

**InvestSC, Inc.**

***Report on Financial Statements***

***For the years ended December 31, 2012 and 2011***

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## Independent Auditor's Report

Board of Directors  
InvestSC, Inc.  
Columbia, South Carolina

We have audited the accompanying financial statements of InvestSC, Inc. (the "Organization") which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of InvestSC, Inc. as of December 31, 2012 and 2011 and the results of its activities and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

As discussed in Note 3 to the financial statements, portfolio investments amounting to \$44,182,716 and \$37,474,011, approximately 79% and 70% of 2012 and 2011 total assets, respectively, have been valued at their estimated fair value as determined by management in the absence of readily ascertainable market values using valuation criteria believed to be applicable to the Organization. However, in the case of those portfolio investments with no readily ascertainable market values, because of the inherent uncertainty of valuation, management's estimate of fair values may differ significantly from the values that would have been used had a ready market existed for the investments, and the differences could be material.

*Elliott Davis, LLC*

Columbia, South Carolina  
September 16, 2012

**InvestSC, Inc.****Statements of Financial Position****December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,515,000	\$ 633,824
Total current assets	<u>1,515,000</u>	<u>633,824</u>
<b>Investments</b>		
Azalea Fund III, LP	3,959,557	1,663,185
Frontier Fund II, LP	11,651,944	10,472,950
Nexus Medical Partners II, LP	16,638,308	18,267,892
Noro-Moseley Partners VI, LP	11,932,907	7,069,984
Total investments	<u>44,182,716</u>	<u>37,474,011</u>
<b>Other assets</b>		
Restricted cash and cash equivalents - interest reserve	1,875,392	1,875,204
Restricted cash and cash equivalents - premium reserve	3,750,782	3,750,406
Restricted cash and cash equivalents - capital contributions	3,881,889	8,848,942
Note issuance costs, net	698,883	772,450
Total other assets	<u>10,206,946</u>	<u>15,247,002</u>
	<u>\$ 55,904,662</u>	<u>\$ 53,354,837</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,309	\$ 4,183
Accrued interest	90,588	90,588
Total current liabilities	<u>94,897</u>	<u>94,771</u>
<b>Notes payable</b>	50,000,000	50,000,000
<b>Net assets</b>		
Unrestricted	5,809,765	3,260,066
	<u>\$ 55,904,662</u>	<u>\$ 53,354,837</u>

See Notes to Financial Statements

**InvestSC, Inc.****Statements of Activities****For the years ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
Tax credit sales	\$ 3,680,000	\$ 3,680,000
Interest on escrow deposits and operating accounts	1,393	1,105
	<u>3,681,393</u>	<u>3,681,105</u>
<b>Expenses</b>		
Amortization of note issuance costs	73,567	73,567
Interest expense	3,683,892	3,673,826
Salaries and benefits	46,753	48,282
Payroll taxes	3,114	3,285
Legal and professional fees	52,199	50,021
Rent	7,500	7,500
Trustee expense	4,750	4,750
Other	6,000	5,447
	<u>3,877,775</u>	<u>3,866,678</u>
<b>Net investment loss</b>	(196,382)	(185,573)
<b>Net realized gain on investments</b>	522,428	3,933,237
<b>Net unrealized gain (loss) on investments</b>	<u>2,223,653</u>	<u>(3,430,832)</u>
<b>Change in net assets</b>	2,549,699	316,832
<b>Net assets, beginning of year</b>	3,260,066	2,943,234
<b>Net assets, end of year</b>	<u>\$ 5,809,765</u>	<u>\$ 3,260,066</u>

See Notes to Financial Statements

**InvestSC, Inc.****Statements of Cash Flows****For the years ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating activities</b>		
Change in net assets	\$ 2,549,699	\$ 316,832
Adjustments to reconcile change in net assets to net cash used for operating activities		
Amortization of note issuance costs	73,567	73,567
Accrued interest reinvested	-	81
Unrealized loss (gain) on investments	(2,223,653)	3,430,832
Realized gain on sale of investments	(522,428)	(3,933,237)
Changes in deferred and accrued amounts		
Accounts payable	126	(48,891)
Net cash used for operating activities	<u>(122,689)</u>	<u>(160,816)</u>
<b>Investing activities</b>		
Portfolio investments	(4,967,720)	(2,726,711)
Proceeds from sale/liquidation of investments	1,005,096	8,505,564
Net cash provided by (used for) investing activities	<u>(3,962,624)</u>	<u>5,778,853</u>
Net increase (decrease) in cash and cash equivalents	(4,085,313)	5,618,037
<b>Cash and cash equivalents,</b>		
<b>Beginning of year</b>	<u>15,108,376</u>	<u>9,490,339</u>
<b>Cash and cash equivalents,</b>		
<b>End of year</b>	<u>\$ 11,023,063</u>	<u>\$ 15,108,376</u>
<b>Cash and cash equivalents, end of year</b>		
Unrestricted	\$ 1,515,000	\$ 633,824
Restricted - interest reserve	1,875,392	1,875,204
Restricted - premium reserve	3,750,782	3,750,406
Restricted - capital contributions	3,881,889	8,848,942
	<u>\$ 11,023,063</u>	<u>\$ 15,108,376</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	<u>\$ 3,683,892</u>	<u>\$ 3,673,826</u>

**See Notes to Financial Statements**

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## **InvestSC, Inc.**

### ***Notes to Financial Statements***

***December 31, 2012 and 2011***

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#### **Note 1. Summary of Significant Accounting Policies**

##### **Organization:**

InvestSC, Inc. (the Organization), a South Carolina Not-for-Profit Corporation was formed on March 1, 2007 by the Jobs and Economic Development Authority (JEDA) at the request of the South Carolina Venture Capital Authority (VCA), an agency formed within the South Carolina Department of Commerce. The VCA selected the Organization to serve as a "designated investor group" under the provisions of the Venture Capital Act of South Carolina.

##### **Financial statement presentation:**

The Organization prepares its financial statements in accordance with accounting standards for not-for-profit organizations. These accounting standards require the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The Organization had no temporarily or permanently restricted net assets.

##### **Cash and cash equivalents:**

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

##### **Investments:**

The Organization, in accordance with generally accepted accounting principles, is an investment company under the AICPA Audit and Accounting Guide *Investment Companies*. As such, the Organization's investments are reported at fair value. Unrealized gains and losses resulting from changes in fair value are recognized in the corresponding statements of activities. Realized gains are the amount by which the sale price of an investment exceeds its cost basis. The cost basis is determined by allocating the Organization's investment proportionately to distributions and to the Organization's remaining investment interest. The values estimated for portfolio investments are based on available information and do not necessarily represent amounts that will ultimately be realized. Such values depend on future circumstances and cannot reasonably be determined until the investments are actually liquidated. Because of the inherent uncertainty of valuations, the estimates of fair values may differ significantly from the values that would have been used had a ready market existed for the investments, and differences could be material. See Note 3 for fair value portfolio disclosures related to the portfolio investments.

Accounting standards define fair value, establish a framework for measuring fair value, and require certain disclosures about fair value measurements. The definition of fair value is based on the exchange price and clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability. This definition focuses on the price that would be paid to acquire the asset or received to assume the liability (an entry price). Accounting standards emphasize that fair value is a market-based measurement, not an entity-specific measurement.



## InvestSC, Inc.

### Notes to Financial Statements

December 31, 2012 and 2011

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#### Note 1. Summary of Significant Accounting Policies, Continued

##### Investments (continued):

Accounting standards describe three levels of inputs that may be used to measure fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

All of the Organization's investments are Level 3 assets.

##### Note issuance costs:

Note issuance costs are amortized over the life of the related note agreement.

##### Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The valuation of investments in venture capital funds is a significant estimate included in these financial statements.

##### Income taxes:

The Organization is exempt from income tax under IRC Section 501(c)(3).

The Financial Accounting Standards Board (FASB) provides guidance on the Organization's evaluation of accounting for uncertainty in income taxes. Management evaluated the Organization's tax positions and concluded that the Organization has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance for the years ended December 31, 2012 and 2011. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2009.

## **InvestSC, Inc.**

### ***Notes to Financial Statements***

***December 31, 2012 and 2011***

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#### **Note 1. Summary of Significant Accounting Policies, Continued**

##### **Subsequent events:**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 16, 2013, the date the financial statements were available to be issued.

#### **Note 2. Concentrations of Credit Risk**

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. The Organization places its cash deposits with high credit quality financial institutions. At times, such deposits may be in excess of the Federal Deposit Insurance Corporation insured limits.

#### **Note 3. Investments**

The Organization executed agreements with four venture capital funds. The agreements specify how much can be invested in each company within the fund, annual limits on capital contributions and a repayment plan based on expected liquidity events for its portfolio investments. All payments must occur within 10 years, subject to additional time as may be required for the orderly liquidation of the investment portfolio. The following represents a description of the selected funds, the commitment level to the funds and the investment status.

The Azalea Fund III, LP (Azalea III) was organized on October 29, 2008 and had its initial capital closing on November 3, 2008. Azalea III has a focus of lower middle market companies throughout the southeastern United States. The focus is on the key industries of manufacturing, distribution, consumer products, business revenues and health care industries. During 2008, the Azalea Fund III, LP was selected for an investment of \$8,500,000. As of December 31, 2012, the Organization has invested \$5,621,368 in Azalea III and received cumulative distributions of \$6,499,566 from this fund.

Frontier Fund II, LP (Frontier) is a growth equity fund that provides capital to established financial services growth stage companies with annual revenues of \$3 million to \$25 million. Its prior fund investments have been in the Southeast, including several companies in South Carolina. Frontier was selected for an investment of \$8,000,000. As of December 31, 2012, the Organization has invested \$8,000,000 in Frontier and received cumulative distributions of \$828,834 from the fund.

Nexus Medical Partners II, LP (Nexus) invests in the medical technologies and life science sectors. Nexus was selected for an investment of \$20,000,000. As of December 31, 2012, the Organization has invested \$20,000,000 in Nexus and received cumulative distributions of \$1,725,000 from the fund.

Noro-Moseley Partners VI, LP (Noro-Moseley) focuses on three broad industries: technology, healthcare and technology-enabled business services. It invests in companies that are early stage (\$0 to \$5 million in revenue) and early growth (\$5 million to \$20 million in revenue). Noro-Moseley was selected for an investment of \$10,000,000. As of December 31, 2012, the Organization has invested \$8,997,993 in Noro-Mosley and received cumulative distributions of \$1,856,111 from this fund.

# InvestSC, Inc.

## Notes to Financial Statements

December 31, 2012 and 2011

### Note 3. Investments, Continued

The Organization's portfolio investments are all considered Level 3 investments. Activity during 2012 and 2011 consisted of the following:

Fund	Cost at December 31, 2011	Additional Contributions	Distributions at Cost	Cost at December 31, 2012	Fair Market Value at December 31, 2012	Cumulative Unrealized Gain/(Loss)
Azalea III	\$ 1,189,475	\$ 2,487,720	\$ 482,668	\$ 3,194,527	\$ 3,959,557	\$ 765,030
Frontier	7,083,753	480,000	-	7,563,753	11,651,944	4,088,191
Nexus Medical	18,307,146	-	-	18,307,146	16,638,308	(1,668,838)
Noro-Moseley	5,542,816	2,000,000	-	7,542,816	11,932,907	4,390,091
	<u>\$ 32,123,190</u>	<u>\$ 4,967,720</u>	<u>\$ 482,668</u>	<u>\$ 36,608,242</u>	<u>\$ 44,182,716</u>	<u>\$ 7,574,474</u>

Fund	2012 Gross Distributions	Distributions at Cost	Realized Gain/(Loss)
Azalea III	\$ 1,005,096	\$ 482,668	\$ 522,428
Frontier	-	-	-
Nexus Medical	-	-	-
Noro-Moseley	-	-	-
	<u>\$ 1,005,096</u>	<u>\$ 482,668</u>	<u>\$ 522,428</u>

Fund	Cost at December 31, 2010	Additional Contributions	Distributions at Cost	Cost at December 31, 2011	Fair Market Value at December 31, 2011	Cumulative Unrealized Gain/(Loss)
Azalea SC	\$ 70,613	\$ -	\$ 70,613	\$ -	\$ -	\$ -
Azalea III	2,206,937	926,711	1,944,173	1,189,475	1,663,185	473,710
Frontier	6,283,753	800,000	-	7,083,753	10,472,950	3,389,197
Nexus Medical	19,409,510	-	1,102,364	18,307,146	18,267,892	(39,254)
Noro-Moseley	5,997,993	1,000,000	1,455,177	5,542,816	7,069,984	1,527,168
	<u>\$ 33,968,806</u>	<u>\$ 2,726,711</u>	<u>\$ 4,572,327</u>	<u>\$ 32,123,190</u>	<u>\$ 37,474,011</u>	<u>\$ 5,350,821</u>

Fund	2011 Gross Distributions	Distributions at Cost	Realized Gain/(Loss)
Azalea SC	\$ 100,323	\$ 70,613	\$ 29,710
Azalea III	5,449,130	1,944,173	3,504,957
Frontier	-	-	-
Nexus Medical	1,100,000	1,102,364	(2,364)
Noro-Moseley	1,856,111	1,455,177	400,934
	<u>\$ 8,505,564</u>	<u>\$ 4,572,327</u>	<u>\$ 3,933,237</u>

## InvestSC, Inc.

### Notes to Financial Statements

December 31, 2012 and 2011

#### Note 3. Investments, Continued

Investments valued at Level 3 inputs were based on the Organization's proportional share of the underlying funds. In determining values of investments held by each fund, management of each fund used various valuation methodologies that consider a range of observable and unobservable factors, including, but not limited to, the stage of the investment, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financial conditions, and financial transactions subsequent to the acquisition of the investment. The inputs used in determining the fair value of the investments held by each fund involved significant judgment and estimation by management of each of the funds.

The changes in investments classified as Level 3 for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 37,474,011	\$ 42,750,459
Purchases	4,967,720	2,726,711
Sales	(1,005,096)	(8,505,564)
Realized gains included in earnings	522,428	3,933,237
Unrealized gains (losses) in earnings	<u>2,223,653</u>	<u>(3,430,832)</u>
Balance, end of year	<u>\$ 44,182,716</u>	<u>\$ 37,474,011</u>

The General Partners, which manage the venture capital investment funds, generally determine the amount, timing and form of all distributions made by the funds.

#### Note 4. Notes Payable

On June 22, 2007, the Organization signed a Securities Purchase Agreement with a bank for \$50 million in notes (the notes). The balance of the notes at December 31, 2012 and 2011 was \$50,000,000. Interest is payable semi-annually at a fixed rate of 7.247%. No principal payments are due until 2019. At that time, \$12,500,000 in principal will be due each year until the notes are paid off on June 22, 2022.

The notes originally required the establishment of three reserve funds as follows: interest reserve, tax reserve and premium reserve funds. The required interest reserve amount is equal to the interest payment that would be due on the next interest payment date assuming the maximum aggregate principal amount of the notes was outstanding. The tax reserve was released during October 2007, since the Organization received notification from the Internal Revenue Service that the Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The premium reserve is a computed amount as required by the "Premium Account Control Agreement". At December 31, 2012 and 2011, the interest reserve totaled \$1,875,392 and \$1,875,204, respectively, and the premium reserve totaled \$3,750,782 and \$3,750,406, respectively.

## **InvestSC, Inc.**

### ***Notes to Financial Statements***

***December 31, 2012 and 2011***

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#### **Note 4. Notes Payable, Continued**

The notes are secured by all of the Organization's assets and \$50 million in tax credit certificates to be issued by the VCA as needed by the Organization. These tax credits may be used by the purchaser to offset South Carolina tax liabilities. Other than security for borrowings under the notes, the Organization may use the proceeds from the sale of these tax credits to pay required principal and interest payments of the Organization's notes payable.

During December 2010, the Organization amended its Securities Purchase Agreement in order to create a capital contribution account and to allow the Organization to use its operating cash account to meet semi-annual interest payments when due. Under the amended agreement, if there are inadequate funds in the operating account to meet an interest payment when due, the Organization may sell up to \$20 million in tax credits annually to satisfy the interest payments due. During 2012 and 2011, the Organization sold approximately \$4,600,000 of tax credits at \$.80 per tax credit dollar, which netted \$3,680,000 during each year. The capital contribution account was established for the purpose of depositing distributions received from the Organization's venture capital fund investments to fund future capital commitment calls from any of the Organization's funds. At December 31, 2012 and 2011, the capital contribution account totaled \$3,881,889 and \$8,848,942, respectively.

#### **Note 5. Pension Plan and Other Employee Benefits**

All employees of the Organization are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all state employees are required to participate in and contribute to the System as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides annuity benefits as well as disability, cost of living adjustment, death and group-life insurance benefits to eligible employees and retirees.

The Retirement Division (the Division) maintains five independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the five pension plans are included in the CAFR of the State of South Carolina.

Employees participating in the SCRS are required to contribute 6.5% of all compensation. The employer contribution rate was 13.685% and 13.14% for the years ended December 31, 2012 and 2011, which included a 4.30% and 3.90% surcharge to fund retiree health and dental insurance coverage, respectively. The Organization's actual contributions to the SCRS were approximately \$5,300 and \$5,800 for the years ending December 31, 2012 and 2011, respectively.

Article X, Section 16 of the South Carolina Constitution requires that all state operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest twelve consecutive quarters of compensation).

## **InvestSC, Inc.**

### ***Notes to Financial Statements*** ***December 31, 2012 and 2011***

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#### **Note 5. Pension Plan and Other Employee Benefits, Continued**

The Systems do not make separate measurement of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Organization's liability under the retirement plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Organization's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Organization recognizes no contingent liability for unfunded costs associated with participation in this plan.

At retirement, employees participating in the SCRS may receive additional service credit for up to 90 days for accumulated unused sick leave.

#### **Note 6. Postemployment and Other Employee Benefits**

In accordance with the South Carolina Code of Laws and the Annual Appropriations Act, the State of South Carolina provides certain health care, dental, and long-term disability benefits to certain active and retired State employees and their covered dependents. All permanent full-time employees and certain permanent part-time employees of the Organization are eligible to receive these benefits. Generally those who retire must have at least 10 years of retirement service credit to qualify for State funded benefits. Retirees hired on or after May 2, 2008, are eligible for 100% employer funded benefits if they have at least twenty-five years of service. Retirees with fifteen to twenty-four years of service are eligible for 50% employer funding of benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

As discussed in Note 5, a 4.30% and 3.90% surcharge was included with the employer contributions for retirement benefits during the years ended December 31, 2012 and 2011, respectively. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Division of Insurance and Grants for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to the Organization's retirees is not available. By State law, the Organization has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retirement Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201

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**InvestSC, Inc.****Notes to Financial Statements****December 31, 2012 and 2011**

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**Note 7. Deferred Compensation Plans**

Several optional deferred compensation plans are available to state employees and employees of political subdivisions. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b) are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination, if they meet requirements specified by the applicable plan.

**Note 8. Related Party Transactions**

The Chairman of JEDA is the Chairman of InvestSC, Inc. and the current Executive Director of JEDA is also the Executive Director of InvestSC, Inc. and a board member of InvestSC, Inc.

During the years ending December 31, 2012 and 2011, the Organization paid JEDA \$7,500 for rent and other administrative services.

**Note 9. Investment Commitments**

The Organization has committed to invest an additional \$3,880,639, with four venture capital funds (see Note 3). The timing and amount of the capital calls by the venture capital funds for these additional investments is uncertain. The Organization will use the distributions received from existing investments with the venture capital funds to fund these future capital calls. These distributions have been deposited into the capital contribution account and capital calls will be funded by disbursing funds from this account. At December 31, 2012, the capital contribution account had a balance of \$3,881,889