InvestSC, Inc.

Report on Financial Statements

For the years ended December 31, 2014 and 2013

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, 2014 and 2013, 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, 2014 and 2013 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 totaling $33,273,242 and $43,531,828, approximately 68% and 76% of 2014 and 2013 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 Decosimo, LLC

Columbia, South Carolina
October 8, 2015

InvestSC, Inc.

Statements of Financial Position

December 31, 2014 and 2013

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 7,866,421	$ 5,558,758
Total current assets	7,866,421	5,558,758
Investments		
Azalea Fund III, LP	4,404,364	4,479,683
Frontier Fund II, LP	5,696,165	8,779,029
Nexus Medical Partners II, LP	12,253,146	18,747,471
Noro-Moseley Partners VI, LP	10,919,567	11,525,645
Total investments	33,273,242	43,531,828
Other assets		
Restricted cash and cash equivalents - interest reserve	1,875,767	1,875,579
Restricted cash and cash equivalents - premium reserve	3,751,532	3,751,157
Restricted cash and cash equivalents - capital contributions	1,544,011	1,749,770
Note issuance costs, net	551,716	625,283
Total other assets	7,723,026	8,001,789
	$ 48,862,689	$ 57,092,375
Liabilities and Net Assets (Deficit)		
Current liabilities		
Accounts payable	$ 4,183	$ 23,535
Accrued interest	90,588	90,588
Total current liabilities	94,771	114,123
Notes payable	50,000,000	50,000,000
Net assets (deficit)		
Unrestricted	(1,232,082)	6,978,252
	$ 48,862,689	$ 57,092,375

See Notes to Financial Statements

InvestSC, Inc.

Statements of Activities

For the years ended December 31, 2014 and 2013

		2014		2013
Revenues				
Interest on escrow deposits and operating accounts	$	1,456	$	1,298
		1,456		1,298
Expenses				
Amortization of note issuance costs		73,567		73,600
Interest expense		3,673,826		3,673,826
Salaries and benefits		47,859		48,123
Payroll taxes		3,104		3,104
Legal and professional fees		45,956		37,702
Rent		7,500		7,500
Trustee expense		5,225		5,225
Other		5,372		4,179
		3,862,409		3,853,259
Net investment loss		(3,860,953)		(3,851,961)
Net unrealized and realized gains (losses) on investments		(4,349,381)		5,020,448
Change in net assets		(8,210,334)		1,168,487
Net assets, beginning of year		6,978,252		5,809,765
Net assets (deficit), end of year	$	(1,232,082)	$	6,978,252

See Notes to Financial Statements

InvestSC, Inc.

Statements of Cash Flows

For the years ended December 31, 2014 and 2013

	2014	2013
Operating activities		
Change in net assets	$ (8,210,334)	$ 1,168,487
Adjustments to reconcile change in net assets to		
net cash used for operating activities		
Amortization of note issuance costs	73,567	73,600
Net realized and unrealized loss (gain) on investments	4,349,381	(5,020,448)
Changes in deferred and accrued amounts		
Accounts payable	(19,352)	19,226
Net cash used for operating activities	(3,806,738)	(3,759,135)
Investing activities		
Portfolio investments	(205,937)	(2,132,465)
Proceeds from sale/liquidation of investments	6,115,142	7,803,801
Net cash provided by investing activities	5,909,205	5,671,336
Net increase in cash and cash equivalents	2,102,467	1,912,201
Cash and cash equivalents,		
Beginning of year	12,935,264	11,023,063
Cash and cash equivalents,		
End of year	$ 15,037,731	$ 12,935,264
Cash and cash equivalents, end of year		
Unrestricted	$ 7,866,421	$ 5,558,758
Restricted - interest reserve	1,875,767	1,875,579
Restricted - premium reserve	3,751,532	3,751,157
Restricted - capital contributions	1,544,011	1,749,770
	$ 15,037,731	$ 12,935,264
Supplemental cash flow information		
Cash paid for interest	$ 3,673,826	$ 3,673,826

See Notes to Financial Statements

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'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.

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, 2014 and 2013. 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 2011.

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 October 8, 2015, 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, 2014, the Organization has invested $7,959,769 in Azalea III and received cumulative distributions of $8,533,320 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, 2014, the Organization has invested $8,000,000 in Frontier and received cumulative distributions of $9,170,538 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, 2014, 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, 2014, the Organization has invested $8,997,993 in Noro-Moseley and received cumulative distributions of $5,399,595 from this fund.

Note 3. Investments, Continued

The Organization's portfolio investments are all considered Level 3 investments. Activity during 2014 and 2013 consisted of the following:

Fund	Cost at December 31, 2013	Additional Contributions	Distributions at Cost	Cost at December 31, 2014	Fair Market Value at December 31, 2014	Cumulative Unrealized Gain (Loss)
Azalea III	$ 3,711,188	$ 205,937	$ 68,935	$ 3,848,190	$ 4,404,364	$ 556,174
Frontier	5,374,764	-	2,448,524	2,926,240	5,696,165	2,769,925
Nexus Medical	18,307,146	-	-	18,307,146	12,253,146	(6,054,000)
Noro-Moseley	6,298,055	-	654,109	5,643,946	10,919,567	5,275,621
	$ 33,691,153	$ 205,937	$ 3,171,568	$ 30,725,522	$ 33,273,242	$ 2,547,720

Fund	2014 Gross Distributions	Distributions at Cost	2014 Realized Gain
Azalea III	$ 83,358	$ 68,935	$ 14,423
Frontier	4,766,254	2,448,524	2,317,730
Nexus Medical	-	-	-
Noro-Moseley	1,265,530	654,109	611,421
	$ 6,115,142	$ 3,171,568	$ 2,943,574

Fund	Cost at December 31, 2012	Additional Contributions	Distributions at Cost	Cost at December 31, 2013	Fair Market Value at December 31, 2013	Cumulative Unrealized Gain
Azalea III	$ 3,194,527	$ 2,132,465	$ 1,615,804	$ 3,711,188	$ 4,479,683	$ 768,495
Frontier	7,563,753	-	2,188,989	5,374,764	8,779,029	3,404,265
Nexus Medical	18,307,146	-	-	18,307,146	18,747,471	440,325
Noro-Moseley	7,542,816	-	1,244,761	6,298,055	11,525,645	5,227,590
	$ 36,608,242	$ 2,132,465	$ 5,049,554	$ 33,691,153	$ 43,531,828	$ 9,840,675

Fund	2013 Gross Distributions	Distributions at Cost	2013 Realized Gain
Azalea III	$ 1,950,397	$ 1,615,804	$ 334,593
Frontier	3,575,450	2,188,989	1,386,461
Nexus Medical	-	-	-
Noro-Moseley	2,277,954	1,244,761	1,033,193
	$ 7,803,801	$ 5,049,554	$ 2,754,247

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 table below is not intended to be all-inclusive, but rather to provide information on the significant Level 3 inputs used by each fund in determining the fair value of their private equity investments:

	Unobservable Inputs	2014 Range	2013 Range
Azalea III	Risk free rate	4.58%	4.58%
	Equity risk premium	5.00%	5.00%
	Small stock risk premium	5.00%	5.00%
	Specific company risk premium	5.42%	5.42%
	EBITDA multiple	5.25 - 6.00X	4.50 - 6.00X
Frontier	Revenue multiple	1.9 - 3.9X	1.0 - 8.0X
	EBITDA multiple	10.2 - 15.5X	9.7 - 40.3X
	Discount range	0% - 50%	20% - 50%
Nexus Medical	Multiple of revenue	2.0 - 3.0X	2.0 - 3.0X
Noro-Moseley	Multiple of revenue	1.4 - 7.2X	1.5 - 3.0X
	Time to liquidity	2 years	2 - 3 years
	Equity volatility	50%	50% - 80%
	Risk free rate for expected term	0.67%	.27% - .37%

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

	2014	2013
Balance, beginning of year	$ 43,531,828	$ 44,182,716
Purchases	205,937	2,132,465
Sales	(6,115,142)	(7,803,801)
Realized gains included in earnings	2,943,574	2,754,247
Unrealized gains (losses) included in earnings	(7,292,955)	2,266,201
Balance, end of year	$ 33,273,242	$ 43,531,828

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, 2014 and 2013 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, 2014 and 2013, the interest reserve totaled $1,875,767 and $1,875,579, respectively, and the premium reserve totaled $3,751,532 and $3,751,157, respectively.

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. The Organization did not sell any tax credits for the years ending December 31, 2014 and 2013. The capital contribution account was established for the purpose of depositing distributions received from the Organization's venture capital fund investments to fund remaining future capital commitment calls from any of the Organization's funds. At December 31, 2014 and 2013, the capital contributions account totaled $1,544,011 and $1,749,770, 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 in a permanent position 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, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). This plan provides annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, and incidental death benefits to eligible employees and retired members.

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 South Carolina Public Employee Benefit Authority, Post Office Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina CAFR.

Note 5. Pension Plan and Other Employee Benefits, Continued

Employees participating in the SCRS are required to contribute 7.5% of all compensation. The employer contribution rate was 15.52% and 15.15% for the years ended December 31, 2014 and 2013, which included a 4.92% and 4.55% surcharge to fund retiree health and dental insurance coverage, respectively. The Organization's actual contributions to the SCRS were approximately $6,000 and $6,600 for the years ending December 31, 2014 and 2013, 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).

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 and 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 4.92% and 4.55% surcharge was included with the employer contributions for retirement benefits during the years ended December 31, 2014 and 2013, 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.

Note 6. Postemployment and Other Employee Benefits, Continued

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 Insurance Benefits Division 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 South Carolina Public Employee Benefit Authority - Insurance Benefits Division, P.O. Box 11960, Columbia, South Carolina 29211-1960.

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, 2014 and 2013, the Organization paid JEDA $7,500 for rent and other administrative services.

Note 9. Investment Commitments

The Organization has committed to invest an additional $1,542,238, 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, 2014, the capital contribution account had a balance of $1,544,011.