SOUTH CAROLINA STATE
EDUCATION ASSISTANCE AUTHORITY

COLUMBIA, SOUTH CAROLINA

FINANCIAL AND
COMPLIANCE REPORT

JUNE 30, 2013
AND 2012

State of South Carolina

Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

October 3, 2013

The Honorable Nikki R. Haley, Governor

Members of the Authority
South Carolina State Education Assistance Authority
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina State Education Assistance Authority and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit* Organizations, for the fiscal year ended June 30, 2013, was issued by Derrick, Stubbs & Stith, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
CONTENTS
YEARS ENDED JUNE 30, 2013 AND 2012

OFFICE OF THE STATE AUDITOR APPROVAL LETTER	1
INDEPENDENT AUDITORS' REPORT	2 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 7
FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION - ENTERPRISE FUND	8
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION - ENTERPRISE FUND	9
STATEMENTS OF CASH FLOWS - ENTERPRISE FUND	10 - 11
NOTES TO FINANCIAL STATEMENTS	12 - 24
SUPPLEMENTARY INFORMATION	
SCHEDULE OF NET POSITION BY ACCOUNTS - ENTERPRISE FUND	25 - 26
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION BY ACCOUNTS - ENTERPRISE FUND	27
SCHEDULE OF CASH FLOWS BY ACCOUNTS - ENTERPRISE FUND	28 - 29
SCHEDULE OF EXPENSES COMPARED TO BUDGET	30
SCHEDULE OF ORGANIZATIONAL DATA	31
FEDERAL REPORTING AND SINGLE AUDIT SECTION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	32
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*	33
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	34 - 35
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	36 - 37
SCHEDULE OF SUMMARY OF PRIOR AUDIT FINDINGS	38
SCHEDULE OF CORRECTIVE ACTION PLAN	39

DERRICK STUBBS
ACCOUNTING · AUDITING · TAXATION · CONSULTING

POST OFFICE BOX 36 | COLUMBIA, SC 29202-0036
508 HAMPTON ST, 1ST FLR | COLUMBIA, SC 29201

MAIN 803 799.5810 TOLL FREE 866 799.5810
FAX 803 799.5554

DSSCPA.COM

INDEPENDENT AUDITORS' REPORT

To the Members of the Authority
South Carolina State Education Assistance Authority
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the Enterprise Fund of the South Carolina State Education Assistance Authority (Authority) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which comprise the Authority'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Fund of the South Carolina State Education Assistance Authority as of June 30, 2013 and 2012, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 1, the financial statements present only the Enterprise Fund of the South Carolina State Education Assistance Authority.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Carolina State Education Assistance Authority's basic financial statements. The schedules, listed in the table of contents as supplementary information, are presented for the purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

Such supplementary information, listed in the table of contents, and the Schedule of Expenditures of Federal Awards, are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 4, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Authority's internal control over financial reporting and compliance.

Derrick, Stubbs + Stith, LLP

September 4, 2013

South Carolina State Education Assistance Authority
Management's Discussion and Analysis

The South Carolina State Education Assistance Authority (Authority) functions to guarantee and provide financing for education loans for students and parents. As a guarantor, the Authority processes loans submitted for guarantee, issues loan guarantees, provides collection assistance for delinquent loans, pays claims for loans in default, collects loans on which default claims have been paid, and makes appropriate responses to the United States Secretary of Education (the Secretary). As a provider of financing, the Authority issues bonds to finance education loans. Effective July 1, 2010 all federal loan originations were made through the Direct Loan program and as a result the Authority no longer provides a guarantee for federal loans originated since July 1, 2010.

The Authority was originally created to provide a means of making loans to students in order to enable them to attend eligible institutions, as such terms are defined in the Higher Education Act. Such loan financing has been conducted by the Authority through its Student Loan Finance Program which has been administered by the South Carolina Student Loan Corporation (SLC) since its inception.

SLC and the Authority have entered into Loan Agreements pursuant to the terms of which the Authority has agreed to lend bond proceeds to SLC to enable SLC to make or acquire education loans. The obligation of SLC to repay the finance loans is evidenced by a promissory note of SLC and is secured by a pledge under the Loan Agreement.

This section of the Authority's annual financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2013. Please read it in conjunction with the Authority's statements of net position, statements of revenue, expenses and changes in net position, statements of cash flows, and the notes to financial statements, which follow this section.

FINANCIAL HIGHLIGHTS:

●	The Authority's total assets at June 30, 2013 were approximately $230,628,000 which is a decrease of approximately $13,662,000, a 6% decrease from June 30, 2012. The decrease in assets was primarily due to a reduction of Cash and Cash Equivalents of approximately $9,992,000, which was used to reduce the Authority's liability to SLC. Notes Receivable also declined by approximately $3,860,000 as SLC continued to reduce its note balance as stipulated in the note agreement.
●	The Authority's total loans outstanding at June 30, 2013, were approximately $26,764,000, which is a decrease of approximately $2,814,000 or 10% less than June 30, 2012 as a result of normal runoff due to payment activity.
●	The Authority's operating revenue for the fiscal year ended June 30, 2013 was approximately $16,385,000, which is a decrease of approximately $646,000 or 4% from the fiscal year ended June 30, 2012. This decrease is partially due to a reduction of approximately $306,000 in Guarantor Income during the year. Income on student loans decreased by approximately $71,000 due to normal runoff of receivables outstanding. Bond reimbursement revenue also decreased by approximately $295,000 or 7% as SLC continued to reduce its finance note due to SEAA during the reporting period.
●	The Authority's interest expense for the fiscal year ended June 30, 2013 was approximately $3,256,000, a decrease of approximately $256,000 or 7% less than reported during the fiscal year ended June 30, 2012. This reduction is primarily due to the normal payment activity on the outstanding bonds of the Authority during fiscal year 2013.
●	The Authority's total other operating expenses for the fiscal year ended June 30, 2013 was approximately $9,943,000, a decrease of approximately $1,872,000 or 16% from the fiscal year ended June 30, 2012. This decrease was largely due to the reduction of personnel costs of approximately $1,920,000 as the company realized a gain on investments in a defined benefit plan during 2013 of approximately $611,000. The company realized a loss on investments in the same defined benefit plan of approximately $776,000 during 2012. In addition, SLC was successful in reassigning employees from the Authority's staff to other functional activities of the Student Loan Corp and as a result additional personnel cost reductions were realized.
●	The Authority's change in net position for the fiscal year ended June 30, 2013 was approximately $3,186,000 which is an increase of approximately 2% over the previous fiscal year. This increase was the result of increased revenues during the 2013 fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied on an accrual basis. Under the accrual basis of GAAP, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The three basic financial statements presented within the financial statements are:

Statements of Net Position – This statement presents information regarding the Authority's assets, liabilities and net position. Net position represents the total assets less the total liabilities. The statement of net position classifies assets, liabilities and net position as current, long-term and restricted.

Statements of Revenues, Expenses and Changes in Net Position – This statement presents the Authority's interest income, cost of funds, operating expenses and changes in net position for the fiscal year.

Statements of Cash Flows – The Authority's statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, non-capital financing, capital and investing activities.

FINANCIAL ANALYSIS OF THE AUTHORITY:

The Authority's total net position at June 30, 2013 was approximately $144,579,000 which is an increase of approximately $3,186,000 or 2% from June 30, 2012. Components of the Authority's statements of net position as of June 30, 2013 and June 30, 2012 were as follows:

		2013		2012	Percentage +/-
Current Assets	$	105,142,928	$	113,330,288	-7%
Capital assets		147,065		40,268	265%
Other Long-Term Assets		125,337,585		131,770,038	-5%
Total Assets	$	230,627,578	$	245,140,594	-6%
Current Liabilities	$	22,098,448	$	32,600,484	-32%
Long-Term Liabilities Payable		63,950,137		71,147,601	-10%
Total Liabilities	$	86,048,585	$	103,748,085	-17%
Net Position:					
Invested in Capital Assets	$	147,065	$	40,268	265%
Restricted		63,466,377		60,453,250	5%
Unrestricted		80,965,551		80,898,991	0%
Total Net Position	$	144,578,993	$	141,392,509	2%
Total Liabilities and Net Position	$	230,627,578	$	245,140,594	-6%

The decrease of $14,513,000 noted above in the Authority's total assets is primarily due to the reduction of Cash and Cash Equivalents of approximately $9,992,000 as a result of the Authority reducing its Due to SLC account by approximately $10,421,000, coupled with a reduction in Notes Receivable of approximately $3,861,000 due to scheduled payments made by SLC during the reporting period.

Components of the statement of revenues, expenses and changes in net position for these two fiscal years are as follows:

		2013		2012	Percentage +/-
Loan Interest Income	$	4,629,043	$	5,662,609	-18%
Guaranty Agency Income		11,659,912		11,298,722	3%
Investment Interest Income		96,188		69,625	38%
Total Operating Revenue	$	16,385,143	$	17,030,956	-4%
Interest Expense	$	3,256,428	$	3,512,589	-7%
Other Operating Expenses:					
General Administration		3,973,853		6,366,942	-38%
External Loan Servicing		626,637		643,034	-3%
Borrower Incentives		127,396		129,096	-1%
Consolidation and Lender Rebate Fees		0		0	
Other Fees		5,214,345		4,676,005	12%
Total Other Operating Expenses	$	9,942,231	$	11,815,077	-16%
Total Operating Expenses	$	13,198,659	$	15,327,666	-14%
Total Non-Operating (Income)Expenses		0		(174,641)	-100%
Change in Net Position		3,186,484		1,877,931	
Beginning Net Position		141,392,509		139,514,578	1%
Ending Net Position	$	144,578,993	$	141,392,509	2%
Student and Finance Loans	$	91,379,753	$	98,054,524	-7%
Bonds Outstanding	$	62,315,000	$	69,825,000	-11%

The increase noted above in the Authority's net position of $3,186,484 from the prior year was the result of increased net revenues during the year.

The $646,000 or 4% decrease in operating revenue was largely the result of a reduction of $401,000 in income derived from fees earned on Rehabilitated Loans, as the outstanding balance for guaranteed loans continues to decline as the Authority no longer guarantees new loans since July 1, 2010 as a result of the elimination of the FFEL Loan Program. Additionally, revenue recognized from the reimbursement of bond expense declined by approximately $295,000 due to the continued reduction of bonds outstanding.

Investment interest income increased by approximately $27,000 during 2013 due to positive market conditions during the reporting period.

As noted above, the Authority's other operating expenses for the fiscal year ended June 30, 2013, decreased by approximately $1,872,000, or 16% from the previous fiscal year. As previously discussed in the Financial Highlights above, the decrease was the result of a reduction in personnel costs of $1,920,000 consisting of reduced staffing and a realized gain in its defined benefit plan of $611,000 in 2013, as opposed to a loss in the same benefit plan of $776,000 during the 2012 fiscal year.

The Authority prepares an annual operating budget that is used as a management control device for tracking the various expenses. Accounting principles generally accepted in the United States of America do not require a comparison of budget to actual expenses for proprietary funds.

Non-operating revenue decreased by approximately $175,000 as the Authority received a recovery of an overpayment of arbitrage rebate in 2012. No recovery was realized during the 2013 fiscal year.

DEBT ADMINISTRATION:

The Authority has funded student loan notes by issuing tax-exempt bonds. The bonds must be approved by the Authority's and SLC's board of directors prior to being issued. Tax-exempt bonds also must receive an allocation of the State of South Carolina private activity volume ceiling or "cap". In addition, the financings must comply with federal statutes and with the rules and regulations of the United States Treasury Department.

At June 30, 2013 and June 30, 2012, the Authority had $ 62,315,000 and $69,825,000 principal amount of bonds outstanding, respectively. Detailed information on the Authority's debt is presented in Note 8 to the financial statements.

All $ 62,315,000 of Authority debt is publicly held and has long-term credit ratings assigned by Standard and Poor's (S&P) as shown in the table below. As of June 30, 2013 the Authority maintained its AA rating, however, on August 8, 2013 this issue was placed on credit watch by S&P. The Authority is currently developing a strategy to enhance the issue and return it to its AA rating.

Credit Rating(s)	Principal Amount	Type of Security
AA S&P	$62,315,000	Senior Lien

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF NET POSITION
ENTERPRISE FUND
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 85,266,340**	$ 91,505,802
Cash and cash equivalents - restricted	**4,552,858**	8,305,025
Receivables		
Current portion of student loans	**1,872,463**	2,012,017
Current portion of finance loans	**5,421,296**	5,642,108
Interest due from borrower	**403,745**	462,379
Due from South Carolina Student Loan Corporation	**759,750**	851,326
Accrued interest receivable	**647**	1,168
Federal reinsurance receivable	**6,455,495**	4,080,130
Account maintenance fee receivable	**405,000**	465,000
Prepaid expense	**5,333**	5,333
Total current assets	**105,142,927**	113,330,288
Long-Term and Other Assets		
Receivables		
Student loans, less current portion and net of allowance for loan loss of $12,758 in 2013 and $11,439 in 2012	**24,891,590**	27,565,589
Finance loans, less current portion	**59,194,404**	62,834,810
Due from South Carolina Student Loan Corporation	**39,835,008**	39,835,008
Deferred cost of issuance of bonds	**1,416,583**	1,534,631
Total long-term and other assets	**125,337,585**	131,770,038
Property, Plant & Equipment		
Furniture and equipment	**544,621**	660,114
Automobile	**22,338**	22,338
Less: accumulated depreciation	**(419,894)**	(642,184)
Total property, plant & equipment	**147,065**	40,268
Total assets	**$ 230,627,577**	$ 245,140,594

	2013	2012
LIABILITIES		
Current Liabilities		
Accounts payable	**$ 5,172,156**	$ 5,050,101
Due to South Carolina Student Loan Corporation	**15,233,199**	25,653,987
Due to United States Department of Education	**304,365**	341,284
Consolidation rebate fee payable	**628,978**	703,786
Payable from restricted assets		
Accrued bond interest payable	**759,750**	851,326
Total current liabilities	**22,098,448**	32,600,484
Long-Term Liabilities		
Bonds payable, less current maturities	**62,315,000**	69,825,000
Provision for losses on student loans	**1,635,137**	1,322,601
Total long-term liabilities	**63,950,137**	71,147,601
Total liabilities	**$ 86,048,585**	$ 103,748,085
Net Position		
Invested in capital assets	**$ 147,065**	$ 40,268
Restricted for		
Debt service		
Bond indentures - 2009 resolution	**7,783,404**	7,955,497
Other		
Federal government	**8,853,826**	12,616,396
Guaranty agency operating account	**46,829,146**	39,881,857
Unrestricted	**80,965,551**	80,898,491
Total net position	**$ 144,578,992**	$ 141,392,509

See notes to financial statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
ENTERPRISE FUND
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Operating Revenue		
United States Department of Education		
Account maintenance fee	**$ 1,659,115**	$ 1,877,581
Default aversion fee income	**819,206**	1,563,578
Retention on default collections (net of payments to federal government of $ 10,432,100 in 2013 and $ 9,999,849 in 2012)	**8,475,628**	7,857,563
Income from South Carolina Student Loan Corporation		
Subsidized interest	**182,546**	198,997
Special allowance	**(1,089,433)**	(1,200,771)
Non-subsidized interest	**1,599,193**	1,766,450
Late charges	**10,972**	10,822
Miscellaneous payments of student loans	**(45)**	(12)
Reimbursement of bond expense	**3,924,780**	4,220,150
Reinsurance recoveries	**705,963**	666,973
Miscellaneous income	**1,030**	-
Investment income	**96,188**	69,625
Total operating revenue	**16,385,143**	17,030,956
Operating Expenses		
Personnel	**1,314,060**	3,234,349
Contractual	**220,337**	277,023
General operating	**461,970**	610,632
South Carolina Student Loan Corporation for operating costs	**626,637**	643,034
Bond interest expense	**3,256,428**	3,512,589
Amortization - deferred cost of bond issuance	**118,049**	118,049
Default aversion fee expense	**819,206**	1,563,578
Loan fees	**570,769**	630,923
Borrower incentives	**127,396**	129,096
Broker/dealer fees	**21,300**	10,600
Reinsurance expense	**3,683,208**	2,345,170
Loan loss reserve	**1,319**	1,018
Other fees	**1,977,980**	2,251,605
Total operating expenses	**13,198,659**	15,327,666
Operating income (loss)	**3,186,484**	1,703,290
Non-Operating Revenues (Expenses)		
Arbitrage income	**-**	174,641
Change in net position	**3,186,484**	1,877,931
Net Position		
Beginning	**141,392,509**	139,514,578
Ending	**$ 144,578,993**	$ 141,392,509

See notes to financial statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Cash Flows from Operating Activities		
Receipts from borrowers and U.S. Department of Education	**$ 9,380,577**	$ 14,828,851
Receipts from SCSLC services provided	**19,051,536**	13,403,423
Payments to suppliers, lenders and borrowers	**(30,048,286)**	(4,729,383)
Payments to employees	**(1,314,060)**	(3,234,349)
Net cash provided by (used in) operating activities	**(2,930,233)**	20,268,542
Cash Flows from Non-Capital Financing Activities		
Finance loan advances to South Carolina Student Loan Corporation for student loans	**(4,476,367)**	(19,580,364)
Finance loan payments received from South Carolina Student Loan Corporation	**8,337,586**	7,182,790
Payment on bonds payable	**(7,510,000)**	(3,270,000)
Arbitrage payoff	**-**	174,641
Interest paid on revenue bonds	**(3,348,004)**	(3,552,458)
Net cash (used in) non-capital financing activities	**(6,996,785)**	(19,045,391)
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	**(161,319)**	(6,726)
Cash Flows from Investing Activities		
Interest received on investment securities	**96,708**	68,877
Net increase (decrease) in cash and cash equivalents	**(9,991,629)**	1,285,302
Cash and Cash Equivalents		
Beginning	**99,810,827**	98,525,525
Ending	**$ 89,819,198**	$ 99,810,827

See notes to financial statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income	**$ 3,186,484**	$ 1,703,290
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Purchase of student loans due under guarantees	**(123,454,729)**	(86,602,405)
Payments received from U.S. Department of Education under federal reinsurance program	**121,079,364**	89,292,182
Amortization of deferred cost of bond issuance	**118,049**	118,049
Investment income (investing activities category)	**(96,188)**	(69,625)
Depreciation expense	**54,522**	64,094
Provision for loan losses	**312,536**	40,596
Allowance for loan loss	**(1,319)**	(1,018)
Bond interest expense (non-capital financing activities category)	**3,256,428**	3,512,589
Changes in assets and liabilities:		
Decrease in student loan receivables	**2,814,872**	1,737,558
(Increase) decrease in interest receivables	**58,634**	(7,150)
(Increase) decrease in prepaid expenses	**-**	6,667
Decrease in due from South Carolina Student Loan Corporation	**91,576**	39,869
Decrease in account maintenance fee receivable	**60,000**	36,000
Increase in accounts payable	**122,052**	75,097
(Decrease) in due to United States Department of Education	**(36,918)**	(14,114)
(Decrease) in consolidation rebate fee payable	**(74,808)**	(56,062)
Increase (decrease) in due to South Carolina Student Loan Corporation	**(10,420,788)**	10,392,925
Net cash provided by (used in) operating activities	**(2,930,233)**	20,268,542
Supplemental Disclosures of Cash Flow Information		
Disposal of fully depreciated assets	**(276,812)**	(11,000)
Depreciation on fully depreciated assets	**$ 276,812**	$ 11,000

See notes to financial statements.

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Reporting entity: The South Carolina State Education Assistance Authority (Authority) is a body politic and corporate and a public instrumentality of the State of South Carolina. The Authority is a part of the State of South Carolina created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the Code of Laws of South Carolina, 1976, as amended. The Authority is governed by its members who are the members of the State Budget and Control Board (Board). The Board consists of five (5) members by virtue of their position in state government. They are the Governor, Treasurer, Comptroller General, Chairman of Senate Finance Committee and Chairman of South Carolina House of Representatives Ways and Means Committee.

The Authority is considered to be part of the State of South Carolina because of the common Board and its financial accountability over the Authority. The funds of the Authority are included in the Comprehensive Annual Financial Report of the State of South Carolina. The financial statements of the Authority present the financial position, results of operations and cash flows solely of the Authority and do not include any component units, organizations, or other funds of the State of South Carolina.

The Authority discharges its statutory obligations through two distinct programs. The program through which the Authority conducts its guarantee activities is herein referred to as the "Student Loan Insurance Program." The program through which the Authority finances the making of education loans by South Carolina Student Loan Corporation (SCSLC) is herein referred to as the "Student Loan Finance Program."

The Authority was originally created in order to provide a means of making loans to students in order to enable them to attend eligible institutions, as such terms are defined in the Higher Education Act. Such loan financing has been conducted by the Authority through its Student Loan Finance Program which has, since its inception, been administered by SCSLC.

The Authority has been authorized by the State of South Carolina (the State) to issue revenue bonds for the purpose of making student loans. The Authority has approved SCSLC as an eligible lender under its program and has designated it as the private, non-profit agency to administer these loans. It is the duty of SCSLC to process applications, make student loans and collect principal, interest, fees and penalties on such loans. Loans may or may not be subsidized. Interest is paid on subsidized loans during the enrolled, grace and deferred periods by the U.S. Department of Education. Upon entering the repayment period, the interest is paid by the borrower. Special Allowance Payments (SAP) are made to SCSLC from the U.S. Department of Education (USDE). In general, the amount of SAP is the difference between the amount of interest SCSLC receives from the borrower or the government and the variable amount that is provided under requirements of the Higher Education Act of 1965, as amended, which is a predefined rate for each type of loan. Any revenue or expense related to SAP is paid, or charged to the Authority along with the principal and interest collected on loans as it is received for bonds under the 2009 General Resolution. (See Note 8 for further details on the 2009 PAL Resolution.)

The operations of the Authority are administered by employees of SCSLC. The Authority reimburses SCSLC upon request for the actual operating expenses incurred in the administration of the program in accordance with a previously approved budget. All leases and property are in the name of SCSLC and the Authority pays it's pro rata share based on space occupied, equipment usage, and loan servicing costs.

Neither the Authority nor SCSLC is considered a component unit of the other because each is a separate legal organization and not financially accountable to/for the other.

In May 1978, the Authority initiated its Student Loan Insurance Program and commenced guaranteeing Guaranteed Loans as the guaranty agency for the State under §428(c) of the Higher Education Act. In order to administer its Student Loan Insurance Program effectively, the Authority processes loans submitted for guarantee, issues loan guarantees, provides collection assistance for delinquent loans, pays claims for loans in default, collects loans on which default claims have been paid, and makes appropriate responses to the United States Secretary of Education. The Authority is also responsible for initiating policy and performing compliance reviews as required by the Higher Education Act with respect to certain schools participating in the Student Loan Insurance Program.

Business – type activity: The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operation of each account uses a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenue and expenses.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Business – type activity (continued): The Authority's Enterprise Fund, called "Education Assistance Fund", reports the activities to fulfill the entity's authorized purposes of issuing revenue bonds to finance student loans which are handled by South Carolina Student Loan Corporation and guaranteeing federal loans. The Authority's Enterprise Fund is composed of the Collection Account Prior Unpledged, Eligible Lenders Trust, 2009 PAL Resolution, Agency Operating Account, and the Federal Student Loan Reserve Account. The 2009 PAL Resolution constitutes pledged income for the liquidation of outstanding bonds after transfers for operations.

Restricted assets of the 2009 General Resolution include Principal and Interest Funds for future debt service, a Debt Reserve Fund equaling two percent (2%) of the outstanding bond principal, a Loan Account, a General Revenue Funding holding collections of principal and interest from borrowers, a Department Reserve Fund and a Capitalized Interest Fund. The Trustee withdraws funds from the General Revenue Fund on approximately the 10th day of each month to make deposits into the other funds to meet required interest and operating expense obligations. Any remaining funds are deposited to the Principal Account.

The Collection Account Prior Unpledged collects all payments on loans on behalf of the Authority and SCSLC. The account disburses to each Authority account and to SCSLC either daily or by the tenth of each month for the prior month as required by the various bond trusts.

The Eligible Lender Trust maintains student loans for the Authority that were created when the bonds under the 1993 Resolution were redeemed. The Authority collects revenue from borrowers and the U.S. Department of Education and pays the related expenses for the loans.

The Federal Student Loan Reserve Account (FSLRF) is used to account for activity as required by the 1998 reauthorization of the Higher Education Act. This account is used to account for investment income and insurance premiums which are paid on behalf of the borrower utilizing funds from the Agency Operating Account. The Authority has not charged insurance premiums for loans guaranteed since March 1, 1999; however, the Higher Education Act requires that the Authority charge a Federal Default Fee for certain guaranteed loans made on or after July 1, 2006, and deposited to this account. The Health Care and Education Reconciliation Act (HCERA) of 2010 was signed into law on March 30, 2010, and among other things, requires all new federal student loans be originated through the federal Direct Loan (DL) program effective July 1, 2010. Since all federal student loans subsequent to July 1, 2010, can only be originated through the DL program, Federal Default Fees are no longer deposited to this account.

Amounts in the Federal Student Loan Reserve Account can only be used to pay lender claims on defaulted loans and to disburse default aversion fees to the Agency Operating Account for default aversion activities. Upon payment to lenders for defaulted loans, these funds are then reimbursed to the Federal Student Loan Reserve Account by the U. S. Department of Education at a percentage determined by the Authority's default rate. Payments to lenders for defaulted loans are recorded as Federal Reinsurance Receivables. Reimbursement by the U. S. Department of Education reduces the Federal Reinsurance Receivable. The Authority has always received the maximum reimbursement allowable under the Supplemental Guarantee Agreement and does not anticipate falling below this level (See Note 3).

The Agency Operating Account is used to account for all fees, account maintenance fees such as default aversion fees, and the retention on default collections. The U. S. Department of Education pays all of the fees except the default aversion fees reimbursed by the Federal Student Loan Reserve Account. The account maintenance fee was equal to 0.10% of the ending original principal balance of loans outstanding for the fiscal year prior to October 1, 2007. As of October 1, 2007, the account maintenance fee changed to 0.06% of the ending original principal balance of loans outstanding for the fiscal year. The default aversion fee is equal to one percent of the principal and interest of a loan upon which default aversion activity was performed. This is reimbursed from the Federal Student Loan Reserve Account. Should this loan subsequently default, the default aversion fee is refunded back to the FSLRF. Retention on Default Collections is reported by the Authority directly to the Department of Education for services it performs in its role as guarantor. The Authority recognizes income related to a specified portion (16% as of October 1, 2007; 23% from October 1, 2003 to September 30, 2007; and 24% prior to October 1, 2003) of collections adjusted for certain items made on behalf of the Federal government on defaulted loans. The remaining balance of collections is remitted to the Federal government. The total cumulative value at June 30, 2013 and 2012, of all defaulted student loans purchased by the Authority is $ 654,895,704 and $ 531,440,975 respectively (See Note 3). The Authority records the purchased defaulted loans as assets, but only recognizes its portion of the

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Business – type activity (continued):
share of any recoveries in the year of collection. Funds in the Agency Operating Account can only be used for application processing, loan disbursement, enrollment and repayment status management, permitted default prevention activities, default collection activities, school and lender training, compliance monitoring and other student financial aid related activities as determined by the Secretary and for voluntary irrevocable transfers to the FSLRF. Except for funds transferred from the Federal Student Loan Reserve Account for operating shortfalls, the Agency Operating Account is considered to be the property of the Authority. To date, no funds have been transferred from the FSLRF to the Agency Operating Account for operating shortfalls.

Basis of accounting: The accrual basis of accounting is used for the Education Assistance Fund. Under the accrual basis of accounting, revenue is recognized when earned, and expenses are recorded when incurred. Investment income is recorded at stated interest rates with no amortization of premiums or discounts. Net increase (decrease) in the fair value of investments includes unrealized and realized gains and losses. Bond payable premiums and discounts are accreted/amortized over the life of the bonds and netted against interest expense. In accordance with GASB Statement 20, the Authority applies all Government Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, when not in conflict with GASB pronouncements.

Budget and budgetary accounting: Certain expenses for the Enterprise Fund are budgeted as a management control device. However, the cost of issuing bonds, SCSLC expenses, interest expense, reinsurance and other fees and revenue are not budgeted. Accounting principles generally accepted in the United States of America do not require a comparison of budget to actual expenses.

These budgets are approved by the SCSLC Board and the State Treasurer and are not adopted by the Legislature or printed in the Appropriations Act. The Authority is subject to State laws and regulations. Expenditures in excess of the budgeted amounts are not in violation of State laws. However, these are approved by the Board.

Non-exchange transactions: The Authority adheres to GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions* which standardizes the accounting and financial reporting for non-exchange transactions involving financial or capital resources. For the Authority, there generally are two types of non-exchange transactions: *Government-mandated non-exchange transactions* which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose; and *voluntary non-exchange transactions* which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement. The Authority recognizes non-exchange transactions when they are both measurable and probable of collection. For *Government-mandated non-exchange transactions* and *voluntary non-exchange transactions,* the Authority recognizes assets when all applicable eligibility requirements are met or resources are received, whichever is first, and revenue when all applicable eligibility requirements are met.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: The amounts shown in the financial statements as "cash and cash equivalents" represent cash on deposit in banks, cash on hand with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool and cash invested in various instruments by the Bank of New York Mellon.

Because the State's internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of domestic corporations, certificates of deposit and collateralized repurchase agreements. Most State agencies participate in the cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities including those that are classified as restricted having a maturity at the time of purchase of three months or less.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Cash and cash equivalents (continued): The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State.

The Authority records and reports its deposits in the general deposit account at cost. The Authority reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Authority's special deposit accounts is posted to the Authority's account at the end of each month and is retained by the Authority. Interest earnings are allocated based on the percentage of the Authority's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses, and unrealized gains/losses arising from changes in fair value of investments in the pool. Realized gains and losses are allocated monthly and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the Authority's percentage ownership in the pool.

Although the State's internal cash management pool includes some long-term investments, it operates as a demand deposit account. For credit risk information pertaining to the State's internal cash management pool, see the deposits disclosures in Note 2.

For the Authority's funds not held by the State Treasurer, cash equivalents include investments in short-term, highly liquid securities having a maturity at the time of purchase of three months or less.

Federal Student Loan Reserve Account - provision for loan losses: The Guaranty agency must report a provision for loan losses that represents the net present value of expected future claims, net of recoveries, to be paid on guaranteed loans, less expected reimbursements of these claims. The loan loss provision was $ 1,635,137 at June 30, 2013, and $ 1,322,601 for the period ending June 30, 2012.

Amortization of deferred cost of issuance of bonds and bond premiums and accretion of bond discounts: Cost of issuance of bonds is being amortized over the lives of the bond issues on a straight-line basis and is included in operating expenses. Bond premiums and discounts are amortized/accreted over the terms of the bonds using the straight-line method and are recorded as an addition or deduction to interest expense.

Risk management: The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority pays insurance premiums to certain other State agencies to cover risks that may occur in normal operations. In addition, the Authority pays premiums to the State's Insurance Reserve Fund which accumulates assets to cover general tort claims.

Premiums for worker's compensation, property insurance including fixed assets, group life, fidelity bonds, and employee health insurance are paid to private insurance carriers and the Authority's coverage is subject to the limits of these policies. The expense for these items is charged to the enterprise fund. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Property and equipment: Furniture, equipment and automobiles costing over $10,000 are capitalized at cost when purchased. Depreciation has been provided using the straight-line method over useful lives of three to ten years for furniture and equipment and three years for automobiles and computers.

Operating and non-operating revenues/expenses: Balances classified as operating revenues and expenses are those which comprise the Authority's principle ongoing operations. Since the Authority's operations are similar to those of any other finance company, all revenues and expenses are considered operating except the recall of Federal Reserve Funds and arbitrage expense.

Applying restricted or unrestricted resources: The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Provision for losses on student loans: The provision for losses on student loans represents the Authority's estimate of the costs related to the 2% to 5% risk sharing on FFELP loans and losses related to servicing of loans by the Authority. In making the estimate, the Authority considers the trend in default rates in the loan guarantee portfolio, past and anticipated loss experience, current operating information, and changes in economic conditions. The provision is based on total guaranteed loans times the 2% or 3% exposure risk rate times the default rate. However, the evaluation is inherently subjective and the provisions may significantly change in the future. The allowance for loan losses was $ 12,758 and $ 11,439 at June 30, 2013 and 2012, respectively.

New accounting pronouncement: The Authority adopted Statement No. 63 of the Governmental Accounting Standards Board, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement had no effect on the change of net position for the years ending June 30, 2013 and 2012.

Note 2. Deposits and Investments

All deposits and investments of the Authority are under the control of the State Treasury who, by law, has sole authority for investing State funds. Certain of the Authority's deposits and investments are deposited with the Bank of New York Mellon or Wells Fargo Bank, N.A. as authorized by the State Treasurer. Deposits and investments of $ 75,451,178 and $ 75,995,722 at June 30, 2013 and 2012, respectively, are held by the Bank of New York Mellon as trustee or custodian for the Authority.

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

	2013	2012		**2013**	2012
Statement of Net Position			Footnotes		
Cash and Cash Equivalents	**$ 85,266,340**	$ 91,505,802	Cash at banks	**$ 88,527**	$ 105,743
			Deposits - STO ICM pool	**14,279,493**	23,709,362
			Investments		
Restricted Assets			Bank repurchase agreements	**59,012,437**	59,233,867
Cash and cash equivalents	**4,552,858**	8,305,025	U.S. treasury notes	**16,437,658**	16,761,102
			Money market accounts	**1,083**	753
Total	**$ 89,819,198**	$ 99,810,827	**Total**	**$ 89,819,198**	$ 99,810,827

Deposits: State law requires full collateralization of all State Treasury balances. The State Treasury must correct any deficiencies in collateral within seven (7) days. At June 30, 2013 and 2012, all State Treasury bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasury's investments are insured or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasury's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

At June 30, 2013 and 2012, Wells Fargo Bank, N.A. carried a bank balance at $ 18,094 and $ 9,571 respectively, of unspent federal grants for the Authority. These accounts are covered by FDIC insurance.

At June 30, 2013 and 2012, the Bank of New York Mellon carried a bank balance at $70,435 and $ 96,172. These accounts are covered by FDIC insurance and pledged securities.

All other deposits are in the State Treasury Internal Cash Management Account. The value of the Authority's investment in the State's Internal Cash Management Account is determined based on the fair value of the Pool's underlying portfolio.

The reported amount and fair value of deposits held for the various accounts of the Authority were as follows at June 30, 2013 and 2012:

	2013	2012
Collection/unpledged prior	**$ 14,279,493**	$ 23,709,362

Note 2. Deposits and Investments (Continued)

Investments: Investments are valued and reported at fair value based on quoted market prices when available or otherwise at the amount at which the instrument could be exchanged in a current transaction. Investment income on investments is recorded when earned. Purchases and sales are accounted for on the trade date. Unrealized gains and losses on investments have been recorded. Realized gains and losses on securities transactions are recorded on the accrual basis.

The reported amount and fair value of investments held for the various accounts of the Authority were as follows at June 30, 2013 and 2012:

	2013	2012
Collection/unpledged prior account - Bank of New York Mellon		
Bank repurchase agreements	**$ 1,233,787**	$ 1,231,918
Agency operating account - Bank of New York Mellon		
Money market	**521**	612
Bank repurchase agreements	**50,977,213**	45,372,082
	50,977,734	45,372,694
Federal student loan reserve account - Bank of New York Mellon		
Money market	**560**	141
Bank repurchase agreements	**4,983,000**	10,707,000
	4,983,560	10,707,141
Eligible Lender Trust account - Bank of New York Mellon		
U.S. Treasury notes	**11,815,450**	8,456,077
Bank repurchase agreements	**1,020,048**	1,000,562
	12,835,498	9,456,639
2009 Resolution account - Bank of New York Mellon		
U.S. Treasury notes	**4,622,208**	8,305,025
Bank repurchase agreements	**798,389**	922,305
Total	**5,420,597**	9,227,330
Totals	**$ 75,451,176**	$ 75,995,722

Investments are restricted by bond indentures to direct obligations of (or obligations guaranteed by) the United States of America, interest bearing time deposits, certificates of deposit or repurchase agreements fully secured by direct obligations of the United States of America, and obligations of certain Federal Agencies and instrumentalities.

***Interest rate risk*:** In accordance with its investment policy, the Authority manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.

***Credit risk*:** The Authority adheres to the State of South Carolina's investment policy, and invests in primarily U.S. government-backed obligations. The Authority does not make any investments in equities.

***Concentration of credit risk*:** The Authority's investment policy does not allow for an investment in any one issuer that is in excess of five percent (5%) of the total investments. Most investments are U.S. government obligations.

***Foreign currency risk*:** The Authority has no foreign currency investments.

***Custodial credit risk*:** This is the risk that the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counter party to the investment transaction fails. The investments at Bank of New York Mellon are categorized to give an indication of the level of the custodial credit risk assumed by the Authority at June 30, 2013 and 2012. All Bank of New York Mellon investments are insured or registered by the Authority or its agent in the Authority's name. There are no uninsured investments.

Note 3. Student Loans, Federal Family Education Loans (FFEL), and Federal Reinsurance of FFEL Loans

These loans bear interest at a fixed rate range of 2.875% to 8.25%. These loans are repayable over a period of five (5) to thirty (30) years with a minimum payment of $ 360 or $ 600 per year, except for in the case of income-based repayment plans. Repayment of principal may be scheduled to begin within sixty (60) days of final disbursement or six (6) to ten (10) months after the student graduates or ceases to be enrolled on at least a half-time basis in an eligible institution.

Certain borrowers may elect an income-based repayment plan, which can result in a payment amount less than is required to fully pay principal on the loan. After 25 years in the income-based repayment plan, any remaining debt is discharged.

Loans disbursed for the 1978-79 Academic year and subsequent years appear on SCSLC's financial statements. These loans are guaranteed by the Authority and reinsured by the U.S. Department of Education (see Note 12.)

Since the Authority entered into a Supplemental Guaranty Agreement with the U.S. Department of Education in 1978 under which the Federal government reinsures the Authority for amounts paid in connection with defaulted loans, the Authority has received cumulative payments to date of $ 654,895,704 and $ 531,440,975 as of June 30, 2013 and 2012, respectively, of federal reinsurance.

The percentage of the defaulted claims to be reimbursed by the federal government is dependent upon the Authority's default rate experience, as follows:

Claims Rate	Federal Payment for Loans made prior to October 1, 1993	Federal Payment for Loans made on or after October 1, 1993 and before October 1, 1998	Federal Payment for Loans made on or after October 1, 1998
0% up to 5%	100% of claims	98% of claims	95% of claims
5% up to 9%	100% of all claims up to 5%; and 90% of claims 5% and over	98% of all claims up to 5%; and 88% of claims 5% and over	95% of claims up to 5%; and 85% of claims 5% and over
9% and over	100% of claims up to 5%; 90% of claims 5% and over up to 9%; and 80% of claims 9% and over	98% of claims up to 5%; 88% of claims 5% and over up to 9%; and 78% of claims 9% and over	95% of claims up to 5%; 85% of claims 5% and over up to 9%; and 75% of claims 9% and over

The calculation of the default rate is based upon the claims paid in a given year as of the Federal government's fiscal year ending September 30 to the total loans in collection on the previous October 1. Based upon data maintained by the Authority, the default rate for the periods ended September 30, 2012 and 2011, was approximately 1.5% and 1.29%, respectively.

Note 4. Note Receivable Finance Loans

Each bond resolution of the Authority requires that all funds advanced to SCSLC by the Authority for the purpose of making student loans be evidenced by a loan agreement, assignment of collateral and assignment of revenues between the two parties, with the student loans providing security to the bond trustee. Increases (decreases) to SCSLC from the Authority's 2009 PAL General Resolution are made pursuant to a loan agreement dated October 29, 2009. Each loan is calculated as set forth in the respective loan agreements.

The finance loans as of June 30, 2013 and 2012, are as follows:

Bond Resolution	Balance 6/30/2011	Increases	Decreases	Balance 6/30/2012	Increases	Decreases	**Balance 6/30/2013**
2009	$ 56,079,344	$ 19,580,364	$ 7,182,790	$ 68,476,918	$ 4,476,367	$ 8,337,585	**$ 64,615,700**

Note 5. Amounts Due from/to SCSLC

The Authority also owes SCSLC for funds collected on their behalf of $ 15,233,199 and $ 25,653,987 at June 30, 2013 and 2012, respectively. Funds collected on behalf of SCSLC are required to be paid to SCSLC either daily or by the tenth of each month as required by the various bond documents. The Corporation owes the Authority $ 759,750 for interest on the 2009 PAL bond for the year ending June 30, 2013. The Authority transferred unencumbered FFELP loans of the Authority in the amount of $ 39,835,008 to the Corporation and the Corporation, also, contributed unencumbered loans of $ 20,942,464 to provide additional equity to the Corporation's 2010 bond offering by increasing the parity of the bonds. The funds from both the Corporation and the Authority were provided through a Residual Trust Agreement which allows for all remaining loans of the Trust to be shared between the Corporation and the Authority on a prorata basis based on the percentage (%) contribution made by each entity once all bonds have been redeemed.

Note 6. Capital Assets

The following is a summary of changes in capital assets for fiscal years ended June 30, 2013 and 2012:

	Balance 6/30/2011	Additions	Deletions	Balance 6/30/2012	Additions	Deletions	**Balance 6/30/2013**
Cost							
Furniture and equipment	$ 664,388	$ 6,726	$ (11,000)	$ 660,114	$ 161,319	$ (276,812)	**$ 544,621**
Automobiles	22,338	-	-	22,338	-	-	**22,338**
Total	686,726	6,726	(11,000)	682,452	161,319	(276,812)	**566,959**
Accumulated Depreciation							
Furniture and equipment	(566,752)	(64,094)	11,000	(619,846)	(54,522)	276,812	**(397,556)**
Automobiles	(22,338)	-	-	(22,338)	-	-	**(22,338)**
Less, accumulated depreciation	(589,090)	(64,094)	11,000	(642,184)	(54,522)	276,812	**(419,894)**
Net capital assets	$ 97,636	$ (57,368)	$ -	$ 40,268	$ 106,797	$ -	**$ 147,065**

Note 7. Loan Guarantees

As an incentive for the states to set up state guaranty agencies, the U.S. Department of Education made certain funds available to the states to assist in establishing a Federal Student Loan Reserve Account which replaced the loan guarantee account by the 1998 Reauthorization of the Higher Education Act (Act) on July 1, 1998. Maintenance of the Federal Student Loan Reserve Account will depend upon possible further Federal and State advances, investment income, federal default fee on student loans as collected, and reinsurance payments from the U.S. Department of Education. Prior to July 1, 1998, the account accumulated retention of default collections, administrative cost allowance and supplemental preclaims assistance. The Act eliminated this format (See Note 14). The U.S. Department of Education reserved the right to request repayment of advances under the Advance Agreement within such period as is deemed appropriate in light of the maturity and solvency of the Authority's federal student loan reserve account. As of June 30, 2013 and 2012, the Authority has reimbursed all such advances to the U.S. Department of Education that they have requested.

The 1993 Amendments to the Higher Education Act, Section 422 of the Higher Education Act of 1965, as amended, provides that the Federal Student Loan Reserve Account of all guaranty agencies under the Act shall be considered the property of the United States to be used in connection with the Federal Family Education Loan Programs and Consolidation Loan Programs under Parts B and C of Title IV of the Act. The Act further provides that the Secretary may direct a guaranty agency to return to the Secretary a portion of its Federal Student Loan Reserve Account which the Secretary determines is unnecessary to pay the program expenses and contingent liabilities of the guaranty agency (see Note 14).

Effective July 1, 1998, the Act allowed a new account called the Agency Operating Account to be established. As described in Note 1, this account accumulates funds to operate the guaranty agency.

Note 8. Bonds and Other Payables and Restricted Assets

The Authority issues Guaranteed Student Loan Revenue Bonds or Education Loan Revenue Bonds as needed to make finance loans to the South Carolina Student Loan Corporation for the purpose of making student loans (See Note 4). The finance loans to the South Carolina Student Loan Corporation are secured by loans funded by bond proceeds, related revenue from such loans, investments in accounts and earnings thereon. The bond resolutions permit the Authority or the SCSLC to accumulate borrowers' payments during the year to pay principal and interest on bonds as due. The bonds do not constitute a debt, liability or obligation of the State of South Carolina or a pledge of the faith and credit of the State of South Carolina. As of June 30, 2013 and 2012, the Authority was required to have assets deposited in the current debt service account of $ 759,750 and $ 851,326, respectively. The Authority has deposits in restricted assets equal to the current debt service requirement in 2013 and 2012. Restricted assets of $ 4,552,858 in 2013 and $ 8,305,025 in 2012 include the current debt service reserve deposits of $ 1,349,500 and $ 1,396,500 in 2013 and 2012.

The Student Loan Revenue bonds as of June 30, 2013 and 2012, follow:

Issued	Original Amount	Interest Rate	Maturity Date	Balance Outstanding 6/30/2011	Issued (Retired) During FY 12	Balance Outstanding 6/30/2012	**Issued (Retired) During FY 13**	**Balance Outstanding 6/30/2013**
11/5/2009	85,000,000	3.4-5.1%	10/1/14-2029	$ 73,095,000	$ (3,270,000)	$ 69,825,000	**$ (7,510,000)**	**$ 62,315,000**

The 2009 bond issue includes fixed rate bonds totaling $ 62,315,000, with interest rates ranging from 3.40% to 5.10%. Optional redemption features are available for the outstanding bond.

The changes in debt for the years ending June 30, 2013 and 2012, are the same as above.

The annual requirements to retire these bonds as of June 30, 2013, are as follows:

Year Ended June 30,	Principal	Interest	Totals
2014	$ -	$ 3,081,208	$ 3,081,208
2015	365,000	3,074,917	3,439,917
2016	445,000	3,060,054	3,505,054
2017	510,000	3,041,010	3,551,010
2018	1,830,000	2,991,112	4,821,112
2019	2,205,000	2,902,500	5,107,500
2020	2,930,000	2,785,733	5,715,733
2021	3,115,000	2,645,510	5,760,510
2022	4,400,000	2,469,707	6,869,707
2023	5,870,000	2,226,683	8,096,683
2024	-	2,086,822	2,086,822
2025	14,660,000	1,715,231	16,375,231
2026	-	1,343,641	1,343,641
2027	-	1,343,641	1,343,641
2028	-	1,343,641	1,343,641
2029	-	1,343,641	1,343,641
2030	25,985,000	671,821	26,656,821
Total	$ 62,315,000	$ 38,126,872	$ 100,441,872

Note 9. Paul Douglas Teacher Scholarship Program

The Authority administers the Paul Douglas Teacher Scholarship Program (formerly the Congressional Teacher Scholarship Program). This is a federally funded scholarship program designed to attract bright high school students and encourage them to enter the field of teaching. As of June 30, 1995, the federal government suspended the loan program and the Authority will reimburse all funds collected for the program.

During the fiscal years ended June 30, 2013 and 2012, collections were $ 8,513 and $ 10,200, respectively, from repayments by participants. The Authority repaid these amounts to the Federal Government during the years ended June 30, 2013 and 2012, due to suspension of the program. Any repayments not repaid to the Federal Government are recorded as a liability.

Note 10. Related Party Transactions

The Authority has significant transactions with the State of South Carolina and SCSLC. Services received at no cost from State agencies include maintenance of certain accounting records from the Comptroller General, investment and banking functions from the State Treasurer and legal services as requested from the Attorney General.

The Authority paid the University of South Carolina $ 25 for both years ending June 30, 2013 and 2012, for data processing services and the expense is recorded as contractual expenses. See Notes 1 and 5 regarding transactions with SCSLC.

Note 11. Employee Benefit Plans

Money Purchase Pension Plan:

The Authority provides retirement benefits through the South Carolina Student Loan Corporation Money Purchase Pension Plan (MPPP) for all employees who have completed one year of service and attained age 21. SCSLC has adopted the Branch Banking & Trust Co. (BB&T) Money Purchase Pension Plan, a single employer plan. The MPPP was originally established on July 1, 1975. BB&T is the Trustee of the Plan. The authority under which benefits provisions are established or amended is provided in the Plan document as administrated by the Plan Trustee. The Plan issues a stand-alone report annually and may be obtained by writing to the South Carolina Student Loan Corporation, Post Office Box 102405 Columbia, S.C. 29223 or by calling (803) 772-9480.

This is a defined contribution plan in which the employer is required to contribute 5.6% of the participant's total annual compensation plus 5.6% of compensation exceeding the Social Security wage base. Contributions are made monthly. A participant is 20% vested after two years service and 100% vested after six years of service. A participant reaches normal retirement at age sixty-five. At termination of employment or reaching normal retirement age, the participant has the right to elect to receive all or any portion of his vested benefit derived from employer contributions. Voluntary contributions are not permitted. Under the plan, the portion of an employee's account that has not vested when an employee terminates, called forfeitures, reduces the employer's contribution in the year following the Plan year in which the forfeiture occurs. The total pension expense is fully funded and is included in personnel expenses under the retirement category.

Pension expense, total salary and covered salary are as follows:

	2013	2012
Total salary	**$ 1,428,087**	$ 1,764,790
Total covered salary	**1,152,569**	1,545,879
Pension expense (actual and required)	**57,047**	87,329
Percent pension expense to covered salary	**4.95%**	5.65%

Defined Benefit Plan:

The Authority participates in a supplemental retirement plan. The Plan is called the South Carolina Student Loan Corporation Defined Benefit Plan (DBP), a single employer plan. The authority under which benefit provisions are established or amended is provided in the Plan document as administered by the Plan Trustee, BB&T. The Plan is a defined benefit pension plan covering substantially all employees with one year of service and 21 years of age. The DBP provides benefits based on years of service and compensation. The benefit formula uses one percent (1%) of the average of the five highest consecutive years' pay of each eligible employee multiplied by the number of years of service not to exceed 30 years. The Corporation's funding policy is to make at least the minimum annual contribution that is actuarially computed by the projected unit credit method required by the Plan. The Authority will contribute the amount billed to them by the Corporation. The Corporation issues a publicly available financial report that includes financial statements and required supplementary information for the South Carolina Student Loan Corporation Defined Benefit Plan. That report may be obtained by writing to South Carolina Student Loan Corporation, Post Office Box 102405, Columbia, South Carolina 29223 or by calling (803) 772-9480.

The Authority paid contributions for the year ended June 30, 2013 of $110,000 and realized a gain on the assets of the plan of $ 611,000. The Authority paid contributions for the year ended June 30, 2012, of $168,000 and funded an asset loss of $ 775,703 . The actual funding contributions represented 9.54% and 10.87% of covered salary, respectively. Contributions are included in the personnel expense category.

Note 11. Employee Benefit Plans (Continued)

403(b) Defined Contribution Plan:

The Authority participates in the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan which was established on November 5, 2002. The Plan provides for a 5% contribution based on the participant's total annual compensation. The total amount expensed under the plan was $ 46,271 in 2013 and $ 77,025 in 2012. All employees who have completed one year of service and attainment of age 21 are eligible to receive employer contributions. Contributions are 100% vested when made.

Tax Deferred Annuity:

The Authority also can participate in the South Carolina Student Loan Corporation TDA (Tax Deferred Annuity) GSRA (Group Supplemental Retirement Annuity) which was originally established on January 1, 1995, and was subsequently amended on January 1, 2009. All employees are eligible to participate in the Tax Deferred Annuity upon hire. Employee participation in this plan is voluntary and funded only through employee contributions. Employee contributions are 100% vested immediately with investment of the contributions within the plan being employee self-directed.

457(b) Deferred Compensation Plan:

On November 15, 2002, the Corporation established the South Carolina Student Loan Corporation 457(b) Deferred Compensation Plan. Key management employees of the Corporation are eligible to participate in this plan. Employee participation in this plan is voluntary and funded only through employee contributions. Employee contributions are 100% vested immediately with investment of the contributions within the plan being employee self-directed.

Other Employee Benefits:

Certain health care, dental, long-term disability and life insurance benefits are provided to active employees through various private insurers. Employees scheduled for 30 hours or more per week may be eligible to receive these benefits. Employer contributions applicable to those benefits were $ 165,677 and $ 220,705 in 2013 and 2012, respectively, and are recorded as expenses under the personnel expense category, and are paid monthly as billed by insurers.

Note 12. Student Loan Guarantees

The total approved amount and outstanding balance of student loans that the Authority has under guarantee is as follows at June 30:

	2013	2012
Outstanding Balance	**$2,420,366,399**	$2,735,486,355

Note 13. Rebate and Excess Earnings Liability

The Internal Revenue Code (IRC) and arbitrage regulations issued by the IRS require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. Regulations also exist for calculating rebate earnings in connection with the accounting for bond proceeds, refunding issues, and proceeds that are commingled with other funds for investment purposes. Rebates are payable every five years from date of bond issue or upon maturity of the bonds, whichever is earlier.

Note 13. Rebate and Excess Earnings Liability (Continued)

The IRC and U.S. Treasury Regulations permit issuers of qualified student loan tax-exempt obligations to earn no more than 1.5% to 2.0% above the bond yield on the qualified student loans financed with such tax-exempt obligations. For excess earnings on qualified student loans, issuers may elect to pay such excess to the U. S. Treasury or return such excess to the borrowers of qualified student loans financed by the tax-exempt obligations. The South Carolina State Treasurer had computations performed to determine the liability at June 30, 2013 and 2012. Based on those results, the Authority incurred expense (income) of $ 0 for 2013 and 2012, respectively. This expense (income) is determined using the "Future Value" method of determining rebate and excess earnings liability, as set forth in the U.S. Treasury Regulations and is based on cash flows created by investment, sale, maturity of and earnings on gross bond proceeds. As of June 30, 2013 and 2012, the Authority reported $ 0, respectively, as rebate and excess earnings liability. The Authority received a recovery of overpayment of arbitrage rebate of $ 0 for 2013 and $ 174,641 for 2012.

Note 14. Required Information on Business Type Activity for State of South Carolina

The Authority is only one major enterprise fund which is not required to present government-wide financial statements. However, the State of South Carolina requires business type activities for the State's government-wide Statement of Activities. The required information follows:

	2013	2012
Charges for Services		
United States Department of Education		
Account maintenance fee	**$ 1,659,115**	$ 1,877,581
Default aversion fee income	**819,206**	1,563,578
Retention on default collections	**8,475,628**	7,857,563
Income from South Carolina Student Loan Corporation		
Subsidized interest	**182,546**	198,997
Special allowance	**(1,089,433)**	(1,200,771)
Non-subsidized interest	**1,599,193**	1,766,450
Late charges	**10,972**	10,822
Miscellaneous payments of student loans	**(45)**	(12)
Reimbursement of bond expense	**3,924,780**	4,220,150
Reinsurance recoveries	**705,963**	666,973
Total charges for services	**16,287,925**	16,961,331
Operating grants and contributions		
Interest/investment income	**96,189**	69,625
Miscellaneous income	**1,030**	-
Arbitrage income	**-**	174,641
Total operating grants and contributions	**97,219**	244,266
Total program revenue	**16,385,143**	17,205,597
Less, expenses	**13,198,659**	15,327,666
Change in net position	**3,186,484**	1,877,931
Net Position		
Beginning	**141,392,509**	139,514,578
Ending	**$ 144,578,993**	$ 141,392,509

Note 15. Subsequent Events

The Authority evaluated subsequent events through September 4, 2013, the date these financial statements were available to be issued. There were no material events that required recognition or additional disclosure in these financial statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF NET POSITION BY ACCOUNTS
ENTERPRISE FUND
JUNE 30, 2013

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
ASSETS						
Current Assets						
Cash and cash equivalents	$ 15,531,374	$ 867,738	$ 12,835,498	$ 50,991,258	$ 5,040,472	$ 85,266,340
Cash and cash equivalents - restricted	-	4,552,858	-	-	-	4,552,858
Receivables						
Current portion of student loans	-	-	1,872,463	-	-	1,872,463
Interest due from borrower	-	-	403,745	-	-	403,745
Current portion of finance loans	-	5,421,296	-	-	-	5,421,296
Due from South Carolina Student Loan Corporation	-	759,750	-	-	-	759,750
Accrued interest receivable	12	76	-	510	49	647
Federal reinsurance receivable	-	-	-	-	6,455,495	6,455,495
Account maintenance fee receivable	-	-	-	405,000	-	405,000
Due from other funds	(87,871)	28,603	126,831	(36,489)	(31,074)	-
Prepaid expense	-	5,333	-	-	-	5,333
Total current assets	15,443,515	11,635,654	15,238,537	51,360,279	11,464,942	105,142,927
Long-term and other assets						
Investment						
Receivables						
Student loans, less current portion and net of allowance for loan loss of $11,439 in 2012 and $10,420 in 2011	-	-	24,891,590	-	-	24,891,590
Finance loans, less current portion	-	59,194,404	-	-	-	59,194,404
Due from South Carolina Student Loan Corporation	-	-	39,835,008	-	-	39,835,008
Deferred cost of issuance of bonds	-	1,416,583	-	-	-	1,416,583
Total long-term and other assets	-	60,610,987	64,726,598	-	-	125,337,585
Property, Plant & Equipment						
Furniture and equipment	-	-	-	544,621	-	544,621
Automobile	-	-	-	22,338	-	22,338
Less: accumulated depreciation	-	-	-	(419,894)	-	(419,894)
Total property, plant & equipment	-	-	-	147,065	-	147,065
Total assets	$ 15,443,515	$ 72,246,641	$ 79,965,135	$ 51,507,344	$ 11,464,942	$ 230,627,577

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF NET POSITION BY ACCOUNTS
ENTERPRISE FUND
JUNE 30, 2013

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
LIABILITIES						
Current Liabilities						
Accounts payable	$ 360,634	$ 2,800	$ -	$ 4,808,722	$ -	$ 5,172,156
Due to South Carolina Student Loan Corporation	13,220,105	1,299,173	15,531	(277,589)	975,979	15,233,199
Due to United States Department of Education	-	86,514	217,851	-	-	304,365
Consolidation rebate fee payable	628,978	-	-	-	-	628,978
Payable from restricted assets						
Accrued bond interest payable	-	759,750	-	-	-	759,750
Total current liabilities	14,209,717	2,148,237	233,382	4,531,133	975,979	22,098,448
Long-Term Liabilities						
Bonds payable, less current maturities	-	62,315,000	-	-	-	62,315,000
Provision for losses on student loans	-	-	-	-	1,635,137	1,635,137
Total long-term liabilities	-	62,315,000	-	-	1,635,137	63,950,137
Total liabilities	14,209,717	64,463,237	233,382	4,531,133	2,611,116	86,048,585
Net Position						
Invested in capital assets	-	-	-	147,065	-	147,065
Restricted for						
Debt service						
Bond indentures	-	7,783,404	-	-	-	7,783,404
Other						
Federal government	-	-	-	-	8,853,826	8,853,826
Guaranty agency operating account	-	-	-	46,829,146	-	46,829,146
Unrestricted	1,233,798	-	79,731,753	-	-	80,965,551
Total net position	$ 1,233,798	$ 7,783,404	$ 79,731,753	$ 46,976,211	$ 8,853,826	$ 144,578,992

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION BY ACCOUNTS
ENTERPRISE FUND
YEAR ENDED JUNE 30, 2013

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Operating Revenue						
United States Department of Education						
Account maintenance fee	-	$ - -	$	$	$ 1,659,115	$ -	$ 1,659,115
Default aversion fee income	-	- -			819,206	-	819,206
Retention on default collections	-	- -			8,475,628	-	8,475,628
Income from South Carolina Student Loan Corporation						
Subsidized interest	-	-		182,546 -	-		182,546
Special allowance	-	-		(1,089,433) -	-		(1,089,433)
Non-subsidized interest	-	-		1,599,193 -	-		1,599,193
Late charges	-	-		10,972 -	-		10,972
Miscellaneous payments of student loans	-	-	-	(45) -			(45)
Reimbursement of bond expense		-	3,924,780 -	- -			3,924,780
Reinsurance recoveries	-	- -	-			705,963	705,963
Miscellaneous Income	-	- -		-	1,030		1,030
Investment income		1,864	4,428	6,457	72,961	10,478	96,188
Total operating revenue		1,864	3,929,208	709,690	11,027,940	716,441	16,385,143
Operating Expenses						
Personnel	-	- -			1,314,060	-	1,314,060
Contractual services	-	- -			220,337	-	220,337
General operating	-	- -			461,970	-	461,970
South Carolina Student Loan Corporation for operations		-	433,341	193,296 -	-		626,637
Bond interest expense		-	3,256,428 -	-			3,256,428
Amortization - deferred cost of bond issuance		-	118,049 -	- -			118,049
Default aversion fee	-	- -	-			819,206	819,206
Loan fees		-	274,683	296,086 -	-		570,769
Borrower incentives	-	-		127,396 -	-		127,396
Broker/dealer fees		-	- 18,800	2,500 -			21,300
Reinsurance expense	-	-		23,897	-	3,659,311	3,683,208
Loan loss reserve				1,319			1,319
Collection fees	-	- -			1,977,486	494	1,977,980
Total operating expenses		-	4,101,301	644,494	3,973,853	4,479,011	13,198,659
Change in net position		1,864	(172,093)	65,196	7,054,087	(3,762,570)	3,186,484
Net position						
Beginning		1,231,934	7,955,497	79,666,557	39,922,125	12,616,396	141,392,509
Ending		$ 1,233,798	$ 7,783,404	$ 79,731,753	$ 46,976,212	$ 8,853,826	$ 144,578,993

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF CASH FLOWS BY ACCOUNTS
ENTERPRISE FUND
YEAR ENDED JUNE 30, 2013

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Cash Flows from Operating Activities						
Receipts from borrowers and U.S. Department of Education	$ -	$ -	$ -	$ 11,174,753	$ (1,794,176)	$ 9,380,577
Receipts from SCSLC services provided	-	15,003,315	4,048,221	-	-	19,051,536
Payments to suppliers, lenders and borrowers	(9,421,346)	(11,817,970)	(675,818)	(4,177,695)	(3,955,457)	(30,048,286)
Payments to employees	-	-	-	(1,314,060)	-	(1,314,060)
Net cash provided by (used in) operating activities	(9,421,346)	3,185,345	3,372,403	5,682,998	(5,749,633)	(2,930,233)
Cash Flows from Non-Capital Financing Activities						
Finance loan advances to South Carolina Student Loan Corporation for student loans	-	(4,476,367)	-	-	-	(4,476,367)
Finance loan payments received from South Carolina Student Loan Corporation	-	8,337,586	-	-	-	8,337,586
Payment on bonds payable	-	(7,510,000)	-	-	-	(7,510,000)
Interest paid on revenue bonds	-	(3,348,004)	-	-	-	(3,348,004)
Net cash provided by (used in) non-capital financing activities	-	(6,996,785)	-	-	-	(6,996,785)
Cash Flows from Capital and Related Financing Activities						
Purchase of capital assets	-	-	-	(161,319)	-	(161,319)
Cash Flows from Investing Activities						
Interest received on investment securities	1,870	4,706	6,456	73,095	10,581	96,708
Net increase (decrease) in cash and cash equivalents	(9,419,476)	(3,806,734)	3,378,859	5,594,774	(5,739,052)	(9,991,629)
Cash and Cash Equivalents						
Beginning	24,950,850	9,227,330	9,456,639	45,396,484	10,779,524	99,810,827
Ending	$ 15,531,374	$ 5,420,596	$ 12,835,498	$ 50,991,258	$ 5,040,472	$ 89,819,198

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF CASH FLOWS BY ACCOUNTS
ENTERPRISE FUND
YEAR ENDED JUNE 30, 2013

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Cash Flows from Operating Activities						
Operating income (loss)	$ 1,864	$ (172,093)	$ 65,196	$ 7,054,087	$ (3,762,570)	$ 3,186,484
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities						
Purchase of student loans under loan guarantees	-	-	-	-	(123,454,729)	(123,454,729)
Payments received from U.S. Department of Education under federal reinsurance program	-	-	-	-	121,079,364	121,079,364
Amortization of deferred cost of bond issuance	-	118,049	-	-	-	118,049
Interest/investment income (investing activities category)	(1,864)	(4,428)	(6,457)	(72,961)	(10,478)	(96,188)
Depreciation expense	-	-	-	54,522	-	54,522
Provision for loan losses	-	-	-	-	312,536	312,536
Allowance for loan loss	-	-	(1,319)	-	-	(1,319)
Bond interest expense (non-capital financing activities category)	-	3,256,428	-	-	-	3,256,428
Changes in assets and liabilities						
(Increase) decrease in student loan receivables	-	-	2,814,872	-	-	2,814,872
(Increase) decrease in interest receivable	-	-	58,634	-	-	58,634
(Increase) decrease in due from South Carolina Student Loan Corporation	-	91,576	-	-	-	91,576
(Increase) decrease in account maintenance fee receivable	-	-	-	60,000	-	60,000
(Increase) decrease in due from other funds	(464,184)	10,906	472,801	105,251	(124,774)	-
Increase (decrease) in accounts payable	122,052	-	-	-	-	122,052
Increase (decrease) in due to United States Department of Education	-	(7,225)	(29,693)	-	-	(36,918)
Increase (decrease) in consolidation rebate fee payable	(74,808)	-	-	-	-	(74,808)
Increase (decrease) in due to South Carolina Student Loan Corporation	(9,004,406)	(107,868)	(1,631)	(1,517,901)	211,018	(10,420,788)
Net cash provided by (used in) operating activities	(9,421,346)	3,185,345	3,372,403	5,682,998	(5,749,633)	(2,930,233)
Supplemental Disclosures of Cash Flow Information						
Disposal of fully depreciated assets	-	-	-	(276,812)	-	(276,812)
Depreciation on fully depreciated assets	$ -	$ -	$ -	$ 276,812	$ -	$ 276,812

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF EXPENSES COMPARED TO BUDGET
YEAR ENDED JUNE 30, 2013

Operating Expenses	Budget	Actual	Variance (Over) Under
Personnel			
Staff salaries	$ 1,442,150	$ 1,428,087	$ 14,063
Social security	99,500	96,789	2,711
Group insurance	194,690	165,677	29,013
Retirement	316,772	(381,075)	697,847
Unemployment	4,702	4,581	121
Total personnel	2,057,814	1,314,059	743,755
Contractual			
Information Technology	165,000	166,903	(1,903)
Legal	8,650	1,776	6,874
Accounting	24,700	21,717	2,983
Credit bureau fees	1,100	1,277	(177)
Skip tracing	27,000	19,920	7,080
Enrollment verification	13,200	8,744	4,456
Total contractual	239,650	220,337	19,313
General Operating			
Rent	100,800	82,440	18,360
Telephone	48,410	29,743	18,667
Printing	55,000	37,896	17,104
Postage	227,500	160,929	66,571
Supplies	23,000	13,344	9,656
Travel	4,000	3,491	509
Equipment maintenance	52,250	44,006	8,244
Subscriptions and fees	500	-	500
Meeting and conference expense	500	-	500
Insurance - general and automotive	23,500	30,678	(7,178)
Outreach and awareness	5,000	-	5,000
Contingencies	-	197	(197)
Other expenses	1,000	4,724	(3,724)
Depreciation expense	52,500	54,522	(2,022)
Third Party Collections	1,250,000	1,977,486	(727,486)
Total general operating	1,843,960	2,439,456	(595,496)
Capital Additions			
Equipment, furniture and fixtures	$ -	161,319	$ (161,319)
Total personnel expenses		1,314,059	
Total contractual		220,337	
Total general operating		2,439,456	
Total operating expenses		3,973,852	
South Carolina Student Loan Corporation Operating Costs		626,637	
Other Expenses			
Interest on bonds		3,256,428	
Amortization - deferred cost of bond issuance		118,049	
Default aversion fee expense		819,206	
Borrower incentives		127,396	
Reinsurance expense and other fees		4,277,091	
Total other expenses		8,598,170	
Total expenses		$ 13,198,659	

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF ORGANIZATIONAL DATA
YEAR ENDED JUNE 30, 2013

CREATION

Created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the 1976 Code (the "Act"). The Constitutionality of the Act was sustained in Durham vs. McLeod, 259 S.C. 409, 192 E. 2d 202, appeal dismissed 413 U.S. 902.

To make, insure and guarantee student loans; to acquire contingent interest in student loans from eligible banks or other lending institutions (up to 100% of the face amount thereof); to develop and administer all programs and to perform all functions necessary or convenient to promote and facilitate the making, guaranteeing and insuring of student loans and to provide such other student loan assistance and services as the Authority shall deem necessary or desirable and to enable it to qualify for loans, grants, insurance and other benefits and assistance under any program of the United States now or hereafter authorized fostering student loans; to appoint one or more banking institutions as its fiscal agent to perform such functions with respect to student loans and its revenue bonds; to approve as eligible, institutions otherwise qualified as such.

MEMBERS OF THE AUTHORITY

Name	Office Held
Nikki R. Haley	Governor of South Carolina
Curtis M. Loftis, Jr	State Treasurer of South Carolina
Richard Eckstrom	Comptroller General of South Carolina
Hugh K. Leatherman, Sr.	Chairman, South Carolina Senate Finance Committee
W. Brian White	Chairman, South Carolina House of Representatives Ways and Means Committee

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

Federal Grantor/Program Title	CFDA Number	Amount of Grant	Expenses
U.S. Department of Education Programs			
Federal Family Education Loan Program			
Direct			
Account maintenance fee	84.032		$ 1,659,115
Default aversion fee income	84.032		819,206
Retention on default collections	84.032		8,475,628
Passed through South Carolina Student Loan Corporation			
Special allowance (notes)	84.032		-
Subsidized interest	84.032		182,546
Total Federal Family Education Loan Program (Major program)			11,136,495
Total Department of Education			$ 11,136,495

Notes - CFDA #84.032:

1. Summary of Significant Accounting Policies:

   This schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* The financial activity shown in this schedule reflects amounts recorded by the Authority during its fiscal year July 1, 2012, through June 30, 2013.

2. The total approved amount at June 30, 2013, of all student loans under guarantee by the South Carolina State Education Assistance Authority was $ 8,747,117,691. The total outstanding balance of these loans was $ 2,420,366,399. Special allowances and subsidized interest are earned based on outstanding balance. The account maintenance fee is based on average principal outstanding for the fiscal year for loans serviced, subject to a cap. The default aversion fee is based on the balance of principal and interest on a loan that was prevented from defaulting.

3. The South Carolina State Education Assistance Authority received $ 121,079,364 during the year ended June 30, 2013, under Federal Reinsurance Agreements pursuant to Sections 428A and 428(c) of the Higher Education Act of 1965, as amended.

4. The total value at June 30, 2013, since inception, of all defaulted student loans which the South Carolina State Education Assistance Authority has purchased under Federal reinsurance agreements was $ 654,895,704. Retention of default collections is generated when the Authority retains a portion of the amount it collects on these loans on behalf of the Federal Government.

5. The U.S. Department of Education (USDE) now requires lenders to pay the USDE when the lenders have negative special allowance. The Authority paid $ 1,089,433 for the year ending June 30, 2013.

Notes - CFDA #84.176:

6. Program participants repaid $ 8,523 to the Authority. The Authority owes the Federal Government $ 8,523 at June 30, 2013.

DERRICK STUBBS
ACCOUNTING · AUDITING · TAXATION · CONSULTING

POST OFFICE BOX 36 | COLUMBIA, SC 29202-0036
508 HAMPTON ST, 1ST FLR | COLUMBIA, SC 29201

MAIN 803 799.5810 TOLL FREE 866 799.5810
FAX 803 799.5554

DSSCPA.COM

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 Members of the Authority
Management of South Carolina State Education Assistance Authority
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 State Education Assistance Authority (the Authority), as of and for the year ended June 30 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 4, 2013.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Derrick, Stubbs + Stith, LLP

September 4, 2013

DERRICK STUBBS
ACCOUNTING · AUDITING · TAXATION · CONSULTING

POST OFFICE BOX 36 | COLUMBIA, SC 29202-0036
508 HAMPTON ST, 1ST FLR | COLUMBIA, SC 29201

MAIN 803 799.5810 TOLL FREE 866 799.5810
FAX 803 799.5554

DSSCPA.COM

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Members of the Authority
South Carolina State Education Assistance Authority
Columbia, South Carolina

Report on Compliance for Each Major Federal Program

We have audited South Carolina State Education Assistance Authority 's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal programs for the year ended June 30, 2013. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular No. A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2013-1. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The Authority's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Derrick, Stubbs + Stith, LLP

September 4, 2013

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

1. Summary of Auditor's Results:

Financial Statements

Type of report issued on financial statements	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	None identified
Significant deficiency(ies) identified?	None identified
Noncompliance material to the financial statements noted?	None reported

Federal Awards

Internal control over financial reporting:	
Material weakness(es) identified?	None identified
Significant deficiency(ies) identified?	None identified
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported In accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

	CFDA#	Expenditure
U.S. Department of Education		
Federal Family Education Loan Program		
Account maintenance fee	84.032	$ 1,659,115
Default aversion fee income	84.032	819,206
Retention on default collections	84.032	8,475,628
Passed Through South Carolina Student Loan Corporation		
Subsidized interest	84.032	182,546
Total Federal Family Education Loan Program (Major program)		$ 11,136,495

Dollar threshold used to distinguish between Type A and Type B programs	$ 334,095
South Carolina State Education Assistance Authority qualifies as a low risk auditee under paragraph .530 OMB 133	Yes

2. Financial Statement Findings None reported

3. Findings and questioned costs for Federal awards Yes

Finding 2013-1

CFDA #84.032

Grantor: U.S. Department of Education Program Title: Federal Family Education Loan Program

Criteria: The Authority provides default aversion activities when properly notified by a lender designed to prevent a default by the borrower in accordance with 34 CFR Section 682.404(k). The Authority receives a 1% fee based on outstanding principle and interest on the borrower's loan. However, if a loan on which the Authority has received the default aversion fee subsequently is paid as a default claim, the Authority must rebate the default aversion fee.

Condition: We found two (2) instances in our sample of twenty-five items that the default aversion fee was not returned when the loan went into default. Total fees of $ 162 were not returned.

Context: Default aversion expense is overstated.

.

Cause: Some default aversion fees were paid, but not returned when loan went into default

Effect: Default aversion fees were overstated.

Recommendation: We recommend that the Authority return default aversion fees when the loan has defaulted in accordance with federal guidelines and Authority procedures.

Questioned Costs: Total fees of $ 162 were not returned.

Management's Response: We concur with the finding. See our response in the Corrective Action Plan.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF SUMMARY OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

There are no prior audit findings and questioned costs relative to Federal Awards.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2013

Finding 2013-1

Condition: We found two (2) instances in our sample of twenty-five items that the default aversion fee was not returned when the loan went into default. Total fees of $ 162 were not returned.

Management's Response:

Management has corrected the two findings and added additional procedures to prevent future occurrences.