

**State of South Carolina
Office of the State Treasurer**



**Annual Report
For the Year Ended June 30, 2026**

State of South Carolina
Office of the State Treasurer
South Carolina Tuition Prepayment Program
Annual Report
For the Year Ended June 30, 2026

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the South Carolina Tuition Prepayment Program (the "Program") as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program, as of June 30, 2026, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis-of-Matter – Reporting Entity

As discussed in Note 1, the financial statements present only the Program and do not purport to, and do not, present fairly the financial position of the Office of the State Treasurer of South Carolina as of June 30, 2026, the changes in its financial position, or where applicable, their cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Program's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Program's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2026 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 17, 2026

State of South Carolina
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Management's Discussion and Analysis (unaudited)

Overview of the Financial Statements

The activities of the South Carolina Tuition Prepayment Program (the Program) are accounted for as an enterprise fund. As an enterprise fund, the Program's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this approach, all assets, liabilities, revenues, and expenses, including long-term obligations, are reported to provide information about the Program's overall financial position and ability to meet future benefit obligations.

This management's discussion and analysis section provides an overview and analysis of the Program's financial activities for the year ended June 30, 2026, and should be read with the accompanying financial statements and notes.

The 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. 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 a 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 Summary

The Program remained in a strong financial position during fiscal year 2026. Net position increased from approximately \$6.7 million at June 30, 2025, to approximately \$7.3 million at June 30, 2026. The Program's funded status improved from 150.5% to 180.9% during the year, reflecting continued strengthening of the Program's financial position. The funded status represents the Program's ability to fund payments of its liabilities as of the date on which the value of the assets and liabilities are measured. Contract benefit payments totaled approximately \$3.9 million during fiscal year 2026, compared to \$6.7 million during fiscal year 2025. The Program remains closed to new enrollment and did not receive contract contributions during the year. The Program continues to administer and pay benefits under existing tuition contracts.

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

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

	2026	2025
Current assets	\$ 16,366,762	\$ 21,810,493
Noncurrent assets	—	—
Total assets	16,366,762	21,810,493
Current liabilities	2,077,454	5,263,903
Noncurrent liabilities	6,968,139	9,849,556
Total liabilities	9,045,593	15,113,459
Net position	\$ 7,321,169	\$ 6,697,034

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

	2026	2025
Operating revenues:		
Tuition contracts	\$ -	\$ -
Operating expenses:		
Tuition (benefit) loss	(303,699)	(125,365)
Operating income (loss)	303,699	125,365
Non-operating revenues (expenses):		
Net investment gain	\$ 655,104	\$ 1,331,737
Program management fees	(334,668)	(331,136)
Total non-operating revenues	320,436	1,000,601
Change in net position	624,135	1,125,966
Net position, beginning of year	6,697,034	5,571,068
Net position, end of year	\$ 7,321,169	\$ 6,697,034

Detailed Analysis

Current assets continued to decline as investment holdings were sold or matured and proceeds used to fund tuition benefit payments of \$3.9 million and program expenses of \$335 thousand during the year ended June 30, 2026.

Current and noncurrent liabilities decreased as expected as the Program's maturity continued to draw to a close. The liabilities are primarily derived from the actuarially determined contract liabilities of future beneficiaries. Prior year liabilities also included securities purchased that were settled subsequent to June 30, 2025, of \$1.9 million. The portion related to accrued contract benefit liabilities decreased \$4.2 million for the year ended June 30, 2026.

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The actuarial valuation of the accrued contract benefits liability as of June 30, 2026, is based on various actuarial assumptions. Key assumptions include a tuition inflation assumption of 5.50% which is based on the statutory limit on benefit increases for Program beneficiaries.

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.

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

- The investment return assumption was increased from 4.43% at June 30, 2025 to 4.72% at June 30, 2026.

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

Net position increased by approximately \$0.6 million or 9.3% as of June 30, 2026. Net position is the excess of total assets over total liabilities. The factors that significantly contributed to the change in the net position included:

- \$0.3 million increase to the net position for interest on the net position;
- \$0.2 million increase to the net position based on actual contract usage/cancellation behavior;
- \$0.1 million increase to the net position due to lower than assumed tuition for 2026-2027;
- \$0.1 million increase to the net position due to an increase in the discount rate from June 30, 2025; and
- \$0.1 million decrease to the net position due to lower actual investment returns than assumed from June 30, 2025.

Operating expenses reflect contract benefits paid offset by changes in the actuarial liability. Contract benefit payments made during the year decreased compared to payments made last year due to the decreasing number of tuition contracts in force. The actuarial reserve improved as the discounted liability valuation decreased more than the net decrease in the market value of the assets. The net effect of these amounts resulted in an operating income increase of \$178 thousand for the year ended June 30, 2026.

Net investment gain consists of investment income (interest accrued from Program investments), net realized gain (loss) and the change in fair value of investments during the year. In total, net investment gain was lower by \$677 thousand compared to the prior year. A slightly lower portfolio yield over the prior year and a smaller Program market value resulted in a decrease in investment income. Net realized gains from general trading activity resulted from improved market valuations of securities and the impact of interest rate movements on bond prices, resulting in an increase versus prior year.

Significant Capital Asset and Long-Term Financing Activity

The Program does not own capital assets and has no debt financing arrangements. The primary long-term obligation is the actuarially determined accrued contract benefits liability. Management continues to monitor participant utilization, actuarial assumptions, and investment performance to ensure the Program remains positioned to satisfy future obligations.

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

Currently Known Facts, Decisions, or Conditions

The Program remains closed to new enrollment and operates as a closed block of business. Management expects contract counts, annual benefit payments, and actuarial liabilities to continue declining as remaining participants utilize benefits. Future results remain sensitive to tuition inflation, investment returns, participant behavior, and actuarial assumptions.

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, 1200 Senate Street – Suite 214, Wade Hampton Building, Columbia, SC 29201.

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South Carolina Tuition Prepayment Program
Statement of Net Position
June 30, 2026

Assets

Current assets

Cash and cash equivalents	\$	1,654,120
Investments		14,551,864
Receivables:		
For securities sold		41,207
Accrued investment income		119,571
Total assets		<u>16,366,762</u>

Liabilities

Current liabilities

Payables:

Accrued program management fees		4,097
Accrued contract benefits		<u>2,073,357</u>
Total current liabilities		<u>2,077,454</u>

Noncurrent liabilities

Accrued contract benefits		<u>6,968,139</u>
Total liabilities		<u>9,045,593</u>

Net position	\$	<u><u>7,321,169</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

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Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2026

Operating expenses:	
Contract benefit payments	\$ 3,905,303
Change in actuarial value of future contract benefit payments	(4,209,002)
Total operating expenses (income)	<u>(303,699)</u>
Operating income	<u>303,699</u>
Non-operating revenues (expenses):	
Income from investment securities	470,820
Net realized gain	387,463
Net decrease in fair value of investments	(203,179)
Program management fees	(334,668)
Total non-operating revenues	<u>320,436</u>
Change in net position	624,135
Net position, July 1, 2025	<u>6,697,034</u>
Net position, June 30, 2026	<u><u>\$ 7,321,169</u></u>

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

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Statement of Cash Flows
For the Year Ended June 30, 2026**

Cash flows used in operating activities:	
Cash paid for tuition	\$ (3,905,303)
Cash flows from investing activities:	
Purchases of investment securities	(21,870,726)
Sales and maturities of investment securities	25,396,236
Interest and dividends on investments	454,272
Cash paid for program management services	(335,544)
Net cash provided by investment activities	<u>3,644,238</u>
Net decrease in cash and cash equivalents	<u>(261,065)</u>
Cash and cash equivalents, July 1, 2025	<u>1,915,185</u>
Cash and cash equivalents, June 30, 2026	<u><u>\$ 1,654,120</u></u>
Reconciliation of operating income to net cash used in operating activities:	
Operating income	\$ 303,699
Adjustments to reconcile operating income to net cash used in operating activities:	
Decrease in contract benefits payable	<u>(4,209,002)</u>
Net cash used in operating activities	<u><u>\$ (3,905,303)</u></u>
Supplemental disclosure of noncash investing transactions:	
Net change in appreciation (depreciation) on investments	<u><u>\$ (128,842)</u></u>

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

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Notes to Financial Statements
For the Year Ended June 30, 2026

Note 1. Organization

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

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

The Program’s last open enrollment period lasted from March 2006 through May 2006. Effective July 1, 2008, the Assembly closed the Program to new enrollment. Closing the Program to new enrollment did not affect existing participants in the Program and the Program remains in full operation. At June 30, 2026, the program continues to pay all benefits due.

Columbia Management Investment Advisers, LLC (Columbia or the Program Manager), a wholly-owned subsidiary of Ameriprise Financial, Inc., serves 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.

The financial statements present only the Program administered by the Treasurer, and do not purport to, and do not, present the financial position of the State or the Treasurer as of June 30, 2026, or changes in their financial position and cash flows, where applicable, for the year then ended.

Note 2. Significant Accounting Policies

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

Basis of Presentation

The State reports the Program as a nonmajor enterprise fund in its Annual Comprehensive Financial Report. As an enterprise fund, the financial statements of the Program are presented on the economic resource flows 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. Contract benefit payments are recorded upon release of payment. 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.

Operating and Non-operating Revenues and Expenses

The Program distinguishes operating revenues and expenses from other non-operating revenues and expenses. Non-operating revenues and expenses are any (1) finance-related revenues and expenses; (2) investment income and

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expenses; and (3) subsidies received and provided. A subsidy represents amounts received from or provided to another party or government for which no commensurate goods or services are exchanged. Investment activity (such as investment income, changes in the fair value of investments and program management fees) is reported as non-operating activity.

All revenues and expenses not classified as non-operating are reported as operating revenues and expenses. 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.

Use of Estimates

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

Cash and Cash Equivalents

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

Investments

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

Investment Valuation

Investments are valued on a daily basis at fair value. Fair value is defined 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.

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 5.50% is based on the statutory limit on benefit increases for Program beneficiaries. See Note 6 for the key actuarial assumptions used in the June 30, 2026 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.

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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:

The GASB issued GASB Statement No. 103, Financial Reporting Model Improvements. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision-making and assessing accountability. The Statement includes changes related to Management's Discussion and Analysis, unusual or infrequent items, and certain financial reporting disclosures. The Program implemented the provisions of GASB Statement No. 103 during the fiscal year and the adoption had no material impact on the Program's financial statements.

The GASB issued GASB Statement No. 104, Disclosure of Certain Capital Assets. The objective of this Statement is to improve financial reporting by providing users of financial statements with essential information about certain types of capital assets and enhancing consistency and comparability among governments. This Statement was effective for the year ended June 30, 2026, and had no impact on the Program's financial statements.

The GASB issued GASB Statement No. 105, Subsequent Events. The primary objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The Statement defines subsequent events, clarifies the distinction between recognized and nonrecognized subsequent events, and establishes related disclosure requirements. The Statement is effective for fiscal years beginning after June 15, 2026. Program management is currently evaluating the effect that this Statement will have on the Program's financial statements.

Note 3. Investments

Pursuant to Section 59-4-30 of the SC Code, the Treasurer is responsible for developing and adopting the investment policies, guidelines, and strategies for the Program. The Treasurer has adopted a Comprehensive Investment Plan (CIP) for the Program, which shall be followed by the Treasurer, Program Manager and any advisor engaged by the Treasurer to provide advice and monitor the Program. The current CIP was adopted on October 1, 2012, as since amended most recently in May 2026.

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:

- Minimize the tracking error between fixed income assets and the liability by constructing a portfolio of fixed income investments that closely matches the behavior of the liability for changes in interest rates.
- Strive for modest alpha relative to the benchmark without compromising the primary objective of minimizing tracking error.
- Invest in a manner which is appropriate and prudent for the Program.

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- 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 disapproving of investments annually or otherwise, as needed; establishing criteria for selecting investments, asset classes and advisors; reviewing and approving investment proposals by the Program Manager and approving procedures for monitoring investment performance and contractual obligations.

The Treasurer has also developed a written investment monitoring program with regard to investment and compliance matters (Monitoring Program), dated October 1, 2012, as since amended most recently in May 2026.

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

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

- Equity securities of a corporation that is registered on a national securities exchange or quoted through the National Association of Securities Dealers Automatic Quotations system or similar services;
- Securities issued by an investment company registered under the Investment Company Act of 1940;
- Obligations of the United States, its agencies and instrumentalities;
- Obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, the African Development Bank, and the Asian Development Bank;
- Obligations of a corporation, state or political subdivision denominated in U.S. dollars, provided that the obligation bears an investment grade rating from at least two nationally recognized rating services (Rating Agencies);
- Certificates of deposit;
- Repurchase agreements; and
- Guaranteed investment contracts issued by a domestic or foreign insurance company or other financial institution, whose long-term unsecured debt rating bears the two highest ratings of at least two Rating Agencies.
- For avoidance of doubt, collateralized mortgage obligations (CMOs) are not authorized investments under Section 11-9-660 of the SC Code; therefore, investments in CMOs are prohibited.

At June 30, 2026, the Program's CIP benchmark was a custom blend (30% Bloomberg US 1-3 Year Corporate Index, 32% Bloomberg US 3-5 Year Corporate Index, and 38% Custom US Treasury STRIPS).

As of June 30, 2026, the Program's assets were deployed in a mix of fixed income investments, as shown in the table below:

Asset Class	Investment Type	Carrying Value
Immunized fixed income	Corporate bonds	\$ 10,590,838
	Treasuries	3,815,629
	Municipals	145,397
		<u>\$ 14,551,864</u>

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

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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, if any, 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 Program 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 valuation 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

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vendors and a determination of appropriate pricing methodologies; events that require specific valuation determinations and assessment of fair value techniques; securities with a potential for stale pricing, including those that are illiquid, restricted, or in default; and the effectiveness of third party pricing vendors, including periodic reviews of vendors. The Committee meets more frequently, as needed, to discuss additional valuation matters, which may include the need to review back-testing results, review time- sensitive information or approve related valuation actions.

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

Investment Type	<u>Level 1</u> Quoted Prices in Active Markets for Identical Assets	<u>Level 2</u> Other Significant Observable Inputs	<u>Level 3</u> Significant Unobservable Inputs	Total
Corporate bonds	\$ -	\$ 10,590,838	\$ -	\$ 10,590,838
Treasuries	-	3,815,629	-	3,815,629
Municipals	-	145,397	-	145,397
	<u>\$ -</u>	<u>\$ 14,551,864</u>	<u>\$ -</u>	<u>\$ 14,551,864</u>

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 into or out of Level 3 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, 2026, 8.31% 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. Those investments are included in corporate bonds and foreign government obligations. All foreign securities were denominated in United States Dollars at June 30, 2026.

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

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loss. The Program has no formal policy that would further limit the requirements under State law. As of June 30, 2026, the Program's deposits were covered by federal depository insurance 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

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

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

The following table provides weighted average maturity (WAM) and duration for each investment type held by the Immunized Fixed Income Portfolio (other than cash and equivalents) as of June 30, 2026.

	Fair Value	WAM (Years)	Duration (Years)
Corporate bonds	\$ 10,590,838	3.07	2.48
Treasuries	3,815,629	7.76	7.59
Municipals	145,397	3.61	3.07
Total	<u>\$ 14,551,864</u>		

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.

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The following table sets forth the credit quality breakdown of the Immunized Fixed Income Portfolio's corporate bonds, municipals, and foreign government obligations:

	Bond Ratings				
	AAA	AA	A	BBB	Total
Immunized fixed income portfolio:					
Corporate bonds	\$ 170,977	\$ 756,645	\$ 6,137,392	\$ 3,525,824	\$ 10,590,838
Municipals	-	100,721	44,676	-	145,397
Total	\$ 170,977	\$ 857,366	\$ 6,182,068	\$ 3,525,824	\$10,736,235

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, 2026, the only issuer which represented more than 5% of the Program's investments is the United States Treasury (26.22% of investment value). However, Treasury securities are backed by the full faith and credit of the United States government and therefore not subject to credit risk.

Market and Environment Risk

The Program may incur losses due to declines in the value of one or more securities in which it invests. These declines may be due to factors affecting a particular issuer, or the result of, among other things, political, regulatory, market, economic or social developments affecting the relevant market(s) more generally. In addition, turbulence in financial markets and reduced liquidity in equity, credit and/or fixed income markets may negatively affect many issuers, which could adversely affect the Program, including causing difficulty in assigning prices to hard-to-value assets in thinly traded and closed markets and operational challenges. Global economies and financial markets are increasingly interconnected, and conditions and events in one country, region or financial market may adversely impact issuers in a different country, region, or financial market. These risks may be magnified if certain events or developments adversely interrupt the global supply chain; in these and other circumstances, such risks might affect companies worldwide. As a result, local, regional, or global events such as terrorism, war, other conflicts, natural disasters, disease/virus outbreaks and epidemics or other public health issues, recessions, depressions, or other events – or the potential for such events – could have a significant negative impact on global economic and market conditions.

Note 4. Program Fees and Expenses

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), subject to a minimum annual fee of \$340,000 per calendar year. The program management fee of \$334,668 is reflected in the Statement of Revenues, Expenses, and Changes in Net Position, while the accrued expense of \$4,097 is included in the Statement of Net Position.

Other Expenses

Other than the program management fee described above, there are no other non-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.

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Note 5. Accrued Contract Benefits

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

The total actuarial present value of accrued contract benefits liability of \$9,041,496 as of June 30, 2026, was based on the remaining provision for contract benefits since inception of the Program. Current liabilities of \$2,073,357 represent estimated obligations that are expected to become due within a year from June 30, 2026. Noncurrent liabilities of \$6,968,139 represent obligations and expenses that are expected to be due more than a year after June 30, 2026.

Note 6. Actuarial Data

Key actuarial data and assumptions, as well as the total obligation at June 30, 2026, are as follows:

Total tuition contracts receivable	\$ -
Total accrued contract benefits	9,041,496
Funded ratio	180.9%
Actuarial valuation date	June 30, 2026
Assumed investment return and discount rate*	4.72%
Rate of tuition increase	5.50%

* The discount rate is gross of program management fees. The discount rate used to calculate present value of benefits under the program was increased from 4.43% at June 30, 2025 to 4.72% at June 30, 2026. This update to the discount rate reflects changes in capital market conditions since the last valuation date. No other assumptions or methods were changed.

Note 7. Program Net Position

As of June 30, 2026, the Program has a net position (total assets in excess of total liabilities) of \$7,321,169. Based on the actuary report, the funded status of the Program is 180.9% at June 30, 2026. 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.

Note 8. Program Risks

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.

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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. Any Program deficit is not an obligation of the Program Manager.

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 South Carolina
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the South Carolina Tuition Prepayment Program (the "Program"), an enterprise fund of the State of South Carolina, as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated September 17, 2026.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Charleston, West Virginia
September 17, 2026