

Beaufort-Jasper Higher Education Commission

Report on Financial Statements

For the year ended June 30, 2021

Beaufort-Jasper Higher Education Commission

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Independent Auditor's Report

Beaufort-Jasper Higher Education Commission
Bluffton, South Carolina

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Beaufort-Jasper Higher Education Commission (the Commission), a component unit of the University of South Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Commission as of June 30, 2021, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the omitted information.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
September 7, 2021

Beaufort-Jasper Higher Education Commission

Statement of Net Position

As of June 30, 2021

Assets

Current assets

Cash and cash equivalents	\$ 5,033,608
Restricted - cash and cash equivalents	3,500,000
Accounts receivable	10,104
Note receivable	157,369
Due from primary government, net	394,336
Prepaid items	242,105
Total current assets	<u>9,337,522</u>

Noncurrent assets

Capital assets, net of accumulated depreciation	42,051,571
Nondepreciable capital assets	4,315,158
Security deposit	79,500
Total noncurrent assets	<u>46,446,229</u>
Total assets	<u>55,783,751</u>

Deferred outflows of resources

Deferred loss on debt refunding	<u>1,446,378</u>
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Liabilities

Current liabilities

Accounts payable	73,188
Due to Beaufort-Jasper Higher Education Foundation	341,003
Unearned revenue	1,850
Accrued compensated absences	21,000
Accrued interest payable	52,688
Long-term debt - current portion	1,148,708
Total current liabilities	<u>1,638,437</u>

Noncurrent liabilities

Long-term debt	<u>32,975,516</u>
Total noncurrent liabilities	<u>32,975,516</u>
Total liabilities	<u>34,613,953</u>

Net Position

Net investment in capital assets	13,688,883
Restricted for debt service	3,500,000
Unrestricted	5,427,293
Total net position	<u>\$ 22,616,176</u>

See Notes to Financial Statements

Beaufort-Jasper Higher Education Commission
Statement of Revenues, Expenses and Change in Net Position
For the year ended June 30, 2021

Operating revenues

Charges for sales and services	
Housing	\$ 5,868,809
Dining	2,539,619
Other	211,570
Total operating revenues	<u>8,619,998</u>

Operating expenses

Costs of sales and services	
Housing	2,796,017
Dining	2,014,826
Administration	
Services and supplies	474,780
Salaries	257,328
Other	62,884
Amortization expense	55,177
Depreciation expense	1,612,934
Total operating expenses	<u>7,273,946</u>
Operating income	<u>1,346,052</u>

Nonoperating revenues (expenses)

County appropriations	2,318,016
Interest income	14,135
Interest on capital asset related debt	(602,334)
Debt issuance costs	(277,676)
Gift to USC Beaufort	(428,507)
Gifts for scholarships	5,000
Gain on sale of capital assets	211,130
Net nonoperating revenues (expenses)	<u>1,239,764</u>
Change in net position	<u>2,585,816</u>

Net position, beginning of year

20,030,360

Net position, end of year

\$ 22,616,176

See Notes to Financial Statements

Beaufort-Jasper Higher Education Commission

Statement of Cash Flows

For the year ended June 30, 2021

Operating activities

Receipts from sales and services	\$ 8,516,172
Payments to employees for services	(257,328)
Payments to suppliers	(5,329,407)
Net cash provided by operating activities	<u>2,929,437</u>

Noncapital financing activities

County appropriations	2,318,016
Gift to USC Beaufort	(428,507)
Gifts for scholarships	5,000
Net cash provided by noncapital financing activities	<u>1,894,509</u>

Capital and related financing activities

Proceeds from refunding note payable	30,891,764
Principal paid on capital asset related debt	(32,667,302)
Interest paid on capital asset related debt	(587,532)
Payments for debt issuance costs	(277,676)
Prepayment penalty on debt refunding	(917,670)
Net cash used for capital and related financing activities	<u>(3,558,416)</u>

Investing activities

Purchase of certificates of deposit	(2,636)
Proceeds from the sale of certificates of deposit	1,484,764
Collection of note receivable	45,000
Proceeds from the sale of capital assets	491,277
Interest income	14,135
Net cash provided by investing activities	<u>2,032,540</u>
Net increase in cash and cash equivalents	<u>3,298,070</u>

Cash and cash equivalents, beginning of year

5,235,538

Cash and cash equivalents, end of year

\$ 8,533,608

Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 5,033,608
Restricted - cash and cash equivalents	3,500,000
	<u>\$ 8,533,608</u>

Reconciliation of net operating income to net cash provided by operating activities

Operating income	\$ 1,346,052
Adjustments to reconcile operating income to net cash provided by operating activities	
Amortization expense	55,177
Depreciation expense	1,612,934
Change in current assets and liabilities	
Accounts receivable	(6,286)
Due from primary government, net	(99,390)
Prepaid items	(24,514)
Accounts payable	43,614
Unearned revenues	1,850
Net cash provided by operating activities	<u>\$ 2,929,437</u>

See Notes to Financial Statements

Beaufort-Jasper Higher Education Commission*Non-Governmental Discretely Presented Component Unit - Beaufort-Jasper Higher Education Foundation**Statement of Financial Position**As of December 31, 2020*

Assets

Cash and cash equivalents	\$ 88,789
Due from Beaufort-Jasper Higher Education Commission	<u>341,003</u>
Total assets	<u><u>\$ 429,792</u></u>

Liabilities and Net Assets**Liabilities**

Total liabilities	<u>\$ -</u>
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Net Assets

Without donor restrictions	569
With donor restrictions	<u>429,223</u>
Total net assets	<u>429,792</u>
Total liabilities and net assets	<u><u>\$ 429,792</u></u>

See Notes to Financial Statements

Beaufort-Jasper Higher Education Commission

Non-Governmental Discretely Presented Component Unit - Beaufort-Jasper Higher Education Foundation

Statement of Activities

For the year ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues			
Contributions	\$ -	\$ 1,000	\$ 1,000
Interest	49	-	49
Net assets released from restrictions	19,500	(19,500)	-
Total revenues	<u>19,549</u>	<u>(18,500)</u>	<u>1,049</u>
Program Expenses			
Scholarships and awards	<u>19,500</u>	<u>-</u>	<u>19,500</u>
Total expenses	<u>19,500</u>	<u>-</u>	<u>19,500</u>
Change in net assets	49	(18,500)	(18,451)
Net assets, beginning of year	<u>520</u>	<u>447,723</u>	<u>448,243</u>
Net assets, end of year	<u>\$ 569</u>	<u>\$ 429,223</u>	<u>\$ 429,792</u>

See Notes to Financial Statements

Beaufort-Jasper Higher Education Commission

Notes to Financial Statements

June 30, 2021

Note 1. Summary of Significant Accounting Policies

Reporting entity:

The Beaufort-Jasper Higher Education Commission (the "Commission") was created in 1994 by the South Carolina General Assembly. The Commission's primary purpose is to provide support and encouragement for all undertakings to improve the higher education opportunities for the benefit of the citizens and residents of Beaufort and Jasper Counties, South Carolina.

The nine members of the Commission are appointed by the Governor of the State of South Carolina. Seven members must be residents of Beaufort County and two members must be residents of Jasper County. Appointments are based on the recommendation of a majority of the respective county's legislative delegation.

The Commission serves as the liaison between the University of South Carolina Beaufort campus ("USC Beaufort") and the Beaufort and Jasper communities as well as the oversight committee for campus dormitories and the student center, including the construction and management of those facilities. Management personnel of the Commission are employed by USC Beaufort and report to the University of South Carolina (the "University").

GASB Codification Section 2600, *Reporting Entity and Component Unit Presentation and Disclosure*, provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with a primary government and classifies reporting requirements for those organizations. Based on these criteria, the financial statements include the Commission and its discretely presented component unit, the Beaufort-Jasper Higher Education Foundation (the "Foundation"). Additional information on the discretely presented component unit is included in Note 11. In addition, the Commission is considered a discretely presented component unit of the University and is thus included in the University's financial statements.

Basis of accounting:

For financial reporting purposes, the Commission is considered to be a special-purpose government engaged only in business-type activities. Accordingly, the Commission's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

The Commission distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Commission's principal ongoing operations. The principal operating revenues of the Commission are housing and dining fees charged to students of USC Beaufort. Operating expenses for the Commission include cost of sales and services, administration expenses, amortization expense, and depreciation on capital assets. Cost of sales and services includes expenses related to maintenance, utilities, and contractual services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash and cash equivalents:

For purposes of the statement of cash flows, the Commission considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Restricted cash and cash equivalents are comprised of externally restricted funds.

Beaufort-Jasper Higher Education Commission

Notes to Financial Statements

June 30, 2021

Note 1. Summary of Significant Accounting Policies, Continued

Due from primary government:

Due from primary government consists of amounts due from USC Beaufort for student housing and dining fees. USC Beaufort acts as an agent and collects housing and dining fees from students on behalf of the Commission. Unpaid fees are reported to the Commission and recorded net of estimated uncollectible amounts.

Management has estimated the allowance for doubtful accounts based upon actual losses experienced in prior years and evaluation of the current accounts.

Prepaid items:

Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of insurance premiums and prepaid rent.

Capital assets:

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Commission capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements and buildings and improvements costing in excess of \$100,000. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 40 years for buildings, 15 years for land improvements, and 5 to 10 years for furniture and fixtures, software, and equipment. Depreciation expense totaled \$1,612,934 for the fiscal year ended June 30, 2021.

Deferred outflows of resources:

The Commission's deferred outflows of resources consists of a deferred loss on debt refunding that occurred in 2012, and the deferred loss from the current year debt refunding. The original amortization period remaining from the prior refunding (June of 2035) is shorter than the life of the current year refunding (June of 2037) and therefore, the deferred loss is amortized on a straight-line basis through that date.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used include depreciation expense. Actual results could differ from those estimates.

Beaufort-Jasper Higher Education Commission

Notes to Financial Statements

June 30, 2021

Note 1. Summary of Significant Accounting Policies, Continued

Net position:

The Commission's net position is classified as follows:

Net investment in capital assets: This represents the Commission's total investment in capital assets, net of outstanding debt obligations, retainage payable, accounts payable, and deferred losses on debt refunding related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted: The restricted component of net position includes resources which the Commission is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted: The unrestricted component of net position represents resources derived from charges for sales and services and County appropriations. These resources are used for transactions relating to the general operations of the Commission and may be used at the discretion of the governing board to meet current expenses for any purpose.

The Commission's policy for applying expenses that can be used for both restricted and unrestricted resources is to first apply the expense to restricted resources then to unrestricted resources.

Income taxes:

The Commission is a special purpose government of the State of South Carolina and is, therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of the Commission may be subject to taxation as unrelated business income.

Recently issued accounting pronouncements:

In June 2018, the GASB issued Statement 87, *Leases*, which provides guidance for lease contracts for nonfinancial assets—including vehicles, heavy equipment, and buildings—but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses). Under the new standard, a lessee entity is required to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset. A lessor entity is required to recognize a lease receivable and a deferred inflow of resources. A lessor will continue to report the leased asset in its financial statements. The provisions of Statement 87 are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The Commission is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

In June 2018, the GASB issued Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which makes it easier to compare the information about capital assets and borrowing costs for government activities and business-type activities by state and local governments. It also simplifies accounting for interest cost incurred before the end of a construction period. The provisions of Statement 89 are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The Commission does not expect these amendments to have a material effect on its financial statements.

Beaufort-Jasper Higher Education Commission

Notes to Financial Statements

June 30, 2021

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting pronouncements, continued:

In March of 2020, GASB issued Statement 93, *Replacement of Interbank Offered Rates*, which will address the accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR). The removal of the London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged. The Commission is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

Subsequent events:

In preparing these financial statements, the Commission's management has evaluated events and transactions for potential recognition or disclosure through September 7, 2021, the date these financial statements were available for issuance.

Note 2. Deposits and Investments

Deposits:

Deposits include cash and cash equivalents on deposit in banks. At June 30, 2021, the carrying amount of the Commission's deposits was \$5,831,599 and the bank balance was \$5,412,054.

Custodial credit risk - deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The total cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per bank. The Commission's policy with respect to custodial credit risk is that all of the Commission's deposits in excess of amounts insured by the FDIC are collateralized. At June 30, 2021, all of the Commission's deposits were insured or collateralized.

The following reconciles deposits and investments to the Statement of Net Position amounts:

Statement of Net Position:

Cash and cash equivalents	\$ 5,033,608	Demand deposits	\$ 5,831,599
Restricted - cash and cash equivalents	<u>3,500,000</u>	Repurchase agreements	<u>2,702,009</u>
Total	<u>\$ 8,533,608</u>	Total	<u>\$ 8,533,608</u>

Investments:

All of the Commission's investments are presented at fair value. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest income earned. As of June 30, 2021, the Commission's investments consisted of repurchase agreements with a fair value of \$2,702,009 and an original maturity of three months or less, which are classified as cash and cash equivalents on the Statement of Net Position.

Beaufort-Jasper Higher Education Commission

Notes to Financial Statements

June 30, 2021

Note 2. Deposits and Investments, Continued

Investments, continued:

The Commission's investments measured and reported at fair value are classified according to the following hierarchy:

Level 1: Investments reflect prices quoted in active markets for identical assets.

Level 2: Investments reflect prices that are based on similar significant observable assets either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3: Investments reflect prices based upon significant unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

The following table presents the Commission's fair value hierarchy for those assets (and liabilities) measured at fair value as of June 30, 2021:

	Fair value measurements			
	June 30, 2021	Level 1	Level 2	Level 3
Investments by fair value level:				
Repurchase agreements	\$ 2,702,009	\$ -	\$ 2,702,009	\$ -
Total investments held in the Commission's name	\$ 2,702,009	\$ -	\$ 2,702,009	\$ -

Custodial credit risk - investments:

Custodial credit risk for investments is the risk that in the event of a failure of the counterparty to a transaction, the Commission will not be able to recover the value of investments or collateral securities that are in possession of an outside party. The Commission's policy with respect to custodial credit risk is that all of the Commission's investments in excess of amounts insured by the FDIC are collateralized. As of June 30, 2021, all of the Commission's investments were insured or collateralized.

Interest rate risk:

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The Commission's respective maturity dates are as noted above. The Commission does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Beaufort-Jasper Higher Education Commission

Notes to Financial Statements

June 30, 2021

Note 2. Deposits and Investments, Continued

Credit risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Commission. The Commission has no investment policy that would limit its investment choices. As of June 30, 2021, the securities underlying the Commission's investment in the repurchase agreements were with governmental agencies and were not rated.

Concentration of credit risk:

Concentration of credit risk is the risk of loss attributed to the magnitude of the Commission's investments in a single issuer. The Commission places no limit on the amount the Commission may invest in any one issuer.

Note 3. Due from Primary Government, Net

Due from primary government consisted of the following at June 30, 2021:

Housing and dining fees	\$ 435,562
Less: allowance for doubtful accounts	<u>41,226</u>
	<u>\$ 394,336</u>

Note 4. Note Receivable

Note receivable consists of proceeds due from the sale of property. The note bears interest at an effective rate of approximately 5.03 percent. The Commission has promised to give the net sales proceeds totaling \$341,003 to the Foundation upon collection of the full amount of the note receivable (see Note 11). At June 30, 2021, the balance of the note receivable was \$157,369.

Note 5. Lease Obligations

The Commission has five operating lease agreements expiring at various dates in 2023 and 2026. Total lease expense for the year ended June 30, 2021 was \$945,633. The Commission's future minimum lease commitments under non-cancellable operating lease agreements are as follows for the years ending June 30:

2022	\$ 968,815
2023	1,088,430
2024	1,036,608
2025	1,061,487
2026	<u>177,608</u>
	<u>\$ 4,332,948</u>

Beaufort-Jasper Higher Education Commission

Notes to Financial Statements

June 30, 2021

Note 6. Capital Assets

Capital assets consisted of the following at June 30, 2021:

	<u>July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2021</u>
Capital assets not being depreciated:				
Land	\$ 4,423,292	\$ -	\$ (108,134)	\$ 4,315,158
Total capital assets not being depreciated	<u>4,423,292</u>	<u>-</u>	<u>(108,134)</u>	<u>4,315,158</u>
Other capital assets:				
Land improvements	3,498,500	-	-	3,498,500
Buildings	52,485,020	-	(268,787)	52,216,233
Furniture and fixtures	1,842,839	-	-	1,842,839
Software	148,632	-	-	148,632
Equipment	<u>1,002,179</u>	<u>-</u>	<u>(34,377)</u>	<u>967,802</u>
Total capital assets at historical cost	<u>58,977,170</u>	<u>-</u>	<u>(303,164)</u>	<u>58,674,006</u>
Less accumulated depreciation	<u>(15,140,652)</u>	<u>(1,612,934)</u>	<u>131,151</u>	<u>(16,622,435)</u>
Other capital assets, net	<u>43,836,518</u>	<u>(1,612,934)</u>	<u>(172,013)</u>	<u>42,051,571</u>
Capital assets, net	<u>\$ 48,259,810</u>	<u>\$ (1,612,934)</u>	<u>\$ (280,147)</u>	<u>\$ 46,366,729</u>

Note 7. Long-Term Debt

Long-term debt consisted of the following at June 30, 2021:

<u>Revenue Notes</u>	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance</u>
Student Facilities Revenue Refunding Note (2014)	3.04%	5/29/2024	\$ 3,282,211
Student Housing Revenue Refunding Note (2021)	2.05%	6/1/2037	<u>30,842,013</u>
			<u>\$ 34,124,224</u>

On March 24, 2021, the Commission obtained a fixed-rate note in the amount of \$30,891,764, the proceeds of which were used to refinance the outstanding variable-rate obligations related to the Student Housing Revenue Note Series 2012A, the Student Housing Revenue Note Series 2012B, the 2014 Student Housing Revenue Note, the 2015 Student Housing Revenue Note, the Student Housing Revenue Note Series 2016A and the Student Housing Revenue Note Series 2016B and to pay certain costs and expenses relating to the issuance. As a result of the refunding, the Commission increased its total debt service payments over the next 16 years by approximately \$3.3 million and it resulted in an economic loss of approximately \$2.5 million.

Beaufort-Jasper Higher Education Commission

Notes to Financial Statements

June 30, 2021

Note 7. Long-Term Debt, Continued

The scheduled maturities of the revenue notes are as follows for the years ending June 30:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 1,148,708	\$ 727,761	\$ 1,876,469
2023	1,176,473	700,060	1,876,533
2024	4,345,124	658,593	5,003,717
2025	1,858,981	553,019	2,412,000
2026	1,897,990	514,010	2,412,000
2027-2031	10,103,090	1,956,910	12,060,000
2032-2036	11,208,836	851,164	12,060,000
2037	<u>2,385,022</u>	<u>26,978</u>	<u>2,412,000</u>
	<u>\$ 34,124,224</u>	<u>\$ 5,988,495</u>	<u>\$ 40,112,719</u>

The Commission's outstanding revenue notes include certain events of default, which upon occurrence, could result in all outstanding principal and accrued interest becoming immediately due and payable. Such events include (but are not limited to) failure to pay any principal or interest installment, or failure to perform or observe any other covenant, agreement, warranty or representation contained in the loan agreement. The Commission's outstanding revenue notes are secured with collateral of buildings, personal property, and revenues.

The Commission has no unused lines of credit.

All outstanding notes are subject to covenants requiring that revenue generated from fees charged for usage of the asset be pledged for repayment of the notes. In the event these revenues are not adequate for repayment, no transfer may be made to USC Beaufort until it is assured such amounts are not needed to provide for the timely repayment of the notes. All outstanding notes also contain restrictive covenants pertaining to certain reporting and financial requirements.

In addition to the covenants listed above, the Commission is required to maintain a minimum cash balance with two of its financial institutions. At June 30, 2021, the Commission had cash held for debt service at these financial institutions totaling \$3,500,000.

The following is a summary of the changes in long-term debt for the fiscal year ended June 30, 2021:

	<u>July 1, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2021</u>	<u>Due within one year</u>
Revenue notes	\$ 35,848,682	\$ 30,891,764	\$ 32,616,222	\$ 34,124,224	\$ 1,148,708
Total long-term debt	<u>\$ 35,848,682</u>	<u>\$ 30,891,764</u>	<u>\$ 32,616,222</u>	<u>\$ 34,124,224</u>	<u>\$ 1,148,708</u>

Beaufort-Jasper Higher Education Commission

Notes to Financial Statements

June 30, 2021

Note 8. Net Investment in Capital Assets

Reported amounts for net investment in capital assets are as follows at June 30, 2021:

Capital assets, net of accumulated depreciation	\$ 46,366,729
Less: Bonds payable, net of deferred loss on debt refunding	<u>32,677,846</u>
	<u>\$ 13,688,883</u>

Note 9. Revenues from Major Sources

A significant amount of the Commission's revenues for the year ended June 30, 2021 were from Beaufort County. The amount received from Beaufort County totaled \$2,318,016. This amount represents approximately 21 percent of total revenues for the fiscal year ended June 30, 2021.

The Commission is exposed to various risks of loss and maintains commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from the prior year. The costs of settled claims and claim losses have not exceeded this coverage in any of the past three years. The Commission pays insurance premiums to certain commercial insurers to cover risks that occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits. In management's opinion, claim losses in excess of insurance coverage are unlikely, and, if incurred, would be insignificant to the Commission's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at June 30, 2021.

Note 10. Component Unit

The Beaufort-Jasper Higher Education Foundation (the "Foundation") is a non-profit organization established in 2011 to support higher education in the community consisting of Beaufort County, Jasper County, and Hilton Head Island, South Carolina. The primary activity of the Foundation is providing scholarships to students majoring in art at USC Beaufort. December 31 is the year-end date for the Foundation and complete financial statements of the Foundation can be obtained at 1 University Boulevard, Bluffton, SC 29909.

Note 11. Related Party Transactions

During the fiscal year ended June 30, 2021, a total of \$685,835 was paid from the Commission to USC Beaufort. Of this amount, \$257,328 was reimbursement of Commission salaries paid by USC Beaufort and \$428,507 was gifted for general operating purposes and scholarships.

Salary expense is allocated to the Commission based on management's estimate of time spent by the individuals attributable to the Commission. All employee benefits for Commission employees are paid by USC Beaufort; therefore, no retirement or other postemployment benefits are recorded in the financial statements of the Commission. See the issued financial statements of USC Beaufort for more information regarding employee benefits. USC Beaufort processes and distributes payroll for the Commission; therefore, the pension liability also remains with USC Beaufort as the primary government.

Beaufort-Jasper Higher Education Commission

Notes to Financial Statements

June 30, 2021

Note 11. Related Party Transactions, Continued

Regarding the sale of property discussed in Note 4, the property was originally donated with the stipulation that the net proceeds from an eventual sale would be used to establish a permanent endowment for the purpose of funding scholarships at USC Beaufort. The Commission's Board of Directors voted to contribute the net proceeds from the sale to the Foundation for the establishment of the endowment. Therefore, as of June 30, 2021, the Commission recorded a payable to the Foundation of \$341,003.

Note 12. Uncertainties

The 2019 novel coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the Commission's costs, demand for the Commission's services, and the U.S. economy. These conditions could adversely affect the Commission's business, financial condition, and results of operations. Further, COVID-19 may result in health or other government authorities requiring the closure of the Commission's operations. The extent of the adverse impact of the COVID-19 outbreak on the Commission cannot be predicted at this time. However, as of July 22, 2021, revenues from housing and dining fees for the fall of 2021 semester are anticipated to decrease approximately \$350,000, or 3 percent, compared to the fall of 2019 semester (pre-COVID).