SCRA

Consolidated Financial Statements and Required Supplementary Information

Years Ended June 30, 2019 and 2018

SCRA

Consolidated Financial Statements and
Required Supplementary Information
Years Ended June 30, 2019 and 2018

Contents

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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, 2019 and 2018, 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. This standard requires 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, 2019 and 2018, 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, the schedule of funding progress and the schedule of changes in net OPEB liability and related ratios on pages 5 through 14, 41 and 42, respectively, be presented to supplement the consolidated financial statements. Such information, although not a part of the 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 12, 2019

Our discussion and analysis of SCRA's consolidated financial statements provides an overview of SCRA's financial position and activities for the fiscal year ended June 30, 2019, with comparative information for the fiscal year ended June 30, 2018. Please read it in conjunction with SCRA's consolidated financial statements and accompanying notes to the consolidated financial statements.

Financial Summary

SCRA relies on rents, contributions to the Industry Partnership Fund ("IPF")(capped at $7 million for calendar 2019, increasing $1 million per year until the cap reaches $9 million in 2021), income from reserves and to a lesser extent on net contract revenue for funding. IRS regulations proposed in August 2018 and finalized in June 2019 virtually eliminated the federal tax benefits for individuals contributing to the IPF, causing these revenues to be significantly lower in fiscal 2019 compared to fiscal 2018. For the fiscal years 2019, 2020 and 2021, SCRA has the opportunity to receive annual payments from Advanced Technology International's ("ATI") parent, Analytic Services, Inc. (ANSER), based upon the performance of ATI. The revenues generated from all sources 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 2019, SCRA had an operating deficit of $6.0 million and a non-operating surplus of $5.3 million which together caused a 1.0% decrease in net position as of June 30, 2019. Unrestricted net assets increased 4.2% as restricted net assets declined as IPF funds became unrestricted and net capital assets decreased because of depreciation and principal debt payments. SCRA annual operating revenues, total revenues, change in net position and change in unrestricted net assets for the last two fiscal years are summarized below:

Fiscal Year 2019

- Operating revenues of $6.6 million
- Total revenues of $13.7 million
- Net position decreased by 1.0%
- Unrestricted net assets increased 4.2%

Fiscal Year 2018

- Operating revenues of $11.5 million
- Total revenues of $11.5 million
- Net position decreased by 6.4%
- Unrestricted net assets decreased by 1.0%

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.

All current year revenues and expenses are accounted for in the consolidated statement of revenues, expenses and changes in net position, accounted for under the accrual basis. 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, 2019 and 2018. All amounts included within tables are expressed in thousands throughout management's discussion and analysis.

Financial Analysis for Fiscal Year 2019 Compared to Fiscal Year 2018

Table A-1

Condensed Consolidated Balance Sheets of SCRA

June 30,	**2019**	2018	**Increase (Decrease)**
Current assets	**$ 19,954**	$ 12,423	$ 7,531
Other long-term assets	**31,178**	39,114	(7,936)
Capital assets, net	**32,923**	33,944	(1,021)
Total assets	**$ 84,055**	$ 85,481	$ (1,426)
Current liabilities	**$ 2,310**	$ 2,102	$ 208
Long-term liabilities	**13,369**	14,291	(922)
Total liabilities	**15,679**	16,393	(714)
Net investment in capital assets	**18,631**	18,745	(114)
Unrestricted	**46,736**	44,845	1,891
Restricted	**3,009**	5,498	(2,489)
Total net position	**$ 68,376**	$ 69,088	$ (712)

Current assets increased and other long-term assets decreased a comparable amount because of investment portfolio changes involving the sale of long-maturity bonds and reinvestment of the proceeds in issues having maturities under one year. The inversion of the yield curve during fiscal 2019 created this opportunity to reposition the portfolio. Capital assets declined as depreciation of $1.6 million exceeded capital expenditures of $0.5 million. Unrestricted net assets increased $1.9 million primarily because of a $2.5 million decrease in restricted net assets in combination with a net deficit of $0.7 million during fiscal year 2019. The reduction in restricted net assets was a function of lower contributions receivable caused by the change in the IRS regulation regarding federal tax deductibility of IPF contributions made by individuals and the change in collected IPF funds from restricted to unrestricted.

Table A-2

June 30,		**2018**		2017		**(Decrease) Increase**
Current assets	**$**	**12,423**	$	31,116	**$**	**(18,693)**
Other long-term assets		**39,114**		27,000		**12,114**
Capital assets, net		**33,944**		35,232		**(1,288)**
Total assets	**$**	**85,481**	$	93,348	**$**	**(7,867)**
Current liabilities	**$**	**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.

Table A-3

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

Year ended June 30,		**2019**		2018		**(Decrease) Increase**
Operating revenues	**$**	**6,594**	$	11,475	$	(4,881)
Operating expenses:						
Directly identifiable contract costs		**33**		1,939		(1,906)
Salaries, wages and other related costs		**4,497**		4,196		301
Other expenses		**8,091**		7,612		479
Total operating expenses		**12,621**		13,747		(1,126)
Operating deficit		**(6,027)**		(2,272)		(3,755)
Non-operating activities		**5,315**		(2,490)		7,805
Change in net position		**(712)**		(4,762)		(4,050)
Beginning net position		**69,088**		73,850		(4,762)
Ending net position	**$**	**68,376**	$	69,088	$	(712)

Operating revenues decreased by $4.9 million as contract revenues fell $1.6 million and contributions received declined $3.8 million. The reduction in contract revenues was expected because of the non-renewal of agreements that expired June 30, 2018. The decrease in contributions was the result of a change in IRS regulations that were proposed in August of 2018 and finalized in June 2019 making contributions to the IPF not as attractive from a federal tax perspective. Rental revenues increased $0.5 million to partially mitigate the aforementioned declines. Directly identifiable contract costs declined in a manner commensurate with the decrease in contract revenue. Personnel-related costs increased 7.2% and other expenses were 6.3% higher to support the programs at the heart of SCRA's mission. Non-operating activities included a $4.0 million payment received related to the sale of ATI, interest income of $1.3 million, realized gains on the sale of marketable securities totaling $0.4 million and unrealized gains on marketable securities of $1.5 million. Interest income and realized gains were a combined $0.8 million higher in fiscal 2019, while the net change in the mark-to-market on the securities portfolio was $2.9 million. Contributions to SC Launch were $1.8 million, a net $0.1 million reduction for fiscal 2018 when considering the contribution from Stage 2 Capital Associates LLC ("Stage 2"), a single-member limited liability company of SC Launch) in fiscal 2018.

Table A-4

Year ended June 30,		2018		2017		**(Decrease) Increase**
Operating revenues	$	11,475	$	282,105	$	(270,630)
Operating expenses:						
Directly identifiable contract costs		1,939		261,582		(259,643)
Salaries, wages and other related costs		4,196		8,904		(4,708)
Other expenses		7,612		12,532		(4,920)
Total operating expenses		13,747		283,018		(269,271)
Operating deficit		(2,272)		(913)		(1,359)
Non-operating activities		(2,490)		10,222		(12,712)
Change in net position		(4,762)		9,309		(14,071)
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.

Table A-5

Capital Assets

June 30,		**2019**		2018
Land and land development costs	**$**	**7,174**	$	7,174
Buildings		**35,348**		34,964
Furniture, fixtures and office equipment		**6,055**		5,908
Total capital assets		**48,577**		48,046
Accumulated depreciation		**(15,654)**		(14,102)
Capital assets, net	**$**	**32,923**	$	33,944

SCRA had approximately $531,000 in capital expenditures ("cap-ex") during fiscal 2019, compared to approximately $463,000 in fiscal 2018. Approximately 72% of fiscal 2019 cap-ex related to buildings; 100% of the previous year's cap-ex was in buildings. Depreciation was approximately $1,550,000 and $1,750,000 for fiscal 2019 and fiscal 2018, respectively.

Capital assets at the end of fiscal year 2019 include the Applied 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

June 30,		**2018**		2017
Land and land development costs	**$**	**7,174**	$	7,174
Buildings		**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 approximately $463,000 in cap-ex during fiscal 2018, compared to approximately $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 asset locations at the end of fiscal 2019 and 2018 were identical.

SC Launch, Inc.

Pursuant to a 2005 amendment to SCRA's enabling legislation, SCRA established SC Launch, Inc. ("SC Launch"), a private non-profit entity not controlled by SCRA, although SCRA has board participation through four 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, 2019, 2018 and 2017.

Table A-7

Condensed Consolidated Balance Sheets of SC Launch

June 30,		**2019**		2018		**(Decrease) Increase**
Current assets	**$**	**2,952**	$	3,383	**$**	**(431)**
Long-term assets		**7,446**		5,583		**1,863**
Total assets		**10,398**		8,966		**1,432**
Total net position – restricted	**$**	**10,398**	$	8,966	**$**	**1,432**

Current assets at June 30, 2019 consist of approximately $1.7 million in a money market investment account and $1.2 million in short-term marketable securities. Other long-term assets include $2.8 million of long-term marketable securities, $4.3 million in non-marketable investments and $0.3 in a note receivable. The reduction in current assets was primarily a function of a reduction in cash and cash equivalents due in part to a $0.7 million reduction in funding from SCRA. The change in long-term assets was the result of a $0.3 million increase in long-term marketable securities and a $1.4 million write-up in Stage 2 investment in Carbon Conversions, Inc. which is carried at fair value. Note 1 of the consolidated financial statements, under the heading entitled, "SC Launch Investments", provides additional information regarding this aspect of SC Launch's balance sheet.

Table A-8

Condensed Consolidated Balance Sheets of SC Launch

June 30,		**2018**		2017		**Increase (Decrease)**
Current assets	**$**	**3,383**	$	1,794	**$**	**1,589**
Long-term assets		**5,583**		22,887		**(17,304)**
Total assets		**8,966**		24,681		**(15,715)**
Total net position - restricted	**$**	**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 the note 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. Other long-term assets include $2.5 million of long-term marketable securities in fixed income and equity securities that are publicly traded. 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 includes investments held by Stage 2.

Table A-9

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

Year ended June 30,		**2019**		2018		**Increase (Decrease)**
Operating deficit	**$**	**(2,015)**	$	(2,740)	$	725
Interest income		**144**		15		129
Unrealized gains on marketable securities		**84**		9		75
Unrealized gains (losses) on non-marketable investments		**1,419**		(15,489)		16,908
Contributions from SCRA		**1,800**		2,490		(690)
Increase (decrease) in net position		**1,432**		(15,715)		17,147
Net position, beginning of year		**8,966**		24,681		(15,715)
Net position, end of year	**$**	**10,398**	$	8,966	$	1,432

The operating deficit represents realized gains on portfolio investments less operating expenses, including investments made in non-marketable securities. The reduction in fiscal 2019's operating deficit compared to fiscal 2018 was essentially the reduction of the dollar amount of these investments. Interest income increased $129,000 year-over-year, reflecting the fact that the assets were only available for less than two months in fiscal 2018 compared to a full year in fiscal 2019.

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. 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.

Table A-10

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

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

Future Outlook

The Board of Trustees and management are optimistic about the future of SCRA. Work is underway to address the contributions shortfall stemming from the change in IRS regulations, and the Board recently approved a three-year strategic plan that provides the means to optimize SCRA's impact on South Carolina. 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 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

SCRA

Consolidated Balance Sheets

June 30,	2019		2018	
	SCRA	**SC Launch, Inc. Component Unit**	**SCRA**	**SC Launch, Inc. Component Unit**
Assets				
Current Assets				
Cash and cash equivalents	**$ 101,361**	**$ 3,857**	$ 256,080	$ 758,698
Accounts receivable, net	**597,762**	**7,862**	2,900,908	-
Current portion of note receivable	**-**	**-**	-	121,526
Short-term investments	**18,404,292**	**2,939,897**	5,926,401	2,502,861
Prepaid expenses	**466,804**	**-**	289,442	-
Industry Partnership Fund contributions receivable	**383,500**	**-**	3,050,770	-
Total Current Assets	**19,953,719**	**2,951,616**	12,423,601	3,383,085
Investments				
Long-term marketable securities, at fair value	**31,177,817**	**2,836,038**	39,113,520	2,512,569
Other investments, at lower of cost or net realizable value	**-**	**4,317,115**	-	2,898,297
Total investments	**31,177,817**	**7,153,153**	39,113,520	5,410,866
Note receivable, less current portion	**-**	**293,649**	-	171,783
Capital Assets				
Applied Technologies Center	**14,626,245**	-	14,455,579	-
Innovation Centers	**20,721,731**	-	20,508,411	-
Land and land development costs	**7,174,320**	-	7,174,320	-
Furniture, fixtures and office equipment	**6,055,289**	**-**	5,907,801	-
Total capital assets	**48,577,585**	**-**	48,046,111	-
Accumulated depreciation	**(15,654,237)**	**-**	(14,101,675)	-
Net capital assets	**32,923,348**	**-**	33,944,436	-
Total Assets	**$ 84,054,884**	**$ 10,398,418**	$ 85,481,557	$ 8,965,734
Liabilities				
Current Liabilities				
Accounts payable	**$ 737,880**	**$ -**	$ 348,711	$ -
Accrued expenses	**214,259**	**-**	185,955	-
Unearned revenue	**432,781**	**-**	657,654	-
Current portion of notes payable	**907,508**	**-**	909,773	-
Total Current Liabilities	**2,292,428**	**-**	2,102,093	-
Unearned compensation	**1,528**	**-**	1,463	-
Notes payable, less current portion	**13,384,611**	**-**	14,289,854	-
Total Liabilities	**15,678,567**	**-**	16,393,410	-
Net Position				
Net investment in capital assets	**18,631,229**	**-**	18,744,809	-
Unrestricted	**46,735,863**	**-**	44,845,602	-
Restricted - Industry Partnership Fund	**3,009,225**	**10,398,418**	5,497,736	8,965,734
Total Net Position	**$ 68,376,317**	**$ 10,398,418**	**$ 69,088,147**	**$ 8,965,734**

See accompanying notes to consolidated financial statements.

SCRA

Consolidated Statements of Revenues, Expenses and Changes in Net Position

Year ended June 30,	2019		2018	
	SCRA	**SC Launch, Inc. Component Unit**	**SCRA**	**SC Launch, Inc. Component Unit**
Operating Revenues				
Contract revenues	**$ 671,456**	**$ -**	$ 2,251,003	$ –
Rental revenues	**3,607,311**	**-**	3,092,253	–
Contributions received	**2,181,852**	**-**	6,000,000	–
Realized gains on portfolio investments	**-**	**365,298**	–	383,227
Other revenues	**133,281**	**-**	132,227	–
Total Operating Revenues	**6,593,900**	**365,298**	11,475,483	383,227
Operating Expenses				
Directly identifiable contract costs	**33,440**	**-**	1,939,283	–
Salaries, wages and other related costs	**4,497,020**	**-**	4,196,038	–
Professional services	**758,376**	**87,875**	909,389	172,136
Facility and research park operating costs	**1,441,577**	**-**	1,358,681	–
Rents and leases	**58,506**	**-**	109,750	–
Travel and relocation costs	**244,430**	**9,068**	198,838	–
General and administrative	**750,998**	**8,348**	911,988	14,084
Interest	**506,849**	**-**	368,190	–
Depreciation	**1,552,561**	**-**	1,750,184	–
Amortization	**6,211**	**-**	18,633	–
Non-marketable investments	**-**	**2,275,044**	-	2,936,795
Grants	**2,770,455**	**-**	1,986,240	–
Total Operating Expenses	**12,620,423**	**2,380,335**	13,747,214	3,123,015
Operating Deficit	**(6,026,523)**	**(2,015,037)**	(2,271,731)	(2,739,788)
Non-operating Activities				
Interest income	**1,294,636**	**144,873**	813,662	14,429
Realized gains on marketable securities	**360,596**	**-**	–	–
Unrealized gains (losses) on marketable securities	**1,459,461**	**84,030**	(1,403,357)	8,769
Unrealized gains (losses) on non-marketable investments	**-**	**1,418,818**	–	(15,488,739)
Earnout on sale of Advanced Technology International, Inc.	**4,000,000**	**-**	–	–
Contributions to SC Launch, Inc.	**(1,800,000)**	**1,800,000**	(2,490,000)	2,490,000
Contributions from Stage 2 Capital Associates LLC	**-**	**-**	589,770	–
Total Non-operating Activities	**5,314,693**	**3,447,721**	(2,489,925)	(12,975,541)
(Decrease) Increase in Net Position	**(711,830)**	**1,432,684**	(4,761,656)	(15,715,329)
Net Position, beginning of year	**69,088,147**	**8,965,734**	73,849,803	24,681,063
Net Position, end of year	**$ 68,376,317**	**$ 10,398,418**	$ 69,088,147	$ 8,965,734

See accompanying notes to consolidated financial statements.

SCRA

Consolidated Statements of Cash Flows

Year ended June 30,	2019		2018	
	SCRA	SC Launch, Inc. Component Unit	SCRA	SC Launch, Inc. Component Unit
Operating Activities				
Cash received from customers	$ 3,178,171	$ -	$ 1,493,653	$ –
Realized gains on portfolio investments	-	365,298	–	383,227
Cash received from tenants	3,607,311	-	3,224,480	–
Change in unearned revenue	(224,873)	-	(255,928)	–
Contributions received	4,849,122	-	5,053,880	–
Cash paid to suppliers, net	(33,440)	(105,291)	(2,614,594)	(186,220)
Cash paid to employees and other expenses	(8,299,314)	-	(8,767,193)	–
Cash paid for non-marketable investments	-	(2,275,044)	–	(2,936,795)
Grants made	(2,770,455)	-	(1,986,240)	–
Net cash provided by (used in) operating activities	306,522	(2,015,037)	(3,851,942)	(2,739,788)
Investing Activities				
Proceeds from the sale/maturity of investments, net	13,233,155	813,200	5,643,393	4,322,663
Purchases of marketable securities	(15,907,075)	(1,490,015)	(9,495,743)	(5,001,000)
Interest income	1,091,065	137,011	813,662	14,429
Gain on sale of investments	360,596	-	–	–
Earnout on sale of Advanced Technology International, Inc.	4,000,000	-	–	–
Contributions from Stage 2 Capital Associates LLC	-	-	589,770	–
Net cash provided by (used in) investing activities	2,777,741	(539,804)	(2,448,918)	(663,908)
Capital and Related Financing Activities				
Payments on notes payable	(907,508)	-	(1,462,800)	–
Purchases of capital assets, net	(531,474)	-	(462,512)	–
Net cash used in capital and related financing activities	(1,438,982)	-	(1,925,312)	–
Non-Capital Financing Activities				
Contributions made to SC Launch	(1,800,000)	1,800,000	(2,490,000)	2,490,000
Net cash (used in) provided by non-capital financing activities	(1,800,000)	1,800,000	(2,490,000)	2,490,000
Decrease in Cash and Cash Equivalents	(154,719)	(754,841)	(10,716,172)	(913,696)
Cash and Cash Equivalents, beginning of year	256,080	758,698	10,972,252	1,672,394
Cash and Cash Equivalents, end of year	$ 101,361	$ 3,857	$ 256,080	$ 758,698
Reconciliation of Operating Deficit to Net Cash Provided by (Used in) Operating Activities				
Operating deficit	$ (6,026,523)	$ (2,015,037)	$ (2,271,731)	$ (2,739,788)
Adjustments to Reconcile Operating Deficit to Net Cash Provided by (Used in) Operating Activities				
Amortization	6,211	-	18,633	–
Depreciation	1,552,561	-	1,750,184	–
Changes in operating assets and liabilities:				
Accounts receivable	2,099,575	-	(757,351)	–
Prepaid expenses	(185,237)	-	(3,888)	–
Industry Partnership Fund contributions receivable	2,667,270	-	(946,120)	–
Accounts payable	389,169	-	(1,283,761)	–
Unearned revenue	(224,873)	-	(255,928)	–
Accrual for OPEB	-	-	(116,000)	–
Accrued expenses and unearned compensation	28,369	-	14,020	–
Net Cash Provided by (Used in) Operating Activities	$ 306,522	$ (2,015,037)	$ (3,851,942)	$ (2,739,788)

See accompanying notes to consolidated financial statements.

SCRA

Statements of Fiduciary Net Position

June 30,		**2019**		2018
		OPEB Trust Fund		**OPEB Trust Fund**
Assets				
Interest receivable	**$**	**10,565**	$	-
Investments				
Money market		**12,059**		15,675
Government bonds		**2,184,479**		2,031,870
Total Assets	**$**	**2,207,103**	$	2,047,545
Net Position				
Held in Trust for OPEB	**$**	**2,207,103**	$	2,047,545
Total Net Position	**$**	**2,207,103**	$	2,047,545

See accompanying notes to consolidated financial statements.

SCRA

Statements of Changes in Fiduciary Net Position

Year ended June 30,	**2019**	2018
	OPEB Trust Fund	**OPEB Trust Fund**
Contributions		
Employer	**$ 100,087**	$ 217,138
Total Contributions	**100,087**	217,138
Investment Income		
Interest income and unrealized gain (loss) on investments, net	**160,567**	(24,712)
Net Investment Income (Loss)	**160,567**	(24,712)
Less investment expense	**(1,009)**	(996)
Net Gain (Loss) from Investing Activities	**159,558**	(25,708)
Total Additions	**259,645**	191,430
Total Deductions	**(100,087)**	(101,138)
Increase in Net Position	**159,558**	90,292
Net Position, beginning of year	**2,047,545**	1,957,253
Net Position, end of year	**$ 2,207,103**	$ 2,047,545

See accompanying 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 is presently engaged in four 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; raising contributions to the Industry Partnership Fund ("IPF"); 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 four appointees to the nine 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 two board members appointed by the state's three research university foundations elect an eighth and ninth 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 IPF. Contributors can use the certification to claim a dollar-for-dollar South Carolina state tax credit in the year of the contribution. In 2019 the legislation was amended, changing the maximum individual contribution and the annual cap. Individuals and entities can make qualified contributions up to a maximum of $250,000 per year, with aggregate qualified contributions to the IPF capped at $7.0 million for calendar 2019. The cap increases $1.0 million per year through 2021, at which point it remains $9.0 million per year absent an amendment of the law. Proposed IRS regulations issued in August 2018 and finalized in June 2019 related to the federal tax treatment of contributions to the IPF reduced federal tax benefits for individuals that contribute to the IPF.

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 unit 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 78% of its funding from SCRA with the remaining balance of its funding coming from returns on portfolio investments and income from reserves.

Basis of Accounting

SCRA and SC Launch account for their activity in accordance with proprietary enterprise fund accounting guidelines. 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 the federal government and financial institutions. SCRA's statutory language limits its exposure to concentrations of credit risk. The Investments section of this Note describes the types of investments held by SCRA as of June 30, 2019 and 2018.

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 of investments in non-publicly traded technology-based firms, investments in corporate bonds and preferred stock holdings in domestic companies.

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.

Operating and Non-operating Activities

For SCRA, activities directly related to the performance of contracts, to rentals of SCRA's facilities and activities related to operating the SC Research Innovation Centers, to the raising of funds through contributions to the IPF or other contributions, or to the grant making process of disbursing funds to qualified applicants and related activities are reported as operating items. Other activities, including interest income, realized and unrealized investment returns, contributions to SC Launch and the earnout on sale of ATI are reported as non-operating items.

For SC Launch, the activities directly related to investing in portfolio companies and realized returns related to these investments are reported as operating items. Additional operating items include investments in portfolio companies and direct operating expenses associated with SC Launch's mission. Contributions from SCRA, interest income and unrealized gains and losses on marketable and non-marketable securities are reported as non-operating 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, 2019 and 2018 are collateralized by a bank.

Restricted Cash

Restricted cash includes deposits made for IPF 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 $253 and $2,247 were held by SCRA at June 30, 2019 and 2018, respectively.

Accounts Receivable

Accounts receivable balances are considered past due based on contractual terms. SCRA does not accrue interest on the past due balances. Once management determines that the receivables are not recoverable, the amounts are either removed from the financial records along with any corresponding revenue or a reserve is established effectively removing the related revenue, pending resolution of the delinquency.

Investments

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

SCRA's long-term investments for fiscal years 2019 and 2018 include investments for which underlying marketable securities have a stated maturity date greater than one year. These investments consisted of US Treasury and Agency securities. Restricted marketable securities of $2,625,472 and $2,444,719 were held at June 30, 2019 and 2018, 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 valued at cost, fair value, or using the equity method of accounting based on the investment. Annual adjustments stemming from changes in fair value and the application of the equity method are reported in the non-operating section of the consolidated statements of revenues, expenses and changes in net position. Marketable securities are reported 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.

Capital Assets

Land and Land Development Costs – Land is carried at the lower of cost or net realizable value. Land contributed to SCRA by the state of South Carolina was valued at net realizable 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 consolidated 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, 2019 and 2018.

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. 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. Income from investments are recognized on an accrual basis, with adjustments for premium amortization and discount accretion as applicable.

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 Division to establish three research innovation centers in South Carolina to enhance the research and technology transfer capabilities of the state's three research universities. The 2005 amendment required the SCRIC Division 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. SC Launch focuses on making investments in start-up technology-based firms as part of its process of providing funds to such companies in accordance with the 2005 amendment and section 13-17-88 of the 2006 amendment. SC Launch enters into agreements with the companies by executing documents representing direct equity investments or convertible debentures providing for future conversion into equity investments in the companies; such firms are referred to as "portfolio companies." One of SC Launch's objectives in entering into these investments is to provide financial returns should portfolio companies receiving the funds achieve financial success. Another important objective of these investments is to increase opportunities for employment of citizens of South Carolina and to promote and encourage expansion of the research and technology transfer to industry. Accordingly, SC Launch is not entering into such transactions solely on the basis of its own economic self-interest, but rather for the general public interests in the State of South Carolina as provided for by SCRA's enabling legislation.

SC Launch performs various due diligence activities before electing to provide funds to any prospective portfolio companies. These companies are typically firms 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.

SC Launch accounts for the disbursements made to portfolio companies as investments, with the nominal amount of $100 recorded for each individual portfolio company. This amount is included in long-term non-marketable securities on in its balance sheet. The balance of the investment amounts are expensed as non-exchange transactions.

Earnout on Sale of Advanced Technology International, Inc.

The Change of Control Agreement ("Agreement") between SCRA and Analytic Services, Inc. ("ANSER") which effected the sale of Advanced Technology International's ("ATI") to ANSER included a provision for contingent payments ("earnouts") to SCRA should ATI meet certain performance thresholds. Based upon the first measurement period which ended September 30, 2018, ANSER paid SCRA $4 million in fiscal 2019. The Agreement provides for ATI performance measurements in fiscal 2020 and 2021, which could result in additional earnouts. There are no guarantees that such earnouts will occur.

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, 2019 or 2018.

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 2018 consolidated financial statements have been reclassified to conform to the 2019 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, 2019 and 2018, SCRA's cash balances were approximately $101,000 and $256,000, respectively. At June 30, 2019 and 2018, SC Launch's cash balances were approximately $4,000 and $759,000, 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 fiscal 2019 and 2018. SC Launch's cash balances above $250,000 are uninsured.

Investments

At June 30, 2019, SCRA's investment balances are considered Level I, recorded at fair market value based on observable market prices. Amounts with maturities less than one year are classified as short-term investments and amounts with maturities greater than one year are classified as long-term marketable securities within the consolidated balance sheets. The related maturities were as follows:

	Maturities				
June 30, 2019	**<1 year**	**1-5 years**	**5-10 years**	**10+ years**	**Total**
Money market	**$ 9,443,661**	**$ -**	**$ -**	**$ -**	**$ 9,443,661**
Government bonds	**8,960,631**	**25,087,559**	**6,044,257**	**46,001**	**40,138,448**
Total	**$ 18,404,292**	**$ 25,087,559**	**$ 6,044,257**	**$ 46,001**	**$ 49,582,109**

At June 30, 2019, all of the OPEB Trust Fund's investment balance, recorded at fair market value based on observable market prices, and the related maturities, were as follows:

	Maturities				
June 30, 2019	**<1 year**	**1-5 years**	**5-10 years**	**10+ years**	**Total**
Money market	**$ 12,059**	**$ -**	**$ -**	**$ -**	**$ 12,059**
Government bonds	**696,542**	**1,211,765**	**276,172**	**-**	**2,184,479**
Total	**$ 708,601**	**$ 1,211,765**	**$ 276,172**	**$ -**	**$ 2,196,538**

At June 30, 2018, SCRA's investment balances are considered Level I, recorded at fair market value based on observable market prices. Amounts with maturities less than one year are classified as short-term investments and amounts with maturities greater than one year are classified as long-term marketable securities within the consolidated balance sheets. The related maturities were as follows:

	Maturities				
June 30, 2018	**<1 year**	**1-5 years**	**5-10 years**	**10+ years**	**Total**
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	$ 19,339,633	$ 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 related maturities, were as follows:

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

For SC Launch, marketable securities include fixed income securities and preferred equity securities. At June 30, 2019 and 2018, preferred equity securities totaled $1,301,518 and $722,455, respectively, and are excluded from the maturities tables below. The maturities of money market and marketable securities, excluding preferred equity securities, held by SC Launch at June 30, 2019 and 2018 are shown below:

	Maturities				
June 30, 2019	**<1 year**	**1-5 years**	**5-10 years**	**10+ years**	**Total**
Money market	**$ 1,689,887**	**$ -**	**$ -**	**$ -**	**$ 1,689,887**
Fixed income securities	**1,250,010**	**1,259,047**	**-**	**275,473**	**2,784,530**
Total	**$ 2,939,897**	**$ 1,259,047**	**$ -**	**$ 275,473**	**$ 4,474,417**

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

During fiscal 2018 SC Launch sold all of the publicly-traded securities in its portfolio and recorded a net realized gain on the sales of portfolio investments of $383,227. During fiscal 2019, SC Launch recorded a net realized gain on sales of portfolio investments of $365,298. Stage 2 Capital Associates, LLC ("Stage 2"), which is controlled by SC Launch, has investments recorded in three firms: Carbon Conversions, Inc. ("CCI"), Integrated Biometrics, LLC ("IB") and Kiyatec, Inc. ("K"). The carrying values at June 30, 2018 for CCI, IB and K were $1,907,159, $484,482 and $500,097, respectively. At June 30, 2019, the carrying values of CCI, IB and K were $3,375,896, 434,563 and $500,097, respectively.

Interest Rate Risk

The market value of SCRA's and SC Launch's investment portfolios of fixed income securities are subject to change based upon changes in the shape and position of the yield curve. The market value of the portfolios move inversely with changes in interest rates. Duration is a measure of interest rate risk that is used by management. As of June 30, 2019, the durations of the SCRA and SC Launch fixed income portfolios were 2.5 and 1.8 years, respectively. Based upon these durations, a 1% shift in the yield curve would produce approximately a 2.5% change in the fair market value of the SCRA portfolio and a 1.8% change in the fair market value of the SC Launch fixed income 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 ratings as issued by Standard & Poor's for SCRA's securities are listed below:

June 30,	**2019**	2018
Money market fund	**AAA**	AAA
Government bonds	**AAA**	AAA

SC Launch is not restricted legislatively in the types of investments it may hold. With respect to its marketable securities portfolio, SC Launch abides by and is in compliance with an Investment Policy Statement ("IPS") that allows for investments in government bonds, corporate debt and preferred equities. Only investment grade securities are allowable investments per the SC Launch IPS. The table below summarizes the credit quality ratings as issued by Standard & Poor's for SC Launch's marketable securities:

June 30,	**2019**	2018
Money market fund	**AAA**	AAA
Government bonds	**AAA**	AAA
Corporate debt (average)	**BBB-**	BBB-
Preferred stock (average)	**BBB-**	BBB-

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.

SC Launch manages its concentration of credit risk by limiting holdings from any one entity, other than the government, to less than 7% of the total portfolio (approximately $285,000 based upon the June 30, 2019 portfolio total).

3. Accounts Receivable

Accounts receivable outstanding for SCRA as of June 30, 2019 and 2018 consisted of balances due from contacts, interest and pass-through transactions:

June 30,		**2019**		2018
Contracts	**$**	**379,429**	$	1,174,728
Interest		**203,570**		-
Pass-throughs		**14,763**		1,726,180
Net total	**$**	**597,762**	$	2,900,908

As of June 30, 2019 and 2018 the balances in allowance for doubtful accounts were $46,765 and $0, respectively.

As of June 30, 2019, SC Launch had $7,862 in accounts receivable related to interest due on marketable investments. The accounts receivable balance was zero as of June 30, 2018.

4. Capital Assets

Capital asset activity was as follows:

Year ended June 30,	2018	Additions	Deletions	2019
Land and land development costs (*)	$ 7,174,320	**$ -**	**$ -**	**$ 7,174,320**
Applied Technologies Center	14,455,579	**170,666**	**-**	**14,626,245**
Innovation Centers at Charleston, Columbia and Anderson	20,508,411	**213,320**	**-**	**20,721,731**
Furniture, fixtures and office equipment	5,907,801	**147,488**	**-**	**6,055,289**
Total capital assets	48,046,111	**531,474**	**-**	**48,577,585**
Less accumulated depreciation for:				
Applied Technologies Center	1,896,276	**457,075**	**-**	**2,353,351**
Innovation Centers at Charleston Columbia and Anderson	7,114,558	**941,609**	**-**	**8,056,167**
Furniture, fixtures and office equipment	5,090,841	**153,878**	**-**	**5,244,719**
Total accumulated depreciation	14,101,675	**1,552,562**	**-**	**15,654,237**
Capital assets, net	$ 33,944,436	**$ 1,021,088**	**$ -**	**$ 32,923,348**

Year ended June 30,	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	260,292	-	5,090,841
Total accumulated depreciation	12,351,491	1,750,184	-	14,101,675
Capital assets, net	$ 35,232,107	$ 1,287,671	$ -	$ 33,944,436

(*) 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 $58,506 and $109,750 for the years ended June 30, 2019 and 2018, respectively.

SCRA's future minimum lease payments under noncancelable operating leases are as follows at June 30, 2019:

Year ending June 30,		**Amount**
2020	$	**55,240**
2021		**55,240**
2022		**17,333**
2023		**147**
Total	$	**127,960**

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, 2019:

Year ending June 30,	**Amount**
2020	**$ 3,972,089**
2021	**3,655,171**
2022	**3,180,503**
2023	**2,173,567**
2024	**1,565,991**
Thereafter	**3,531,575**
Total	**$18,078,896**

7. Line of Credit

SCRA has a $2,000,000 revolving loan agreement with a bank which expires on January 30, 2020. There were no amounts outstanding at any time during fiscal 2018 or 2019. The interest rate associated with the loan is the Prime Rate minus 75 basis points (0.75%). SCRA incurred no fees related to this credit facility during fiscal 2018 or 2019.

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 consolidated 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, 2019 and 2018, the outstanding balance on this obligation was $3,323,822 and $3,556,496, respectively.

SCRA is in compliance with all debt covenant provisions under this obligation as of June 30, 2019.

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, 2019 and 2018, the outstanding balance on this obligation was $3,918,297 and $4,143,131, respectively.

SCRA is in compliance with all debt covenant provisions under this obligation as of June 30, 2019.

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 interest 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, 2019 and 2018, the outstanding balance on this obligation was $7,050,000 and $7,500,000, respectively.

SCRA is in compliance with all debt covenant provisions under this obligation as of June 30, 2019.

Interest paid and expensed on long-term obligations during fiscal year 2019 and 2018 totaled $506,849 and $368,190, respectively.

Notes payable activity was as follows:

Year ended June 30, 2019	Beginning Balance	Additions	Reductions	Ending Balance
Notes payable	**$ 15,199,627**	**$ -**	**$ (907,508)**	**$ 14,292,119**

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

For the three aforementioned obligations, SCRA may refinance the note or pay all outstanding principal balance, any unpaid accrued interest and any other outstanding monetary obligations. The following schedule is based on SCRA not refinancing the aforementioned obligations and paying the remaining outstanding balance at each respective maturity date. Future principal and interest under SCRA's long-term debt agreements are as follows at June 30, 2019:

Year Ending June 30	Principal Payments	Interest Payments	Total Debt Service
2020	**$ 925,232**	**$ 458,022**	**$ 1,383,254**
2021	**940,802**	**419,107**	**1,359,909**
2022	**956,899**	**380,469**	**1,337,368**
2023	**973,540**	**342,064**	**1,315,604**
2024	**5,790,744**	**248,396**	**6,039,140**
2025-2028	**4,704,902**	**353,844**	**5,058,746**
Total	**$14,292,119**	**$ 2,201,902**	**$ 16,494,021**

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 2019 and 2018 were approximately $211,000 and $174,000, 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.

10. Retiree Health Care Plan

General Information

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 2019, SCRA did not contribute to the qualifying trust and $120,878 to the plan for current premiums. For fiscal year 2018, SCRA contributed $116,000 to a qualifying trust and $101,138 to the plan for current premiums. Plan members receiving benefits contributed $36,260, or approximately 23% of the total premiums, through their required contribution of $98 per month 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.

Employees covered by benefit terms. At June 30, 2019, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	22
Inactive plan members entitled to but not yet receiving benefits	0
Active plan members	30
Total plan members	52

Net OPEB Liability

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.

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 individual entry-age actuarial cost method was used. The actuarial assumptions included a 3.25% investment rate of return, which is the expected long-term investment returns on the employer's own investments, which decreased from 3.80% in prior fiscal year. The change in this assumption increased the net OPEB liability by $138,700. The annual healthcare cost trend rate used was an initial rate of 6.20% declining to an ultimate rate of 4.15% after 14 years which is a slight change from prior fiscal year which had an initial rate of 6.75% declining to an ultimate rate of 4.15% after 14 years. The change in this assumption decreased the OPEB liability by $60,532. The net impact of the change in assumptions increased the OPEB liability by $78,168. Mortality table used was the 2016 Public Retirees of South Carolina Mortality Table for Males and the 2016 Public Retirees of South Carolina Mortality Table for Females which are used with fully generational mortality projections based on Scale AA from the year 2016, including 111% multiplier applied to the base table for female South Carolina Retirement Systems ("SCRS") members. Demographic assumptions are based on the experience study covering the five-year period ending June 30, 2015 as conducted for the SCRS.

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 underfunded actuarial accrued liability ("UAAL") amortization payment is scheduled to be the level dollar amount required to fully amortize the UAAL over a 13 year period, beginning in fiscal year ending June 30, 2019. As the assets exceed the actuarial accrued liability as of June 30, 2019, the credit on the overfunded liability is the interest on the amount of overfunding at the plan's interest rate of 3.25%. The target investment pool is to invest substantially all funds into fixed income securities. For the purpose of the actuarial valuation, the expected rate of return on OPEB plan investments is 3.25%; the municipal bond rate is 3.13% and the resulting discount rate is 3.25%.

Changes in the Net OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balances at June 30, 2018	$ 2,753,647	$ 2,047,545	$ 706,102
Service cost	37,459	-	37,459
Interest on total OPEP liability	103,449	-	103,449
Difference between expected and actual experience	(746,647)	-	(746,647)
Changes in assumptions	78,168	-	78,168
Employer contributions	-	100,087	(100,087)
Net investment income	-	159,558	(159,558)
Benefit payments	(100,087)	(100,087)	-
Net changes	(627,658)	159,558	(787,216)
Balances at June 30, 2019	$ 2,125,989	$ 2,207,103	$ (81,114)

Funded Status and Funding Progress. As of the most recent actuarial valuation date of June 30, 2019, the plan was 104% funded. The actuarial accrued liability for benefits was $2,125,989, and the actuarial value of assets was $2,207,103, resulting in an overfunded actuarial accrued asset ("OAAA") of $81,114. The covered payroll (annual payroll of active employees covered by the plan) was $2,897,201 and the ratio of the OAAA to the covered payroll was (3)%.

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 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.

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. Regarding the sensitivity of the net OPEB liability to changes in the discount rate, the following presents the plan's net OPEB liability, calculated using a discount rate of 3.25%, as well as what the plan's net OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

1% Decrease 2.25%	Current Assumption 3.25%	1% Increase 4.25%
$ 212,027	**$(81,114)**	**$ (323,163)**

Regarding the sensitivity of the net OPEB liability to changes in the healthcare cost trend rates, the following presents the plan's net OPEB liability, calculated using the assumed trend rates as well as what the plan's net OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

1% Decrease	Current Assumption	1% Increase
$ (353,870)	**$(81,114)**	**$ 257,016**

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:

Year ended June 30,		**2019**		2018
Annual required contribution	**$**	**100,087**	$	101,138
Annual OPEB cost		**100,087**		101,138
Contributions made		**100,087**		217,138
Decrease in net OPEB Obligation		**-**		(116,000)
Net OPEB obligation, beginning of year		**-**		116,000
Net OPEB obligation, end of year	**$**	**-**	$	-

SCRA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2019 and the two preceding fiscal years were as follows:

Year Ended June 30,		**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**		**Net OPEB Obligation**
2017	$	116,000	0%	$	116,000
2018	$	101,138	100%	$	-
2019	**$**	**100,087**	**100%**	**$**	**-**

11. 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.

SCRA transferred $1,800,000 and $2,490,000 to SC Launch in 2019 and 2018, 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 IPF and will continue to provide fiscal support as required by SC Launch.

12. Subsequent Events

SCRA has evaluated subsequent events from July 1, 2019 through September 12, 2019 (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)	(OAAA) UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(OAAA) UAAL as a Percentage of Covered Payroll ((b-a)/c)
2019	**$ 2,207,103**	**$ 2,125,989**	**$ (81,114)**	**104%**	**$ 2,897,207**	**(3)%**
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%

SCRA

Schedule of Changes in Net OPEB Liability and Related Ratios (Unaudited)

Year ending June 30,	**2019**	2018
Total OPEB Liability*		
Service cost	**$ 37,459**	$ 55,758
Interest on total OPEB liability	**103,449**	101,858
Difference between expected and actual experience	**(746,647)**	(5,990)
Changes in assumptions	**78,168**	-
Benefit payments	**(100,087)**	(101,138)
Net change in total OPEB liability	**(627,658)**	50,488
Total OPEB Liability, beginning of year	**2,753,647**	2,703,159
Total OPEB Liability, end of year	**$ 2,125,989**	$ 2,753,647
Plan Fiduciary Net Position*		
Employer contributions	**$ 100,087**	$ 217,138
OPEB plan net investment income	**159,558**	(25,708)
Benefit payments	**(100,087)**	(101,138)
Net change in plan fiduciary net position	**159,558**	90,292
Plan Fiduciary Net Position, beginning of year	**2,047,545**	1,957,253
Plan Fiduciary Net Position, end of year	**$ 2,207,103**	$ 2,047,545
Net OPEB Liability-ending	**$ (81,114)**	$ 706,102
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	**104%**	74%
Covered-Employee Payroll	**$ 2,897,201**	$ 1,985,823
Net OPEB Liability as a Percentage of Covered-Employee Payroll	**-3%**	36%

**Information is not available for preceding years, to the extent 10 years of information is not presented.*