69,230, a 248% increase. The increase in revenues is attributed to a new agreement with the City of Wilmington, North Carolina with
revenues of $140,000, Premises Use License agreements for the Center of Innovation and Entrepreneurship revenues of $24,793, and the increase in grants accounted for $45,000. The increase in expenses is attributed to royalty distributions in the amount of $51,079, program expenses related to the new agreement with the City of Wilmington in the amount of $70,000, and grant sub agreements passed to the University in the amount of $45,000.

MDG revenues were $79,321 compared to $48,437 in 2013, a 64% increase. Expenses for MDG were $61,907 compared to $19,152 in 2013 a 223% increase. The increases in revenues and expenses were the result of increased activities in charges for services (sales of products) and cost of services for products sold.

Research I revenues were $43,489 compared to $44,803 in 2013, a 3% decrease. Cellular revenue accounted for $42,000, which was the same for 2013. Expenses were $43,218 compared to $44,182 in 2013. There was no significant reduction in both revenues and expenses for Research I during 2014.

EC revenues were $26,733 compared to $205,257 for 2013, a decrease of 87%. Expenses for EC were $36,619 compared to $53,665 for 2013, a decrease of 31%. The decrease in revenues is attributed to the significant amount of contributions and pledges received during the first year of operation in 2013. Decrease in expenses is attributed to the reduction of costs associated with the first year of operation.

Grant revenue

During 2014, the Foundation was awarded a $150,000 grant from the GlaxoSmithKline Foundation ("GSK") for the Southeastern North Carolina Regional Health Collaborative (SENCRHC). The grant’s purpose is to improve population health in southeastern North Carolina. The Foundation recognized revenue of $75,000 from this grant during 2014; the remaining $75,000 is due January 2015.

Special projects

During 2014, the Foundation entered into an agreement with the City of Wilmington (the “City”) to establish the Center of Innovation and Entrepreneurship ("CIE"). The CIE will serve the citizens of Wilmington by promoting and supporting economic growth and development with the City. Among other services, the CIE will provide programs in the areas of small business training, mentoring, public events and research and provide office space to small business owners and entrepreneurs in and around the City. During the year ended June 30, 2014, the Foundation recognized revenue of $140,000 from the City in connection with this agreement. As of June 30, 2014, $70,000 of this amount is an account receivable.

License agreements

The Foundation entered into multi year use agreements of intellectual properties; three new agreements were entered into during 2014. Revenues received during 2014 were $20,365 compared to $23,667 in 2013.
Additionally, multi year license agreements are recorded over time and report unearned revenue of $43,892 compared to $28,986 in 2013. During 2014, the Foundation, University, and the researcher made a mutual agreement to disburse a 75% royalty distribution from the total sales of intellectual properties to the UNCW Institute for Interdisciplinary Studies in Identity Science. The distribution covered a period from 2011-2019.

Statement of cash flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. The Statement of Cash Flows also helps users assess the Foundation’s:

- Ability to generate future net cash flows
- Ability to meet its obligations as they come due
- Need for external financing

Condensed Statement of Cash Flows
For the Year Ended June 30, as indicated

<table>
<thead>
<tr>
<th>Cash flow activities</th>
<th>2014</th>
<th>2013</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts from users</td>
<td>$375,142</td>
<td>$251,896</td>
<td>$123,246</td>
<td>49%</td>
</tr>
<tr>
<td>Payments to suppliers</td>
<td>(395,762)</td>
<td>(169,687)</td>
<td>(226,075)</td>
<td>133%</td>
</tr>
<tr>
<td>Net change in cash and cash equivalents</td>
<td>(20,620)</td>
<td>82,209</td>
<td>(102,829)</td>
<td>-125%</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>177,192</td>
<td>94,983</td>
<td>82,209</td>
<td>87%</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$156,572</td>
<td>$177,192</td>
<td>$(20,620)</td>
<td>-12%</td>
</tr>
</tbody>
</table>

Major sources of the increase in receipts from users of during the year ended June 30, 2014 were from new multi-year license agreements and funding received from the City of Wilmington. The major sources of payments were from program expenses related to the funding from the City of Wilmington and royalty distributions to the University.

Contacting the Foundation’s financial management

This financial report is designed to provide a general overview of the Foundation’s finances and demonstrate accountability of all funds. Additional financial information may be obtained by contacting the Associated Entities Office at (910) 962-3139.
UNCW RESEARCH FOUNDATION
STATEMENT OF NET POSITION
June 30, 2014

Assets
Cash and cash equivalents $ 156,572
Accounts receivable 89,267
Pledges receivable - noncurrent (note 3), net 99,590
Prepaid items - current 27,765
Prepaid items - noncurrent 4,781
Total assets $ 377,975

Liabilities
Deposits payable 2,300
Accrued expenses 3,500
Unearned revenue - current (note 4) 37,018
Unearned revenue - noncurrent (note 4) 6,874
Total liabilities 49,692

Net position
Unrestricted 257,713
Restricted for:
   Expendable- Research (note 2) 70,570
Total net position $ 328,283

The accompanying notes are an integral part of the financial statements.
## UNCW RESEARCH FOUNDATION
### STATEMENT OF ACTIVITIES AND CHANGES IN NET POSITION
#### Year Ended June 30, 2014

### Revenue:
- **Cellular revenue** $ 42,000
- **Charges for services** 104,115
- **Contributions** 26,733
- **Grants** 85,000
- **Royalty income** 20,365
- **Special projects** 140,000
- **Other revenues (note 8)** 35,552

**Total revenues** 453,765

### Expenses:
- **Contracted services** 35,190
- **Cellular expenses** 42,000
- **Cost of services** 39,485
- **Grant subagreements** 85,000
- **Royalty distributions (note 7)** 51,079
- **Program development** 69,999
- **Other expenses** 60,667

**Total expenses** 383,420

### Change in net position 70,345

### Net position, beginning of year 257,938

### Net position, end of year $ 328,283

The accompanying notes are an integral part of the financial statements.
UNCW RESEARCH FOUNDATION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

<table>
<thead>
<tr>
<th>Operating activities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts from users</td>
<td>$ 375,142</td>
</tr>
<tr>
<td>Payments to suppliers</td>
<td>(395,762)</td>
</tr>
<tr>
<td>Net cash used by operating activities</td>
<td>(20,620)</td>
</tr>
<tr>
<td>Net change in cash and cash equivalents</td>
<td>(20,620)</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning</td>
<td>177,192</td>
</tr>
<tr>
<td>Cash and cash equivalents, ending</td>
<td>$ 156,572</td>
</tr>
</tbody>
</table>

Reconciliation of change in net position to net cash used by operating activities:

| Change in net position                   | $ 70,345 |
| Adjustments to reconcile change in net position to net cash provided by operating activities: |       |
| Donated services revenue                 | 34,333 |
| Donated services expense                 | (34,333) |
| Changes in assets and liabilities:      |       |
| Pledges receivable                       | 28,167 |
| Accounts receivable                      | (89,150) |
| Prepaid                                  | (32,546) |
| Deposits payable                         | 2,300 |
| Accrued expenses                         | (14,642) |
| Unearned revenue                         | 14,906 |
| Net cash used by operating activities    | $ (20,620) |

The accompanying notes are an integral part of the financial statements.
Note 1 - Organization and other matters

UNCW Research Foundation (the "Foundation") was organized as a North Carolina nonprofit corporation on March 24, 2008, for charitable, scientific, and educational purposes including, for such purposes, the making of distributions to organizations. Although legally separate from the University of North Carolina at Wilmington (the "University"), the Foundation is considered a component unit of the University because the University's governing body appoints the Foundation's Board of Directors. Therefore the Foundation's financial statements are presented with those of the University.

Blended component units – The UNCW Corporation Research I, LLC ("Research I") was organized as a North Carolina nonprofit corporation on July 16, 2007. Research I is a collaborator in an agreement to develop applications and intellectual property for use at the University and for prospective commercialization opportunities with other universities and entities.

Research I entered into a Collaboration and Equity Agreement with Mobile Education, LLC ("Mobile"), which provides for a 20 percent equity stake of the entity if Mobile is either sold or publicly traded shares are issued. The net proceeds received by Research I, if any, will be distributed or spent at the direction of the Foundation's Board and consistent with the Foundation's purpose.

MARBIONC Development Group, LLC ("MDG") was organized as a North Carolina nonprofit corporation on December 10, 2008, to further the charitable purposes of UNCW Research Foundation. MDG will pursue the economic development of research discoveries, materials, compounds and/or intellectual property, as well as capital facilities for the use and benefit of the University and/or the UNCW Research Foundation through collaborative research relationships and/or contracting entities for faculty start ups, private industry, and government or quasi government institutions and agencies.

UNCW Entrepreneurship Center, LLC ("EC") was organized as a North Carolina nonprofit corporation on February 16, 2012, to serve as a catalyst for entrepreneurial business growth, jobs and innovations in Southeastern North Carolina by linking emerging and high-growth ventures, entrepreneurs and partner organizations.

The CREST Millennial Campus, LLC ("CMC"), was organized as North Carolina nonprofit corporation on August 8, 2012 to accomplish the leasing and manage the operations of the CREST Research Park. The vision behind the CREST Research Park is to provide a space for university researchers, private firms and government agencies to work together in creating the next generation of biotechnology products and solutions.

The Foundation's financial statements include Research I, MDG, EC, and CMC as the Foundation is the sole member of these LLC’s.

A summary of the Foundation's significant accounting policies follows in Note 2.
Note 2 - Summary of significant accounting policies

**Basis of accounting** - The Foundation uses the accrual basis of accounting; therefore, revenues are recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America.

**Principles of reporting** – The accompanying financial statements are presented in accordance with U.S. generally accepted accounting principles as prescribed by GASB. The full scope of the Foundation's activities is considered to be a single business-type activity ("BTA") and, accordingly, is reported within a single column in the basic financial statements.

Net position for business type activities is classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

**Receivables** – The Foundation records all receivables at total unpaid balance net of an allowance for doubtful accounts. The Foundation determines past due status of service related receivables based on contractual terms and generally does not charge interest on past due amounts. The Foundation estimates its allowance for doubtful accounts based on a combination of factors, including the account’s historical loss experience and any anticipated effects related to current economic conditions, as well as management’s knowledge of the current composition of receivables. Receivables that management believes to be ultimately not collectible are written off upon such determination. Subsequent collections of amounts written off are credited against the allowance account. The Foundation had determined that all receivables are fully collectable at year end.

Pledges receivable are recorded at total unpaid balance net of an allowance for doubtful accounts and a discount to net present value that is based on the US prime lending rate as established by the Federal Reserve at June 30, 2014.

**Unearned revenue** – Revenues from license agreements with unrelated companies are recognized over the life of the agreement.

**Use of estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Income tax status** – The Foundation is exempt from federal income tax under the Internal Revenue Code ("IRC") Section 501(c)(3).
Note 2 - Summary of significant accounting policies (continued)

Income tax status – continued

It is the Foundation’s policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a “more-likely-than-not” threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified for 2014. Currently, the statute of limitations remains open subsequent to and including 2009; however, no examinations are in process or anticipated.

Net Position – The Foundation’s net assets are classified as follows:

Restricted, expendable net position includes resources that the Foundation is legally or contractually obligated to spend in accordance with restrictions imposed by the City of Wilmington and individual contributors.

Unrestricted net position represents resources derived from sales and services, grants and royalty income. While unrestricted net position may be designated for specific purposes by action of management or the Board; they are available for use at the discretion of the governing board to meet current expenses for any purpose.

Change in accounting principles – The Foundation implemented Governmental Accounting Standards Board Statement No. 65, Items Previously Reported as Assets and Liabilities (“GASB 65”) during the year ended June 30, 2014. GASB 65 provides for separate financial statement elements, Deferred Outflows of Resources and Deferred Inflows of Resources, which represent, respectively, a consumption of net position that applies to a future period and so will not be recognized as an expense until then or an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Foundation has no items that meet these criteria.

Note 3 - Pledges receivable

Pledges receivable and the related allowance for doubtful accounts at June 30, 2014, are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pledges receivable, gross</td>
<td>$120,000</td>
</tr>
<tr>
<td>Present value discount</td>
<td>(14,410)</td>
</tr>
<tr>
<td>Pledges receivable at present value</td>
<td>105,590</td>
</tr>
<tr>
<td>Less: Allowance for doubtful pledges</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td>$ 99,590</td>
</tr>
</tbody>
</table>
Note 4 – Unearned revenue

Changes in unearned revenue for the year ended June 30, 2014, are as follows:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning balance</td>
<td>$ 28,986</td>
</tr>
<tr>
<td>Additions</td>
<td>33,500</td>
</tr>
<tr>
<td>Reductions</td>
<td>(18,594)</td>
</tr>
<tr>
<td>Ending balance</td>
<td>43,892</td>
</tr>
<tr>
<td>Less current</td>
<td>37,018</td>
</tr>
<tr>
<td>Noncurrent</td>
<td>$ 6,874</td>
</tr>
</tbody>
</table>

Note 5 – Risks and uncertainties

All of the Foundation's deposits are collateralized by using the following method: deposits are held within pooled funds of the University (“Pooled Method”). Therefore, uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the University, these deposits are considered to be held by the agent in the entity’s name.

The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Foundation or with the University. Because of the inability to measure the exact amount of collateral pledged for the Foundation under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Foundation has no policy regarding custodial credit risk for deposits.

Note 6 – Commitments

The Foundation is a collaborator in an agreement with an unrelated third party to develop applications and intellectual property. As part of this arrangement, the Foundation has agreed to commit intellectual property, assets, time, personnel, equipment, and funding. In consideration for the Foundation's commitment, the Foundation will receive revenue, an interest in resulting intellectual property and/or technology, and an equity interest if equity securities are issued.
Note 7 - Related party royalty distributions

The University encourages its faculty, staff, and students to pursue and promote the development of patentable inventions and other intellectual property (IP) in the aim of promoting the progress of science and useful arts by utilizing the benefits of the patent system. The Foundation entered into three new multi-year use agreements for licensing of intellectual properties during 2014. Deferred income was recognized in association with these sales.

During 2014, the University and the Foundation entered into a mutual agreement whereby 75% of total sales would be distributed to the UNCW Institute for Interdisciplinary Studies in Identity Sciences (ISIS). The remaining 25% will be retained by the Foundation. During the year ended June 30, 2014, royalties distributed to ISIS totaled $83,625, representing 75% of sales to date. $51,079 of the distribution was recognized as current expense and $32,546 constitutes prepaid royalties for the remaining term of the license agreements.

Note 8 - Donated services

Higher level positions, for which the Foundation would otherwise be required to pay in order to maintain the quality of its program, have been provided to the Foundation by employees of the University of North Carolina at Wilmington. During 2014, $34,333 of donated services was recognized as revenue and expense in these financial statements.
### Combining Statement of Net Position

<table>
<thead>
<tr>
<th></th>
<th>UNCW Research Foundation</th>
<th>UNCW Corporation Research I, LLC</th>
<th>MARBIONC Development Group, LLC</th>
<th>The CREST Millennial Campus, LLC</th>
<th>UNCW Entrepreneurship Center, LLC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 50,532</td>
<td>$ 2,436</td>
<td>$ 61,885</td>
<td>$ (400)</td>
<td>$ 42,117</td>
<td>$ 156,572</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>75,267</td>
<td></td>
<td>14,000</td>
<td></td>
<td></td>
<td>89,267</td>
</tr>
<tr>
<td>Pledges receivable - noncurrent</td>
<td>-</td>
<td></td>
<td>-</td>
<td>-</td>
<td>99,590</td>
<td>99,590</td>
</tr>
<tr>
<td>Prepaids</td>
<td>32,546</td>
<td></td>
<td>-</td>
<td>-</td>
<td></td>
<td>32,546</td>
</tr>
<tr>
<td>Total assets</td>
<td>158,345</td>
<td>2,436</td>
<td>75,885</td>
<td>(400)</td>
<td>141,706</td>
<td>377,975</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits payable</td>
<td>2,300</td>
<td></td>
<td></td>
<td>-</td>
<td></td>
<td>2,300</td>
</tr>
<tr>
<td>Accrued liabilities</td>
<td>3,500</td>
<td></td>
<td></td>
<td>-</td>
<td></td>
<td>3,500</td>
</tr>
<tr>
<td>Unearned revenue - current</td>
<td>37,018</td>
<td></td>
<td></td>
<td>-</td>
<td></td>
<td>37,018</td>
</tr>
<tr>
<td>Unearned revenue - noncurrent</td>
<td>6,874</td>
<td></td>
<td></td>
<td>-</td>
<td></td>
<td>6,874</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>49,692</td>
<td></td>
<td></td>
<td>-</td>
<td></td>
<td>49,692</td>
</tr>
<tr>
<td><strong>Net position</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>38,653</td>
<td>2,436</td>
<td>75,885</td>
<td>(400)</td>
<td>141,136</td>
<td>257,713</td>
</tr>
<tr>
<td>Restricted as to use</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expendable - research</td>
<td>70,000</td>
<td></td>
<td></td>
<td>-</td>
<td>570</td>
<td>70,570</td>
</tr>
<tr>
<td>Net position</td>
<td>$ 108,653</td>
<td>$ 2,436</td>
<td>$ 75,885</td>
<td>$ (400)</td>
<td>$ 141,706</td>
<td>$ 328,283</td>
</tr>
</tbody>
</table>
## Combining Statement of Activities and Changes in Net Position

<table>
<thead>
<tr>
<th></th>
<th>UNCW Research Foundation</th>
<th>UNCW Corporation Research I, LLC</th>
<th>MARBIONC Development Group, LLC</th>
<th>The CREST Millenial Campus, LLC</th>
<th>UNCW Entrepreneurship Center, LLC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cellular revenue</td>
<td>$ -</td>
<td>$ 42,000</td>
<td>$ -</td>
<td>$ -</td>
<td>-</td>
<td>$ 42,000</td>
</tr>
<tr>
<td>Charges for services</td>
<td>24,794</td>
<td>-</td>
<td>79,321</td>
<td>-</td>
<td>-</td>
<td>104,115</td>
</tr>
<tr>
<td>Contributions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>26,733</td>
<td>26,733</td>
</tr>
<tr>
<td>Miscellaneous revenue</td>
<td>279,430</td>
<td>1,489</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>280,918</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$ 304,224</td>
<td>$ 43,489</td>
<td>$ 79,321</td>
<td>$ -</td>
<td>$ 26,733</td>
<td>$ 453,765</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracted services</td>
<td>930</td>
<td>1,105</td>
<td>2,179</td>
<td>200</td>
<td>30,776</td>
<td>35,190</td>
</tr>
<tr>
<td>Cellular expenses</td>
<td>-</td>
<td>42,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>42,000</td>
</tr>
<tr>
<td>Cost of services</td>
<td>-</td>
<td>-</td>
<td>39,485</td>
<td>-</td>
<td>-</td>
<td>39,485</td>
</tr>
<tr>
<td>Other expenses</td>
<td>240,545</td>
<td>113</td>
<td>20,243</td>
<td>-</td>
<td>5,843</td>
<td>266,743</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>241,475</td>
<td>43,218</td>
<td>61,907</td>
<td>200</td>
<td>36,619</td>
<td>383,420</td>
</tr>
<tr>
<td>Change in net position</td>
<td>62,749</td>
<td>271</td>
<td>17,413</td>
<td>(200)</td>
<td>(9,887)</td>
<td>70,345</td>
</tr>
<tr>
<td>Net position, beginning of year</td>
<td>45,906</td>
<td>2,165</td>
<td>58,472</td>
<td>(200)</td>
<td>151,592</td>
<td>257,938</td>
</tr>
<tr>
<td><strong>Net position, end of year</strong></td>
<td>$ 108,655</td>
<td>$ 2,436</td>
<td>$ 75,885</td>
<td>$ (400)</td>
<td>$ 141,706</td>
<td>$ 328,283</td>
</tr>
</tbody>
</table>
This audit required approximately 85 hours to complete at a cost of $3,650.
To the Board of Directors
UNCW Research Foundation
Wilmington, North Carolina

This letter is intended to inform the Board of Directors of UNCW Research Foundation (the “Foundation”) about significant matters related to the conduct of the annual audit so that it can appropriately discharge its oversight responsibility, and that we comply with our professional responsibilities to the Board of Directors.

In addition to our report on your financial statements dated September 16, 2014, we have issued a communication required under Statement on Auditing Standards AU-C 265, Communicating Internal Control Related Matters Identified in an Audit. This Statement establishes standards and provides guidance on the auditor’s responsibilities for identifying, evaluating, and communicating matters related to an entity’s internal control over financial reporting identified in an audit of the financial statements.

The following summarizes various matters which must be communicated to you under auditing standards generally accepted in the United States of America.

**Our responsibilities under U.S. Generally Accepted Auditing Standards (GAAS)**

As stated in our engagement letter dated March 29, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Foundation. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Foundation’s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Management Judgments and Accounting Estimate**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Foundation are described in Note 2 to the financial statements. As described in Note 2 to the financial statements, the Foundation implemented Statement of Governmental Accounting Standards (GASB Statement) No. 65, *Items Previously Reported as Assets and Liabilities*, in 2014.
Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

**Corrected misstatements - audit adjustments**

Professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Foundation’s financial reporting process (that is, cause future financial statements to be materially misstated).

There was one (1) audit adjustment made to the original trial balance presented to us to begin our audit. The audit adjustment for the year ended June 30, 2014 is enclosed with this letter.

**Uncorrected misstatements – passed audit adjustments**

There were no passed audit adjustments for the year ended June 30, 2014.

**Accounting Policies and Alternative Treatments**

The Board of Directors has the ultimate responsibility for the appropriateness of the accounting policies used by the Foundation. Note 2 to the financial statements of the Foundation contain a summary of significant accounting policies.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

**Other Information in Documents Containing Audited Financial Statements**

We are not aware of any other documents that contain the audited financial statements. If such documents were to be published, we would have a responsibility to determine that such financial information was not materially inconsistent with the audited financial statements of the Foundation.
Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the consolidated financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

Independence

We are familiar with Rule 101 of the AICPA’s Code of Conduct and its interpretations and rulings. Our Firm has been, for the year covered by the financial statements under report and thereafter to date, independent as contemplated by such Rule.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 16, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Foundation’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the Foundation’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.
Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to be of service to the UNCW Research Foundation.

* * * * * * *

This report is intended solely for the information and use of the Board of Directors and management of the Foundation and is not intended to be and should not be used by anyone other than these specified parties.


Durham, North Carolina
September 16, 2014

Attachments

1. One (1) audit adjustment for the year ended June 30, 2014
To the Board of Directors  
UNCW Research Foundation  
Wilmington, North Carolina  

In planning and performing our audit of the financial statements of the UNCW Research Foundation (the “Foundation”) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Foundation’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph 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.

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 entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

***************

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Foundation and is not intended to be and should not be used by anyone other than these specified parties.

Thomas Gibbs, CPA  
Durham, North Carolina  
September 16, 2014