State of South Carolina
Office of the State Treasurer

Annual Report
For the Year Ended June 30, 2017

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Annual Report
For the Year Ended June 30, 2017

Table of Contents

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Annual Report
For the Year Ended June 30, 2017

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, 2017, 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, 2017, the Program received $0.7 million in contract contributions and paid $14.4 million in contract benefits.

As of June 30, 2017, the Program's liabilities (primarily consisting of discounted future tuition payments) exceeded its assets by approximately $36.8 million, resulting in a net deficit. The net deficit decreased from $43.3 million at June 30, 2016, primarily as a result of a net decrease in net position from operations of $6.1 million, which consists of contract benefit payments and a decrease in the actuarial value of future contract benefit payments.

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

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

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 a nonmajor enterprise fund in its Comprehensive Annual Financial Report. 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.

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

Financial Analysis

Statement of Net Position

The following is a condensed Statement of Net Position for the Program as of June 30:

	2017	2016
Current assets	$ 68,088,693	$ 81,355,651
Noncurrent assets	955,923	1,438,265
Total assets	69,044,616	82,793,916
Current liabilities	14,361,972	13,710,621
Noncurrent liabilities	91,488,554	112,350,993
Total liabilities	105,850,526	126,061,614
Net position (deficit)	$ (36,805,910)	$ (43,267,698)

Net position (deficit) decreased by approximately $6.5 million or 14.9%. 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, 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 65.2% at June 30, 2017, compared to 65.7% at June 30, 2016. 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, 2020. 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.

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program

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

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:

	2017	2016
Operating revenues:		
Tuition contracts	$ 21,770	$ 61,236
Operating expenses:		
Tuition benefits	(6,138,258)	(10,542,678)
Operating income	6,160,028	10,603,914
Non-operating revenues (expenses):		
Net investment gain	519,961	2,289,614
Program management fees	(218,201)	(254,918)
Total non-operating revenues	301,760	2,034,696
Change in net position	6,461,788	12,638,610
Net deficit, beginning of year	(43,267,698)	(55,906,308)
Net deficit, end of year	$ (36,805,910)	$ (43,267,698)

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.

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, 2017 is based on various actuarial assumptions. Key assumptions include a tuition inflation assumption of 5.5% which is based on the statutory limit on benefit increases for Program beneficiaries.

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

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 2020, 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. Consequently, interest accumulations for returned premiums are assumed to be at 2% rather than 4%, unused premiums are assumed returned at beneficiary age 30 instead of at asset depletion, and the investment return assumption is increased from 2.1% to 2.3%. This change decreased the net deficit by approximately $6 million. 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 $36.8 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 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.

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.

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, which comprise the statement of net position as of June 30, 2017, the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements (collectively, the financial statements).

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our 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 South Carolina Tuition Prepayment Program as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

Emphasis of Matters
As discussed in Note 1, the financial statements present only the South Carolina Tuition Prepayment Program administered by the Office of the State Treasurer, and do not purport to, and do not, present fairly the financial position of the State of South Carolina, or the Office of the South Carolina State Treasurer as of June 30, 2017, the changes in their financial positions, or, where applicable their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, as discussed in Notes 8 and 9, the South Carolina Tuition Prepayment Program has a deficit as of June 30, 2017 of $36.8 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 1-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 26, 2017 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 solely 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 the effectiveness of the South Carolina Tuition Prepayment 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 South Carolina Tuition Prepayment Program's internal control over financial reporting and compliance.

RSM US LLP

Boston, Massachusetts
September 26, 2017

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Statement of Net Position
June 30, 2017

Assets	
Current assets	
Investments	$ 65,808,561
Cash and cash equivalents	882,153
Receivables:	
Tuition contracts receivable	423,739
Accrued investment income	462,787
Investments sold	511,453
Total current assets	68,088,693
Noncurrent assets	
Tuition contracts receivable	955,923
Total noncurrent assets	955,923
Total assets	69,044,616
Liabilities	
Current liabilities	
Payable for investments purchased	790,458
Accrued program management fees	33,512
Accrued contract benefits	13,538,002
Total current liabilities	14,361,972
Noncurrent liabilities	
Accrued contract benefits	91,488,554
Total noncurrent liabilities	91,488,554
Total liabilities	105,850,526
Net position (deficit)	$ (36,805,910)

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

Operating revenues:	
Contract contributions	$ 658,859
Decrease in actuarial value of future contract contributions	(637,089)
Total operating revenues	21,770
Operating expenses:	
Contract benefit payments	14,435,238
Decrease in actuarial value of future contract benefit payments	(20,573,496)
Total operating expenses	(6,138,258)
Operating income	6,160,028
Non-operating revenues (expenses):	
Income from investment securities	519,961
Program management fees	(218,201)
Total non-operating revenues (expenses)	301,760
Change in net position	6,461,788
Net position (deficit), July 1, 2016	(43,267,698)
Net position (deficit), June 30, 2017	$ (36,805,910)

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Statement of Cash Flows
For the Year Ended June 30, 2017

Cash flows from operating activities:	
Cash receipts from prepaid tuition contracts	$ 658,859
Cash paid for tuition	(14,435,238)
Net cash used in operating activities	(13,776,379)
Cash flows from investing activities:	
Purchases of investment securities	(33,196,205)
Sales and maturities of investment securities	45,218,911
Interest and dividends on investments	1,655,771
Cash paid for program management services	(244,810)
Net cash provided by investing activities	13,433,667
Net decrease in cash and cash equivalents	(342,712)
Cash and cash equivalents, July 1, 2016	1,224,865
Cash and cash equivalents, June 30, 2017	$ 882,153

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

Operating income	$ 6,160,028
Adjustments to reconcile operating income to net cash used in operating activities:	
Decrease in tuition contracts receivable	637,089
Decrease in contract benefits payable	(20,573,496)
Total adjustments	(19,936,407)
Net cash used in operating activities	$ (13,776,379)

Supplemental disclosure of noncash investing transactions:

Net change in appreciation (depreciation) on investments	$ (236,038)

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Notes to Financial Statements
For the Year Ended June 30, 2017

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, 2017, 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 South Carolina Tuition Prepayment Program administered by the State of South Carolina, Office of the State Treasurer, and do not purport to, and do not, present fairly the financial position of the State of South Carolina or the Office of the South Carolina State Treasurer as of June 30, 2017, 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. As of June 30, 2017, the Program’s liabilities (primarily consisting of discounted future tuition payments) exceeded its assets by approximately $36.8 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 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 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. 72, *Fair Value Measurement and Application*, 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 net investment yield and was 2.3% as of June 30, 2017.

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, 2017 independent actuarial valuation.

Income Taxes

The Program intends to qualify each year as a qualified tuition program in accordance with Section 529 of the Internal Revenue 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 June 2015, the GASB issued GASB No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement applies to benefit plans other than pension plans ("OPEB") plans that administer benefits on behalf of governments through trusts that meet the GASB’s specified criteria. It replaces GASB Statement No. 43 and requires more extensive note disclosures and required supplementary information ("RSI") for both defined benefit and defined contribution OPEB plans. The provisions of Statement No. 74 are effective for plan fiscal years beginning after June 15, 2016. The adoption of this standard did not have a significant impact on the Programs financial statements.

In June 2015, the GASB issued GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* Among other things, Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. This Statement is effective for fiscal years beginning after June 15, 2017. The Program does not provide such benefits, therefore this pronouncement will have no effect on the financial statements.

In August 2015, the GASB issued GASB No. 77, *Tax Abatement Disclosures*. This Statement requires state and local governments, for the first time, to disclose information about tax abatement agreements. It requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. The adoption of this standard did not have a significant impact on the Program's financial statements.

In December 2015, the GASB issued GASB No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement is effective for financial statement periods beginning after December 15, 2015. The adoption of this standard did not have a significant impact on the Programs financial statements.

In January 2016, the GASB issued GASB No. 80, *Blending Requirements for Certain Component Units- An Amendement of GASB Statement No. 14*. The Statement clarifies the display requirements in GASB Statement No. 14, The Financial Reporting Entity, by requiring these component units to be blended into the primary state or local government's financial statements in a manner similar to a department or activity of the primary government. The guidance addresses diversity in practice regarding the presentation of not-for-profit corporations in which the primary government is the sole corporate member. Although GASB 80 applies to a limited number of governmental units, such as, for example, public hospitals, the GASB intends for it to enhance the comparability of financial statements among those units and improve the value of this information for users of state and local government financial statements. This Statement is effective for financial statement periods beginning after June 15, 2016. The adoption of this standard did not have a significant impact on the Programs financial statements.

In March 2016, the GASB issued GASB No. 81, *Irrevocable Split-Interest Agreements*. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB 81 requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement is effective for financial statement periods beginning after December 15, 2016. Program management has determined this pronouncement will have no effect on the financial statements.

In March 2016, the GASB issued GASB No. 82, *Pension Issues- An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The Statement addresses, among other things, presentation of payroll-related measures in required supplementary information, selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and classification of payments made by employers to satisfy plan member contribution requirements. GASB 82 is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Specifically, the practice issues raised by stakeholders during implementation relate to GASB 67, 68, and 73. This Statement is effective for financial statement periods beginning after June 15, 2017. The Program does not provide such benefits, therefore this pronouncement will have no effect on the financial statements.

In November 2016, the GASB issued GASB No. 83, *Certain Asset Retirement Obligations*. The Statement addresses accounting and financial reporting for certain asset retirement obligations ("ARO"s). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. This statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Program does not contain AROs, therefore this pronouncement will have no effect on the financial statements.

In January 2017, the GASB issued GASB No. 84, *Fiduciary Activities*. The objective of this statement tis 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 is effective for reporting periods beginning after December 15, 2018. Program management has not determined the effect, if any, this Statement will have on its financial statements.

In March 2017, the GASB issued GASB No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. This statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. Program management has determined this pronouncement will have no effect on the financial statements.

In May 2017, the GASB issued GASB No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. Program management has determined this pronouncement will have no effect on the financial statements.

In June 2017, the GASB issued GASB 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. This statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Program does not contain lease assets or liabilities, therefore this pronouncement will have no effect 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.

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.

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 (“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.
- For avoidance of doubt, collateralized mortgage obligations (“CMO’s”) are not authorized investments under Section 11-9-660 of the SC Code: therefore, investments in CMO’s are prohibited.

At June 30, 2017, the Program's CIP benchmark was a custom blend (35% Barclays US Credit 1-3 Year Index, 45% Barclays US Credit 3-5 Year Index; 12% US Treasury STRIP (11/15/21 maturity date) and 8% Merrill Lynch US 3 Month Treasury Bill Index).

As of June 30, 2017, the Program's assets were deployed in a mix of fixed income investments and cash and equivalents, as shown in the table below

Asset Class	Investment Type	Fair Value ($)
Immunized fixed income	Cash and equivalents	$ 882,153
	Corporate bonds	54,343,434
	Government/treasury	11,465,127
		$ 66,690,714

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. The Committee reports to the Board, with members of the Committee meeting with the Board at each of its regularly scheduled meetings to discuss valuation matters and actions during the period, similar to those described earlier.

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 ($)	Total ($)
Cash equivalents	$ 882,153	$ -	$ -	$ 882,153
Corporate bonds	-	54,343,434	-	54,343,434
Government/treasury	9,780,273	1,684,854	-	11,465,127
	$ 10,662,426	$ 56,028,288	$ -	$ 66,690,714

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, 2017, 16.3% 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, 2017.

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, 2017, 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. 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, 2017.

	Fair Value	WAM (Years)	Duration (Years)
Corporate bonds	$ 54,343,434	2.97	2.76
U.S. government agency	1,684,854	2.29	2.28
Treasury	9,780,273	3.44	3.33
Total	$ 65,808,561	3.02	2.83

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	BB
Immunized fixed income portfolio:					
Corporate bonds	$ -	$ 5,474,216	$ 23,704,830	$ 24,977,966	$ 186,422
U.S. government agency	-	1,684,854	-	-	-
Total	$ -	$ 7,159,070	$ 23,704,830	$ 24,977,966	$ 186,422

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, 2017, the only issuer which represents more than 5% of the Program's investments is the United States Treasury (14.9% 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.

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 of $218,201 is reflected in the Statement of Revenues, Expenses, and Changes in Net Position, while the accrued expense of $33,512 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.

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 2.3% annually, net of expenses.

The total actuarial present value of future tuition contracts receivable is $1,379,662. Current tuition contract payments of $423,739 represent payments that are expected to be received within a year from June 30, 2017. Noncurrent tuition contract payments of $955,923 represent payments that are expected to be received more than a year after June 30, 2017.

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 $105,026,556 as of June 30, 2017, was based on the remaining provision for contract benefits since inception of the Program. Current liabilities of $13,538,002 represent obligations that will become due within a year from June 30, 2017. Noncurrent liabilities of $91,488,554 represent obligations and expenses that will become due more than a year after June 30, 2017.

Note 7. Actuarial Data

Total tuition contracts receivable	$ 1,379,662
Total accrued contract benefits	$ 105,026,556
Funded ratio	65.2%
Actuarial valuation date	June 30, 2017
Assumed net investment return and discount rate	2.3%
Rate of tuition increase	5.5%
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, 2017, the Program has a net deficit (total liabilities in excess of total assets) of ($36,805,910). The table below details a reconciliation of the deficit in the Actuarial Valuation to the Statement of Net Position as of June 30, 2017:

Unfunded liability per actuarial valuation	$ (36,807,706)
Other accrued income	1,796
Net deficit per statement of net position	$ (36,805,910)

Note 9. Program Risks

As discussed in Note 8, the Program has a net deficit of $36,805,910 as of June 30, 2017. 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, 2020.

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:

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, 2017, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2017. 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, 2017 of $36.8 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.

RSM US LLP is the U.S. member firm of RSM International, a global network of independent audit, tax, and consulting firms. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

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.

RSM US LLP

Boston, Massachusetts
September 26, 2017