Beaufort-Jasper Higher Education Commission

Report on Financial Statements

For the year ended June 30, 2023

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Independent Auditor's Report

Beaufort-Jasper Higher Education Commission
Bluffton, South Carolina

Report on the Financial Statements

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Beaufort-Jasper Higher Education Commission (the "Commission"), which collectively comprise the Commission's basic financial statements as of and for the year ended June 30, 2023, and the related notes to the financial statements.

In our opinion, the accompanying financial statements 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, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Commission 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.

Responsibilities of Management 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.

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 Commission's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

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 GAAS 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 GAAS, 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 Commission'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 Commission'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.

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.

Elliott Davis, LLC

Columbia, South Carolina
September 8, 2023

Beaufort-Jasper Higher Education Commission

Statement of Net Position

As of June 30, 2023

Assets	
Current assets	
Cash and cash equivalents	$ 5,239,106
Restricted - cash and cash equivalents	3,000,000
Accounts receivable	49,557
Lease receivable	19,758
Due from primary government, net	112,964
Prepaid items	228,151
Total current assets	8,649,536
Noncurrent assets	
Capital assets, net of accumulated depreciation	41,063,311
Nondepreciable capital assets	4,665,349
Total noncurrent assets	45,728,660
Total assets	54,378,196
Deferred outflows of resources	
Deferred loss on debt refunding	1,238,516
Liabilities	
Current liabilities	
Accounts payable	101,364
Unearned revenue	47,862
Lease payable	1,015,983
Accrued compensated absences	21,000
Accrued interest payable	48,902
Other liability - current portion	26,906
Long-term debt - current portion	1,819,201
Total current liabilities	3,081,218
Noncurrent liabilities	
Lease payable	1,229,877
Other liability	455,157
Long-term debt	26,806,494
Total noncurrent liabilities	28,491,528
Total liabilities	31,572,746
Deferred inflows of resources	
Deferred inflows - leases	18,077
Net Position	
Net investment in capital assets	16,022,048
Restricted for debt service	3,000,000
Unrestricted	5,003,841
Total net position	$ 24,025,889

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, 2023

Operating revenues	
Charges for sales and services:	
Housing	$ 6,767,537
Dining	3,762,018
Other	428,363
Total operating revenues	10,957,918
Operating expenses	
Costs of sales and services:	
Housing	2,354,789
Dining	3,734,535
Administration	
Services and supplies	795,854
Other	77,825
Amortization expense	1,109,813
Depreciation expense	1,575,676
Total operating expenses	9,648,492
Operating income	1,309,426
Nonoperating revenues (expenses)	
County appropriations	2,585,826
Interest income	173,893
Interest on capital asset related debt	(750,543)
Support to USC Beaufort	(2,202,546)
Net nonoperating revenues (expenses)	(193,370)
Change in net position	1,116,056
Net position, beginning of year	22,909,833
Net position, end of year	$ 24,025,889

See Notes to Financial Statements

Beaufort-Jasper Higher Education Commission

Statement of Cash Flows

For the year ended June 30, 2023

Operating activities	
Receipts from sales and services	$ 11,295,660
Payments to suppliers	(7,024,099)
Net cash provided by operating activities	4,271,561
Noncapital financing activities	
County appropriations	2,585,826
Support to USC Beaufort	(2,202,546)
Net cash provided by noncapital financing activities	383,280
Capital and related financing activities	
Purchase and construction of capital assets	(694,432)
Principal paid on capital asset related debt	(3,702,396)
Interest paid on capital asset related debt	(751,897)
Payment on lease payable	(985,248)
Net cash used for capital and related financing activities	(6,133,973)
Investing activities	
Interest income	173,893
Net cash provided by investing activities	173,893
Net decrease in cash and cash equivalents	(1,305,239)
Cash and cash equivalents, beginning of year	9,544,345
Cash and cash equivalents, end of year	$ 8,239,106
Reconciliation of cash and cash equivalents	
Cash and cash equivalents	$ 5,239,106
Restricted - cash and cash equivalents	3,000,000
	$ 8,239,106
Reconciliation of net operating income to net cash provided by operating activities	
Operating income	$ 1,309,426
Adjustments to reconcile operating income to net cash provided by operating activities	
Amortization expense	1,109,813
Depreciation expense	1,575,676
Change in current assets and liabilities	
Accounts receivable	(35,938)
Lease receivable	163
Due from primary government, net	47,561
Prepaid items	(42,863)
Accounts payable	(27,386)
Other liability	482,063
Unearned revenues	(156,107)
Lease payable	9,153
Net cash provided by operating activities	$ 4,271,561

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, 2022

Assets		
Cash and cash equivalents	$	385,899
Total assets	$	385,899
Net Assets		
Without donor restrictions	$	676
With donor restrictions		385,223
Total net assets	$	385,899

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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions	$ -	$ 1,000	$ 1,000
Interest	85	-	85
Net assets released from restrictions	28,500	(28,500)	-
Total revenues	28,585	(27,500)	1,085
Program Expenses			
Scholarships and awards	28,500	-	28,500
Total expenses	28,500	-	28,500
Change in net assets	85	(27,500)	(27,415)
Net assets, beginning of year	591	412,723	413,314
Net assets, end of year	$ 676	$ 385,223	$ 385,899

See Notes to Financial Statements

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").

Governmental Accounting Standards Board ("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 9.

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.

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.

Leases:

The Commission determines if an arrangement is a lease at inception.

Agreements in which the Commission is the lessee are included capital assets, net of accumulated amortization, and lease payables on the Statement of Net Position. Lease assets represent the Commission's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Lease assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Commission's leases do not provide an implicit rate, an incremental borrowing rate based on the information available at commencement date is used in determining the present value of lease payments. The lease asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that those options will be exercised. Lease expenses are included in amortization expense.

Note 1. Summary of Significant Accounting Policies, Continued

Leases, continued:

Agreements in which the Commission is the lessor are included as lease receivable and deferred inflow of resources on the Statement of Net Position. The lease receivable is measured at the present value of the lease payments expected to be received during the lease term. A deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

Deferred outflows of resources:

The Commission’s deferred outflows of resources consist of deferred losses on debt refundings that occurred in 2012 and 2021. The original amortization period remaining from the 2012 refunding (June of 2035) is shorter than the life of the 2021 refunding (June of 2037), and therefore, the deferred loss is amortized on a straight-line basis through June 2037.

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.

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, lease payable, 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.

Note 1. Summary of Significant Accounting Policies, Continued

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.

Unearned revenue:

The Commission recognizes unearned revenue in connection with resources that have been received, but not yet earned. Unearned revenue amounts represent payments for student housing made in advance to be used for future billings.

Other liability:

In October of 2022, the Commission received a $500,000 unrestricted grant from the University's dining provider to be used in furthering the Commission's general educational mission. The grant is to be amortized on a straight-line basis over a period of months equivalent to the number of full months remaining until May 2041, commencing upon disbursement of the funds. Upon expiration or termination of the dining agreement prior to May 2041, the Commission shall reimburse the dining provider for the unamortized balance as of the date of expiration or termination plus all accrued but unbilled interest on the declining balance during such amortization. Such interest shall accrue from the date the loan was finalized at the Prime Rate plus two percentage points per annum, computed each accounting period. The Commission amortized and recorded as revenue $17,937 during the year ended June 30, 2023. The remaining balance at June 30, 2023 was $482,063.

Subsequent events:

In preparing these financial statements, the Commission's management has evaluated events and transactions for potential recognition or disclosure through September 8, 2023, 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, 2023, the carrying amount of the Commission's deposits was $5,445,014 and the bank balance was $5,473,933.

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, 2023, all of the Commission's deposits were insured or collateralized.

Note 2. Deposits and Investments, Continued

Custodial credit risk – deposits, continued:

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

Cash and cash equivalents	$ 5,239,106	Demand deposits	$ 5,445,014
Restricted - cash and cash equivalents	3,000,000	Repurchase agreements	2,794,092
Total	$ 8,239,106	Total	$ 8,239,106

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, 2023, the Commission's investments consisted of repurchase agreements with a fair value of $2,794,092 and an original maturity of three months or less, which are classified as cash and cash equivalents on the Statement of Net Position.

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 measured at fair value as of June 30, 2023:

	Fair value measurements			
	June 30, 2023	**Level 1**	**Level 2**	**Level 3**
Investments by fair value level:				
Repurchase agreements	$ 2,794,092	$ -	$ 2,794,092	$ -
Total investments held in the Commission's name	$ 2,794,092	$ -	$ 2,794,092	$ -

Note 2. Deposits and Investments, Continued

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 $250,000, the amount insured by the Federal Deposit Insurance Corporation (FDIC), are collateralized. As of June 30, 2023, all of the Commission's investments in excess of $250,000 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.

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, 2023, 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, net consisted of the following at June 30, 2023:

Housing and dining fees	$ 131,974
Less: allowance for doubtful accounts	19,010
Due from primary government, net	$ 112,964

Note 4. Lease Obligations

The Commission, as a lessee, recognizes a lease asset and lease liability at the commencement of the lease term, with certain exceptions for short-term leases and leases that transfer ownership of the underlying asset. As lessee, the right of use asset is measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease liability is recorded as a deferred outflow of resources and is measured at the present value of the lease payments expected to be made during the lease term.

Note 4. Lease Obligations , Continued

For the purpose of GASB No. 87 implementation, the Commission's leases have been categorized as follows:

1. Included
2. Excluded - Short-term
3. Excluded - Cancellable

Included leases:

In accordance with GASB No. 87, the Commission recognizes a lease asset and lease liability for leases the Commission categorized as Included. For these leases, the Commission is reporting Lessee assets of $5,839,949, net of accumulated amortization in the amount of $3,625,268, the net book value of which is $2,214,861 at June 30, 2023. For the fiscal year ended June 30, 2023, the Commission reported amortization expense of $1,005,882 and interest expense of $77,267 related to lease payments made during the year. The leases held by the Commission do not have an implicit rate of return; therefore, the Commission used their incremental borrowing rate of 2.85% to discount the lease liability to the net present value.

The GASB No. 87 included leases are summarized as follows:

Building:

The Commission leases various buildings located in Beaufort, South Carolina for a three-year term. The terms of the lease include a fixed expense component based on square footage. Fixed building and space expenses totaled $1,083,149 for the fiscal year ended June 30, 2023. The terms of these lease agreements do not include a variable expense component. Minimum future lease payments are as follows for the fiscal years ending June 30:

	Principal	Interest	Total
2024	$ 1,015,983	$ 60,803	$ 1,076,786
2025	1,051,175	25,611	1,076,786
2026	178,702	762	179,464
	$ 2,245,860	$ 87,176	$ 2,333,036

Excluded – short-term leases:

In accordance with GASB No. 87, the Commission does not recognize a lease right of use asset and a deferred outflow of resources for short-term leases. Short-term leases are certain leases that have a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised.

Excluded – cancelable leases:

In accordance with GASB No. 87, the Commission does not recognize a lease right of use asset and a deferred outflow of resources for leases that are cancelable by either party. Cancelable leases are certain leases in which both the lessee and the lessor have the option to terminate the lease without permission from the other party.

Note 5. Capital Assets

Capital assets consisted of the following at June 30, 2023:

	July 1, 2022	Additions	Reductions	June 30, 2023
Capital assets not being depreciated:				
Land	$ 4,315,158	$ -	$ -	$ 4,315,158
Construction in progress	174,689	683,209	(507,707)	350,191
Total capital assets not being depreciated	4,489,847	683,209	(507,707)	4,665,349
Other capital assets:				
Land improvements	3,498,500	-	-	3,498,500
Buildings	51,454,200	507,707	-	51,961,907
Furniture and fixtures	1,842,839	-	-	1,842,839
Software	148,631	-	-	148,631
Equipment	967,802	11,222	-	979,024
Leased buildings	2,773,467	3,066,483	-	5,839,949
Total capital assets at historical cost	60,685,439	3,585,412	-	64,270,851
Less accumulated depreciation	(18,006,596)	(1,575,676)	-	(19,582,272)
Less accumulated amortization for leased assets	(2,619,386)	(1,005,882)	-	(3,625,268)
Other capital assets, net	40,059,457	1,003,853	-	41,063,310
Capital assets, net	$ 44,549,304	$ 1,687,063	$ (507,707)	$ 45,728,660

Note 6. Long-Term Debt

Long-term debt consisted of the following at June 30, 2023:

Debt	Interest Rate	Maturity Date	Balance
Student Housing Revenue Refunding Note (2021)	2.05%	6/1/2037	$ 28,625,695

The scheduled maturities of the debt and notes payable are as follows for the years ending June 30:

	Principal	Interest	Total
2024	$ 1,819,201	$ 592,799	$ 2,412,000
2025	1,858,981	553,019	2,412,000
2026	1,897,990	514,010	2,412,000
2027	1,937,817	474,183	2,412,000
2028	1,977,309	434,691	2,412,000
2029-2033	10,532,001	1,527,999	12,060,000
2034-2037	8,602,396	395,782	8,998,178
	$ 28,625,695	$ 4,492,483	$ 33,118,178

The Commission's outstanding revenue note includes 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 note is secured with collateral of buildings, personal property, and revenues.

The Commission's outstanding revenue note is subject to covenants requiring that revenue generated from fees charged for usage of the asset be pledged for repayment of the note. 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. The revenue note also contains 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 one of its financial institutions. At June 30, 2023, the Commission had cash held for debt service at this financial institution totaling $3,000,000. Management is not aware of any covenant violations as of June 30, 2023.

The Commission has no unused lines of credit.

The following is a summary of the changes in long-term debt for the fiscal year ended June 30, 2023:

	July 1, 2022	Additions	Reductions	June 30, 2023	Due within one year
Revenue note	$ 32,328,091	$ -	$ (3,702,396)	$ 28,625,695	$ 1,819,201

Note 7. Net Investment in Capital Assets

Reported amounts for net investment in capital assets are as follows at June 30, 2023:

Capital assets, net of accumulated depreciation and retainage payable	$ 45,655,087
Less: Long-term debt, net of deferred loss on debt refunding	29,633,039
	$ 16,022,048

Note 8. Revenues from Major Sources

A significant amount of the Commission's revenues for the year ended June 30, 2023 were from Beaufort County. The amount received from Beaufort County totaled $2,585,826. This amount represents approximately 19 percent of total revenues for the fiscal year ended June 30, 2023.

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, 2023.

Note 9. 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 10. Related Party Transactions

During the fiscal year ended June 30, 2023, a total of $2,202,546 was paid from the Commission to USC Beaufort. Of this amount, $402,546 was support 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 and is charged directly through housing expenses. 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.