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, 2014

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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, 2014, 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, 2014, the Program received $1.3 million in contract contributions and paid $15.2 million in contract benefits.

As of June 30, 2014, the Program's liabilities (primarily consisting of discounted future tuition payments) exceeded its assets by approximately $57.4 million, resulting in a net deficit. The net deficit decreased from $65.6 million at June 30, 2013, mainly due to net investment gain of $7.1 million, as well as a net decrease in the present value of future expected tuition contract benefit payments of $1.2 million.

The financial statements present only the Program, and do not purport to, and do not, present the net position 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 Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, as amended. 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.

The State of South Carolina reports the Program as an 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; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows and Notes to Financial Statements.

The Statement of Net Position presents information on the Program's assets and liabilities, with the difference reported as net position (deficit). 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 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

Net Position. The following is a condensed Statement of Net Position for the Program as of June 30, 2014 and June 30, 2013.

	2014	2013
Current assets	$106,470,018	$112,682,714
Noncurrent assets	2,898,626	3,843,579
Total assets	109,368,644	116,526,293
Current liabilities	27,434,861	26,301,992
Noncurrent liabilities	139,364,326	155,815,442
Total liabilities	166,799,187	182,117,434
Net position (deficit)	$ (57,430,543)	$ (65,591,141)

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

Noncurrent liabilities decreased by nearly $16.5 million or 10.6%. See Note 6 to the Financial Statements.

Net position (deficit) decreased by approximately $8.2 million or 12.4%. Net position is the excess of total assets over total liabilities and a net (deficit) occurs when liabilities exceed assets. The decrease in the net (deficit) is primarily attributable to net investment gain and a decrease in projected contract benefit payments. Although the deficit decreased during the year (mainly due to the favorable investment results), the Program is still in a significant deficit position.

Based on the financial statements, the funded status (assets divided by liabilities) of the Program is 65.6% at June 30, 2014, compared to 64.0% at June 30, 2013. 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 the fiscal year beginning on July 1, 2019. 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.

The following is a condensed Statement of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2014 and June 30, 2013:

	2014	2013
Operating revenues:		
Tuition contracts	$ 134,611	$ 1,103,861
Operating expenses:		
Tuition benefits	(1,209,216)	38,720,817
Operating income (loss)	1,343,827	(37,616,956)
Non-operating revenues (expenses):		
Net investment gain	7,141,010	6,635,829
Program management fees	(324,239)	(348,014)
Total non-operating revenues (expenses)	6,816,771	6,287,815
Change in net position	8,160,598	(31,329,141)
Net position (deficit), beginning of year	(65,591,141)	(34,262,000)
Net position (deficit), end of year	$(57,430,543)	$(65,591,141)

Operating revenues reflect contract payments received and the effect of discounting future contract payments receivable. Operating expenses reflect contract benefits paid and the effect of discounting future contract benefits payable.

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

Effective July 1, 2008, the Assembly closed the Program to new enrollment and as a result, no new contracts have been sold since that time.

Net investment gain consists of investment income (interest and dividends accrued from Program investments), net realized gain (loss) and the change in fair value of investments during the year.

Economic Factors

The actuarial valuation of tuition contracts receivable and the accrued contract benefits liability as of June 30, 2014 is based on various actuarial assumptions. Key assumptions include a tuition inflation assumption for those attending public universities in South Carolina of 7%, which is based on the statutory limit on benefit increases for Program beneficiaries. The inflation assumption for all others of 8% is applicable to those who attend either private college or out-of-state college.

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. In December 2013, the Program's LDI allocation increased to 80%. As the Program approaches its projected asset depletion date in 2019, the allocation to LDI is expected to continue to increase in order to reduce funded status volatility.

The actuarial assumption for the long-term investment rate of return and discount rate is 2.4% annually, net of expenses.

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. During the year ended June 30, 2014, there were no 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 ($57.4) 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.

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.

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

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.

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.

McGladrey

Independent Auditor's Report

To the Office of the State Treasurer of the State of South Carolina:

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Tuition Prepayment Program, as of and for the year ended June 30, 2014, and the related notes to the 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 opinions 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 respective financial position of the South Carolina Tuition Prepayment Program as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

The financial statements present only the South Carolina Tuition Prepayment Program, and do not purport to, and do not present fairly the financial position of the State of South Carolina as of June 30, 2014, and the changes in its financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. As further discussed in Notes 8 and 9, the South Carolina Tuition Prepayment Program has a deficit as of June 30, 2014 of $57.4 million. The amount of the reported deficit is highly dependent on the actuarial assumptions used to calculate the actuarial present value of future tuition benefit obligations. Our opinion is not modified with respect to these matters.

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 1–4 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 October 6, 2014 on our consideration of the South Carolina Tuition Prepayment 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 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 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 South Carolina Tuition Prepayment Program's internal control over financial reporting and compliance.

McGladrey LLP

Boston, Massachusetts
October 6, 2014

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Statement of Net Position
June 30, 2014

Assets	
Current assets	
Investments	$100,256,441
Cash and cash equivalents	4,825,461
Receivables:	
Tuition contracts receivable	943,618
Accrued investment income	444,498
Total current assets	106,470,018
Noncurrent assets	
Tuition contracts receivable	2,898,626
Total noncurrent assets	2,898,626
Total assets	109,368,644
Liabilities	
Current liabilities	
Payable for investments purchased	1,051,018
Accrued program management fees	77,440
Accrued contract benefits	26,306,403
Total current liabilities	27,434,861
Noncurrent liabilities	
Accrued contract benefits	139,364,326
Total noncurrent liabilities	139,364,326
Total liabilities	166,799,187
Net position (deficit)	$ (57,430,543)

See accompanying Notes to Financial Statements.

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South Carolina Tuition Prepayment Program
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

Operating revenues:	
Contract contributions	$ 1,316,584
Decrease in actuarial value of future contract contributions	(1,181,973)
Total operating revenues	134,611
Operating expenses:	
Contract benefit payments	15,180,956
Decrease in actuarial value of future contract benefit payments	(16,390,172)
Total operating expenses	(1,209,216)
Operating income	1,343,827
Non-operating revenues (expenses):	
Income from investment securities	7,141,010
Program management fees	(324,239)
Total non-operating revenues (expenses)	6,816,771
Change in net position	8,160,598
Net position (deficit), July 1, 2013	(65,591,141)
Net position (deficit), June 30, 2014	$(57,430,543)

See accompanying Notes to Financial Statements.

State of South Carolina
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South Carolina Tuition Prepayment Program
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flows from operating activities:	
Cash receipts from prepaid tuition contracts	$ 1,316,584
Cash paid for tuition	(15,180,956)
Net cash used in operating activities	(13,864,372)
Cash flows from investing activities:	
Purchases of investment securities	(96,759,803)
Sales and maturities of investment securities	98,416,948
Interest and dividends on investments	3,082,571
Cash paid for program management services	(303,332)
Net cash provided by investing activities	4,436,384
Net decrease in cash and cash equivalents	(9,427,988)
Cash and cash equivalents, July 1, 2013	14,253,449
Cash and cash equivalents, June 30, 2014	$ 4,825,461
Reconciliation of operating income to net cash used in operating activities:	
Operating income	$ 1,343,827
Adjustments to reconcile operating income to net cash used in operating activities:	
Decrease in tuition contracts receivable	1,181,973
Decrease in contract benefits payable	(16,390,172)
Total adjustments	(15,208,199)
Net cash used in operating activities	$(13,864,372)
Supplemental disclosure of noncash investing transactions:	
Net change in appreciation on investments	$ 2,268,394

See accompanying Notes to Financial Statements.

State of South Carolina
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South Carolina Tuition Prepayment Program
Notes to Financial Statements
For the Year Ended June 30, 2014

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 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, 2014, 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 ("Columbia") and Columbia Management Investment Distributors, Inc., (collectively 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 Statement of Net Position presents only the Program, and does not purport to, and does not, present the net position of the Trust Fund or the State of South Carolina. As of June 30, 2014, the Program's liabilities (primarily consisting of discounted future tuition payments) exceeded its assets by approximately $57.4 million.

Note 2. Significant Accounting Policies

The financial statements of the Program have been prepared in conformity with accounting principles generally accepted in the United States of America ("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 of South Carolina reports the Program as an 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 generally accepted accounting principles 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 Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, as "the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale." 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. Investments in equity securities are valued at the last quoted sales price or official close price on the principal exchange or market on which they trade. 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 net investment yield and was 2.4% as of June 30, 2014.

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 for those attending public universities in South Carolina of 7% is based on the statutory limit on benefit increases for Program beneficiaries. The inflation assumption for all others of 8% is applicable to those who attend either private college or out-of-state college. See Note 7 for the key actuarial assumptions used in the June 30, 2014 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 March 2012, the GASB issued GASB No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 provides clarification regarding the classification of deferred inflows and outflows of resources. The topics discussed in the standard are refunding of debt, nonexchange transactions, sales of future revenues, debt issuance costs, leases, acquisition of insurance costs, lending activities, mortgage banking, regulated activities, governmental fund revenue recognition and deferred revenue, major fund criteria and other items. For the Program, the amendments in GASB No. 65 were effective for the year ended June 30, 2014. The adoption of this standard did not have a significant impact on the Program's financial statements.

In March 2012, the GASB issued GASB No. 66, *Technical Correction–2012*. GASB No. 66 clarifies implementation issues that were presented in GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The standard provides clarification that the purchase price of loans is to include the amount paid to the seller plus any fees paid, less any fees, received. For the Program, the amendments in GASB No. 66 were effective for the year ended June 30, 2014. The adoption of this standard did not have a significant impact on the Program's financial statements.

In June 2012, the GASB issued GASB No. 67, *Financial Reporting for Pension Plans*. GASB No. 67 replaces requirements of GASB Statements No. 25 and No. 50, related to pension plans administered through trusts or similar arrangements. The standard uses existing framework for financial reports of defined benefit pension plans, including a statement of fiduciary net position and a statement of changes in fiduciary net position. The standard enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. In addition, the standard requires the presentation of information about annual money-weighted rates of return in the notes and in 10-year required supplementary information schedules. For the Program, the amendments in GASB No. 67 were effective for the year ended June 30, 2014. The adoption of this standard did not have a significant impact on the Program's financial statements.

In June 2012, the GASB issued GASB No. 68, *Accounting and Financial Reporting for Pensions*. GASB No. 68 replaces requirements of GASB Statements No. 27 and No. 50, related to pension plans administered through trusts or similar arrangements. The standard requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. In addition, the standard adds revised and new note disclosures and required supplementary information. For the Program, the amendments in GASB No. 68 are effective for fiscal years beginning after June 15, 2014. Program management has not determined the effect, if any, this standard will have on its financial statements.

In January 2013, the GASB issued GASB No. 69, *Government Combinations and Disposals of Government Obligations*. The standard establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations. GASB No. 69 is effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Program management has not determined the effect, if any, this standard will have on its financial statements.

In April 2013, the GASB issued GASB No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The standard requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. It requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. It also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. For the Program, the amendments in GASB No. 70 were effective for the year ended June 30, 2014. The adoption of this standard did not have a significant impact on the Program's financial statements.

In November 2013, the GASB issued GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement No. 68)*. This Statement amends Statement 68 related to transition provisions for certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and nonemployer contributing entities. At the beginning of the period in which the provisions of Statement 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68. The provisions of this standard are effective for reporting periods beginning after June 15, 2014. Program management has not determined the effect, if any, this standard will have on its 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 by 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.

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, by doing the following:
    - Balancing the Program's risk-return level by maintaining a balanced mix of liability-matched assets and risk assets (consisting of equity and fixed income investments) within the constraints of state law; and
    - Regularly reviewing the asset allocation of the Program based on capital market expectations.
- 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.

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.

The Program's investments 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 ("Underlying Funds");
- 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 Agency");
- 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.

The Program may invest in derivatives through Underlying Funds, provided that the derivative securities are used for hedging purposes or to create a market exposure. The Program may not invest in derivatives through Underlying Funds if used to create leverage or for speculation.

The following table sets forth the Program's CIP benchmarks at June 30, 2014:

Asset Class	CIP Benchmark
US Large Cap Equity	Russell 1000 TR Index
US Mid Cap Equity	Russell MidCap TR Index
US Small Cap Equity	Russell 2000 TR Index
Non-US Developed Markets Equity	MSCI EAFE Net Index
Non-US Emerging Markets Equity	MSCI Emerging Markets Index
US Long Duration Govt/Credit Bonds	Barclays US Long Government/Credit Index
US High Yield Bonds	Merrill US High Yield Master Index
Non-US Emerging Markets Bonds	JP Morgan Emerging Markets Bond Index
Real Return/Inflation Protected	Barclays US TIPS Index
Real Estate/REITs	FTSE NARIET All Equity REITs Index
Commodities	DJ-AIG Commodity Index
Immunized Fixed Income	Blend (65% Barclays US Aggregate Credit 1-5 Year Index, 20% Barclays US Aggregate Credit 1-3 Year Index and 15% BoA Merrill Lynch 90 Day Treasury Bill Index)

The following table sets forth the Program's asset allocation targets and actual asset allocation, based on the fair value of cash and equivalents, investments and the income accrued for those investments (collectively "Investment Value") at June 30, 2014:

Asset Class	Target Allocation (%)	Actual Allocation (%)
US Large Cap Equity	7.00	6.94
US Mid Cap Equity	2.00	1.99
US Small Cap Equity	1.00	1.00
Non-US Developed Markets Equity	3.00	2.99
Non-US Emerging Markets Equity	1.00	0.99
US Long Duration Govt/Credit Bonds	1.00	0.99
US High Yield Bonds	1.00	0.99
Non-US Emerging Markets Bonds	1.00	0.99
Real Return/Inflation Protected	1.00	0.99
Real Estate/REITs	1.00	0.99
Commodities	1.00	0.98
Immunized Fixed Income	80.00	80.16

As of June 30, 2014, the Program's assets were deployed in a mix of affiliated and unaffiliated Underlying Funds, fixed income investments and cash and equivalents, as shown in the table below:

Asset Class	**Investment Type**	**Fair Value and Accrued Income**
US Large Cap Equity	Underlying Funds:	
	Affiliated	$ 5,489,789
	Unaffiliated	1,833,513
US Mid Cap Equity	Underlying Funds:	
	Affiliated	1,260,896
	Unaffiliated	839,840
US Small Cap Equity	Underlying Funds:	
	Affiliated	1,056,451
Non-US Developed Markets Equity	Underlying Funds:	
	Affiliated	946,387
	Unaffiliated	2,201,906
Non-US Emerging Markets Equity	Underlying Funds:	
	Unaffiliated	1,043,432
US Long Duration Govt/Credit Bonds	Underlying Funds:	
	Unaffiliated	1,047,320
US High Yield Bonds	Underlying Funds:	
	Affiliated	1,046,897
Non-US Emerging Markets Bonds	Underlying Funds:	
	Affiliated	1,044,697
Real Return/Inflation Protected	Underlying Funds:	
	Unaffiliated	1,044,239
Real Estate/REITs	Underlying Funds:	
	Unaffiliated	1,046,653
Commodities	Underlying Funds:	
	Unaffiliated	1,030,174
Immunized Fixed Income	Cash and equivalents	4,825,461
	Asset Backed Securities	4,674,188
	Commercial Mortgage Backed Securities	1,753,868
	Corporate Bonds	56,826,941
	Government/Treasury	16,513,748
		$105,526,400

The affiliated funds are advised by Columbia and its affiliates. In aggregate, affiliated Underlying Funds represent 10.3% of the Program's Investment Value as of June 30, 2014.

Unaffiliated Underlying Funds, which represent 9.5% of Program Investment Value, are advised by American Century Investment Management, Inc.; BlackRock Fund Advisors; Dimensional Fund Advisors, LP; Morgan Stanley Investment Management, Inc. and The Vanguard Group.

Under the Monitoring Program, the Immunized Fixed Income investments are monitored based on sector allocation, duration, yield to maturity and average credit rating. Underlying Funds are monitored based on performance as compared to the respective CIP benchmarks.

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, 2014, the Program's deposits were covered by federal depository insurance and not exposed to custodial credit risk.

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 Underlying Funds) in the Program's name.

Market Risk
The Program invests in certain Underlying Funds which may be exposed to market risk. Due to the level of risk associated with investing in equity securities, it is at least reasonably possible that changes in the values of certain Underlying Funds may occur in the near term and that such changes could materially affect the amounts reported in the Program's financial statements. Under the Program's CIP, market risk is limited to the targeted asset allocation percentages permitted in equity and REIT related benchmarks. At June 30, 2014, such targeted allocation is 15% of Investment Value. At June 30, 2014, Underlying Funds which have the majority of their investments exposed to equity securities (including REITs) represented 14.9% of Program Investment Value.

Foreign Securities Risk
The Program does not hold foreign currency or deposits. Certain Underlying Funds invest in foreign securities. 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. Under the Program's CIP, foreign securities risk is limited to the targeted asset allocation percentages permitted in benchmarks where a majority of constituents are foreign issuers. This may include equity, REIT and fixed income benchmarks. At June 30, 2014, such targeted allocation is 6% of Investment Value. At June 30, 2014, Underlying Funds which have the majority of their investments exposed to foreign securities represented 6.0% of Program Investment Value, of which 5.0% of this Investment Value is also subject to market risk described above.

Interest Rate Risk and Credit Risk

The Program invests in fixed income securities (the "Immunized Fixed Income Portfolio") and Underlying Funds which may invest in fixed income securities. 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, 2014.

	Investment Value	WAM (Years)	Duration (Years)
Asset Backed Securities	$ 4,674,188	2.7	0.7
Commercial Mortgage Backed Securities	1,753,868	30.8	2.4
Corporate Bonds	56,826,941	2.7	2.4
Government/Treasury	16,513,748	2.8	2.8
Total	$79,768,745	3.3	2.4

The Program's Underlying Fund investments have no WAM or duration and, therefore, are not included above.

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). The following table sets forth the credit quality breakdown of the Immunized Fixed Income Portfolio and any Underlying Funds with a majority of their investments exposed to fixed income securities*:

	AAA	AA	A	BBB	Not Rated
Immunized Fixed Income Portfolio:					
Money Market Fund	$ —	$ —	$ —	$ —	$ 4,810,920
Asset Backed Securities	4,674,188	—	—	—	—
Commercial Mortgage Backed Securities	—	—	957,035	796,833	—
Corporate Bonds	1,000,104	12,114,225	31,525,843	12,186,769	—
Government/Treasury**	16,513,748	—	—	—	—
Underlying Funds:					
US Long Duration Govt/Credit Bonds	—	—	—	—	1,047,320
US High Yield Bonds	—	—	—	—	1,046,897
Non-US Emerging Markets Bonds	—	—	—	—	1,044,697
Real Return/Inflation Protected	—	—	—	—	1,044,239
Commodities	—	—	—	—	1,030,174
Total	$22,188,040	$12,114,225	$32,482,878	$12,983,602	$10,024,247

* Ratings represent the middle of the Moody's, S&P and Fitch ratings. When only two ratings are available, the lower rating is used.

** Included within this category are U.S. Treasury issues, which are explicitly guaranteed by the U.S. government and are not subject to credit risk.

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, 2014, the only issuer which represents more than 5% of the Program's investments is the United States Treasury (14.2% 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.

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). The Program Management fee is reflected in the Statement of Revenues, Expenses, and Changes in Net Position, while the accrued expense is included in the Statement of Net Position.

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.

Underlying Investment Expenses

In addition to the fees and expenses which the Program bears directly, the Program indirectly bears a pro rata share of the fees and expenses of the Underlying Funds in which it invests. As noted above, certain Underlying Funds are advised by Columbia and its affiliates.

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 2.4% annually, net of expenses.

The total actuarial present value of future tuition contracts receivable is $3,842,244. Current tuition contract payments of $943,618 represent payments that are expected to be received within a year from June 30, 2014. Noncurrent tuition contract payments of $2,898,626 represent payments that are expected to be received more than a year after June 30, 2014.

Note 6. Accrued Contract Benefits

The accrued contract benefits represent Program management's estimate of the present value of the estimated tuition 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 and fee increases 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 $165,670,729 as of June 30, 2014, was based on the remaining provision for contract benefits since inception of the Program. Current liabilities of $26,306,403 represent obligations that will become due within a year from June 30, 2014. Noncurrent liabilities of $139,364,326 represent obligations and expenses that will become due more than a year after June 30, 2014.

Note 7. Actuarial Data

The following is a summary of key actuarial data and assumptions used in the June 30, 2014 independent Actuarial Valuation:

Actuarial data:	
Total tuition contracts receivable	$ 3,842,244
Total accrued contract benefits	$165,670,729
Funded ratio	65.4%
Actuarial assumptions:	
Actuarial valuation date	June 30, 2014
Assumed net investment return and discount rate	2.4%
Rate of tuition increases:	
Attending South Carolina public universities	7.0%
All others	8.0%
Bias load*	3.0%

* 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, 2014, the Program has a net deficit (total liabilities in excess of total assets) of ($57,430,543). The table below details a reconciliation of the deficit in the Actuarial Valuation to the Statement of Net Position as of June 30, 2014:

Unfunded liability per Actuarial Valuation	$(57,379,163)
Other accrued liabilities	(51,380)
Net deficit per Statement of Net Position	$(57,430,543)

Note 9. Program Risks

As discussed in Note 8, the Program has a net deficit of ($57,430,543) as of June 30, 2014. 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 the fiscal year beginning on July 1, 2019.

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.

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.

McGladrey

**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:

We have audited, 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, the financial statements of the South Carolina Tuition Prepayment Program, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the South Carolina Tuition Prepayment Program's basic financial statements, and have issued our report thereon dated October 6, 2014. The report contains an emphasis of matters paragraph which states "as further discussed in Notes 8 and 9, the South Carolina Tuition Prepayment Program has a deficit as of June 30, 2014 of $57.4 million. The amount of the reported deficit is highly dependent on the actuarial assumptions used to calculate the actuarial present value of future tuition benefit obligations. Our opinion is not modified with respect to these matters."

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the South Carolina Tuition Prepayment Program's internal control over financial reporting (internal control) to determine the 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 South Carolina Tuition Prepayment Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the South Carolina Tuition Prepayment 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Carolina Tuition Prepayment 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 determination of financial statement amounts. 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.

McGladrey LLP

Boston, Massachusetts
October 6, 2014