



SCRA

Consolidated Financial Statements and Required Supplementary Information Years Ended June 30, 2018 and 2017

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.



SCRA

Consolidated Financial Statements and
Required Supplementary Information
Years Ended June 30, 2018 and 2017

SCRA
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Independent Auditor's Report

The Board of Trustees
SCRA
Columbia, South Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of SCRA and its discretely presented component unit and the fiduciary statements, as of and for the years ended June 30, 2018 and 2017, and the related notes to the consolidated financial statements, which collectively comprise SCRA's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 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 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 respective financial position of SCRA and its discretely presented component unit as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance 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 and the schedule of funding progress on pages 5 through 13 and 37, respectively, be presented to supplement the consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the consolidated 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.

BDO USA, LLP

September 13, 2018

SCRA

Management's Discussion and Analysis (Unaudited)

This section of SCRA's financial statements presents management's discussion and analysis of SCRA's financial performance for the years ended June 30, 2018 and 2017. Please read it in conjunction with the consolidated financial statements and accompanying notes, which follow this section.

Financial Summary

Fiscal year 2018 was SCRA's first full fiscal year after selling its ownership in Advanced Technology International ("ATI"), and the resulting financial performance by SCRA was consistent with Board and management expectations. Because the sale of ATI by SCRA occurred during fiscal 2017, year-over-year comparisons of fiscal 2018 to prior year often have limited value.

With the sale of ATI, SCRA relies on rents, contributions to the Industry Partnership Fund (currently capped at \$6 million annually), reserves and to a lesser extent on net contract revenue for funding. These revenues are expended on grants consistent with SCRA's mission and on the infrastructure of talent, facilities and related expenses required to execute its mission. For fiscal 2018, SCRA had operating and non-operating deficits of \$2.3 million and \$2.5 million, respectively, which together caused a 6% decrease in net position as of June 30, 2018. SCRA annual revenues and the change in net position for the last two fiscal years are summarized below:

Fiscal Year 2018

- Operating revenues of \$11.5 million
- Net position decreased by 6%

Fiscal Year 2017

- Operating revenues of \$282.1 million
- Net position increased by 14%

Overview of the Consolidated Financial Statements

The consolidated financial statements are in two parts: required supplementary information consisting of Management's Discussion and Analysis (unaudited) (this section) and the consolidated financial statements. The latter also include notes that explain in more detail certain information in the consolidated financial statements.

Consolidated Financial Statements

SCRA uses accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The consolidated balance sheet includes all of SCRA's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to SCRA's creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and long-term assets and liabilities. These statements also provide the basis for computing rates of return, evaluating the capital structure of SCRA and assessing the liquidity and financial flexibility of SCRA.

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Management's Discussion and Analysis (Unaudited)

All current year revenues and expenses are accounted for in the consolidated statement of revenues, expenses and changes in net position. This statement measures the performance of SCRA's operations over the past year. The final required statement of the consolidated financial statements is the consolidated statement of cash flows. The primary purpose of this statement is to provide information about SCRA's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, capital and related financing, and non-capital financing activities and information concerning sources and uses of cash.

The following is a summary of SCRA's financial position and results of operations for the years ended June 30, 2018 and 2017. All amounts included within tables are expressed in thousands throughout management's discussion and analysis.

Financial Analysis for Fiscal Year 2018 Compared to Fiscal Year 2017

Table A-1

Condensed Consolidated Balance Sheets of SCRA

<i>June 30,</i>	2018	2017	(Decrease) Increase
Current assets	\$ 12,375	\$ 31,116	\$ (18,741)
Capital assets, net	33,944	35,232	(1,288)
Other long-term assets	39,162	27,000	12,162
Total assets	\$ 85,481	\$ 93,348	\$ (7,866)
Current liabilities	\$ 2,102	\$ 3,641	\$ (1,539)
Long-term liabilities	14,291	15,857	(1,566)
Total liabilities	16,393	19,498	(3,105)
Net investment in capital assets	18,745	18,570	175
Unrestricted	44,845	45,302	(457)
Restricted	5,498	9,978	(4,480)
Total net position	\$ 69,088	\$ 73,850	\$ (4,762)

The decrease in current assets of \$18.7 million was due to a \$10.7 million decline in cash and a \$9.7 decrease in short-term investments, partially offset by higher accounts receivable. The funds were redeployed into longer-term, higher yielding investments (\$12.1 million) and used to paydown current liabilities (\$1.5 million) and long-term debt (\$1.6 million). The remaining difference stems from the 2018 net deficit of \$4.8 million, offset in part by a reduction in net capital assets of \$1.3 million.

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Management's Discussion and Analysis (Unaudited)

Table A-2

<i>June 30,</i>	2017	2016	(Decrease) Increase
Current assets	\$ 31,116	\$ 193,576	\$ (162,460)
Capital assets, net	35,232	37,504	(2,272)
Other long-term assets	27,000	23,424	3,576
Total assets	\$ 93,348	\$ 254,504	\$ (161,154)
Current liabilities	\$ 3,640	\$ 176,955	\$ (173,315)
Long-term liabilities	15,858	13,008	2,850
Total liabilities	19,498	189,963	(170,465)
Net investment in capital assets	18,570	18,879	(309)
Unrestricted	45,302	38,635	6,667
Restricted	9,978	7,027	2,951
Total net position	\$ 73,850	\$ 64,541	\$ 9,309

The decrease in current assets of \$162.5 million resulted primarily from decreases in restricted cash of \$97.1 million, operating cash of \$25.0 million and accounts receivable of \$53.8 million offset by increases in short-term investments of \$13.7 million. The \$2.3 million decrease in net capital assets results primarily from decreases in net building assets. Increases in other long-term assets resulted from a \$3.6 million increase in long-term investments.

The decrease in current liabilities of \$173.3 million resulted primarily from decreases in accounts payable of \$67.8 million, decreases in unearned revenues of \$99.9 million and decreases in current portion of notes payable of \$4.7 million. The increase in long-term liabilities results primarily from increases in the long-term portion of notes payable of \$2.7 million.

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Management's Discussion and Analysis (Unaudited)

Table A-3

Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Position of SCRA

<i>Year ended June 30,</i>	2018	2017	(Decrease) Increase
Operating revenues	\$ 11,475	\$ 282,105	\$ (270,630)
Operating expenses:			
Directly identifiable contract costs	1,329	261,582	(260,263)
Salaries, wages and other related costs	4,196	8,904	(4,708)
Other expenses	8,222	12,532	(4,310)
Total operating expenses	13,747	283,018	(269,271)
Operating deficit	(2,272)	(913)	(1,359)
Non-operating activity	(2,490)	10,222	(12,712)
Change in net position	(4,762)	9,309	(14,072)
Beginning net position	73,850	64,541	9,309
Ending net position	\$ 69,088	\$ 73,850	\$ (4,762)

Operating revenues decreased by \$270.6 million because of \$270.0 million less in contract revenues (impact of the sale of ATI by SCRA) and a \$0.6 million decline in rental revenues due to the correction of rental accounts receivable. Directly identifiable contract costs fell in a manner commensurate with the change in contract revenues. Salaries and related costs and other expenses declined because of the ATI sale. Non-operating activity for fiscal 2018 represented transfers to SC Launch while the fiscal 2017 non-operating surplus was driven by transactions related to the ATI sale.

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Management's Discussion and Analysis (Unaudited)

Table A-4

<i>Year ended June 30,</i>	2017	2016	(Decrease) Increase
Operating revenues	\$ 282,105	\$ 433,742	\$ (151,637)
Operating expenses:			
Directly identifiable contract costs	261,582	409,197	(147,615)
Directly identifiable property costs	-	8	(8)
Salaries, wages and other related costs	8,904	11,586	(2,682)
Other expenses	12,532	9,524	3,008
Total operating expenses	283,018	430,315	(147,297)
Operating (loss) income	(913)	3,427	(4,340)
Non-operating activity	10,222	(2,112)	12,334
Change in net position	9,309	1,315	7,994
Beginning net position	64,541	63,226	1,315
Ending net position	\$ 73,850	\$ 64,541	\$ 9,309

Operating revenues decreased by \$151.6 million, or 35%, primarily as a result of contract revenues decreasing by \$152.6 million offset by an increase in rental revenue of \$1.4 million. Decreases in contract revenues resulted in a corresponding 36% decrease in directly identifiable contract costs. Non-operating activity includes contributions made to component unit SC Launch!, Inc. of \$2.6 million, a gain on debt forgiveness of \$1.2 million related to existing financing terms on the SCRA USC Innovation Center at Columbia, contributions made by Advanced Technology International ("ATI") to component unit SC Launch of \$6.8 million, as well as the gain on the sale of affiliate ATI of \$18.5 million.

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Management's Discussion and Analysis (Unaudited)

Table A-5

Capital Assets

<i>June 30,</i>	2018	2017
Land and land development costs	\$ 7,174	\$ 7,174
Building	34,964	34,501
Furniture, fixtures and office equipment	5,908	5,908
Total capital assets	48,046	47,583
Accumulated depreciation	(14,102)	(12,351)
Capital assets, net	\$ 33,944	\$ 35,232

SCRA had \$463,000 in capital expenditures ("cap-ex") during fiscal 2018, compared to \$388,000 in fiscal 2017. All fiscal 2018 cap-ex related to buildings; 95% of the previous year's cap-ex was in buildings. Depreciation was approximately \$1,750,000 and \$1,824,000 for fiscal 2018 and fiscal 2017, respectively.

Capital assets at the end of fiscal year 2018 include the Advanced Technologies Center (ATC) in Summerville, SC, the SCRA MUSC Innovation Center at Charleston, the SCRA USC Innovation Center at Columbia, and the SCRA Building in the Duke Energy Innovation Center at Anderson.

For more detail information regarding SCRA's capital assets, please refer to the notes to the consolidated financial statements.

Table A-6

Capital Assets

<i>June 30,</i>	2017	2016
Land and land development costs	\$ 7,174	\$ 7,174
Building	34,501	34,758
Furniture, fixtures and office equipment	5,908	7,746
Total capital assets	47,583	49,678
Accumulated depreciation	(12,351)	(12,174)
Capital assets, net	\$ 35,232	\$ 37,504

Capital assets locations at the end of fiscal year 2017 and 2018 fiscal year end were identical.

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Management's Discussion and Analysis (Unaudited)

SC Launch!, Inc.

Pursuant to a 2005 amendment to SCRA's enabling legislation, SCRA established an affiliated organization that is co-governed with the Clemson University Research Foundation, the Medical University of South Carolina Foundation for Research Development, and the South Carolina Research Foundation to carry out the objectives of the SC Research Innovation Centers. This entity, SC Launch!, Inc. ("SC Launch"), is a private non-profit entity not controlled by SCRA, although SCRA has board participation through three appointees. SC Launch's bylaws indicate that it is a corporation organized and operated to promote and support activities which are solely for the benefit of, to perform functions of, or to carry out the purposes of SCRA.

SC Launch commenced operations during fiscal year 2006. The following is a summary of its financial position and results of operations as of and for the periods ended June 30, 2018, 2017 and 2016.

Table A-7

Condensed Consolidated Balance Sheets of SC Launch

<i>June 30,</i>	2018	2017	Increase (Decrease)
Current assets	\$ 3,383	\$ 1,794	\$ 1,589
Other long-term assets	5,583	22,887	(17,304)
Total assets	8,966	24,681	(15,715)
Total net position - restricted	\$ 8,966	\$ 24,681	\$ (15,715)

Current assets at June 30, 2018 consist of approximately \$0.8 million in cash, \$1.5 million in a money market account, \$1.0 million in short-term marketable securities and the current portion of notes receivable. SC Launch receives contributions from SCRA to be used in the execution of aspects of the Launch program, which has been established to carry out the objectives outlined in the Innovation Centers Act (2005) and the Industry Partners Amendment (2006), passed by the South Carolina General Assembly. The program initiatives are carried out jointly by SCRA and SC Launch, and responsibilities for each entity are defined in an agreement between the parties. In addition, SC Launch realized gains in the form of cash returns of approximately \$383,000 in 2018. Other long-term assets include \$2.5 million of investments in fixed income and equity securities that are publicly traded. At June 30, 2018 this portfolio had approximately \$9,000 in unrecognized gains. Additional long-term investments are held by SC Launch, which take the legal form of debt or equity and for which a nominal value is recorded on the balance sheet. These assets are further described in Note 1 of the consolidated financial statements, under the section entitled "SC Launch Investments." Other long-term assets also include investments held by Stage 2 Capital Associates, LLC ("Stage 2"), a single-member limited liability company of SC Launch.

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Management's Discussion and Analysis (Unaudited)

Table A-8

Condensed Consolidated Balance Sheets of SC Launch

<i>June 30,</i>	2017	2016	(Decrease) Increase
Current assets	\$ 1,794	\$ 1,795	\$ (1)
Other long-term assets	22,887	2,002	20,885
Total assets	24,681	3,797	20,884
Current liabilities	-	3	(3)
Total net position - restricted	\$ 24,681	\$ 3,794	\$ 20,887

Current assets for fiscal year 2017 represent cash on deposit at year end and the current portion of notes receivable. SC Launch receives contributions from SCRA to be used in the execution of aspects of its program. In addition, SC Launch realized gains in the form of cash returns in the amount of \$100,000 in 2017. Other long-term assets include investments made by SC Launch, which take the legal form of debt or equity and for which a nominal value is recorded on the balance sheet. These assets are further described in Note 1 of the consolidated financial statements, under the section entitled "SC Launch Investments." Other long-term assets also include investments held by Stage 2 Capital Associates, LLC ("Stage 2"), a single-member limited liability company of SC Launch. During fiscal year 2017, SC Launch and ATI executed a Change of Control Agreement to transfer the Stage 2 entity to SC Launch control. For the year ended June 30, 2017, SC Launch recognized unrealized gains in these investments in the amount of \$14.2 million which, along with the transfer from ATI, accounts for the increase in other long-term assets.

Table A-9

Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Position of SC Launch

<i>Year ended June 30,</i>	2018	2017	Increase (Decrease)
Operating loss	\$ (2,740)	\$ (2,878)	\$ 138
Interest income and unrealized gains on investments	(15,465)	14,322	(29,787)
Contributions from SCRA	2,490	2,600	(110)
Contributions from ATI	-	6,843	(6,843)
(Decrease) increase in net position	(15,715)	20,887	(36,602)
Net position, beginning of year	24,681	3,794	20,887
Net position, end of year	\$ 8,966	\$ 24,681	\$ (15,715)

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Management's Discussion and Analysis (Unaudited)

SC Launch invests in two ways: (1) Investments in start-up companies ("portfolio investments"); and (2) Investments in publicly-traded issues using returns harvested from portfolio investments. Investment returns from portfolio investments are accounted for as operating revenue. Contributions are made to SC Launch by SCRA in accordance with agreements between the parties and the annual operating plans for the entities. A one-time contribution was made in fiscal 2017 by ATI to SC Launch in accordance with the Change of Control Agreement for Stage 2. Changes in net position are a result of the timing of contributions from SCRA and expenses incurred in the execution of program objectives and by gains recognized on investments (as further discussed in Table A-8).

Table A-10

Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Position of SC Launch

<i>Year ended June 30,</i>	<i>2017</i>	<i>2016</i>	<i>(Decrease) Increase</i>
Operating loss	\$ (2,878)	\$ (1,481)	\$ (1,397)
Interest income and gain (loss) on investments	14,322	(1,501)	15,823
Contributions from SCRA	2,600	2,080	520
Contributions from ATI	6,843	-	6,843
Increase (decrease) in net position	20,887	(902)	21,789
Net position, beginning of year	3,794	4,696	(902)
Net position, end of year	\$ 24,681	\$ 3,794	\$ 20,887

Future Outlook

The Board of Trustees and management are sanguine about the future of SCRA. SCRA's current financial position is expected to provide the organization resources for grants in the case of SCRA and investments in the case of SC Launch that have the potential to have a significant positive economic impact on South Carolina.

Requests for Information

This financial report is designed to provide a general overview of SCRA's finances for all those with an interest in SCRA's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to SCRA at the following address:

SCRA
Attn: Director of Finance and Administration
1000 Catawba Street
Columbia, SC 29201

Consolidated Financial Statements

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Consolidated Balance Sheets

June 30,	2018		2017	
	SCRA	SC Launch!, Inc. Component Unit	SCRA	SC Launch!, Inc. Component Unit
Assets				
Current Assets				
Cash and cash equivalents (Note 1)	\$ 256,080	\$ 758,698	\$ 10,972,252	\$ 1,672,394
Accounts receivable, net	2,900,908	-	2,143,557	-
Current portion of notes receivable	-	121,526	-	121,526
Short-term investments	5,926,401	2,502,861	15,591,196	-
Prepaid expenses	289,442	-	304,188	-
Industry Partnership Fund contributions receivable	3,050,770	-	2,104,650	-
Total Current Assets	12,423,601	3,383,085	31,115,843	1,793,920
Investments				
Long-term marketable securities, at fair value (Note 1)	39,113,520	2,512,569	26,999,732	3,924,865
Other investments, at lower of cost or net realizable value	-	2,898,297	-	18,395,155
Total investments	39,113,520	5,410,866	26,999,732	22,320,020
Notes receivable, less current portion	-	171,783	-	567,123
Capital Assets				
Applied Technologies Center	14,455,579	-	14,455,579	-
Innovation Centers	20,508,411	-	20,045,898	-
Land and land development costs	7,174,320	-	7,174,320	-
Furniture, fixtures and office equipment	5,907,801	-	5,907,801	-
Total capital assets	48,046,111	-	47,583,598	-
Accumulated depreciation	(14,101,675)	-	(12,351,491)	-
Net capital assets	33,944,436	-	35,232,107	-
Total Assets	\$ 85,481,557	\$ 8,965,734	\$ 93,347,682	\$ 24,681,063
Liabilities				
Current Liabilities				
Accounts payable	348,711	-	1,632,472	-
Accrued expenses	185,955	-	171,914	-
Unearned revenue	657,654	-	913,582	-
Current portion of notes payable	909,773	-	922,523	-
Total Current Liabilities	2,102,093	-	3,640,491	-
Unearned compensation	1,463	-	1,484	-
Accrual for Other Post Employment Benefits	-	-	116,000	-
Notes payable, less current portion	14,289,854	-	15,739,904	-
Total Liabilities	16,393,410	-	19,497,879	-
Net Position				
Net investment in capital assets	18,744,809	-	18,569,680	-
Unrestricted	44,845,602	-	45,302,005	-
Restricted - Industry Partnership Fund	5,497,736	8,965,734	9,978,118	24,681,063
Total Net Position	\$ 69,088,147	\$ 8,965,734	\$ 73,849,803	\$ 24,681,063

See accompanying notes to consolidated financial statements.

SCRA

Consolidated Statements of Revenues, Expenses and Changes in Net Position

<i>Year ended June 30,</i>	2018		2017	
	SCRA	SC Launch!, Inc. Component Unit	SCRA	SC Launch!, Inc. Component Unit
Operating Revenues				
Contract revenues	\$ 2,251,003	\$ -	\$ 272,361,128	\$ -
Rental revenues	3,092,253	-	3,664,962	-
Contributions received	6,000,000	-	6,000,000	-
Realized gains on portfolio investments	-	383,227	-	-
Other revenues	132,227	-	78,840	-
Total Operating Revenues	11,475,483	383,227	282,104,930	-
Operating Expenses				
Directly identifiable contract costs	1,329,169	-	261,034,823	-
Salaries, wages and other related costs	4,196,038	-	9,451,080	-
Professional services	350,775	172,136	3,239,707	117,606
Facility and research park operating costs	1,358,681	-	1,766,555	-
Rents and leases	109,750	-	874,244	-
Travel and relocation costs	198,838	-	419,438	-
General and administrative	2,080,716	14,084	2,293,226	11,963
Interest	368,190	-	443,388	-
Depreciation	1,750,184	-	2,001,759	-
Amortization	18,633	-	53,251	-
Non-marketable securities	-	2,936,795	-	2,748,900
Grants	1,986,240	-	1,440,861	-
Total Operating Expenses	13,747,214	3,123,015	283,018,332	2,878,469
Operating Loss	(2,271,730)	(2,739,788)	(913,402)	(2,878,469)
Non-operating Activities				
Interest income	813,662	14,429	356,026	-
Unrealized (loss) gain on marketable securities	(1,403,357)	8,769	(416,692)	-
Unrealized (loss) gain on non-marketable investments	-	(15,488,739)	-	14,321,939
Gain on sale of Advanced Technology International, Inc.	-	-	18,513,150	-
Contributions to SC Launch!, Inc.	(2,490,000)	2,490,000	(2,600,000)	2,600,000
Contributions from Advanced Technology International, Inc.	-	-	(6,843,148)	6,843,148
Contributions from Stage 2 Capital Associates LLC	589,770	-	-	-
Gain on debt forgiveness	-	-	1,213,816	-
Other expense	-	-	(615)	-
Total Non-operating Activities	(2,489,925)	(12,975,541)	10,222,537	23,765,087
(Decrease) Increase in Net Position	(4,761,655)	(15,715,329)	9,309,135	20,886,618
Net Position, beginning of year	73,849,803	24,681,063	64,540,668	3,794,445
Net Position, end of year	\$ 69,088,148	\$ 8,965,734	\$ 73,849,803	\$ 24,681,063

See accompanying notes to consolidated financial statements.

SCRA

Consolidated Statements of Cash Flows

Year ended June 30,	2018		2017	
	SCRA	SC Launch!, Inc. Component Unit	SCRA	SC Launch!, Inc. Component Unit
Operating Activities				
Cash received from customers	\$ 1,493,653	\$ -	\$ 254,727,579	\$ -
Realized gains on portfolio investments	-	383,227	-	-
Cash received from tenants	3,224,480	-	3,743,802	-
Change in unearned revenue	(255,928)	-	6,541,467	-
Contributions received	5,053,880	-	6,120,320	-
Cash paid to suppliers	(2,614,594)	(186,220)	(255,892,477)	(132,767)
Cash paid to employees and other	(8,767,193)	-	(19,524,134)	-
Cash paid for non-marketable investments	-	(2,936,795)	-	(2,750,000)
Grants made	(1,986,240)	-	(1,440,861)	-
Net cash used in operating activities	(3,851,942)	(2,739,788)	(5,724,304)	(2,882,767)
Investing Activities				
Proceeds from the sale of investments, net	5,643,393	4,337,092	332,000	-
Purchases of marketable securities	(8,092,386)	(5,001,000)	(24,490,593)	-
Net cash transfer upon sale of ATI	-	-	(88,650,776)	-
Interest income	813,662	-	-	-
(Loss) gain on investments	(1,403,357)	-	-	159,791
Contributions from Stage 2 Capital Associates LLC	589,770	-	-	-
Net cash (used in) provided by investing activities	(2,448,918)	(663,908)	(112,809,369)	159,791
Capital and Related Financing Activities				
Payments on notes payable	(1,462,800)	-	(748,757)	-
Purchases of capital assets, net	(462,512)	-	(387,911)	-
Proceeds on disposal of capital assets	-	-	134,111	-
Net cash used in capital and related financing activities	(1,925,312)	-	(1,002,557)	-
Non-Capital Financing Activities				
Contributions made to SC Launch!	(2,490,000)	2,490,000	(2,600,000)	2,600,000
Net cash (used in) provided by non-capital financing activities	(2,490,000)	2,490,000	(2,600,000)	2,600,000
Decrease in Cash and Cash Equivalents	(10,716,172)	(913,696)	(122,136,230)	(122,976)
Cash and Cash Equivalents, beginning of year	10,972,252	1,672,394	133,108,482	1,795,370
Cash and Cash Equivalents, end of year	\$ 256,080	\$ 758,698	\$ 10,972,252	\$ 1,672,394
Reconciliation of Operating Loss to Net Cash Used in Operating Activities				
Operating loss	\$ (2,271,730)	\$ (2,739,788)	\$ (913,402)	\$ (2,878,469)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities				
Amortization	18,633	-	53,251	-
Depreciation	1,750,184	-	2,001,759	-
Changes in operating assets and liabilities:				
Accounts receivable	(757,351)	-	(17,633,549)	-
Investments and other assets	-	-	-	(1,100)
Prepaid expenses	(3,888)	-	(94,108)	-
Industry Partnership Fund contributions receivable	(946,120)	-	120,320	-
Accounts payable	(1,283,761)	-	4,248,579	(3,198)
Unearned revenue	(255,928)	-	6,541,467	-
Accrual for OPEB	(116,000)	-	116,000	-
Accrued expenses and unearned compensation	14,020	-	(164,621)	-
Net Cash Used in Operating Activities	\$ (3,851,941)	\$ (2,739,788)	\$ (5,724,304)	\$ (2,882,767)
Supplemental Schedule of Noncash Investing and Financing Activities				
Contribution of investments from ATI to SC Launch	\$ -	\$ -	\$ -	\$ 6,843,148
Gain on debt forgiveness	\$ -	\$ -	\$ 1,213,816.00	\$ -

See accompanying notes to consolidated financial statements.

SCRA

Statements of Fiduciary Net Position

<i>June 30,</i>	2018	2017
	OPEB Trust Fund	OPEB Trust Fund
Assets		
Investments		
Money market	\$ 15,675	\$ 266,998
Government bonds	2,031,870	1,690,255
Total Assets	\$ 2,047,545	\$ 1,957,253
Net Position		
Held in Trust for OPEB	\$ 2,047,545	\$ 1,957,253
Total Net Position	\$ 2,047,545	\$ 1,957,253

See accompanying notes to consolidated financial statements.

SCRA

Statements of Changes in Fiduciary Net Position

<i>Year Ended June 30,</i>	2018	2017
	OPEB Trust Fund	OPEB Trust Fund
Contributions		
Employer	\$ 217,138	\$ -
Total Contributions	217,138	-
Investment Income		
Interest income and loss on investments, net	(24,712)	(4,791)
Net Investment Loss	(24,712)	(4,791)
Less investment expense	(996)	(9,381)
Net (Loss) Gain from Investing Activities	(25,708)	(14,172)
Total Additions	191,430	-
Total Deductions	(101,138)	(14,172)
Increase (decrease) in Net Position	90,292	(14,172)
Net position, beginning of year	1,957,253	1,971,425
Net position, end of year	\$ 2,047,545	\$ 1,957,253

See accompanying notes to consolidated financial statements.

SCRA

Notes to Consolidated Financial Statements

1. Description of Activities and Significant Accounting Policies

SCRA is a South Carolina public nonprofit corporation that was established on April 29, 1983 by an act of the South Carolina General Assembly (enabling legislation). SCRA is governed by an Executive Committee of the Board of Trustees composed of nine members, supported by a Board of Trustees composed of 24 members, including the Executive Committee. SCRA's enabling legislation was most recently amended in 2012.

SCRA is presently engaged in three principal activities: providing grants to support a statewide system of research and commercialization of technology-based innovations; managing technology centers around the state that support innovation while producing revenue for SCRA; and providing funding to SC Launch!, Inc. ("SC Launch") for its investment in firms with the goal of supporting technology-enabled growth.

Pursuant to a 2005 amendment to SCRA's enabling legislation (the 2005 amendment), SCRA established SC Launch as an affiliated organization. SC Launch is a private nonprofit entity not controlled by SCRA, although SCRA has minority board participation through three appointees to the seven member SC Launch board. SC Launch's bylaws provide for three board member appointments to be made individually by (1) the Clemson University Research Foundation, (2) the Medical University of South Carolina Foundation for Research Development, and (3) the South Carolina Research Foundation (the "state's three research university foundations"). In addition, the three board members appointed by the state's three research university foundations elect a seventh member to the board of directors. Accordingly, SCRA appoints a minority of the board members.

In 2006, the South Carolina legislature passed legislation (Industry Partners Amendment) which further amended SCRA's enabling legislation and allows SCRA to provide certification to individual taxpayers who make qualified contributions to the Industry Partnership Fund ("IPF"). Contributors can use the certification to claim a South Carolina state tax credit. Individual contributors can make qualified contributions up to a maximum of \$2,000,000, with aggregate qualified contributions capped at \$6,000,000 for each tax year.

In accordance with a funding agreement between SCRA and SC Launch, SCRA provides services and supplemental funding as required by SC Launch for its ongoing operations.

Under governmental accounting standards, a component unit is a legally separate organization for which the nature and significance of its relationship with a primary government unit is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. SC Launch is considered to be a component unit of SCRA. SCRA is considered to be a primary government for financial reporting purposes because it has a separate governing board of directors, is legally separate, and is fiscally independent of any other state or local governments. SC Launch is considered to be a component unit of SCRA because it is fiscally dependent on SCRA and its bylaws indicate that it shall operate exclusively and solely for the benefit of SCRA. In fiscal year 2018, SC Launch received approximately 86% of its funding from SCRA with the remaining balance of its funding coming from returns on investment

SCRA

Notes to Consolidated Financial Statements

Basis of Accounting

SCRA and SC Launch account for their activity in accordance with proprietary enterprise fund accounting guidelines. The consolidated financial statements of SCRA include the accounts of SCRA and its controlled affiliates ATI (previously known as Advanced Technology Institute) through January 31, 2017 and Technology Management Company (“TMC”). All significant intercompany balances and transactions have been eliminated in consolidation. SC Launch is considered a discretely presented component unit of SCRA under Governmental Accounting Standards Board (“GASB”) guidelines.

The financial statements of the OPEB Trust Fund have been prepared on the accrual basis of accounting. The OPEB Trust Fund does not issue separate financial statements.

Concentrations of Credit Risk

SCRA’s financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and accounts receivable from contracts.

SCRA’s cash and cash equivalents and investments are in securities placed with financial institutions. SCRA’s statutory language limits its exposure to concentrations of credit risk. See the Investments section of this note for a description of the types of investments held by SCRA as of June 30, 2018 and 2017.

SCRA’s accounts receivable result from tenant leases and pass-through contracts. SCRA provides credit to customers in the normal course of business and performs ongoing credit evaluations on certain customers’ financial condition, but generally does not require collateral to support such receivables.

SC Launch’s exposure to concentrations of credit risk consists primarily of investments in non-publicly traded technology-based firms.

Risk Management

SCRA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; injuries to employees; and natural disasters. SCRA carries commercial insurance for these risks of loss, including but not limited to employment practices, cyber and general liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ significantly from those estimates.

SCRA

Notes to Consolidated Financial Statements

Operating and Nonoperating Activities

For SCRA, activities directly related to the performance of contracts, to land transactions associated with SCRA's mission, to rentals of SCRA's facilities and activities related to operating the SC Research Innovation Centers, or to the grant making process of disbursing funds to qualified applicants and related activities are reported as operating items. Other activities, including interest earned, realized and unrealized investment returns, and contributions to SC Launch are reported as nonoperating items.

For SC Launch, activities directly related to investing in portfolio companies and realized returns related to these investments are reported as operating items. Contributions from SCRA, interest income and unrealized gains and losses on marketable securities are reported as nonoperating items.

Cash and Cash Equivalents

SCRA and SC Launch consider all funds held in non-interest-bearing checking accounts to be cash and cash equivalents. SCRA's cash and cash equivalents at June 30, 2018 and 2017 include funds collateralized by a bank.

Restricted Cash

Restricted cash includes deposits made for Industry Partnership Fund contributions which have not yet been expended on the execution of the SC Launch program, South Carolina Research Innovation Centers ("SCRIC") or other statutory initiatives. Restricted cash balances of \$2,247 and \$5,317,319 were held by SCRA at June 30, 2018 and 2017, respectively.

Accounts Receivable

Account balances are considered past due based on contractual terms and SCRA does not accrue interest on the past due balances. Once management determines that the receivables are not recoverable, the amounts are removed from the financial records along with any corresponding revenue.

Investments

SCRA's current investments are composed of a money market account invested in US Treasury and Agency securities and those investments with a maturity of one year or less.

SCRA's noncurrent investments for fiscal years 2018 and 2017 include investments for which underlying securities have a stated maturity date greater than one year and assets held for purposes of funding deferred compensation obligations which will be relieved in fiscal year 2018. These investments consisted of US Treasury and Agency securities. Restricted securities of \$2,444,719 and \$2,529,707 were held at June 30, 2018 and 2017, respectively.

SCRA reports all investments at fair value on the consolidated balance sheets and all changes in fair value as income (expense) in the non-operating section of the consolidated statements of revenues, expenses and changes in net position.

SC Launch holds fixed income and equity investments in privately-held firms ("portfolio investments") and publicly-held companies ("marketable securities"). Portfolio investments are

SCRA

Notes to Consolidated Financial Statements

valued using either the cost approach, fair market value option, or equity method based on the investment. Marketable securities are reported at fair value on the balance sheets and all changes in fair value as revenue (expense) in the non-operating section of the consolidated statements of revenues, expenses and changes in net position.

Capital Assets

Land and Land Development Costs - Land is carried at the lower of cost or fair value. Land contributed to SCRA by the state of South Carolina was valued at fair value at the time the contribution was made based on appraisals obtained by SCRA. Costs incurred by SCRA related to planning and constructing the infrastructure of the research parks are capitalized as a cost of development.

SCRA MUSC Innovation Center at Charleston - During 2010, SCRA completed construction/renovation of this facility. These assets are carried at cost, net of accumulated depreciation, as leasehold improvements. Depreciation is expensed using the straight-line method over estimated useful lives, which range from 5 to 30 years. The land and existing building structure are leased from the City of Charleston and have no value on SCRA's consolidated balance sheet.

SCRA USC Innovation Center at Columbia - During 2011, SCRA completed construction/renovation of this facility. This asset, including the associated land, is carried at cost, net of accumulated depreciation. Depreciation of the facility construction/renovation is expensed using the straight-line method over estimated useful lives which range from 5 years for facility improvements to 39 years for the main facility.

SCRA Building in the Duke Energy Innovation Center at Anderson - During 2011, SCRA also completed construction of this facility. These assets are carried at cost, net of accumulated depreciation. Depreciation of the facility is provided using the straight-line method over estimated useful lives which range from 5 years for facility improvements to 39 years for the main facility. The land is leased from Clemson University and has no value on SCRA's balance sheet.

Applied Technologies Center ("ATC") - During 2015, SCRA completed construction of the ATC on land SCRA purchased in July of 2013 in Summerville, SC. This asset, including the associated land and its development are carried at cost, net of accumulated depreciation. Depreciation of the facility is expensed using the straight-line method over estimated useful lives which range from 5 to 39 years.

Furniture, Fixtures and Office Equipment - SCRA capitalizes furniture, fixtures and office equipment with an original cost in excess of \$5,000. Furniture, fixtures and office equipment are carried at cost, net of accumulated depreciation. Depreciation is expensed using the straight-line method over estimated useful lives, which range from 3 to 5 years.

SCRA records impairment losses on long-lived assets when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. No such impairment loss has been recognized in the accompanying consolidated financial statements for the years ended June 30, 2018 and 2017.

SCRA

Notes to Consolidated Financial Statements

Capitalization of Interest

Interest costs incurred during the period of construction of qualifying capital assets are capitalized as a component of the costs of these assets and amortized over the life of the asset.

Unearned Revenue

SCRA periodically receives advance payments on various contract agreements and grants. These payments are recorded as unearned revenue and recognized as income during the periods in which the work is performed and the related costs are incurred in accordance with SCRA's revenue recognition practices and contract terms.

Revenue Recognition

SCRA recognizes revenue under contracts and grants as costs are incurred or as efforts become billable in accordance with the terms and conditions of the individual agreements. Contributions are recognized when all eligibility requirements are met. Other revenues are recognized as the amounts are earned, based on details of the applicable agreements or contracts.

SCRA's affiliate through January 31, 2017, ATI, has entered into various contracts which are considered to be collaborative arrangements in accordance with Accounting Standards Codification ("ASC") 808, *Collaborative Arrangements* ("ASC 808"). Payments received by ATI from other participants in the collaborative arrangements were accounted for in accordance with ASC 808.

SC Launch Investments

The 2005 amendment indicates that the purpose of SCRA includes promoting the development of high technology industries and research facilities in South Carolina. Further, the objectives of SCRA include advancing the general welfare of the people and increasing opportunities for employment of citizens of South Carolina; promoting and encouraging expansion of the research and development industry sector; and fostering the perception of South Carolina as an international leader in idea generation and the development, testing and implementation of new advances in science and technology.

The 2005 amendment requires SCRA to maintain a SCRIC division. SCRA created SC Launch as part of its efforts to comply with the 2005 amendment. The 2005 amendment requires the SCRIC to establish three research innovation centers in South Carolina to enhance the research and technology transition capabilities of the state's three research universities. The 2005 amendment required the SCRIC to be provided with \$12 million of funding by SCRA over a three-year period.

Section 13-17-87 (F) of the SC Code specifically provides that the SCRIC may invest in companies and Section 13-17-88 (E) provides that financing methods pursuant to this section and Section 13-17-87 (F) may include grants, loans, investments, and other incentives. As part of its process of providing funds to such companies in accordance with the 2005 amendment, SC Launch enters into agreements with the companies by executing documents that have the legal form of notes receivable, convertible debentures or equity. The overriding and primary objective of disbursing funds is to increase opportunities for employment of citizens of South Carolina and to promote technology-enabled growth. Accordingly, SC Launch is not entering into such transactions solely on the basis of its own economic self-interest, rather for the general public interests in the State of South Carolina as provided for by the 2005 amendment.

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Notes to Consolidated Financial Statements

SC Launch performs various due diligence activities before electing to provide funds to any prospective portfolio companies. These companies are typically private start-up companies that do not have readily determinable market values and may not have commenced revenue generating activities. In addition, documentation such as audited financial statements may not be available for these companies at the time such investments are made or in subsequent periods. Accordingly, SC Launch is unable to reasonably ascertain the fair market value of these companies.

Although SC Launch accounts for the disbursements made to portfolio companies as grants, a nominal amount of \$100 is recorded for each individual portfolio company. This amount is included in long-term marketable securities on its balance sheet. This nominal amount is carried in the balance sheet for administrative purposes related to the monitoring of portfolio companies.

Income Taxes

SCRA has been granted exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under the legislation which established SCRA. SC Launch has been granted exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. SC Launch is exempt from state income taxes under South Carolina State legislation. Both SCRA and SC Launch are subject to income tax on unrelated business income under Section 511 of the Internal Revenue Code. Neither organization had unrelated business income for the years ended June 30, 2018 or 2017.

Net Position

The consolidated balance sheets feature a net position presentation. Net position is categorized in three ways: (1) net investment in capital assets; (2) unrestricted; and (3) restricted - Industry Partnership Fund. Net position is reported as restricted when constraints are placed on its use by external parties such as creditors, grantors, contributors, or laws and regulations. Unrestricted net position has no external restrictions on use.

Reclassifications

In certain instances, amounts previously reported in the 2017 consolidated financial statements have been reclassified to conform to the 2018 consolidated financial statement presentation. Such reclassifications had no effect on total revenues, expenses or net position.

2. Cash and Cash Equivalents, and Investments

Deposits

At June 30, 2018 and 2017, SCRA's cash balances were approximately \$256,000 and \$10,972,000, respectively. At June 30, 2018 and 2017, SC Launch's cash balances were approximately \$759,000 and \$1,672,000, respectively. SCRA's cash balances are collateralized as discussed under "cash and cash equivalents" in Note 1. Also, due to the timing of receipt of customer payments, as well as payments to subcontractors and suppliers, portions of SCRA's bank balances may have been uncollateralized at various times during 2018 and 2017. SC Launch's cash balances more than \$250,000 are uninsured. Restricted cash balances of \$2,247 and \$5,317,319 were held by SCRA at June 30, 2018 and 2017, respectively.

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Notes to Consolidated Financial Statements

Investments

At June 30, 2018, SCRA's investment balances are considered Level I, recorded at fair market value based on observable market prices, and the investment maturities, were as follows:

<i>June 30, 2018</i>	Maturities				Total
	<1 year	1-5 years	5-10 years	10+ years	
Money market	\$ 5,049,842	\$ -	\$ -	\$ -	\$ 5,049,842
Government bonds	876,559	19,339,633	17,888,980	1,884,907	39,990,079
Total	\$ 5,926,401	\$ 19,339,663	\$ 17,888,980	\$ 1,884,907	\$ 45,039,921

At June 30, 2018, all of the OPEB Trust Fund's investment balance, recorded at fair market value based on observable market prices, and the investment maturities, were as follows:

<i>June 30, 2018</i>	Maturities				Total
	<1 year	1-5 years	5-10 years	10+ years	
Money market	\$ 15,675	\$ -	\$ -	\$ -	\$ 15,675
Government bonds	-	925,874	994,834	111,162	2,031,870
Total	\$ -	\$ 925,874	\$ 994,834	\$ 126,837	\$ 2,047,545

For SC Launch, marketable securities include fixed income securities and preferred equity securities. At June 30, 2018, preferred equity securities totaled \$722,455 and are excluded from the maturities table below. The maturities of money market and marketable securities, excluding preferred equity securities, held by SC Launch at June 30, 2018 are shown below:

<i>June 30, 2018</i>	Maturities				Total
	<1 year	1-5 years	5-10 years	10+ years	
Money market	\$ 1,513,646	\$ -	\$ -	\$ -	\$ 1,513,646
Marketable securities	989,215	1,490,709	-	299,405	2,779,329
Total	\$ 2,502,861	\$ 1,490,709	\$ -	\$ 299,405	\$ 4,292,975

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Notes to Consolidated Financial Statements

At June 30, 2017, SCRA's investment balances (exclusive of any accounted for under the equity method) are considered Level I, recorded at fair market value based on observable market prices, and the investment maturities, were as follows:

<i>June 30, 2017</i>	Maturities				Total
	<1 year	1-5 years	5-10 years	10+ years	
Money market	\$ 15,591,196	\$ -	\$ -	\$ -	\$ 15,591,196
Government bonds	-	9,395,881	15,666,073	1,937,778	26,999,732
Total	\$ 15,591,196	\$ 9,395,881	\$ 15,666,073	\$ 1,937,778	\$ 42,590,928

At June 30, 2017, all of the OPEB Trust Fund's investment balance, recorded at fair market value based on observable market prices, and the investment maturities, were as follows:

<i>June 30, 2017</i>	Maturities				Total
	<1 year	1-5 years	5-10 years	10+ years	
Money market	\$ 266,998	\$ -	\$ -	\$ -	\$ 266,998
Government bonds	-	589,039	977,215	124,001	1,690,255
Total	\$ 266,998	\$ 589,039	\$ 977,215	\$ 124,001	\$ 1,957,253

At June 30, 2016, SCRA's affiliate ATI and its subsidiaries held various other investments as described below.

ATI held investments in Carbon Conversions, Inc. ("CCI"), STEM Premier and Kiyatec Inc. At June 30, 2016, ATI's carrying value for its investment in CCI was \$4,646,221, and ATI's carrying value for its investment in STEM Premier was zero. At June 30, 2016, ATI also held an investment in Kiyatec Inc. with a cost value of \$500,097.

At June 30, 2016, ATI's subsidiary Stage 2 Capital Associates, LLC held shares in publically traded securities with a market value in the amount of \$346,966. At June 30, 2016, Stage 2 Capital Associates' subsidiary IB Co-investment held an investment in Integrated Biometrics, LLC with a carrying value of \$914,673.

During the year ended June 30, 2017, ATI transferred the ownership in these investments to SC Launch. SC Launch elected the fair value option related to CCI, due to relevant information that was available for this investment, which was not available for other investments held. At June 30, 2017, SC Launch's carrying value for its investment in CCI was \$17,224,838. At June 30, 2017, SC Launch also held an investment in Kiyatec Inc. with a cost value of \$500,097.

At June 30, 2017, SC Launch held shares in publically traded securities with a market value in the amount of \$3,931,806. At June 30, 2017, Stage 2's held an investment in Integrated Biometrics, LLC with a carrying value of \$663,720.

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Notes to Consolidated Financial Statements

During fiscal 2018 SC Launch sold all of the publicly-traded securities and recorded a net realized gain on the sales of \$383,227. The carrying values at June 30, 2018 for Kiyatek Inc. and STEM Premier and remained unchanged from June 30, 2017. At June 30, 2018, Stage 2's held an investment in Integrated Biometrics, LLC with a carrying value of \$484,482 and Carbon Conversions Inc. with a carrying value of \$1,907,159.

Interest Rate Risk

The market value of SCRA's investment portfolio of fixed income securities is subject to change based upon changes in the shape and position of the yield curve. The market value of the portfolio moves inversely with changes in interest rates. Duration is the measure of interest rate risk used by management. As of June 30, 2018, the duration of the SCRA portfolio was 5.4 years; based upon this duration, a 1% shift in the yield curve would produce approximately a 5.4% change in the market value of the portfolio.

Credit Risk

SCRA is subject to State of South Carolina legislation that places restrictions on the types of investments it may hold. SCRA may only invest in obligations issued by the federal government or agencies of the federal government, general obligations of the state of South Carolina and certificates of deposit issued by financial institutions that are authorized to do business in the state of South Carolina. The credit quality rating, as issued by Moody's, for SCRA's applicable securities are listed below:

<i>June 30,</i>	2018	2017
Money Market fund	AAA	-
Government Bonds	AAA	AAA

Concentration of Credit Risk

Because SCRA has virtually no credit risk because of its legislation-imposed investment restrictions, concentration of credit risk related to the investment portfolio is not present.

SCRA

Notes to Consolidated Financial Statements

3. Accounts Receivable

Accounts receivable outstanding as of June 30, 2018 were with commercial and institutional tenants of SCRA facilities and consisted of the following:

<i>June 30,</i>	2018	2017
Amounts billed:		
Government agreements	\$ -	\$ 60,000
Commercial contracts	2,900,908	1,170,056
Recoverable direct and allocable costs and fees not yet billed:		
Government agreements	-	15,369
Commercial contracts	-	898,132
Total	\$ 2,900,908	\$ 2,143,557

Management determined that no allowance for doubtful accounts was considered necessary as of June 30, 2018 and 2017, respectively, based on the absence of any known collection concerns with commercial accounts.

4. Capital Assets

Capital asset activity was as follows:

<i>Year ended June 30,</i>	2017	Additions	Deletions	2018
Land and land development costs (*)	\$ 7,174,320	\$ -	\$ -	\$ 7,174,320
Applied Technologies Center	14,455,579	-	-	14,455,579
Innovation Centers at Charleston, Columbia and Anderson	20,045,898	462,513	-	20,508,411
Furniture, fixtures and office Equipment	5,907,801	-	-	5,907,801
Total capital assets	47,583,598	462,513	-	48,046,111
Less accumulated depreciation for:				
Applied Technologies Center	1,388,184	508,092	-	1,896,276
Innovation Centers at Charleston Columbia and Anderson	6,132,758	981,800	-	7,114,558
Furniture, fixtures and office Equipment	4,830,549	260,293	-	5,090,842
Total accumulated depreciation	12,351,491	1,750,184	-	14,101,675
Capital assets, net	\$ 35,232,107	\$(1,287,671)	\$ -	\$ 33,944,436

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Notes to Consolidated Financial Statements

<i>Year ended June 30,</i>	2016	Additions	Deletions	2017
Land and land development costs (*)	\$ 7,174,320	\$ -	\$ -	\$ 7,174,320
Applied Technologies Center	14,688,165	-	(232,586)	14,455,579
Innovation Centers at Charleston, Columbia and Anderson	20,069,428	367,680	(391,210)	20,045,898
Furniture, fixtures and office Equipment	7,745,768	20,231	(1,858,198)	5,907,801
Total capital assets	49,677,681	387,911	(2,481,994)	47,583,598
Less accumulated depreciation for:				
Applied Technologies Center	793,849	594,335	-	1,388,184
Innovation Centers at Charleston Columbia and Anderson	5,231,101	936,537	(34,880)	6,132,758
Furniture, fixtures and office equipment	6,148,798	470,887	(1,789,136)	4,830,549
Total accumulated depreciation	12,173,748	2,001,759	(1,824,016)	12,351,491
Capital assets, net	\$ 37,503,933	\$ (1,613,848)	\$ (657,978)	\$ 35,232,107

(*) Land and land development costs are not depreciated

5. Land and Land Development Costs

The fair value of land contributed has been valued based on appraisals at the time of contribution. The appraisals consider the proposed use of the property, primarily as restricted research parks, and accordingly, the values are less than if no restrictions as to use of the land had been imposed.

SCRA has received reimbursements from various governmental entities for certain costs associated with land improvements in the research parks and such amounts were credited to land development costs.

6. Rents and Leases

SCRA is obligated under operating leases for land, office space, and office equipment. Total rental expense under operating leases was \$109,750 and \$874,244 for the years ended June 30, 2018 and 2017, respectively.

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Notes to Consolidated Financial Statements

SCRA's future minimum lease payments under noncancelable operating leases are as follows at June 30, 2018:

<i>Year ending June 30,</i>	Amount
2019	\$ 45,340
2020	45,340
2021	45,340
Total	\$ 136,020

Various individual leases contain predefined lease rate increases on set schedules designed to periodically adjust lease rates to market value. These scheduled predefined lease rate increases have been considered in SCRA's recognition of lease expense in accordance with the straight-line method.

SCRA leases certain unused space in the Applied Technologies Center and the Innovation Centers to unrelated entities. Future minimum rentals on noncancelable leases are as follows at June 30, 2018:

<i>Year ending June 30,</i>	Amount
2019	\$ 3,312,316
2020	2,908,755
2021	2,454,785
2022	2,324,183
2023	2,046,809
Thereafter	2,251,934
Total	\$15,298,782

7. Line of Credit

SCRA has a \$2,000,000 revolving loan agreement with a bank which expires on April 1, 2019. There were no amounts outstanding at any time during fiscal 2017 or 2018. The interest rate as of June 30, 2018 was the Prime Rate minus 75 basis points (0.75%). SCRA incurred no fees related to this credit facility during fiscal 2018.

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Notes to Consolidated Financial Statements

8. Long-Term Debt Obligations

SCRA MUSC Innovation Center at Charleston

In December 2009, SCRA completed renovations of the SCRA MUSC Innovation Center at Charleston. The capital assets related to the innovation center are carried at cost and considered leasehold improvements pursuant to a thirty year, no cost leasing arrangement. The land and existing building structure are leased from the City of Charleston and have no value on SCRA's balance sheet. The leasehold improvements are financed through a New Market Tax Credit mortgage arrangement that is structured as two notes payable described below.

On June 28, 2016, SCRA entered an obligation with a financial institution, in the amount of \$4,000,000, which accrues interest at a fixed rate of 2.67% and requires monthly payments of principal and interest in the amount of \$27,067 through the payment due date of June 28, 2026. On the loan maturity date of June 28, 2026, SCRA may refinance the note or pay all outstanding principal balance, any unpaid accrued interest and any other outstanding obligations. As of June 30, 2018, the outstanding balance on this obligation was \$3,556,496.

SCRA is in compliance with all debt covenant provisions under this obligation as of June 30, 2018.

SCRA USC Innovation Center at Columbia

On December 22, 2009, SCRA entered a construction/mini-perm note (Subordinate Note) with a financial institution in the amount of \$1,237,500, which accrued interest at 0.00% until December 22, 2016. From December 23, 2016 through the maturity date of December 22, 2049 interest accrues at the rate of 1.538% with accrued interest and principal payable on the maturity date. The Subordinate Note is subject to a put provision after seven years. The put provision was exercised in June 2017. Under the New Market Tax Credit arrangement, SCRA was able to purchase the B Note for an amount of \$23,684. The remaining note balance of \$1,213,816 was forgiven and has been recognized as a gain under non-operating activities in the statements of revenues, expenses and changes in net position, for the year ended June 30, 2017.

In July 2017, SCRA initiated negotiations with a bank to convert its \$4,950,000 construction/mini-perm financing into a mortgage. The outstanding obligation was reduced by a payment of \$615,000 prior to the conversion. On July 24, 2017, SCRA entered a mortgage with a financial institution in the amount of \$4,335,000, which accrues interest at a fixed rate of 3.79% and requires monthly payments of principal and interest of \$31,725 through the maturity date of August 1, 2027. On the maturity date SCRA may refinance the note or pay all outstanding principal balance, any unpaid accrued interest and any other outstanding obligations. As of June 30, 2018, the outstanding balance on this obligation was \$4,143,131.

SCRA is in compliance with all debt covenant provisions under this obligation as of June 30, 2018.

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Notes to Consolidated Financial Statements

Applied Technologies Center (“ATC”)

On November 27, 2013, SCRA entered into a construction loan agreement with a financial institution which provided for construction advances in an amount up to \$9,000,000. Interest on the construction note accrued at LIBOR plus 0.55%. Quarterly payments of interest only were payable beginning January 1, 2014 until the maturity date of January 1, 2015. On January 1, 2015, the construction loan converted to a permanent loan per the terms of the agreement. Upon conversion of the construction loan to the permanent loan, equal quarterly payments of principal in the amount of \$112,500 plus interest at LIBOR plus 0.55% commenced on April 1, 2015 and were scheduled to continue the first day of each July, October, January and April thereafter through the payment due date on October 1, 2023. Effective June 1, 2018, the variable rate was fixed at 3.50% and the quarterly principal amortization was changed to a monthly principal amortization of \$37,500. On the loan maturity date of January 1, 2024, SCRA may refinance the note or pay all outstanding principal balance, any unpaid accrued interest and any other outstanding monetary obligations. As of June 30, 2018, the outstanding balance on this obligation was \$7,500,000.

SCRA is in compliance with all debt covenant provisions under this obligation as of June 30, 2018.

Interest paid and expensed on long-term obligations during fiscal year 2018 totaled \$368,190.

Notes payable activity was as follows:

<i>Year ended June 30, 2018</i>	Beginning Balance	Additions	Reductions	Ending Balance
Notes payable	\$ 16,662,427	\$ -	\$ (1,462,800)	\$ 15,199,627

<i>Year ended June 30, 2017</i>	Beginning Balance	Additions	Reductions	Ending Balance
Notes payable	\$ 18,625,000	\$ -	\$ (1,962,573)	\$ 16,662,427

Future principal and interest under SCRA’s long-term debt agreements are as follows at June 30, 2018:

<i>Year Ending June 30</i>	Principal Payments	Interest Payments	Total Debt Service
2019	\$ 907,542	\$ 506,801	\$ 1,414,343
2020	920,532	478,501	1,399,033
2021	938,420	443,987	1,382,407
2022	957,663	408,773	1,366,436
2023	971,463	379,005	1,350,468
Thereafter	10,504,407	640,244	11,144,251
Total	\$15,199,627	\$ 2,857,311	\$ 18,056,938

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Notes to Consolidated Financial Statements

9. Employee Benefit Plan

SCRA has established a 403(b) retirement plan (the "SCRA 403(b) Retirement Plan") covering all employees. SCRA provides a matching contribution equal to 1.4 times the participating employee's contribution up to a maximum of 5% of the employee's pay. SCRA may amend or terminate this plan at any time. SCRA's matching contributions in fiscal years 2018 and 2017 were approximately \$174,000 and \$233,000, respectively, which is included in salaries, wages and other related costs in the accompanying consolidated statements of revenues, expenses and changes in net position.

SCRA also has a 457(b) deferred compensation plan covering all employees. Employee-participants may make salary reduction contributions to this plan. SCRA does not make any matching contributions to this plan.

Effective January 1, 2008, SCRA established the SCRA Executive Retention Defined Contribution Plan for its key employees. Under the terms of the plan, SCRA contributes up to 5% of the employee's annual compensation to plan-related trusts which fund benefit liabilities for employee-participants under the plan. The employee-participant accounts are vested to the employee subject to the terms and conditions of the plan. SCRA terminated the Executive Retention Defined Contribution Plan in 2017; no contributions were made in fiscal year 2017. Contributions are included in salaries, wages and other related costs in the accompanying consolidated statements of revenues, expenses and changes in net position.

Past service benefit amounts were calculated for certain employee-participants. Benefit amounts attributable to past service benefits which exceed certain federal tax code contribution limitations are credited to non-qualified accounts under the related Qualified Excess Benefit Account ("QEBA") associated with the plan or a similar 403(b) plan. SCRA maintains investment accounts in an amount equal to liabilities associated with past service benefits.

10. Retiree Health Care Plan

Plan Description. SCRA participates in the Employee Insurance Program ("EIP") administered by the South Carolina Budget and Control Board. SCRA provides medical insurance benefits at prescribed premiums to eligible retirees and their spouses as adopted from the state's plan. Qualified retirees of SCRA are eligible to participate in the postretirement medical benefits program offered by the State of South Carolina (the State). SCRA pays a percentage of premiums for retirees, but the retirees pay costs of premiums associated with retirees' dependents. Governmental Accounting Standards Board Statements No. 74 *Accounting for Postemployment Benefits Other Than Pensions* (GASB Statement 74), is the accounting standard to be followed in accounting for post-retirement benefits other than pensions, and No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement 75) establishes accounting and financial reporting requirements for state and local government employers that provide their employees with postemployment benefits other than pensions. The SCRA plan is considered a single-employer plan.

Funding Policy. The contribution requirements of plan members and SCRA are established and may be amended by SCRA. The required contribution is based on projected transfers of assets to a qualifying trust, with an additional amount to prefund benefits as determined annually by SCRA. For fiscal year 2018, SCRA contributed \$116,000 to a qualifying trust and \$101,138 to the plan for current premiums. For fiscal year 2017, SCRA did not contribute any amounts to a qualifying trust and \$117,671 to the plan for current premiums. Plan members receiving benefits contributed \$34,555, or approximately 34% of the total premiums, through their required contribution of \$98 per month

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Notes to Consolidated Financial Statements

for retiree-only standard coverage, \$253 per month for retiree and spouse standard coverage, \$299 per month for retiree and family, spouse not Medicare eligible coverage and \$307 per month for retiree and family standard coverage.

Annual OPEB Cost and Net OPEB Obligation. SCRA's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the *annual required contribution of the employer ("ARC")*, an amount actuarially determined in accordance with the parameters of GASB Statement 74. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of SCRA's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in SCRA's net OPEB obligation:

<i>Year ended June 30,</i>	2018	2017
Annual required contribution	\$ 101,138	\$ 116,000
Annual OPEB cost	101,138	116,000
Contributions made	217,138	-
(Decrease) Increase in net OPEB Obligation	(116,000)	116,000
Net OPEB obligation, beginning of year	116,000	-
Net OPEB obligation, end of year	\$ -	\$ 116,000

SCRA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2018 and the two preceding fiscal years were as follows:

<i>Year Ended June 30,</i>	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2016	\$ 153,012	100%	\$ -
2017	\$ 116,000	0%	\$ 116,000
2018	\$ 101,138	100%	\$ -

Funded Status and Funding Progress. As of the most recent actuarial valuation date, the plan was 74% funded. The actuarial accrued liability for benefits was \$2,753,647, and the actuarial value of assets was \$2,047,545, resulting in an unfunded actuarial accrued liability ("UAAL") of \$706,102. The covered payroll (annual payroll of active employees covered by the plan) was \$1,985,823, and the ratio of the UAAL to the covered payroll was 36%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents

SCRA

Notes to Consolidated Financial Statements

multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 3.80% investment rate of return, which is the expected long-term investment returns on the employer's own investments, and an annual healthcare cost trend rate of 6.75% initially decreasing to an ultimate rate of 4.15% after fourteen years. The health care increase rates were based on assumptions for inflation of 2.25%. The actuarial value of assets was set equal to the reported market value of the assets. The UAAL is being amortized as a level percent-of-payroll contribution. The remaining amortization period was thirty years.

11. Sale of ATI

On January 31, 2017, SCRA sold their ownership in its private, non-profit affiliate, ATI, for cash proceeds of approximately \$27.5 million. SCRA also has the ability to receive up to \$15 million in additional proceeds related to the sale depending on the future performance of ATI. As a result of the sale, SCRA recorded a gain of \$18,513,150 within the statement of revenues, expenses and changes net position, for the year ended June 30, 2017. The consolidated statements of revenues, expenses and changes in net position include ATI activities through January 31, 2017.

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Notes to Consolidated Financial Statements

Amounts related to ATI included in the June 30, 2017 consolidated statement of revenues, expenses and changes in net position are as follows:

Year ended June 30,	2017		
	SCRA	ATI	SCRA Consolidated
Operating Revenues			
Contract revenues	\$ 2,177,436	\$ 270,183,692	\$ 272,361,128
Rental revenues	3,664,962	-	3,664,962
Contributions received	6,000,000	-	6,000,000
Other revenues	78,825	15	78,840
Total Operating Revenues	11,921,223	270,183,707	282,104,930
Operating Expenses			
Directly identifiable contract costs	2,123,536	258,911,287	261,034,823
Salaries, wages and other related costs	4,227,329	5,173,751	9,451,080
Professional services	1,975,313	1,264,394	3,239,707
Facility and research park operating costs	1,264,740	501,815	1,766,555
Rents and leases	55,631	818,613	874,244
Travel and relocation costs	189,817	229,621	419,438
General and administrative	1,237,221	1,056,005	3,734,087
Interest	443,388	-	443,388
Depreciation	1,946,519	55,240	2,001,759
Amortization	53,251	-	53,251
Grants	1,440,861	-	1,440,861
Total Operating Expenses	15,007,606	268,010,726	283,018,332
Operating (Loss) Income	(3,086,383)	2,172,981	(913,402)
Non-operating Activities			
Interest income and gain (loss) on investments	246,598	(307,264)	(60,666)
Gain on sale of ATI	18,513,150	-	18,513,150
Contributions to SC Launch!, Inc.	(2,600,000)	-	(2,600,000)
Contributions from ATI	4,200,000	(11,043,148)	(6,843,148)
Gain on debt forgiveness	1,213,816	-	1,213,816
Other expense	(487,682)	487,067	(615)
Total Non-operating Activities	\$21,085,882	\$(10,863,345)	\$10,222,537
Increase (Decrease) in Net Position	\$ 17,999,499	\$ (8,690,364)	\$ 9,309,135

12. Related Party Transactions

SC Launch does not have any employees, and substantially all its administrative functions are performed by SCRA employees. In accordance with a funding agreement between SCRA and SC Launch, SCRA provides services and supplemental funding as required by SC Launch for its ongoing operations.

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Notes to Consolidated Financial Statements

SCRA transferred \$2,490,000 and \$2,600,000 to SC Launch in 2018 and 2017, respectively, in support of its operational requirements. Based on the agreement between the parties, SCRA will continue to support SC Launch operations out of program funds raised as part of the Industry Partnership Fund and will continue to provide fiscal support as required by SC Launch.

As of July 1, 2016, ATI entered into a 10-year lease agreement with SCRA for its occupancy in the Advanced Technologies Center in Summerville, SC.

13. Subsequent Events

SCRA has evaluated subsequent events from July 1, 2018 through September 13, 2018 (the date of the audit report and the date the consolidated financial statements were available to be issued). During this period, no material recognizable events were identified.

Required Supplementary Information

SCRA

Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2018	\$ 2,047,545	\$ 2,753,647	\$ 706,102	74%	\$ 1,985,823	36%
2017	\$ 1,957,253	\$ 2,703,253	\$ 746,000	72%	\$ 3,253,335	23%
2016	\$ 1,382,492	\$ 2,542,491	\$ 1,159,999	54%	\$ 12,110,203	10%