



SCRA

Consolidated Financial Statements And Required Supplementary Information Years Ended June 30, 2011 and 2010

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, 2011 and 2010

SCRA

Contents

Independent Auditors' Report	3
Management's Discussion and Analysis (Unaudited)	4-13
Consolidated Financial Statements	
Consolidated Balance Sheets	15
Consolidated Statements of Revenues, Expenses and Changes in Net Assets	16
Consolidated Statements of Cash Flows	17
Notes to Consolidated Financial Statements	18-38
Required Supplementary Information	
Schedule of Funding Progress	40



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Independent Auditors' Report

The Board of Trustees
SCRA

We have audited the accompanying consolidated balance sheets of SCRA and its discretely presented component unit as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of SCRA's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SCRA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SCRA as of June 30, 2011 and 2010, and the consolidated changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplementary information on pages 4 through 13 and 41, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BDO USA, LLP

October 18, 2011

SCRA

Management's Discussion and Analysis (Unaudited)

This section of SCRA's financial statements presents management's analysis of SCRA's financial performance for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the consolidated financial statements and accompanying notes, which follow this section.

Financial Highlights

SCRA's financial position improved as a result of operations in fiscal year 2011. Some highlights include:

Fiscal Year 2011

- Operating revenue exceeded \$190 million
- Contract revenues increased by \$23 million (14%)
- Contract backlog at year end exceeded \$400 million for the second year
- SCRA continues to enjoy a strong balance sheet position

Fiscal Year 2010

- Operating revenue exceeded \$170 million
- Contract revenues increased by over 60%
- Contract backlog at year end exceeded \$400 million
- SCRA continues to enjoy a strong balance sheet position

Overview of the Financial Statements

The consolidated financial statements consist of two parts: required supplementary information consisting of Management's Discussion and Analysis (unaudited) (this section) and the consolidated financial statements. The consolidated financial statements also include notes that explain in more detail some of the 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 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 rate of return, evaluating the capital structure of SCRA and assessing the liquidity and financial flexibility of SCRA.

All of the current year's revenues and expenses are accounted for in the consolidated statement of revenues, expenses and changes in net assets. 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 noncapital financing activities and information concerning sources and uses of cash.

SCRA

Management's Discussion and Analysis (Unaudited)

Financial Analysis for Fiscal Year 2011 Compared to Fiscal Year 2010

Table A-1

Condensed Consolidated Balance Sheets of SCRA

	Fiscal Year 2011	Fiscal Year 2010	Dollar Increase (Decrease)
Current assets	\$ 94,636,269	\$ 91,723,336	\$ 2,912,933
Capital assets, net	24,828,986	22,656,111	2,172,875
Other long-term assets	9,413,013	3,515,297	5,897,716
Total assets	\$ 128,878,268	\$ 117,894,744	\$ 10,983,524
Current liabilities	\$ 71,288,974	\$ 66,352,749	\$ 4,936,225
Long-term liabilities	15,811,110	11,031,847	4,779,263
Total liabilities	87,100,084	77,384,596	9,715,488
Invested in capital assets, net of related debt	9,319,186	12,120,139	(2,800,953)
Unrestricted	22,697,630	20,094,421	2,603,209
Restricted	9,761,368	8,295,588	1,465,780
Total net assets	41,778,184	40,510,148	1,268,036
Total liabilities and net assets	\$ 128,878,268	\$ 117,894,744	\$ 10,983,524

The increase in current assets of \$2.9 million results primarily from an increase in restricted cash balances related to advances on federal contracts of \$3.3 million, an increase in operating cash of \$2.6 million and an increase in other restricted cash of \$1.1 million offset by a decrease in accounts receivable of \$4 million. Increases in long term assets resulted from changes in capital assets of \$2.2 million related to investment in Innovation Centers and a \$5.8 million increase in long term investments. Current liabilities increased by \$4.9 million primarily due to a \$1.1 million increase in accounts payable and a \$3.3 million increase in deferred revenues resulting from advanced payments on federal contracts, as well as timing of payment cycles and contract execution.

SCRA

Management's Discussion and Analysis (Unaudited)

Table A-2

Condensed Consolidated Balance Sheets of SCRA

	Fiscal Year 2010	Fiscal Year 2009	Dollar Increase (Decrease)
Current assets	\$ 91,723,336	\$ 60,264,578	\$ 31,458,758
Capital assets, net	22,656,111	11,422,531	11,233,580
Other long-term assets	3,515,297	2,023,757	1,491,540
Total assets	\$ 117,894,744	\$ 73,710,866	\$ 44,183,878
Current liabilities	\$ 66,352,749	\$ 29,886,506	\$ 36,466,243
Long-term liabilities	11,031,847	6,168,110	4,863,737
Total liabilities	77,384,596	36,054,616	41,329,980
Invested in capital assets, net of related debt	12,120,139	5,922,531	6,197,608
Unrestricted	20,094,421	18,185,651	1,908,770
Restricted	8,295,588	13,548,068	(5,252,480)
Total net assets	40,510,148	37,656,250	2,853,898
Total liabilities and net assets	\$ 117,894,744	\$ 73,710,866	\$ 44,183,878

The increase in current assets of \$31.5 million results primarily from an increase in restricted cash balances related to advances on federal contracts of \$25.2 million and an increase in operating cash of \$5.2 million. Additionally, accounts receivable increased by \$2.4 million. Contributions receivable of \$2.2 million are recorded to reflect Industry Partnership Contributions received as of June 30, 2010. Increases in long term assets resulted from changes in capital assets of \$11.2 million, including \$8.0 million related to investment in Innovation Centers and \$2.6 million related to land purchase for an Innovation Center. Current liabilities increased by \$36.5 million primarily due to a \$7.5 million increase in accounts payable and a \$28.7 million increase in deferred revenues resulting from advanced payments on federal contracts, as well as timing of payment cycles and contract execution.

SCRA

Management's Discussion and Analysis (Unaudited)

Table A-3

Condensed Consolidated Statements of Revenue, Expenses and Changes in Net Assets of SCRA

<i>June 30,</i>	2011	2010	Dollar Increase (Decrease)
Operating revenues	\$ 195,026,400	\$ 172,091,048	\$ 22,935,352
Operating expenses:			
Directly identifiable contract costs	172,890,246	151,309,263	21,580,983
Cost of land sold (including commissions)	-	3,974	(3,974)
Salaries, wages and other related costs	10,693,599	9,633,437	1,060,162
Other expenses	8,225,662	7,431,342	794,320
Total operating expenses	191,809,507	168,378,016	23,431,491
Operating income	3,216,893	3,713,032	(496,139)
Non-operating activity	(1,948,857)	(859,134)	(1,089,723)
Change in net assets	1,268,036	2,853,898	(1,585,862)
Beginning net assets	40,510,148	37,656,250	2,853,898
Ending net assets	\$ 41,778,184	\$ 40,510,148	\$ 1,268,036

Operating revenues increased by \$22.9 million, or 13%, primarily as a result of contract revenues increasing by \$23.3 million. Rental income increased by 44% (\$0.8 million). SCRA received a transfer of a land asset valued at approximately \$1.4 million during FY 2010 which was included in contribution revenue in the prior year, thus causing a current year decrease in contribution revenue. Increases in contract revenues resulted in a corresponding \$21.6 million, or 14% increase in directly identifiable contract costs, including direct labor, direct materials, and subcontracts. Non-operating activity includes contributions made to component unit SC Launch! Inc.

SCRA

Management's Discussion and Analysis (Unaudited)

Table A-4 - Condensed Consolidated Statements of Revenue, Expenses and Changes in Net Assets of SCRA

<i>June 30,</i>	2010	2009	Dollar Increase (Decrease)
Operating revenues	\$ 172,091,048	\$ 108,154,270	\$ 63,936,778
Operating expenses:			
Directly identifiable contract costs	151,309,263	90,072,535	61,236,728
Cost of land sold (including commissions)	3,974	(275,473)	279,447
Salaries, wages and other related costs	9,633,437	8,961,147	672,290
Other expenses	7,431,342	8,780,430	(1,349,088)
Total operating expenses	168,378,016	107,538,639	60,839,377
Operating income	3,713,032	615,631	3,097,401
Non-operating activity	(859,134)	(2,934,122)	2,074,988
Change in net assets	2,853,898	(2,318,491)	5,172,389
Beginning net assets	37,656,250	39,974,741	(2,318,491)
Ending net assets	\$ 40,510,148	\$ 37,656,250	\$ 2,853,898

Operating revenues increased by \$63.9 million, or 59%, primarily as a result of contract revenues increasing by \$62.9 million. Rental income increased by 1% (\$0.2 million), while contribution revenue rose by approximately \$0.9 million. SCRA received a transfer of a land asset valued at approximately \$1.4 million during FY 2010 which is included in contribution revenue. Increases in contract revenues resulted in a corresponding \$61.2 million, or 68% increase in directly identifiable contract costs, including direct labor, direct materials, and subcontracts. Non-operating activity includes contributions made to component unit SC Launch! Inc.

SCRA

Management's Discussion and Analysis (Unaudited)

Capital Assets

Table A-5 - Capital Assets

<i>June 30,</i>	Fiscal Year 2011	Fiscal Year 2010
Land and land improvements	\$ 6,088,117	\$ 6,129,869
Building	34,614,457	31,089,145
Furniture, fixtures and office equipment	8,994,155	9,279,171
Total capital assets	49,696,729	46,498,185
Accumulated depreciation	(24,867,743)	(23,842,074)
Net capital assets	\$ 24,828,986	\$ 22,656,111

As of June 30, 2011, SCRA had \$24.8 million invested in capital assets, as reflected in Table A-5, which represents an increase of 10% from the end of fiscal year 2010. Capital assets at the end of FY 2011 include the completed SCRA MUSC Innovation Center at Charleston, the SCRA USC Innovation Center at Columbia, and the completed SCRA Clemson Innovation Center.

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>	Fiscal Year 2010	Fiscal Year 2009
Land and land improvements	\$ 6,129,869	\$ 2,147,342
Building	31,089,145	22,692,206
Furniture, fixtures and office equipment	9,279,171	9,286,363
Total capital assets	46,498,185	34,125,911
Accumulated depreciation	(23,842,074)	(22,703,380)
Net capital assets	\$ 22,656,111	\$ 11,422,531

As of June 30, 2010, SCRA had \$22.7 million invested in capital assets, as reflected in Table A-5, which represents an increase of 98% from the end of fiscal year 2009. Capital assets at the end of FY 2010 include the completed SCRA MUSC Innovation Center at Charleston, the property related to as well as the in process construction of the SCRA USC Innovation Center at Columbia and a \$1.36 million land contribution from the State of South Carolina.

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

SCRA

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 SC Launch's financial position and results of operations for the periods ended June 30, 2011, 2010, and 2009.

Table A-7

Condensed Balance Sheets of SC Launch

<i>June 30,</i>	Fiscal Year 2011	Fiscal Year 2010	Dollar Increase (Decrease)
Current assets	\$ 967,589	\$ 563,911	\$ 403,678
Other long-term assets	3,900	3,600	300
Total assets	971,489	567,511	403,978
Total net assets (restricted)	\$ 971,489	\$ 567,511	\$ 403,978

Current assets for 2011 represent cash on deposit at year end. SC Launch receives contributions from SCRA to be used in the execution of aspects of the SC 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 SC 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 are 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, under the paragraph entitled "SC Launch Grants."

SCRA

Management's Discussion and Analysis (Unaudited)

Table A-8

Condensed Balance Sheets of SC Launch

<i>June 30,</i>	Fiscal Year 2010	Fiscal Year 2009	Dollar Increase (Decrease)
Current assets	\$ 563,911	\$ 2,758,643	\$ (2,194,732)
Other long-term assets	3,600	2,700	900
Total assets	567,511	2,761,343	(2,193,832)
Total net assets (restricted)	\$ 567,511	\$ 2,761,343	\$ (2,193,832)

Table A-9

Condensed Statements of Revenue, Expenses and Changes in Net Assets of SC Launch

<i>June 30,</i>	Fiscal Year 2011	Fiscal Year 2010	Dollar Increase (Decrease)
Operating (loss)	\$ (2,683,051)	\$ (3,196,865)	\$ 513,814
Non-operating income	969,029	3,033	965,996
Contributions from SCRA	2,118,000	1,000,000	1,118,000
Contributions to SCRA	-	-	-
Change in net assets	403,978	(2,193,832)	2,597,810
Beginning net assets	567,511	2,761,343	(2,193,832)
Ending net assets	\$ 971,489	\$ 567,511	\$ 403,978

Non-operating income includes interest income and fees paid by companies in accordance with terms and conditions of existing agreements. Contributions are made to SC Launch, Inc. by SCRA in accordance with agreements between the parties and the annual operating plans for the entities. Changes in net assets are a result of the timing of contributions from SCRA and expenses incurred in the execution of program objectives.

SCRA

Management's Discussion and Analysis (Unaudited)

Table A-10

Condensed Statements of Revenue, Expenses and Changes in Net Assets of SC Launch

<i>June 30,</i>	Fiscal Year 2010	Fiscal Year 2009	Dollar Increase (Decrease)
Operating (loss)	\$ (3,196,865)	\$ (1,303,341)	\$ (1,893,524)
Non-operating income	3,033	310,522	(307,489)
Contributions from SCRA	1,000,000	3,080,500	(2,080,500)
Contributions to SCRA	-	-	-
Change in net assets	(2,193,832)	2,087,681	(4,281,513)
Beginning net assets	2,761,343	673,662	2,087,681
Ending net assets	\$ 567,511	\$ 2,761,343	\$ (2,193,832)

Non-operating income includes interest income and fees paid by companies in accordance with terms and conditions of existing agreements. Contributions are made to SC Launch, Inc. by SCRA in accordance with agreements between the parties and the annual operating plans for the entities. Changes in net assets are a result of the timing of contributions from SCRA and expenses incurred in the execution of program objectives

Future Outlook

The Executive Committee of the Board of Trustees and management have a positive outlook about the future of SCRA. SCRA continues to grow as a leader in building and leading applied research collaborations and has been established as the leader for knowledge-based economic development within the state of SC. Increases in volume are expected to continue as SCRA adds new initiatives, expands existing programs, and increases its market share. Increases in operating revenues are expected to continue as SCRA focuses its efforts on revenue initiatives. Higher increases in operating expenses due to inflation and labor cost increases, as well as the costs related to expanded operations, as well as capital investment financed through debt, have the potential to slow the growth rate of net assets. However, new growth opportunities for SCRA have already been identified for the near term and are expected to have a positive impact on SCRA operations.

SCRA

Management's Discussion and Analysis (Unaudited)

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: CFO
5300 International Blvd.
Charleston, SC 29418

Consolidated Financial Statements

SCRA

Consolidated Statements of Balance Sheets

<i>June 30,</i>	2011		2010	
	SCRA	SC Launch!, Inc. Component Unit	SCRA	SC Launch!, Inc. Component Unit
Assets				
Current Assets				
Cash and cash equivalents, including restricted cash of SCRA of \$49,120,484 in 2011 and \$44,636,089 in 2010	\$ 66,281,958	\$ 967,589	\$ 59,168,561	\$ 563,911
Accounts receivable	25,334,531	-	29,362,496	-
Short-term investments	80,061	-	505,645	-
Other receivables and prepaid expenses	445,607	-	502,963	-
IPF contributions receivable	2,494,112	-	2,183,671	-
Total Current Assets	94,636,269	967,589	91,723,336	563,911
Investments and other Assets	9,413,013	3,900	3,515,297	3,600
Trident Research Center Building, net of accumulated depreciation of \$15,637,512 in 2011 and \$4,873,690 in 2010	5,411,961	-	6,167,320	-
Innovation Centers, net of accumulated depreciation of \$594,762 in 2011 and \$156,985 in 2010	12,970,223	-	9,891,150	-
Land and land development costs	6,088,117	-	6,129,869	-
Furniture, fixtures and office equipment, net of accumulated depreciation of \$8,635,469 in 2011 and \$8,811,399 in 2010	358,685	-	467,772	-
Total Assets	\$ 128,878,268	\$ 971,489	\$ 117,894,744	\$ 567,511
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	\$ 26,684,132	\$ -	\$ 25,553,131	\$ -
Accrued expenses	2,372,093	-	1,918,532	-
Deferred revenue, including restricted deferred revenue of SCRA of \$41,780,527 in 2011 and \$38,459,330 in 2010	42,182,749	-	38,881,086	-
Current portion of notes payable	50,000	-	-	-
Total Current Liabilities	71,288,974	-	66,352,749	-
Deferred Compensation	351,310	-	495,875	-
Notes payable, less current portion	15,459,800	-	10,535,972	-
Total Liabilities	87,100,084	-	77,384,596	-
Net Assets				
Invested in capital assets, net of related debt	9,319,186	-	12,120,139	-
Unrestricted	22,697,630	-	20,094,421	-
Restricted	9,761,368	971,489	8,295,588	567,511
Total Net Assets	41,778,184	971,489	40,510,148	567,511
Total Liabilities and Net Assets	\$ 128,878,268	\$ 971,489	\$ 117,894,744	\$ 567,511

See accompanying notes to consolidated financial statements.

SCRA

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

Year Ended June 30,	2011		2010	
	SCRA	SC Launch!, Inc. Component Unit	SCRA	SC Launch!, Inc. Component Unit
Operating Revenues				
Contract revenues	\$ 186,036,182	\$ -	\$ 162,744,976	\$ -
Rental	2,675,619	-	1,856,198	-
Contributions received	6,074,068	-	7,268,500	-
Other	240,531	-	221,374	-
Total Operating Revenues	195,026,400	-	172,091,048	-
Operating Expenses				
Directly identifiable contract costs	172,890,246	-	151,309,263	-
Cost of land sold (including commissions)	-	-	3,974	-
Salaries, wages and other related costs	10,693,599	-	9,633,437	-
Professional services	2,027,715	73,749	2,071,882	38,193
Facility and research park operating costs	1,841,699	-	1,336,618	-
Rents and leases	376,580	-	423,673	-
Travel and relocation costs	708,253	-	827,458	-
General and administrative	1,334,688	10,202	1,388,086	9,847
Interest	444,096	-	99,413	-
Depreciation	1,492,631	-	1,284,212	-
Grants	-	2,599,100	-	3,148,825
Total Operating Expenses	191,809,507	2,683,051	168,378,016	3,196,865
Operating Income (Loss)	3,216,893	(2,683,051)	3,713,032	(3,196,865)
Non-operating Activities				
Interest income and gain on investments	169,143	969,029	162,266	3,233
Contributions to SC Launch!, Inc.	(2,118,000)	2,118,000	(1,000,000)	1,000,000
Other (expense)	-	-	(21,400)	(200)
Total Non-operating Activities	(1,948,857)	3,087,029	(859,134)	1,003,033
Increase (Decrease) in Net Assets	1,268,036	403,978	2,853,898	(2,193,832)
Net Assets, beginning of year	40,510,148	567,511	37,656,250	2,761,343
Net Assets, end of year	\$ 41,778,184	\$ 971,489	\$ 40,510,148	\$ 567,511

See accompanying notes to consolidated financial statements.

SCRA

Consolidated Statements of Cash Flows

Year Ended June 30,	2011		2010	
	SCRA	SC Launch!, Inc. Component Unit	SCRA	SC Launch!, Inc. Component Unit
Operating Activities				
Cash received from customers	\$ 190,064,148	\$ -	\$ 160,358,120	\$ -
Cash received from tenants	2,872,313	-	2,071,779	-
Advance payments received, net	3,301,662	-	28,667,605	-
IPF Contributions received	5,763,627	-	5,364,020	-
Cash paid to suppliers	(178,076,781)	(83,951)	(149,669,896)	(48,040)
Cash paid to employees and other	(10,661,829)	-	(9,625,781)	-
Grants made	-	(2,600,000)	-	(3,149,925)
Net cash provided by (used in) operating activities	13,263,140	(2,683,951)	37,165,847	(3,197,965)
Investing Activities				
Proceeds from the sale of investments	1,656,952	-	408,011	-
Purchases of investments	(7,129,084)	-	(1,113,532)	-
Income from investments and other	169,143	969,629	167,932	3,233
Net cash (used in) provided by investing activities	(5,302,989)	969,629	(537,589)	3,233
Capital and Related Financing Activities				
Capital related financing	4,973,828	-	5,035,972	-
Purchases of capital assets	(3,702,582)	-	(1,448,151)	-
Net cash provided by (used in) capital and related financing activities	1,271,246	-	(6,412,179)	-
Non-capital Financing Activities				
Contributions made to SC Launch!	(2,118,000)	2,118,000	(1,000,000)	1,000,000
Net cash (used in) provided by noncapital financing activities	(2,118,000)	2,118,000	(1,000,000)	1,000,000
Increase (Decrease) in Cash and Cash Equivalents	7,113,397	403,678	29,216,079	(2,194,732)
Cash and Cash Equivalents, beginning of year	59,168,561	563,911	29,952,482	2,758,643
Cash and Cash Equivalents, end of year	\$ 66,281,958	\$ 967,589	\$ 59,168,561	\$ 563,911
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Operating income (loss)	\$ 3,216,893	\$ (2,683,051)	\$ 3,713,032	\$ (3,196,865)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities				
Amortization	178,944	-	51,704	-
Depreciation	1,492,631	-	1,284,212	-
Changes in operating assets and liabilities:				
Accounts receivable	4,027,965	-	(2,386,855)	-
Contributed Land	-	-	(1,360,000)	-
Investments and other assets	-	(900)	-	(1,100)
Other receivables and prepaid expenses	(121,588)	-	(154,730)	-
Industry Partnership Fund contributions receivable	(310,441)	-	(544,480)	-
Accounts payable	1,131,001	-	7,559,184	-
Deferred revenue	3,338,739	-	28,957,963	-
Accrued expenses and deferred compensation	308,996	-	67,217	-
SC Bio Retained Earnings (net of cash)	-	-	(2,1400)	-
Net Cash Provided by (Used in) Operating Activities	\$ 13,263,140	\$ (2,683,951)	\$ 37,165,847	\$ (3,197,965)

See accompanying notes to consolidated financial statements.

SCRA

Notes to Consolidated Financial Statements

1. Description of Activities and Significant Accounting Policies

South Carolina Research Authority (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 seven members, supported by a Board of Trustees composed of 24 members, including the Executive Committee. SCRA's enabling legislation was amended in 2006.

SCRA is presently engaged in two principal functional activities: conducting applied research and commercialization services on a contractual basis and the development and marketing of a statewide system of research and knowledge-based infrastructure.

Pursuant to a 2005 amendment to SCRA's enabling legislation (the 2005 amendment), SCRA established SC Launch! Inc. (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 appoint a seventh member to the board of directors. Accordingly, SCRA appoints a minority of the board members.

In fiscal year 2006, SCRA entered into an agreement committing to provide \$12,000,000 of funding to SC Launch through fiscal year 2008. SC Launch received \$3,000,000 from SCRA in fiscal year 2006 and \$4,000,000 in fiscal year 2007, and \$2,570,000 of the remaining \$5,000,000 in fiscal year 2008. In 2006, the South Carolina legislature passed legislation (Industry Partners Amendment) which provides for South Carolina state tax credits to be issued to individual taxpayers for contributions up to \$2,000,000 in calendar year 2006, \$4,000,000 in calendar year 2007, and \$6,000,000 in calendar year 2008 and subsequent years. These contributions to an "Industry Partnership Fund", which is administered by SCRA, are used for funding of SC Launch program activities. Prior to March 18, 2008, all contributions to the Industry Partnership Fund were provided to SC Launch pursuant to a funding agreement between the parties.

In March 2008, SCRA and its component unit, SC Launch, modified the agreements between the parties with regard to execution responsibilities, including management services and custody of Industry Partnership Fund contributions. While the larger SC Launch Program remains unchanged, the distribution of execution responsibilities between SCRA and SC Launch has been redefined. SCRA will manage all Innovation Center and Industry Partnership funding, and will provide funding and services as required to 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 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. SC Launch currently receives substantially all of its funding from SCRA.

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 Advanced Technology International (ATI) (previously known as Advanced Technology Institute) and Technology Management Company (TMC). All significant intercompany balances and transactions have been eliminated in consolidation. Because SC Launch is considered a component unit of SCRA under Governmental Accounting Standards Board (GASB) guidelines, it is discretely presented for 2011 and 2010.

As a governmental authority, SCRA is subject to the pronouncements of the GASB. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, SCRA and SC Launch have elected to apply all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

Concentrations of Credit Risk

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

SCRA's cash equivalents and investments are in securities placed with financial institutions. The investment policy of SCRA 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, 2011 and 2010.

SCRA's accounts receivable result from its applied research and commercialization contracts, which are primarily with the U.S. government. SCRA provides credit to commercial 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 financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents.

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 employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage.

SCRA

Notes to Consolidated Financial Statements

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 Nonoperating Activities

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

For SC Launch, activities directly related to the grant making process of disbursing funds to portfolio companies and other related activities are reported as operating items. Other activities including interest income and other income are reported as nonoperating items.

Cash Equivalents

SCRA and SC Launch consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. SCRA's cash and cash equivalents at June 30, 2011 and 2010 include funds in public interest bearing checking accounts collateralized by a bank. SC Launch's cash and cash equivalents at June 30, 2011 and 2010 include funds in non-profit, interest bearing checking accounts.

Restricted Cash

Restricted cash includes funds received for contract agreements/grants that are held for expenditures related to those contract agreements/grants, as well as deposits made for Industry Partnership Fund contributions which have not yet been expended on execution of the SC Launch program and other South Carolina Research Innovation Centers (SCRIC) initiatives.

Investments

SCRA's current investments are composed of government guaranteed mortgage-backed securities and government asset-backed securities.

SCRA's noncurrent investments for fiscal years 2011 and 2010 include assets held for purposes of funding deferred compensation obligations and investments for which underlying securities have a stated maturity date greater than one year. These investments consisted of government guaranteed mortgage-backed securities and government asset-backed securities.

SCRA reports all debt securities at fair value in the consolidated balance sheet and all changes in fair value as income in the consolidated statement of revenues, expenses and changes in net assets.

SCRA

Notes to Consolidated Financial Statements

On May 20, 2011 ATI purchased a 30% ownership interest in MIT-RCF, LLC, an advanced materials company, for \$4 million. Since ATI exercises significant influence over the investee, the investment is accounted for under the equity method in accordance with FASB ASC 323 *Investments - Equity Method and Joint Ventures*. The investment is recorded in investments and other assets on the consolidated balance sheet and ATI's share of the investee's earnings is recorded in the consolidated statement of revenues, expenses, and changes in net assets. As of June 30, 2011, ATI's share of the investee's earnings was zero.

Long-Lived Assets

Trident Research Center (TRC) - The TRC and its related components are carried at cost. Depreciation is provided using the straight-line method over estimated useful lives, which range from five years for facility improvements to 30 years for the main facility.

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 as leasehold improvements. Depreciation is expensed using the straight-line method over estimated useful lives, which range from five to 30 years. The land and existing building structure are leased from the City of Charleston and have no value on SCRA's 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. Depreciation of the facility construction/renovation 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.

SCRA Research Center at Anderson - During 2011, SCRA also completed construction of this facility. These assets are carried at cost. 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.

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. Depreciation is provided using the straight-line method over estimated useful lives, which range from three to five 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, 2011 and 2010.

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.

Deferred Revenue

SCRA periodically receives advance payments on various contract agreements and grants. These payments are recorded as deferred 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.

SC Launch Grants

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 grant companies up to \$200,000 each. 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 granting 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 that provide for future conversion into equity interests in the companies. SC Launch refers to such companies as "portfolio companies". The overriding and primary objective of these disbursements of funds is to increase opportunities for employment of citizens of South Carolina and to promote and encourage expansion of the research and development industry sector. 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.

SCRA

Notes to Consolidated Financial Statements

SC Launch performs various due diligence activities before electing to grant funds to any perspective 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 grants are made or in subsequent periods. Accordingly, SC Launch is unable to reasonably ascertain the fair market value of these companies.

Based on the fact that SC Launch's primary objective in entering into the agreements with the companies is to grant funds to further economic development purposes for the state and not for its own self-interest as an organization and the lack of reasonably ascertained fair market values of the companies, SC Launch deems these agreements that disburse funds to individual companies to be nonexchange transactions. Accordingly, the financial statements reflect these transactions as grants based on their economic substance and not their legal form as notes or equity investments.

Although SC Launch accounts for the disbursements made to portfolio companies as grants, SC Launch records a nominal amount of \$100 for each individual portfolio company which is included in other assets in its balance sheet. This nominal amount is carried in the balance sheet for administrative and internal control 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.

Net Assets

The consolidated balance sheets utilize a net asset presentation. Net assets are categorized as net assets invested in capital assets, net of related debt; unrestricted; or restricted. Net assets are reported as restricted when constraints are placed on their use by external parties such as creditors, grantors, contributors, or laws and regulations. Unrestricted net assets have no external restrictions on use.

New Accounting Pronouncement

In June 2010, the GASB issued GASB Statement No. 59, *Financial Instruments Omnibus*. According to the GASB, this standard is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investment pools. Specifically, GASB 59 provides financial reporting guidance by doing the following:

- Emphasizing the applicability of SEC requirements to certain investment pools (known as 2a7-like pools) to provide users more consistent information on qualifying pools.
- Addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, to certain financial instruments to clarify which financial instruments are within the scope of that pronouncement and to provide greater consistency in financial reporting; and

SCRA

Notes to Consolidated Financial Statements

- Applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting for Financial Reporting for Certain Investments and for External Investment Pools*, to unallocated insurance contracts to improve the consistency of reporting by pension and other postemployment benefit plans.

GASB 59 is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010, and the adoption did not have a material impact on SCRA's consolidated financial statements.

In December 2010, the GASB issued GASB 61, *Financial Reporting Entity: Omnibus*. GASB 61 is designed to improve financial reporting for the governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since GASB 14 and GASB 34 were issued in 1991 and 1999, respectively.

GASB 61 is intended to improve the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units). In addition, GASB 61 amends the criteria for blending - reporting component units as if they were part of the primary government - in certain circumstances.

The requirements of GASB 61 are effective for financial statements for periods beginning after June 15, 2012. Earlier adoption is encouraged. GASB 62 will be effective for SCRA in fiscal year 2012 and it is not expected to have a material impact on SCRA's consolidated financial statements.

In December 2010, the GASB issued GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* ("GASB 62"). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

GASB 62 also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

SCRA

Notes to Consolidated Financial Statements

GASB 62 is effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged and the provisions of GASB 62 are required to be applied retroactively for all periods presented. GASB 62 will be effective for SCRA in fiscal year 2012 and it is not expected to have a material impact on SCRA's consolidated financial statements.

2. Cash and Investments

Deposits

At June 30, 2011 and 2010, SCRA's cash balance in bank or agent accounts was approximately \$67,411,000 and \$59,389,000, respectively. At June 30, 2011 and 2010, SC Launch's cash balance in bank or agent accounts was approximately \$967,000 and \$563,000, respectively. SCRA's cash deposits are collateralized as discussed under "cash equivalents" in Note 1. Also, due to 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 2011 and 2010. SC Launch's cash deposits are partially uninsured and uncollateralized.

Investments

At June 30, 2011, SCRA's investment balances, recorded at fair market value, and the investment maturities, were as follows:

<i>June 30, 2011</i>	Maturities				Total
	<1 year	1-5 years	5-10 years	10-20	
Money Market	\$ 18	\$ -	\$ -	\$ -	\$ 18
Short Term Govt Mutual Fund	40,980	3,852,065	204,897	-	4,097,942
Ginnie Mae Mutual Fund	39,063	417,139	930,541	8,371	1,395,114
	\$ 80,061	\$4,269,204	\$1,135,438	\$ 8,371	\$5,493,074

At June 30, 2010, SCRA's investment balances, recorded at fair market value, and the investment maturities, were as follows:

<i>June 30, 2010</i>	Maturities				Total
	<1 year	1-5 years	5-10 years	10-20	
Money Market	\$ 416,928	\$ -	\$ -	\$ -	\$ 416,928
Short Term Govt Mutual Fund	64,257	2,579,753	86,416	-	2,730,426
Ginnie Mae Mutual Fund	24,460	373,284	475,844	-	873,588
	\$ 505,645	\$ 2,953,037	\$ 562,260	\$ -	\$ 4,020,942

SCRA

Notes to Consolidated Financial Statements

Interest Rate Risk

SCRA does not have a formal written investment policy. However, as a means of limiting its exposure to fair value losses as a result of rising interest rates, SCRA generally invests in obligations with varying maturity dates.

Credit Risk

SCRA has no written policy regarding credit risk. However, 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 for SCRA's applicable securities are listed below:

<i>June 30,</i>	2011	2010
Short Term Govt Mutual Fund	AAA	AAA
Binne Mae Mutual Fund	AAA	AAA

Custodial Credit Risk

For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, SCRA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. SCRA has no written policy on custodial credit risk; however, based on the nature of the investments SCRA currently holds, management does not consider custodial risk to be significant.

Concentration of Credit Risk

SCRA places no formal limit on the amount that it may invest in any one issuer. However, investments are typically placed with multiple issuers.

3. Accounts Receivable

SCRA has various contracts and grants with commercial enterprises and the U.S. government in varying stages of completion, the majority of which are with the Department of Defense.

SCRA

Notes to Consolidated Financial Statements

Accounts receivable from U.S. government agreements and commercial contracts at June 30 consisted of the following:

<i>June 30,</i>	2011	2010
Amounts billed:		
Government agreements	\$ 10,539,016	\$ 25,683,758
Commercial contracts	4,149	1,088,892
Recoverable direct and allocable costs and fees not yet billed:		
Government agreements	14,649,895	2,533,634
Commercial contracts	141,471	56,212
	\$ 25,334,531	\$ 29,362,496

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 reserve balance. Management determined that an allowance for doubtful accounts of \$100,000 and \$0 was considered necessary as of June 30, 2011 and 2010, respectively, based on SCRA's high concentration of receivables with the U.S. government and the absence of any known collection concerns with commercial accounts.

The contract costs billed to the U.S. government are subject to audit by the Defense Contract Audit Agency (DCAA) (see Note 13).

SCRA

Notes to Consolidated Financial Statements

4. Capital Assets

Capital asset activity for the years ended June 30 was as follows:

<i>June 30,</i>	2010	Additions	Deletions	2011
Land and land development costs (*)	\$ 6,129,869	\$ -	\$ (41,752)	\$ 6,088,117
Trident Research Center	21,041,010	8,462	-	21,049,472
Innovation Centers at Charleston, Columbia and Clemson	10,048,135	3,517,175	(325)	13,564,985
Furniture, fixtures and office equipment	9,279,171	181,946	(466,962)	8,994,155
	46,498,185	3,707,583	(509,039)	49,696,729
Less accumulated depreciation for:				
Trident Research Center	14,873,690	763,822	-	15,637,512
Innovation Center at Charleston Columbia and Clemson	156,985	437,777		594,762
Furniture, fixtures and office equipment	8,811,399	291,032	(466,962)	8,635,469
Total accumulated depreciation	23,842,074	1,492,631	(466,962)	24,867,743
Net capital assets	\$22,656,111	\$ 2,214,952	\$ (42,077)	\$24,828,986

SCRA

Notes to Consolidated Financial Statements

<i>June 30,</i>	2009	Additions	Deletions	2010
Land and land development costs (*)	\$ 2,147,342	\$ 3,982,527	\$ -	\$ 6,129,869
Trident Research Center	20,847,430	193,580	-	21,041,010
Innovation Centers at Charleston, Columbia and Clemson	1,844,776	8,203,359	-	10,048,135
Furniture, fixtures and office equipment	9,286,363	138,557	(145,749)	9,279,171
	34,125,911	12,518,023	(145,749)	46,498,185
Less accumulated depreciation for:				
Trident Research Center	14,074,111	799,579	-	14,873,690
Innovation Center at Charleston Columbia and Clemson	-	156,985	-	156,985
Furniture, fixtures and office equipment	8,629,269	327,648	(145,518)	8,811,399
Total accumulated depreciation	22,703,380	1,284,212	(145,518)	23,842,074
Net capital assets	\$11,422,531	\$11,233,811	\$ (231)	\$ 22,656,111

(*) 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. 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 of the 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 approximately \$280,693 and \$451,815 for the years ended June 30, 2011 and 2010, respectively.

SCRA

Notes to Consolidated Financial Statements

SCRA's future minimum lease payments under noncancelable operating leases are as follows:

<i>Year Ending June 30, 2011</i>	Amount
2012	\$ 260,078
2013	206,208
2014	174,205
2015	156,830
2016	135,498
2017-2021	509,052
2022-2026	506,286
2027-2031	59,067
Total	\$ 2,007,224

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's only individual significant lease is the ground lease for the Trident Research Center in Charleston, SC, which expires January 31, 2027, but shall be automatically extended, unless SCRA provides notice of intent to terminate, for two successive ten-year periods. That lease is adjusted every five years, with the adjusted annual rent equal to 10% of the reappraised value of the unimproved land. However, such adjustment is not to exceed 10% of the base rent for the previous five-year period. The next rate adjustment on this lease is scheduled for February 1, 2012.

SCRA leases certain unused space in the TRC and the Innovation Centers to unrelated entities. Future minimum rentals on noncancelable leases are as follows:

<i>Year Ending June 30, 2011</i>	Amount
2012	\$ 2,291,449
2013	1,757,446
2014	1,423,222
2015	759,440
2016	359,519
2017	282,402
2018	232,720
2019-2023	610,495
2024-2028	126,530
2029-2033	126,530
2034-2038	126,530
Total	\$ 8,096,283

SCRA

Notes to Consolidated Financial Statements

7. Line of Credit

SCRA has a revolving loan agreement with a bank which expires on December 31, 2011. Maximum borrowings are limited to \$2,000,000. Management expects this agreement to be renewed. There were no amounts outstanding at June 30, 2011 or 2010. Borrowings may be incurred to satisfy financial obligations in relation to contract activity.

8. Long-Term Debt Obligation

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 January 21, 2009, SCRA entered into a construction/mini-perm loan agreement (A Note) with a financial institution, in the amount of \$4,125,000 which accrues interest at LIBOR plus 250 basis points and requires quarterly payments of interest only until January 31, 2016. From February 1, 2016 through the maturity date of January 31, 2019 the agreement requires quarterly payments of principal and interest. As of June 30, 2011 SCRA had borrowed \$4,125,000 under this agreement.

On January 21, 2009, effective February 1, 2009, to hedge its exposure to changes in interest rates, SCRA entered into a seven year interest rate swap with a notional amount of \$4,125,000 to pay a fixed rate of 2.95% and receive a variable rate equal to LIBOR, payable on a quarterly basis with the first payment due April 1, 2009. The interest rate swap had a negative (\$245,575) fair value at June 30, 2011.

On January 21, 2009, SCRA entered into a construction/mini-perm note (B Note) with a financial institution in the amount of \$1,375,000, which accrues interest at LIBOR and requires quarterly payments of interest only until January 31, 2016. From February 1, 2016 through the maturity date of January 31, 2049 the agreement will be converted to the Deferred Payment Term which requires no principal or interest payments. The B Note is subject to a put/call provision after seven years. As of June 30, 2011 SCRA had borrowed \$1,375,000 under this agreement.

On January 21, 2009, effective February 1, 2009, to hedge its exposure to changes in interest rates, SCRA entered into a seven year interest rate swap with a notional amount of \$1,375,000 to pay a fixed rate of 2.95% and receive a variable rate equal to LIBOR, payable on a quarterly basis with the first payment due April 1, 2009. The interest rate swap had a negative (\$81,858) fair value at June 30, 2011.

SCRA USC Innovation Center at Columbia

In July 2010, SCRA completed renovations of the SCRA USC Innovation Center at Columbia. In July 2009, SCRA purchased land and a building located at 1000 Catawba Street in Columbia, SC. The capital assets related to the innovation center are carried at cost. The renovations are financed

SCRA

Notes to Consolidated Financial Statements

through a New Market Tax Credit mortgage arrangement that is structured as two notes payable described below.

On December 22, 2009, SCRA entered into a construction/mini-perm loan agreement (Senior Note) with a financial institution, in the amount of \$4,950,000 which accrues interest at LIBOR plus 220 basis points and requires monthly payments of interest only until the maturity date of December 22, 2016. As of June 30, 2011 SCRA had borrowed \$4,950,000 under this agreement.

On December 22, 2009, SCRA entered into a construction/mini-perm note (Subordinate Note) with a financial institution in the amount of \$1,237,500, which accrues interest at 0.00% until December 22, 2016. From December 23, 2016 through the maturity date of December 22, 2049 interest will accrue 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. As of June 30, 2011 SCRA had borrowed \$1,237,500 under this agreement.

SCRA Clemson Innovation Center

In March 2011, SCRA completed construction of the SCRA Research Center at Anderson. The capital assets related to the facility are carried at cost. The construction was financed through Recovery Zone Facility Revenue Bonds.

On July 14, 2010, SCRA entered into a Loan Agreement with South Carolina Jobs-Economic Development Authority (SC JEDA) and into a Continuing Covenant Agreement with a financial institution which provided for bond financing in the amount of \$3,825,000. Interest on the bonds accrues at 65.7% of LIBOR plus 1.68% and requires quarterly payments of interest only until April 1, 2012 at which time accrued interest and \$50,000 of principal will be paid quarterly until the maturity date of July 1, 2030. Pursuant to the bond financing agreements, prior to July 1, 2030 there may be events such as a change in the interest rate determination method which would create a mandatory purchase requirement of the bonds. At the time a mandatory purchase occurs, provided certain conditions are met, SCRA will have the ability to remarket the bonds to another bondholder however there is no guarantee the bonds will be successfully placed with a holder at such time. Based on the provisions of the bond financing agreements, a mandatory purchase requirement will exist as of July 14, 2017. At such time SCRA may remarket the bonds or pay the outstanding principal balance of the bonds. As of June 30, 2011 SCRA had borrowed \$3,825,000 under these agreements.

Interest paid during fiscal year 2011 totaled \$465,282. Additionally, \$21,186 was capitalized to the assets under construction discussed above and \$444,096 was expensed after the completion of construction of the asset discussed above.

SCRA

Notes to Consolidated Financial Statements

Future principal and interest under SCRA's long-term debt agreements are:

<i>Year Ending June 30, 2011</i>	Principal Payments	Interest Payments	Total Debt Service
2012	\$ 50,000	\$ 452,266	\$ 502,266
2013	200,000	449,563	649,563
2014	200,000	445,958	645,958
2015	200,000	442,354	642,354
2016	268,750	374,034	642,784
2017	5,425,000	217,619	5,642,619
2018	475,000	147,574	622,574
2019	3,706,250	107,807	3,814,057
2020	200,000	42,802	242,802
2021	200,000	39,198	239,198
2022	200,000	35,593	235,593
2023	200,000	31,989	231,989
2024	200,000	28,385	228,385
2025	200,000	24,780	224,780
2026	200,000	21,176	221,176
2027	200,000	17,571	217,571
2028	200,000	13,967	213,967
2029	200,000	10,363	210,363
2030	200,000	6,758	206,758
2031	172,300	263	172,563
2049	1,375,000	83,332	1,458,332
2050	1,237,500	618,564	1,856,064
Total	\$ 15,509,800	\$ 3,611,916	\$ 19,121,716

9. Accounting and Financial Reporting for Derivative Instruments

Statement No. 53 of the Governmental Accounting Standards Board - *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53") was issued in June 2008 and is effective for financial statements for fiscal years which begin after June 15, 2009.

SCRA

Notes to Consolidated Financial Statements

The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2011, and the changes in fair value of such derivative instruments for the year ended as reported in the 2011 financial statements are as follows:

Item	Cash Flow Hedges	Change in Fair Value		Fair Value at June 30, 2011		Notional Amount
		Classification	Amount	Classification	Amount	
A	Receive - variable interest rate swap	Deferred inflow of resources	(\$23,026)	Debt	(\$245,575)	\$4,125,000
B	Receive - variable interest rate swap	Deferred inflow of resources	(\$14,050)	Debt	(\$81,858)	\$1,375,000

The following table displays the objective and terms of SCRA's hedging derivative instruments outstanding at June 30, 2011, along with the credit rating of the associated counterparty:

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counterparty Credit Rating
A	Receive - variable interest rate swap	Hedge of changes in cash flows related to New Market Tax Credit loan for Charleston Innovation Center	\$4,125,000	2/2/09	1/1/16	Receive LIBOR, pay 2.95%	AA- / Aaa
B	Receive - variable interest rate swap	Hedge of changes in cash flows related to New Market Tax Credit loan for Charleston Innovation Center	\$1,375,000	2/2/09	1/1/16	Receive LIBOR, pay 2.95%	AA- / Aaa

Credit Risk. SCRA is exposed to credit risk on hedging derivative instruments that are in asset positions. SCRA's counterparty for its derivative instruments has a credit rating of AA- as issued by Fitch Ratings and Standard & Poor's and Aaa as issued by Moody's Investors Services. SCRA's derivative instruments with the counterparty are subject to a netting arrangement. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

Interest Rate Risk. SCRA is exposed to interest rate risk on its receive-variable, pay-fixed interest rate swaps. As the London Interbank Offered Rate (LIBOR) decreases, SCRA's net payment on the swaps increases. On an overall basis SCRA is not exposed to interest rate risk as the interest rate on SCRA's hedged debt associated with the swaps has variable-rate payments based on LIBOR.

SCRA

Notes to Consolidated Financial Statements

Basis Risk. SCRA is not exposed to basis risk as the variable-rate payments received by SCRA are based on a rate that is the same as SCRA pays on its hedged variable-rate debt.

Termination Risk. SCRA or its counterparty may terminate a derivative instrument if the other party fails to perform under the terms of the contract.

Rollover Risk. SCRA is exposed to rollover risk on hedging derivative instruments that are hedges of debt that mature or may be terminated prior to the maturity of the hedged debt. When these hedging derivative instruments terminate, SCRA will be re-exposed to the risks being hedged by the hedging derivative instrument.

10. Employee Benefit Plans

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's contributions in 2011 were approximately \$147,000 which is included in salaries, wages and other related costs in the accompanying consolidated statements of revenue, expenses and changes in net assets.

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. Past service benefit amounts for 2011 were approximately \$351,000.

SCRA also 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 2011 and 2010 were approximately \$810,000 and \$845,000, respectively, which is included in salaries, wages and other related costs in the accompanying consolidated statements of revenue, expenses and changes in net assets.

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.

11. 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

SCRA

Notes to Consolidated Financial Statements

premiums for retirees, but the retirees pay costs of premiums associated with retirees' dependents. For purpose of financial reporting under the requirements of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB Statement 45), SCRA's participation in the State's EIP retiree health care plan is considered to be a single-employer defined benefit healthcare plan. SCRA's plan does not issue a standalone report.

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 pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by SCRA. For fiscal year 2011, SCRA contributed \$63,275 to the plan for current premiums. Plan members receiving benefits contributed \$28,764, or approximately 31% of the total premiums, through their required contribution of \$93 per month for retiree-only standard coverage or \$186 per month for retiree only HMO coverage, \$245 per month for retiree and spouse standard coverage and \$316 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 45. 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:

	2011	2010
Annual required contribution	\$ 496,719	\$ 271,397
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost (expense)	496,719	271,397
Contributions made	(63,275)	(39,600)
Increase in net OPEB Obligation	433,444	231,797
Net OPEB obligation, beginning of year	722,147	490,350
Net OPEB obligation, end of year	\$ 1,155,591	\$ 722,147

SCRA

Notes to Consolidated Financial Statements

SCRA's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding fiscal years were as follows:

<i>Fiscal Year Ended June 30,</i>	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 304,541	9.0%	\$ 490,350
2010	\$ 231,797	14.6%	\$ 722,147
2011	\$ 433,444	12.7%	\$ 1,155,591

Net OPEB obligation is recorded within accrued expenses on the consolidated balance sheets.

Funded Status and Funding Progress. As of the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$3,509,779, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,509,779. The covered payroll (annual payroll of active employees covered by the plan) was \$11,819,895, and the ratio of the UAAL to the covered payroll was 30%.

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.

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 4.5% 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 7.25% initially, reduced by decrements to an ultimate rate of 5.5% after ten years. The health care increase rates were based on assumptions for inflation of 3%. 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.

SCRA

Notes to Consolidated Financial Statements

12. Related Party Transactions

SC Launch does not have any employees, and substantially all of its administrative function is performed by SCRA. Prior to March 18, 2008, substantially all of SC Launch's expenses were paid directly by SCRA. In turn, SCRA invoiced SC Launch at actual cost for expenses related to the operation of SC Launch. This arrangement was based on a management service agreement between SC Launch and SCRA. No management fees were incurred in 2009 or owed by SC Launch to SCRA as of June 30, 2009 due to the modification in the agreements between SCRA and SC Launch described below.

In March 2008, SCRA and SC Launch modified the agreements between the parties with regard to program execution responsibilities, including management services and custody of Industry Partnership Fund contributions. While the larger SC Launch Program remains unchanged, the distribution of execution responsibilities between SCRA and SC Launch has been redefined. Based on the new agreement between the parties, SCRA will continue to provide funding and services to SC Launch as required to execute the program. SCRA transferred \$2.1 million and \$1 million to SC Launch in 2011 and 2010, respectively, to support SC Launch operations. Based on the new 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.

Effective July 1, 2010, SCRA entered into agreements with its affiliate, ATI, in which SCRA provides employees to ATI pursuant to an employee lease agreement and certain support services pursuant to a management services agreement. Expenses related to services provided by SCRA are payable by ATI and are settled on a monthly basis.

13. Commitments and Contingencies

DCAA Audits

Costs billed by SCRA to the U.S. government pursuant to Department of Defense contracts are subject to audit by the DCAA. Audits covering periods through fiscal year 2006 have been completed without adjustment. Furthermore, management does not believe any potential adjustment to fiscal years 2007 through 2011 would have a material effect on the consolidated financial statements. Accordingly, no provision for such adjustments has been made.

14. Subsequent Events

SCRA has evaluated subsequent events from July 1, 2011 through October 18, 2011 (the date of the audit report and the date the financial statements were available to be issued). During this period, no material recognizable events were identified.

Required Supplementary Information

SCRA

Schedule of Funding Progress

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)
2011	--	\$3,509,779	\$3,509,779	0%	\$11,819,895	30%
2010	--	\$1,656,865	\$1,656,865	0%	\$ 5,963,568	28%
2009	--	\$1,656,865	\$1,656,865	0%	\$ 5,963,568	28%