State of South Carolina
Office of the State Treasurer

SCTPP Tuition Prepayment Program

The path to affordable higher education

Annual Report
For the Year Ended June 30, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Office of the State Treasurer
of the State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the business type activities of the South Carolina Tuition Prepayment Program (the Program), an enterprise fund of the State of South Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 the business type activities of the South Carolina Tuition Prepayment Program, as of June 30, 2020, and the changes in financial position (deficit) and cash flows thereof, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter – Reporting Entity

As discussed in Note 1, the financial statements present only the Program and do not purport to, and do not, present fairly the financial position of the South Carolina State Treasurer as of June 30, 2020, the changes in its financial position, or where applicable, their cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis-of-Matter – Financial Deficit

As discussed in Notes 8 and 9, the Program has a deficit of $31.5 million as of June 30, 2020. The reported deficit is highly significantly impacted by actuarial assumptions used to calculate the actuarial present value of future tuition benefit obligations. The Program's plans concerning this matter are also discussed therein. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2020, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 15, 2020

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
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Management's Discussion and Analysis (unaudited)

As program manager of the South Carolina Tuition Prepayment Program (the Program), Columbia Management Investment Advisers, LLC and Columbia Management Investment Distributors, Inc. (collectively, Columbia or the Program Manager), each a wholly-owned subsidiary of Ameriprise Financial, Inc., are responsible for the day-to-day operations of the Program, including providing certain investment management and administrative services to the Program.

Program Overview

The Program is part of the South Carolina College Investment Trust Fund (the Trust Fund) and was established by the South Carolina General Assembly (the Assembly) as a way to provide a tax-advantaged method to prepay future higher education expenses of designated beneficiaries at eligible educational institutions. The Program was established to assist the citizens of South Carolina with the expense of college by providing an advanced payment program for tuition at a fixed and guaranteed level for public colleges and universities. Operations of the Program began in 1998 with the initial enrollment period commencing on September 14, 1998.

The Program's last open enrollment period lasted from March 2006 through May 2006. Effective July 1, 2008, the Assembly closed the Program to new enrollment. Closing the Program to new enrollment did not affect existing participants in the Program and the Program remains in full operation. At June 30, 2020, contract holders continue to pay any amounts due, including monthly installments, penalties and fees, and the Program continues to pay all benefits due.

The Office of the State Treasurer of South Carolina (the Treasurer) is responsible for administering the Program and effective October 1, 2012, selected Columbia to serve as the Program Manager. Prior to October 1, 2012, the Program was managed by the Treasurer.

Financial Highlights

During the year ended June 30, 2020, the Program received $350,000 in contract contributions and paid $12.66 million in contract benefits.

As of June 30, 2020, the Program's liabilities (primarily consisting of discounted future tuition payments) exceeded its assets by approximately $31.5 million, resulting in a net deficit. The net deficit decreased by $5.4 million since June 30, 2019.

The financial statements present only the Program, and do not purport to, and do not, present the net position (deficit) or activity of the Trust Fund or the State of South Carolina.

Overview of the Financial Statements

The Program's financial statements are prepared in accordance with United States generally accepted accounting principles for governments as promulgated by the Governmental Accounting Standards Board (GASB). The activities of the Program are accounted for as an enterprise fund. As an enterprise fund, the financial statements of the Program are presented on the flow of economic resources measurement focus and accrual basis accounting in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis (unaudited) (continued)

The State of South Carolina reports the Program as a nonmajor enterprise fund in its Comprehensive Annual Financial Report (CAFR). Enterprise fund reporting is used to report the functions of a governmental entity with business-type activities in which a fee is charged to external users for goods and services.

This report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements are composed of a Statement of Net Position (Deficit); a Statement of Revenues, Expenses and Changes in Net Position (Deficit); a Statement of Cash Flows and Notes to Financial Statements.

The Statement of Net Position (Deficit) presents information on the Program's assets and liabilities, with the difference reported as net position. The Program has no transactions which represent deferred outflows of resources or deferred inflows of resources as prescribed by GASB. This statement is categorized into current and non-current assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement's date.

The Statement of Revenues, Expenses and Changes in Net Position (Deficit) reflects the operating and non-operating revenues and expenses for the operating year. Operating revenues and expenses generally result from providing services in connection with the enterprise fund's principal ongoing operations. The principal operating revenues and expenses relate to tuition contract revenues and tuition benefit payments. Investment activity and program management fees are reported as non-operating activities.

The Statement of Cash Flows is presented on the direct method of reporting, which reflects the enterprise fund's cash flows from operating and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents during the year.

The Notes to Financial Statements provide additional information and explanations that are integral to a full understanding of the data provided in the basic financial statements.

Financial Analysis

Statement of Net Position (Deficit)
The following is a condensed Statement of Net Position (Deficit) for the Program as of June 30,

	2020	2019
Current assets	$ 30,764,345	$ 41,003,871
Noncurrent assets	177,872	369,869
Total assets	30,942,217	41,373,740
Current liabilities	12,146,403	13,669,413
Noncurrent liabilities	50,342,383	64,612,310
Total liabilities	62,488,786	78,281,723
Net position (deficit)	$ (31,546,569)	$ (36,907,983)

Net (deficit) decreased by approximately $5.4 million or 15%. Net position is the excess of total assets over total liabilities and a net (deficit) occurs when liabilities exceed assets. The factors that significantly contributed to the change in the net (deficit) included:

Management's Discussion and Analysis (unaudited) (continued)

- $2.7 million decrease to the deficit due to assumption changes from experience study;
- $2.4 million decrease to the deficit due to lower than assumed tuition increases for fall 2020;
- $1.8 million decrease to the deficit based on actual contract usage/cancellation behavior;
- $1.6 million decrease to the deficit due to higher actual investment returns than assumed from June 30, 2019;
- $0.2 million decrease due to lower than assumed administrative fees;
- $2.4 million increase to the deficit due to a decrease in the discount rate from June 30, 2019; and
- $0.9 million increase to the deficit for interest on the deficit.

Based on the financial statements, the funded status (assets divided by liabilities) of the Program is 49.5% at June 30, 2020, compared to 52.9% at June 30, 2019. The funded status represents the Program's ability to fund payment of its liabilities as of the date on which the value of the assets and liabilities are measured. The Treasurer is evaluating the implications of the deficit on the ongoing operations of the Program.

In the event that remedial actions are not taken by the Assembly, the Program is projected to run out of assets in 2023. If the State determines that the Program is no longer fiscally or actuarially sound, the State may discontinue the Program and cancel all tuition prepayment contracts.

Statement of Revenues, Expenses and Changes in Net Position (Deficit)
The following is a condensed Statement of Revenues, Expenses and Changes in Net Position (Deficit) for the years ended June 30,

	2020	2019
Operating revenues:		
Tuition contracts	$ 88,337	$ 50,592
Operating expenses:		
Tuition benefits	(3,132,691)	3,266,576
Operating income (loss)	3,221,028	(3,215,984)
Non-operating revenues (expenses):		
Net investment gain	$ 2,303,246	$ 2,509,863
Program management fees	(162,860)	(137,333)
Total non-operating revenues	2,140,386	2,372,530
Change in net position	5,361,414	(843,454)
Net position (deficit), beginning of year	(36,907,983)	(36,064,529)
Net position (deficit), end of year	$ (31,546,569)	$ (36,907,983)

Operating revenues reflect contract payments received and the effect of discounting future contract payments receivable. Both the amount of contract payments received and the discounted future contract payments to be received decreased in the current year compared to the prior year. This trend will continue as contracts mature.

Operating expenses reflect contract benefits paid and the effect of discounting future contract benefits payable. Contract benefit payments made during the year decreased compared to payments made last year. The operating income is the

Management's Discussion and Analysis (unaudited) (continued)

result of lower benefit payments as well as the larger decrease in the projection of future tuition payments as compared to prior year.

Net investment gain consists of investment income (interest and dividends accrued from Program investments), net realized gain and the change in fair value of investments during the year. In total, net investment gain was slightly lower as compared to prior year. Lower investment income was offset by an increase in fair value of investments and net gains realized during the year. The increase in fair value of investments was driven by the decrease in interest rates throughout the year.

Economic Factors

The actuarial valuation of tuition contracts receivable and the accrued contract benefits liability as of June 30, 2020 is based on various actuarial assumptions. Key assumptions include a tuition inflation assumption of 5.50% which is based on the statutory limit on benefit increases for Program beneficiaries.

From October 1, 2012 through December 2013, the Program's targeted investment allocation was approximately 34% to equity, fixed income and alternative asset classes and 66% to a fixed income portfolio. The Program's fixed income portfolio follows an immunized, liability driven investment (LDI) strategy, where the LDI investments are managed based on the cash flows needed to fund expected future liabilities. The LDI investments are structured in such a way that value increases/decreases in conjunction with increases /decreases in the value of liabilities due to changes in interest rates. As the Program approaches its projected asset depletion date in 2023, the allocation to LDI increases in order to reduce funded status volatility. As a result, the Program's LDI allocation increased to 80% in December 2013, 90% in November 2014 and 100% in February 2015.

Changes in long-term actuarial assumptions and actual experience can have a significant impact on the Program's projected assets and liabilities. The Program Manager, Treasurer and its investment consultant review the assumptions annually. In the current year, all major assumptions were reviewed, and an Experience Study was completed. As a result, the following changes were made:

- The investment return assumption was decreased from 2.37% at June 30, 2019 to 1.12% at June 30, 2020.
- Reduced rates of expected pre-matriculation cancellations from 2.5% to:
    - 0.5% for lump sum and 48-month payment plans, and
    - 1.5% for extended payment plans.
- Modified the following usage assumptions:
    - Introduced a post-matriculation cancellation assumption of 4% per year (100% at age 30) for contracts that are pre-matriculation;
    - Modified the expected post-matriculation usage rate for contracts that are actively in use; and
    - Modified the expected post-matriculation cancellation rate for contacts that are not actively in use.
- Reduced the bias load factor from 103% to 100%.

There were no other significant changes in actuarial assumptions that impacted the calculation of discounted future contract contributions or contract benefits.

As discussed in Note 8 and Note 9 of the financial statements, the Program has a net deficit of ($31.5) million. Each year, the Treasurer notifies the Assembly of the implications of the deficit on the ongoing operations of the Program, with various remedial actions for funding as reported in the Program's annual actuarial valuation. Additional funding requires approval of the Assembly.

Management's Discussion and Analysis (unaudited) (continued)

If the State determines that the Program is no longer fiscally or actuarially sound, the State may discontinue the Program and cancel all tuition prepayment contracts. In this instance, the State will determine the level of refunds dependent upon available monies in the Program, as described in the Program's Master Agreement. In general, unused contributions shall be refunded, less certain administrative expenses, plus interest on these contributions from the date payment is made at the rate of at least 4% per annum.

Any act or undertaking of the Program shall not constitute a debt of the State or any agency, department, institution, or political subdivision, or a pledge of the full faith and credit of the State or any agency, department, institution, or political subdivision, but is payable solely from the Program. The Program deficit is also not an obligation of the Program Manager.

As discussed in Note 3 of the financial statements, the COVID 19 pandemic has resulted in significant global economic and societal disruption, and there remains uncertainty surrounding the magnitude, duration, reach, costs, and effects of the global pandemic.

Requests for Information

The financial report is designed to provide a general overview of the Program's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Office of the State Treasurer, South Carolina Tuition Prepayment Program, P.O. Box 11778, Columbia, SC 29211.

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Statement of Net Position (Deficit)
June 30, 2020

Assets		
Current assets		
Cash and cash equivalents	$	456,560
Investments		29,950,928
Receivables:		
Tuition contracts receivable		172,251
Accrued investment income		184,606
Total current assets		30,764,345
Noncurrent assets		
Tuition contracts receivable		177,872
Total assets		30,942,217
Liabilities		
Current liabilities		
Accrued program management fees		7,652
Accrued contract benefits		12,138,751
Total current liabilities		12,146,403
Noncurrent liabilities		
Accrued contract benefits		50,342,383
Total liabilities		62,488,786
Net position, unrestricted (deficit)	$	(31,546,569)

The accompanying notes to financial statements are an integral part of this statement.

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Statement of Revenues, Expenses and Changes in Net Position (Deficit)
For the Year Ended June 30, 2020

Operating revenues:		
Contract contributions	$	350,246
Decrease in actuarial value of future contract contributions		(261,909)
Total operating revenues		88,337
Operating expenses:		
Contract benefit payments		12,657,716
Decrease in actuarial value of future contract benefit payments		(15,790,407)
Total operating expenses		(3,132,691)
Operating income		3,221,028
Non-operating revenues (expenses):		
Income from investment securities		850,726
Net realized gain		610,447
Net increase in fair value of investments		842,073
Program management fees		(162,860)
Total non-operating revenues		2,140,386
Change in net position		5,361,414
Net position (deficit), July 1, 2019		(36,907,983)
Net position (deficit), June 30, 2020	$	(31,546,569)

The accompanying notes to financial statements are an integral part of this statement.

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Statement of Cash Flows
For the Year Ended June 30, 2020

Cash flows from operating activities:		
Cash receipts from prepaid tuition contracts	$	350,246
Cash paid for tuition		(12,657,716)
Net cash used in operating activities		(12,307,470)
Cash flows from investing activities:		
Purchases of investment securities		(28,123,212)
Sales and maturities of investment securities		39,739,359
Interest and dividends on investments		949,090
Cash paid for program management services		(165,390)
Net cash provided by investing activities		12,399,847
Net increase in cash and cash equivalents		92,377
Cash and cash equivalents, July 1, 2019		364,183
Cash and cash equivalents, June 30, 2020	$	456,560

Reconciliation of operating income to net cash used in operating activities:

Operating income	$	3,221,028
Adjustments to reconcile operating income to net cash used in operating activities:		
Decrease in tuition contracts receivable		261,909
Decrease in contract benefits payable		(15,790,407)
Net cash used in operating activities	$	(12,307,470)

Supplemental disclosure of noncash investing transactions:

Net change in appreciation on investments	$	842,073

The accompanying notes to financial statements are an integral part of this statement.

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Notes to Financial Statements
For the Year Ended June 30, 2020

Note 1. Organization

The South Carolina Tuition Prepayment Program (the Program), part of the South Carolina College Investment Trust Fund (the Trust Fund), was established by the South Carolina General Assembly (the Assembly) in accordance with Section 529 of the Internal Revenue Code of 1986, as amended (the Code), and Chapter 4 of Title 59 of the South Carolina Code of Laws of 1976, as amended (the SC Code). The Program is intended to provide a tax-advantaged method to prepay future higher education expenses of designated beneficiaries at eligible educational institutions and has been designed to comply with the requirements for treatment as a “qualified tuition program” under the Code. The Office of the State Treasurer of South Carolina (the Treasurer) is responsible for administering the Program and selecting a Program Manager to provide overall program management services.

The Program was established to assist the citizens of South Carolina (the State) with the expense of college by providing an advanced payment program for tuition at a fixed and guaranteed level for public colleges and universities. Operations of the Program began in 1998 with the initial enrollment period commencing on September 14, 1998.

The Program’s last open enrollment period lasted from March 2006 through May 2006. Effective July 1, 2008, the Assembly closed the Program to new enrollment. Closing the Program to new enrollment did not affect existing participants in the Program and the Program remains in full operation. At June 30, 2020, contract holders continue to pay any amounts due, including monthly installments, penalties and fees, and the Program continues to pay all benefits due.

Effective October 1, 2012, Columbia Management Investment Advisers, LLC and Columbia Management Investment Distributors, Inc., (collectively Columbia or the Program Manager), each a wholly-owned subsidiary of Ameriprise Financial, Inc., serve as the Program Manager. The Program Manager is responsible for the day-to-day operations of the Program, including providing certain investment management and administrative services to the Program. Prior to October 1, 2012, the Program was managed by the Treasurer.

The financial statements present only the Program administered by the Treasurer, and do not purport to, and do not, present fairly the financial position of the State or the Treasurer as of June 30, 2020, and changes in their financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP). As of June 30, 2020, the Program’s liabilities (primarily consisting of discounted future tuition payments) exceeded its assets by approximately $31.5 million.

Note 2. Significant Accounting Policies

The financial statements of the Program have been prepared in conformity with GAAP as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Program’s significant accounting policies are described below.

Basis of Presentation

The State reports the Program as a nonmajor enterprise fund in its Comprehensive Annual Financial Report. As an enterprise fund, the financial statements of the Program are presented on the flow of economic resources measurement focus and accrual basis accounting in conformity with GAAP. Under this method of accounting, revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public and others on a continuing basis be financed or recovered primarily through user charges.

Enterprise funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services in connection with the enterprise fund's principal ongoing operations. The principal operating revenues and expenses relate to tuition contract contributions and tuition benefit payments. Activity related to investment activity (such as investment income, changes in the fair value of investments and program management fees) is reported as non-operating activity.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires Program management to make estimates and assumptions that affect the reported amounts included in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash includes cash in banks and interest-bearing deposits with banks. Cash equivalents include short-term, highly liquid investments (three months or less until maturity) that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value. Such amounts include money market mutual funds.

Investments

Investment transactions are recorded on the trade date. Dividends are recorded on the ex-dividend date. Interest income is determined on an accrual basis.

Investment Valuation

Investments are valued on a daily basis at fair value. Fair value is defined by GASB as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Investments in mutual funds (including money market funds) are valued at their respective net asset values and are determined as of the close of the New York Stock Exchange (generally 4:00 PM Eastern time) on the valuation date. Debt securities are generally valued by independent pricing services approved by Columbia based upon market transactions for normal, institutional-size trading units of similar securities. The services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. Debt securities for which quotations are readily available may also be valued based upon an over-the-counter or exchange bid quotation.

Tuition Contracts Receivable

Tuition contracts receivable of the Program at the balance sheet date represents Program management's best estimate of the present value of future contract payments using the payments at the discount rate. The discount rate represents the assumed gross investment yield and was 1.12% as of June 30, 2020.

Accrued Contract Benefits

The Program records accrued contract benefits at the actuarial present value of its future tuition obligation, which is adjusted for the effects of projected tuition and fee increases and termination of contracts. The tuition inflation assumption of 5.5% is based on the statutory limit on benefit increases for Program beneficiaries. See Note 7 for the key actuarial assumptions used in the June 30, 2020 independent actuarial valuation.

Income Taxes

The Program intends to qualify each year as a qualified tuition program in accordance with Section 529 of the Code, which provides exemption from federal income tax. Under South Carolina state law, the Program will not pay a South Carolina franchise tax or other tax based on income. Therefore, no provision for federal or state income taxes has been recorded in accordance with the enabling legislation.

Recent Accounting Pronouncements

The GASB has issued the following standards that were effective during the current reporting period or will be effective in future periods:

In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to extend the effective dates of certain accounting and financial reporting guidance that were first effective for reporting periods beginning after June 15, 2018 in light of the COVID-19 pandemic. Updated implementation dates for the applicable extended Statements are indicated in the following paragraphs.

In January 2017, the GASB issued GASB No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. This statement was extended and is effective for reporting periods beginning after December 15, 2019. Program management is evaluating the effect, if any, this statement will have on its financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement were extended and are effective for reporting periods beginning after June 15, 2021. Earlier adoption is permitted. The Program is currently evaluating the effect that this Statement will have on the financial statements.

In January 2020, the GASB issued GASB No. 92, Omnibus 2020. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including leases and benefit plans. This statement contains segmented implementation that was extended and is effective for reporting periods beginning after June 15, 2021. Program management has not determined the effect, if any, this statement will have on the financial statements.

In March 2020, the GASB issued GASB No. 93, Replacement of Interbank Offered Rates (IBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. The objective of this Statement is to address the accounting and financial reporting implications that result from the replacement of an IBOR. This statement contains segmented implementation that was extended and is effective for reporting periods beginning after June 15, 2021. Program management is currently evaluating the effect that this Statement will have on the financial statements.

In May 2020, the GASB issued GASB No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for periods beginning after June 15, 2022. Program management is currently evaluating the effect that this Statement will have on the financial statements.

Note 3. Investments

Pursuant to Section 59-4-30 of the SC Code, the Treasurer is responsible for developing and adopting the investment policies, guidelines and strategies for the Program. The Treasurer has adopted a Comprehensive Investment Plan (CIP) for the Program, which shall be followed by the Treasurer, Program Manager and any advisor engaged by the Treasurer to provide advice and monitor the Program. The current CIP was adopted on October 1, 2012, as since amended most recently in November 2018.

The CIP is intended to:

- Articulate the objectives of the Program and set forth in writing the expectations, objectives and guidelines for the investment of Program assets;
- Formulate policies regarding permitted investments, benchmarks and asset allocation strategies;
- Establish the criteria and procedures for selecting investments available to the Program Manager;
- Identify roles of specific entities having fiduciary responsibility to the Program;
- Establish guidelines, consistent with separate monitoring procedures, for monitoring investment risk and evaluating investment performance; and
- Provide for an annual investment review of the Program.

All assets of the Program must be invested in a manner that meets the requirements of the CIP. Under the CIP, the assets of the Program shall be invested in various individual investments for each specified asset classification. The investment objectives of the Program assets are to:

- Strive to achieve an investment rate of return and appropriate risk level in order to maximize the life of the Program.
- Invest in a manner which is appropriate and prudent for the Program.
- Reasonably anticipate liquidity needs of the Program.

The Treasurer is responsible for monitoring and operating the Program in compliance with the Code, the SC Code and the CIP. The Treasurer is also generally responsible for establishing investment policies; approving or disproving of investments annually or otherwise, as needed; establishing criteria for selecting investments, asset classes and advisors; reviewing and approving investment proposals by the Program Manager and approving procedures for monitoring investment performance and contractual obligations.

The Treasurer has also developed a written investment monitoring program with regard to investment and compliance matters (Monitoring Program), dated October 1, 2012, as since amended most recently in November 2018.

The Treasurer has retained an investment consultant to assist with the CIP and Monitoring Program, providing general advice and recommendations on matters including, but not limited to, investment personnel, investment performance, investment strategy and objectives and Program investment and asset class changes.

Unless otherwise limited by the CIP, the Program's investments may include securities authorized by Section 11-9-660 of the SC Code:

- Equity securities of a corporation that is registered on a national securities exchange or quoted through the National Association of Securities Dealers Automatic Quotations system or similar services;
- Securities issued by an investment company registered under the Investment Company Act of 1940;
- Obligations of the United States, its agencies and instrumentalities;
- Obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank and the Asian Development Bank;
- Obligations of a corporation, state or political subdivision denominated in U.S. dollars, provided that the obligation bears an investment grade rating from at least two nationally recognized rating services (Rating Agencies);
- Certificates of deposit;

- Repurchase agreements; and
- Guaranteed investment contracts issued by a domestic or foreign insurance company or other financial institution, whose long-term unsecured debt rating bears the two highest ratings of at least two Rating Agencies.
- For avoidance of doubt, collateralized mortgage obligations (CMOs) are not authorized investments under Section 11-9-660 of the SC Code; therefore, investments in CMOs are prohibited.

At June 30, 2020, the Program's CIP benchmark was a custom blend (45% Bloomberg Barclays US Credit 3-5 Year Index, 35% Bloomberg Barclays US Credit 1-3 Year Index, 16% US Treasury STRIP (11/15/27 maturity date) and 4% ICE BofA Merrill Lynch US 3-Month Treasury Bill Index).

As of June 30, 2020, the Program's assets were deployed in a mix of fixed income investments, as shown in the table below:

Asset Class	Investment Type	Carrying Value
Immunized fixed income	Corporate bonds	$ 22,203,954
	Treasuries	5,974,085
	Municipals	213,632
	Foreign government obligations	1,559,257
		$ 29,950,928

Under the Monitoring Program, the Immunized Fixed Income investments are monitored based on sector allocation, duration, yield to maturity and average credit rating.

Fair Value Measurements

The Program categorizes its fair value measurements according to a three-level hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by prioritizing that the most observable input be used when available. Observable inputs are those that market participants would use in pricing an investment based on market data obtained from sources independent of the reporting entity. Unobservable inputs are those that reflect the Program's assumptions about the information market participants would use in pricing an investment. An investment's level within the fair value hierarchy is based on the lowest level of any input that is deemed significant to the asset's or liability's fair value measurement. The input levels are not necessarily an indication of the risk or liquidity associated with investments at that level. For example, certain U.S. government securities are generally high quality and liquid, however, they are reflected as Level 2 because the inputs used to determine fair value may not always be quoted prices in an active market.

Fair value inputs are summarized in the three broad levels listed below:

- Level 1 – Valuations based on quoted prices for investments in active markets that the Program has the ability to access at the measurement date. Valuation adjustments are not applied to Level 1 investments.
- Level 2 – Valuations based on other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risks, etc.).
- Level 3 – Valuations based on significant unobservable inputs (including the Program's own assumptions and judgment in determining the fair value of investments).

Inputs that are used in determining fair value of an investment may include price information, credit data, volatility statistics, and other factors. These inputs can be either observable or unobservable. The availability of observable inputs can vary between investments and is affected by various factors such as the type of investment, and the volume and level of activity for that investment or similar investments in the marketplace. The inputs will be considered by the Program Manager, along with any other relevant factors in the calculation of an investment's fair value. The Program uses prices and inputs that are current as of the measurement date, which may include periods of market dislocations. During these periods, the availability of prices and inputs may be reduced for many investments. This condition could cause an investment to be reclassified between the various levels within the hierarchy.

Investments falling into the Level 3 category are primarily supported by quoted prices from brokers and dealers participating in the market for those investments. However, these may be classified as Level 3 investments due to lack of market transparency and corroboration to support these quoted prices. Additionally, valuation models may be used as the pricing source for any remaining investments classified as Level 3. These models may rely on one or more significant unobservable inputs and/or significant assumptions by the Investment Manager. Inputs used in valuations may include, but are not limited to, financial statement analysis, capital account balances, discount rates and estimated cash flows, and comparable company data.

Columbia's Valuation Committee (the Committee) is responsible for overseeing all valuation procedures. The Committee consists of voting and non-voting members from various groups within Columbia Management's organization, including operations and accounting, trading and investments, compliance, risk management and legal.

The Committee meets at least monthly to review and approve valuation matters, which may include a description of specific valuation determinations, data regarding pricing information received from approved pricing vendors and brokers and the results of Board-approved valuation control policies and procedures (the Policies). The Policies address, among other things, instances when market quotations are or are not readily available, including recommendations of third party pricing vendors and a determination of appropriate pricing methodologies; events that require specific valuation determinations and assessment of fair value techniques; securities with a potential for stale pricing, including those that are illiquid, restricted, or in default; and the effectiveness of third party pricing vendors, including periodic reviews of vendors. The Committee meets more frequently, as needed, to discuss additional valuation matters, which may include the need to review back-testing results, review time- sensitive information or approve related valuation actions.

For investments categorized as Level 3, the Committee monitors information similar to that described above, which may include: (i) data specific to the issuer or comparable issuers, (ii) general market or specific sector news and (iii) quoted prices and specific or similar security transactions. The Committee considers this data and any changes from prior periods in order to assess the reasonableness of observable and unobservable inputs, any assumptions or internal models used to value those securities and changes in fair value. This data is also used to corroborate, when available, information received from approved pricing vendors and brokers. Various factors impact the frequency of monitoring this information (which may occur as often as daily). However, the Committee may determine that changes to inputs, assumptions and models are not required as a result of the monitoring procedures performed.

Investment Type	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	Total
Corporate bonds	$ -	$ 22,203,954	$ -	$ 22,203,954
Treasuries	174,870	5,799,215	-	5,974,085
Municipals	-	213,632	-	213,632
Foreign government obligations	-	1,559,257	-	1,559,257
	$ 174,870	$ 29,776,058	$ -	$ 29,950,928

The Program's assets assigned to the Level 2 input category are generally valued using the market approach, in which a security's value is determined through reference to prices and information from market transactions for similar or identical assets.

There were no transfers of financial assets between levels during the period.

Foreign Securities Risk

There are certain additional risks involved when investing in foreign securities that are not inherent with investments in domestic securities. These risks may involve foreign currency exchange rate fluctuations, adverse political and economic developments and the possible prevention of currency exchange or other foreign governmental laws or restrictions. In addition, the liquidity of foreign securities may be more limited than that of domestic securities. At June 30, 2020, 12.7% of the fair value of the investments of the Program were invested in securities whose identified country of risk was outside the United States of America. All foreign securities were denominated in United States Dollars at June 30, 2020.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Program will not be able to recover deposits that are in the possession of an outside party. The State's policy, by law, requires all banks or savings and loan associations that receive State funds deposited by the Treasurer, to secure the deposits by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against any loss. The Program has no formal policy that would further limit the requirements under State law. As of June 30, 2020, the Program's deposits were covered by federal depository insurance and which at times may exceed insured limits. The Program has not experienced any losses in such accounts. The Program believes it is not exposed to any significant credit risk on cash and cash equivalents.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Program will not be able to recover the value of its investments that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the Program's name. However, all Program investments are marked to indicate ownership by the Program and to the extent possible, registered in the name of the

Program. Investments are held by the Bank of New York Mellon (the Program's custodian) and third-party transfer agents or registrars (for money market funds) in the Program's name.

Interest Rate Risk and Credit Risk

Effective February 2015, the Program invests in fixed income securities (the Immunized Fixed Income Portfolio). Investing in fixed income securities may involve certain risks, including the credit quality of individual issuers, possible prepayments, market or economic developments and yields and price fluctuations due to changes in interest rates.

Interest rate risk is the risk that changes in interest rates of debt investments will adversely impact the fair value of those investments. The Program has a formal monitoring policy intended to limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Program follows an immunized, liability driven investment strategy, where the Immunized Fixed Income Portfolio is managed based on the cash flows needed to fund expected future liabilities. The Immunized Fixed Income Portfolio's investments are structured in such a way that value increases/decreases in conjunction with increases/decreases in the value of liabilities due to changes in interest rates. The Immunized Fixed Income Portfolio is managed to a duration within 0.5 years (plus or minus) of Program liabilities.

The following table provides weighted average maturity (WAM) and duration for each investment type held by the Immunized Fixed Income Portfolio (other than cash and equivalents) as of June 30, 2020.

	Fair Value	WAM (Years)	Duration (Years)
Corporate bonds	$ 22,203,954	3.14	2.77
Treasuries	5,974,085	6.88	6.86
Municipals	213,632	1.34	1.30
Foreign government obligations	1,559,257	2.50	2.35
Total	$ 29,950,928		

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Program has a formal monitoring policy for credit risk exposure, whereby the average credit rating of the Immunized Fixed Income Portfolio must be AA- or greater. The Immunized Fixed Income Portfolio's authorized investments must bear an investment grade rating from at least two nationally recognized rating services (i.e. Moody's, S&P and Fitch). For purposes of determining the average credit rating, the Program uses the middle of the Moody's, S&P and Fitch ratings. When only two ratings are available, the lower rating is used. U.S. Treasury issues are explicitly guaranteed by the U.S. government, not subject to credit risk and under the monitoring policy, considered to have a rating of AAA.

The following table sets forth the credit quality breakdown of the Immunized Fixed Income Portfolio's corporate bonds and U.S. government agency securities:

	AAA	AA	A	BBB	Total
Immunized fixed income portfolio:					
Corporate bonds	$ 466,997	$ 914,143	$ 12,075,619	$ 8,747,195	$ 22,203,954
Municipals	-	213,632	-	-	213,632
Foreign government obligations	206,994	917,437	-	434,826	1,559,257
Total	$ 673,991	$ 2,045,212	$ 12,075,619	$ 9,182,021	$23,976,843

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Program's investments with a single issuer. The Program does not have a policy to limit concentrations of credit risk. At June 30, 2020, the only issuer which represents more than 5% of the Program's investments is the United States Treasury (19.9% of investment value). However, Treasury securities are backed by the full faith and credit of the United States government and therefore not subject to credit risk.

Market and Environment Risk

The COVID-19 public health crisis has become a pandemic that has resulted in, and may continue to result in, significant global economic and societal disruption and market volatility due to disruptions in market access, resource availability, facilities operations, imposition of tariffs, export controls and supply chain disruption, among others. Such disruptions may be caused, or exacerbated by, quarantines and travel restrictions, workforce displacement and loss in human and other resources. The uncertainty surrounding the magnitude, duration, reach, costs and effects of the global pandemic, as well as actions that have been or could be taken by governmental authorities or other third parties, present unknowns that are yet to unfold. The impacts, as well as the uncertainty over impacts to come, of COVID-19 – and any other infectious illness outbreaks, epidemics and pandemics that may arise in the future – could negatively affect global economies and markets in ways that cannot necessarily be foreseen. In addition, the impact of infectious illness outbreaks and epidemics in emerging market countries may be greater due to generally less established healthcare systems, governments and financial markets. Public health crises caused by the COVID-19 outbreak may exacerbate other pre-existing political, social and economic risks in certain countries or globally. The disruptions caused by the uncertainty of the COVID-19 pandemic could impact contract owner behavior or prevent the Program from executing advantageous investment decisions in a timely manner and negatively impact the Program's ability to achieve it's investment objectives. Any such event(s) could have a significant adverse impact on the value and risk profile of the Program's investments. At this stage it is too early to determine with any certainty whether the COVID-19 pandemic has had any impact of contract owner behavior.

The Program Manager has systematically implemented strategies to address the operating environment spurred by the COVID-19 pandemic. To promote the safety and security of employees and to assure the continuity of business operations, a work from home protocol has been implemented for virtually all of the employee population, business travel has been restricted, and resources for complying with the guidance from the World Health Organization, the U.S. Centers for Disease Control and governments have been provided. Operations teams seek to operate without significant disruptions in service. This pandemic strategy takes into consideration that a pandemic could be widespread and may occur in multiple waves, affecting different communities at different times with varying levels of severity. The Program Manager cannot, however, predict the impact that natural or man-made disasters, including the COVID-19 pandemic, may have on the ability of the employees and third-party service providers to continue ordinary business operations and technology functions over near- or longer-term periods.

Note 4. Related Party Transactions

Program Management Fee

The Treasurer has entered into a contract with Columbia to serve as Program Manager, pursuant to which the Program Manager provides program management and investment advisory services to the Program. For its services, the Program pays Columbia a monthly fee, equal to an annual rate of 0.30% of the daily value of the Program's assets (excluding tuition contracts receivable). Beginning on October 1, 2019, an annual minimum program management fee of $340,000 per calendar year is effective. For the calendar year ending December 31, 2019, the minimum program management fee was prorated to cover the three months period ending December 31, 2019, which equated to a minimum fee of $85,000. The program management fee of $162,860 is reflected in the Statement of Revenues, Expenses, and Changes in Net Position (Deficit), while the accrued expense of $7,625 is included in the Statement of Net Position (Deficit).

Other Expenses

Other than the program management fee described above, there are no other operating fees or expenses charged or allocated directly to the Program. Columbia (out of its program management fee) pays certain expenses on behalf of the Program, including, but not limited to, investment services, recordkeeping, actuarial, audit and legal. In addition, expenses of the Treasurer are not allocated to the Program.

Note 5. Tuition Contracts Receivable

The future tuition contract receipts are actuarially calculated based on the present value of future receipts and projected investment performance, assumed to be 1.12% annually—not reduced for program management fees.

The total actuarial present value of future tuition contracts receivable is $350,123. Current tuition contract payments of $172,251 represent payments that are expected to be received within a year from June 30, 2020. Noncurrent tuition contract payments of $177,872 represent payments that are expected to be received more than a year after June 30, 2020.

Note 6. Accrued Contract Benefits

The accrued contract benefits represent Program management's estimate of the present value of the estimated tuition, refund, and program management fee payments to be made in future years. As the Program is closed to new contracts, the estimate is determined based on a closed group projection for existing contracts. Accrued contract benefits is actuarially calculated by projecting tuition costs at the assumed annual rate of increase and then calculating the expected present value of benefit payments based on the discount rate assumption and outstanding contracts.

The total actuarial present value of accrued contract benefits liability of $62,481,134 as of June 30, 2020, was based on the remaining provision for contract benefits since inception of the Program. Current liabilities of $12,138,751 represent obligations that will become due within a year from June 30, 2020. Noncurrent liabilities of $50,342,383 represent obligations and expenses that will become due more than a year after June 30, 2020.

Note 7. Actuarial Data

Total tuition contracts receivable	$	350,123
Total accrued contract benefits	$	62,481,134
Funded ratio		49.5%
Actuarial valuation date		June 30, 2020
Assumed investment return and discount rate*		1.12%
Rate of tuition increase		5.50%
Bias load *		0.0%

* The discount rate is gross of program management fees. The bias load assumption accounts for Program enrollment at institutions that are more expensive than the weighted average tuition.

Note 8. Program Net Position (Deficit)

As of June 30, 2020, the Program has a net deficit (total liabilities in excess of total assets) of ($31,546,569). Based on the financial statements, the funded status (assets divided by liabilities) of the Program is 49.5% at June 30, 2020. The funded status represents the Program's ability to fund payment of its liabilities as of the date on which the value of the assets and liabilities are measured. The Treasurer is evaluating the implications of the deficit on the ongoing operations of the Program.

Note 9. Program Risks

As discussed in Note 8, the Program has a net deficit of ($31,546,569) as of June 30, 2020. Each year, the Treasurer notifies the Assembly of the implications of the deficit on the ongoing operations of the Program, with various remedial actions for funding as reported in the Program's annual actuarial valuation. In the event that remedial actions are not taken by the Assembly, the Program is projected to run out of assets in 2023.

If the State determines that the Program is no longer fiscally or actuarially sound, the State may discontinue the Program and cancel all tuition prepayment contracts. In this instance, the State will determine the level of refunds dependent upon available funds in the Program, as described in the Program's Master Agreement. In general, unused contributions shall be refunded, less certain administrative expenses, plus interest on these contributions from the date payment is made at the rate of at least 4% per annum.

Any act or undertaking of the Program shall not constitute a debt of the State or any agency, department, institution, or political subdivision, or a pledge of the full faith and credit of the State or any agency, department, institution, or political subdivision, but is payable solely from the Program. The Program deficit is also not an obligation of the Program Manager.

Note 10. Subsequent Events

The Program has evaluated the events and transactions that have occurred through the date the financial statements were issued. There were no additional items requiring adjustment of the financial statements or additional disclosure.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Office of the State Treasurer
of the State of South Carolina
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities of the South Carolina Tuition Prepayment Program(the Program), an enterprise fund of the State of South Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated September 15, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 15, 2020