

**South Carolina State
Education Assistance Authority**

Report on Financial Statements

For the years ended June 30, 2015 and 2014

State of South Carolina



Office of the State Auditor

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September 23, 2015

The Honorable Nikki R. Haley, Governor
and
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, 2015, was issued by Elliott Davis Decosimo, L.L.C., 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,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

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

RHGjr/cwc

South Carolina State Education Assistance Authority

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Independent Auditor's Report

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina State Education Assistance Authority (the "Authority"), a component unit of the State of South Carolina, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively 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 audits. We conducted our audits 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 respective financial position of the South Carolina State Education Assistance Authority as of June 30, 2015 and 2014, and the respective changes in 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 - 8 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 operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The individual account financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual account financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual account financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The schedule of organizational data and schedule of expenses compared to budget have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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.



Columbia, South Carolina
September 23, 2015

South Carolina State Education Assistance Authority

Management's Discussion and Analysis

The South Carolina State Education Assistance Authority (the "Authority") functions to guarantee and provide financing for education loans for students and parents. As a guarantor, the Authority processes loans submitted for guarantee, 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. As stipulated in the Health Care and Education Reconciliation Act ("HCERA") of 2010, effective July 1, 2010, all federal loan originations are required to be 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 ("SCSLC") since its inception.

SCSLC and the Authority have entered into a loan agreement pursuant to terms in which the Authority has agreed to lend bond proceeds to SCSLC to enable SCSLC to make or acquire education loans. The obligation of SCSLC to repay the finance loans is evidenced by a promissory note of SCSLC 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, 2015. 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, 2015 were approximately \$215,842,000 which is a decrease of approximately \$11,907,000 or 5% from June 30, 2014. The decrease in assets was primarily due to reductions of approximately \$5,579,000 in finance loan receivables, approximately \$2,170,000 in net student loan receivables, and approximately \$3,556,000 in cash and cash equivalents or 9%, 9% and 4%, respectively.

The student loan receivables reduction resulted from normal runoff due to payment activity as well as continued consolidation of loans to the federal Direct Loan program. The decrease in finance loans receivable reflected provisions of the loan agreement with SCSLC related to the Authority's 2009 PAL General Resolution. The decrease in cash and cash equivalents primarily resulted from less cash in the Collection Account Prior Unpledged at year-end due to changes in the 1996 General Resolution bond issue in August 2014 that requires borrower payments to be remitted daily instead of monthly to the trustee.

The Authority's operating revenue for the fiscal year ended June 30, 2015 was approximately \$13,707,000 reflecting a decrease of approximately \$4,169,000 or 23% from the fiscal year ended June 30, 2014. This decrease is primarily attributed to a decrease of approximately \$3,176,000 or 32% in retention on default collections and a decrease of approximately \$971,000 or 23% in reimbursement of bond expenses for the period. The retention on default collections primarily reflected the elimination of an 18.5% principal retention for rehabilitations and a reduction of collection expense retention from 18.5% to 16%, also on rehabilitations.

South Carolina State Education Assistance Authority

Management's Discussion and Analysis

Financial Highlights, Continued:

The Authority's interest expense for the fiscal year ended June 30, 2015 was approximately \$2,695,000, a decrease of approximately \$290,000 or 10% from the fiscal year ended June 30, 2014. This reduction was primarily due to the normal payment activity on the outstanding bonds of the Authority during fiscal year 2015.

Other operating expenses decreased approximately \$2,416,000 or 24%, for the fiscal year ended June 30, 2015 compared to the fiscal year ended June 30, 2014. The main reason for the decrease related to a reduction in other fees of approximately \$2,158,000 and was primarily due to less reinsurance expense for the current fiscal year, driven by a significant decline in the volume of defaults.

During fiscal year 2015, the State Budget and Control Board authorized funding from the Agency Operating Account (AOF) to begin the Default Prevention Program which partners with South Carolina schools to reduce defaults on loans for their students. The program is administered by SCSLC with funding from the AOF. Expenses of approximately \$714,000 were incurred for this partial year of services.

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 the 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 and liabilities as current and long-term and net position as net investment in capital assets, restricted, and unrestricted.

Statements of Revenues, Expenses and Changes in Net Position - This statement presents the Authority's operating revenues, 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 related financing activities, and investing activities.

South Carolina State Education Assistance Authority

Management's Discussion and Analysis

Financial Analysis of the Authority:

The Authority's total net position at June 30, 2015 was approximately \$152,494,000, which is an increase of approximately \$3,562,000 or 2% from June 30, 2014. Components of the Authority's statements of net position as of June 30 were as follows:

	<u>2015</u>	<u>2014</u>	Percentage +/-
Current assets	\$ 105,373,655	\$ 109,811,957	-4.04%
Long-term assets			
Capital assets	121,935	148,794	-18.05%
Other long-term assets	<u>110,346,073</u>	<u>117,787,876</u>	-6.32%
Total assets	<u>\$ 215,841,663</u>	<u>\$ 227,748,627</u>	-5.23%
Current liabilities	\$ 11,529,250	\$ 20,881,719	-44.79%
Long-term liabilities	<u>51,818,670</u>	<u>57,935,064</u>	-10.56%
Total liabilities	<u>63,347,920</u>	<u>78,816,783</u>	-19.63%
Net position:			
Net investment in capital assets	121,935	148,794	-18.05%
Restricted	71,295,990	67,768,919	5.20%
Unrestricted	<u>81,075,818</u>	<u>81,014,131</u>	0.08%
Total net position	<u>152,493,743</u>	<u>148,931,844</u>	2.39%
Total liabilities and net position	<u>\$ 215,841,663</u>	<u>\$ 227,748,627</u>	-5.23%

Components of the Statement of Revenues, Expenses and Changes in Net Position for these two fiscal years are as follows:

	<u>2015</u>	<u>2014</u>	Percentage +/-
Loan interest income	\$ 3,832,241	\$ 4,848,546	-20.96%
Guaranty agency income	9,821,250	12,990,126	-24.39%
Investment income	<u>53,383</u>	<u>37,516</u>	42.29%
Total operating revenue	<u>\$ 13,706,874</u>	<u>\$ 17,876,188</u>	-23.32%
Interest expense	<u>\$ 2,694,847</u>	<u>\$ 2,984,418</u>	-9.70%
Other operating expenses:			
General administration	3,778,125	4,709,401	-19.77%
External loan servicing	578,881	617,556	-6.26%
Borrower incentives	122,581	123,998	-1.14%
Default prevention program	713,585	-	0.00%
Other fees	<u>2,256,956</u>	<u>4,414,852</u>	-48.88%
Total other operating expenses	<u>7,450,128</u>	<u>9,865,807</u>	-24.49%

South Carolina State Education Assistance Authority

Management's Discussion and Analysis

Financial Analysis of the Authority, Continued:

	<u>2015</u>	<u>2014</u>	<u>Percentage +/-</u>
Total operating expenses	\$ 10,144,975	\$ 12,850,225	-21.05%
Change in net position	\$ 3,561,899	\$ 5,025,963	-29.13%
Beginning net position	<u>148,931,844</u>	<u>143,905,881</u>	3.49%
Ending net position	<u>\$ 152,493,743</u>	<u>\$ 148,931,844</u>	2.39%

Debt Administration:

The Authority funds student loan notes by issuing tax-exempt bonds. The bonds must be approved by the Authority's and SCSLC'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, 2015 and 2014, the Authority had \$51,370,000 and \$56,980,000 principal amount of bonds outstanding, respectively. Detailed information on the Authority's debt is presented in Note 8 to the financial statements.

	<u>2015</u>	<u>2014</u>	<u>Percentage +/-</u>
Student and finance loan receivables	\$ 77,007,345	\$ 84,757,144	-9.14%
Bonds outstanding	\$ 51,370,000	\$ 56,980,000	-9.85%

South Carolina State Education Assistance Authority
Statements of Net Position
Enterprise Fund
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>		<u>2015</u>	<u>2014</u>
Assets			Liabilities		
Current assets			Current liabilities		
Cash and cash equivalents	\$ 91,630,496	\$ 95,027,845	Accounts payable	\$ 4,984,869	\$ 4,929,712
Cash and cash equivalents - restricted	3,595,580	3,753,939	Due to South Carolina Student Loan Corporation	5,254,731	14,049,987
Receivables			Due to United States Department of Education	262,879	291,788
Current portion of student loans	2,147,907	2,269,950	Consolidation rebate fee payable	29,351	580,535
Current portion of finance loans	4,348,373	4,534,326	Payable from restricted assets		
Interest due from borrower	411,505	398,442	Current portion of bonds payable	370,000	335,000
Due from South Carolina Student Loan Corporation	627,420	694,697	Accrued bond interest payable	627,420	694,697
Due from United States Department of Education	741	-	Total current liabilities	<u>11,529,250</u>	<u>20,881,719</u>
Accrued interest receivable	214	325			
Federal reinsurance receivable	2,270,086	2,752,100	Long-Term Liabilities		
Account maintenance fee receivable	336,000	375,000	Bonds payable, less current maturities	50,380,440	55,963,484
Prepaid expense	5,333	5,333	Provision for losses on student loans	1,438,230	1,971,580
Total current assets	<u>105,373,655</u>	<u>109,811,957</u>	Total long-term liabilities	<u>51,818,670</u>	<u>57,935,064</u>
			Total liabilities	<u>\$ 63,347,920</u>	<u>\$ 78,816,783</u>
Long-Term and Other Assets			Net Position		
Receivables			Net investment in capital assets	\$ 121,935	\$ 148,794
Student loans, less current portion and net of			Restricted for:		
allowance for loan loss of \$11,201 in 2015 and \$18,034 in 2014	20,638,484	22,686,766	Debt service		
Finance loans, less current portion	49,872,581	55,266,102	Bond indentures - 2009 resolution	7,388,144	7,505,119
Due from South Carolina Student Loan Corporation	39,835,008	39,835,008	Other		
Total long-term and other assets	<u>110,346,073</u>	<u>117,787,876</u>	Federal government	5,481,840	6,093,697
			Guaranty agency operating account	58,426,006	54,170,103
Property and equipment			Unrestricted	81,075,818	81,014,131
Furniture and equipment	645,834	606,952	Total net position	<u>\$ 152,493,743</u>	<u>\$ 148,931,844</u>
Automobile	-	22,338			
Less: accumulated depreciation	(523,899)	(480,496)			
Total property and equipment	<u>121,935</u>	<u>148,794</u>			
Total assets	<u>\$ 215,841,663</u>	<u>\$ 227,748,627</u>			

See Notes to Financial Statements

South Carolina State Education Assistance Authority**Statements of Revenue, Expenses and Changes in Net Position****Enterprise Fund****For the years ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Operating revenue		
United States Department of Education		
Account maintenance fee	\$ 1,389,176	\$ 1,531,541
Default aversion fee income	392,521	421,456
Retention on default collections (net of payments to federal government of \$10,672,728 in 2015 and \$11,526,081 in 2014)	6,895,725	10,071,667
Income from South Carolina Student Loan Corporation		
Subsidized interest	127,178	161,814
Special allowance	(946,265)	(1,024,623)
Non-subsidized interest	1,404,143	1,493,547
Late charges	12,367	11,529
Miscellaneous payments of student loans	(46)	(17)
Reimbursement of bond expense	3,234,864	4,206,296
Reinsurance recoveries	1,141,328	965,462
Investment income	53,383	37,516
Miscellaneous income	2,500	-
Total operating revenue	<u>13,706,874</u>	<u>17,876,188</u>
Operating expenses		
Personnel	1,480,936	1,964,407
Contractual	168,302	210,559
General operating	434,581	454,576
South Carolina Student Loan Corporation for operating costs	578,881	617,556
Bond interest expense	2,694,847	2,984,418
Default aversion fee expense	392,521	421,456
Loan fees	479,996	525,167
Borrower incentives	122,581	123,998
Broker/dealer fees	22,500	143,812
Reinsurance expense	1,368,772	3,319,141
Loan loss reserve	(6,833)	5,276
Third party collections	1,694,306	2,079,859
Default prevention program	713,585	-
Total operating expenses	<u>10,144,975</u>	<u>12,850,225</u>
Change in net position	3,561,899	5,025,963
Net position		
Beginning of year	148,931,844	143,905,881
End of year	<u>\$ 152,493,743</u>	<u>\$ 148,931,844</u>

See Notes to Financial Statements

South Carolina State Education Assistance Authority

Statements of Cash Flows

Enterprise Fund

For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Receipts from borrowers and United States Department of Education	\$ 10,336,943	\$ 16,708,906
Receipts from South Carolina Student Loan services provided	6,145,097	6,488,621
Payments to suppliers, lenders and borrowers	(15,840,730)	(8,738,798)
Payments for personnel	(1,480,936)	(1,964,407)
Net cash provided by (used for) operating activities	<u>(839,626)</u>	<u>12,494,322</u>
Cash flows from non-capital financing activities		
Finance loan advances to South Carolina Student Loan Corporation for student loans	(3,570,231)	(4,136,056)
Finance loan payments received from South Carolina Student Loan Corporation	9,149,705	8,951,328
Payment on bonds payable	(5,548,044)	(5,273,044)
Interest paid on revenue bonds	(2,762,124)	(3,049,471)
Net cash used for non-capital financing activities	<u>(2,730,694)</u>	<u>(3,507,243)</u>
Cash flows from capital and related financing activities		
Purchases of capital assets	(38,882)	(62,331)
Net cash used for capital and related financing activities	<u>(38,882)</u>	<u>(62,331)</u>
Cash flows from investing activities		
Interest received on investment securities	53,494	37,838
Net cash provided by investing activities	<u>53,494</u>	<u>37,838</u>
Net increase (decrease) in cash and cash equivalents	(3,555,708)	8,962,586
Cash and cash equivalents		
Beginning of year	98,781,784	89,819,198
End of year	<u>\$ 95,226,076</u>	<u>\$ 98,781,784</u>

South Carolina State Education Assistance Authority

Statements of Cash Flows

Enterprise Fund

For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Reconciliation of change in net position to net cash provided by (used for) operating activities		
Change in net position	\$ 3,561,899	\$ 5,025,963
Adjustments to reconcile change in net position to net cash provided by (used for) operating activities		
Purchase of student loans due under guarantees	(66,526,476)	(99,100,714)
Payments received from United States Department of Education under federal reinsurance program	67,008,490	102,804,109
Investment income	(53,383)	(37,516)
Depreciation expense	65,741	60,602
Provision for loan losses	(533,350)	336,443
Allowance for loan loss	6,833	(5,276)
Bond interest expense	2,694,847	2,984,418
Changes in assets and liabilities:		
Decrease in student loan receivables	2,163,492	1,812,613
(Increase) decrease in interest receivables	(13,063)	5,303
Decrease in due from South Carolina Student Loan Corporation	67,277	65,053
Increase in due from United States Department of Education	(741)	-
Decrease in account maintenance fee receivable	39,000	30,000
Increase (decrease) in accounts payable	55,157	(242,444)
Decrease in due to United States Department of Education	(28,909)	(12,577)
Decrease in consolidation rebate fee payable	(551,184)	(48,443)
Decrease in due to South Carolina Student Loan Corporation	(8,795,256)	(1,183,212)
Net cash provided by (used for) operating activities	<u>\$ (839,626)</u>	<u>\$ 12,494,322</u>

See Notes to Financial Statements

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Nature of Business and Significant Accounting Policies

Reporting entity:

The South Carolina State Education Assistance Authority (the "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 (the "Board"). The Board consists of five members by virtue of their position in State government. They are the Governor, State Treasurer, Comptroller General, Chairman of Senate Finance Committee and Chairman of South Carolina House of Representatives Ways and Means Committee.

The Authority is a discretely presented component unit 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 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 United States Department of Education ("USDE"). Upon entering the repayment period, the interest is paid by the borrower. Special Allowance Payments (SAP) are calculated as 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 loan type. The SAP is calculated quarterly and the net amount of the government interest paid to SCSLC less the SAP due to USDE is paid to the Authority. Principal and interest collections from the loans held as collateral under the 2009 PAL General Resolution are forwarded to the bond trustee daily.

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 its pro rata share based on space occupied, equipment usage, and loan servicing costs.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Nature of Business and Significant Accounting Policies, Continued

Reporting entity, continued:

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 of South Carolina 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 "Secretary"). 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 enterprise fund of the Authority is organized on the basis of sub-funds, each of which is considered separately for internal reporting purposes. The operation of each sub-fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenue and expenses.

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 SCSLC and guaranteeing federal loans. The Authority's Enterprise Fund is composed of the Collection Account Prior Unpledged, Eligible Lender Trust, 2009 PAL General Resolution, Agency Operating Account, and the Federal Student Loan Reserve 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 2009 PAL General Resolution constitutes pledged income for the liquidation of outstanding bonds after transfers for operations. Restricted assets of the 2009 PAL 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 Fund 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 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 USDE and pays the related expenses for the loans.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Nature of Business and Significant Accounting Policies, Continued

Business-type activity, continued:

The Federal Student Loan Reserve Account is used to account for activity as required by the 1998 reauthorization of the Higher Education Act. 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 USDE at a percentage determined by the Authority's default rate. Payments to lenders for defaulted loans are recorded as Federal Reinsurance Receivables. Reimbursement by USDE 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 account maintenance fees, default aversion fees, and the retention on default collections. USDE 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 Federal Student Loan Reserve Account. Retention on Default Collections is reported by the Authority directly to USDE 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, 2015 and 2014, of all defaulted student loans purchased by the Authority is \$811,139,777 and \$744,613,301, respectively (See Note 3). The Authority reports the purchased defaulted loans to USDE monthly and retains 16% of the collections on the defaulted loans. 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 Federal Student Loan Reserve Account. 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 Federal Student Loan Reserve Account to the Agency Operating Account for operating shortfalls.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Nature of Business and Significant Accounting Policies, Continued

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 premiums and discounts are amortized/accreted over the life of the bonds and netted against interest expense. In accordance with Government Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority applies all 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. Expenses in excess of the budgeted amounts are not in violation of State laws. However, these are approved by the SCSLC 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.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Nature of Business and Significant Accounting Policies, Continued

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.

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 and investments 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.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Nature of Business and Significant Accounting Policies, Continued

Federal Student Loan Reserve Account - Provision for loan losses:

The Authority 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 \$1,438,230 and \$1,971,580 as of June 30, 2015 and 2014, respectively.

Treatment of cost of issuance of bonds and amortization of bond premiums and accretion of bond discounts:

In accordance with GASB Statement No. 65, *Items Previously Recorded as Assets and Liabilities*, the cost of issuance of bonds is being expensed in the period incurred. Any 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. The Authority did not have any deferred outflows of resources or deferred inflows of resources as of June 30, 2015 and 2014.

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 is allocated a proportionate share of the insurance expense paid by SCSLC.

Premiums for worker's compensation, property insurance including capital 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 positions are available.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

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 \$11,201 and \$18,034 at June 30, 2015 and 2014, respectively.

New accounting pronouncements:

In March 2012, the GASB approved GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement reclassifies and recognizes certain items that were formerly reported as assets and liabilities as four financial statement elements: deferred outflows of resources, outflows of resources, deferred inflows of resources, and inflows of resources. Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. The provisions of this Statement are effective for financial statements for period beginning after December 15, 2012, with early adoption encouraged. The provisions of this Statement are required to be applied retroactively for all periods presented, including reporting a restatement of beginning net position. The Authority elected to adopt this accounting standard for the year ended June 30, 2014. The Authority did not have any deferred outflows of resources or deferred inflows of resources as of June 30, 2015 and 2014.

During June 2012, the GASB approved GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (An Amendment of GASB Statement No. 27)*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statement Nos. 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014 with earlier adoption encouraged.

The Authority's operations are supported by SCSLC employees. SCSLC does not participate in the State of South Carolina's retirement system; therefore, the provisions of GASB Statement No. 68 had no impact on the Authority's financial statements as of and for the fiscal year ended June 30, 2015.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Nature of Business and Significant Accounting Policies, Continued

Reclassifications:

Certain prior year amounts have been reclassified to conform to the current year presentation. There was no effect on net position as a result of these reclassifications.

Subsequent events:

These financial statements have not been updated for subsequent events after September 23, 2015, the date these financial statements were available to be issued.

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 Authority deposits and investments are deposited with the Bank of New York Mellon or Wells Fargo Bank, N.A. as authorized by the State Treasurer.

The following schedule reconciles deposits and investments within the footnotes to the amounts presented on the Statements of Net Position:

	<u>2015</u>	<u>2014</u>
Statements of Net Position		
Cash and cash equivalents	\$ 91,630,496	\$ 95,027,845
Restricted assets		
Cash and cash equivalents	<u>3,595,580</u>	<u>3,753,939</u>
Total	<u>\$ 95,226,076</u>	<u>\$ 98,781,784</u>
Footnotes		
Cash at banks	\$ 21,500,549	\$ 445,359
Deposits - State Treasurer's cash management pool	3,540,011	12,793,926
Investments		
Bank repurchase agreements	70,184,000	67,721,995
U.S. treasury notes	-	17,819,332
Money market accounts	<u>1,516</u>	<u>1,172</u>
Total	<u>\$ 95,226,076</u>	<u>\$ 98,781,784</u>

Deposits: State law requires full collateralization of all State Treasury balances. The State Treasury must correct any deficiencies in collateral within seven days. At June 30, 2015 and 2014, 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, 2015 and 2014, Wells Fargo Bank, N.A. carried a bank balance at \$4,753 and \$25,116, respectively, of unspent federal grants for the Authority. These accounts are covered by FDIC insurance.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 2. Deposits and Investments, Continued

At June 30, 2015 and 2014, the Bank of New York Mellon carried a bank balance at \$21,495,796 and \$420,243, respectively. These accounts are covered by FDIC insurance and pledged securities.

All other deposits are in the State's internal cash management pool. The value of the Authority's investment in the State's internal cash management pool is determined based on the fair value of the State's internal cash management 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:

	<u>2015</u>	<u>2014</u>
Collection	\$ 3,540,011	\$ 12,793,926

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:

	<u>2015</u>	<u>2014</u>
Collection/unpledged prior account - Bank of New York Mellon		
Bank repurchase agreements	\$ 1,238,963	\$ 1,234,396
Agency operating account - Bank of New York Mellon		
Money market	872	703
Bank repurchase agreements	<u>63,901,037</u>	<u>59,090,603</u>
	<u>63,901,909</u>	<u>59,091,306</u>
Federal student loan reserve account - Bank of New York Mellon		
Money market	644	469
Bank repurchase agreements	<u>5,044,000</u>	<u>5,995,000</u>
	<u>5,044,644</u>	<u>5,995,469</u>
Eligible Lender Trust account - Bank of New York Mellon		
U.S. Treasury notes	-	13,969,363
Bank repurchase agreements	<u>-</u>	<u>500,472</u>
	<u>-</u>	<u>14,469,835</u>
2009 PAL General Resolution account - Bank of New York Mellon		
U.S. Treasury notes	-	3,849,969
Bank repurchase agreements	<u>-</u>	<u>901,524</u>
	<u>-</u>	<u>4,751,493</u>
Totals	<u>\$ 70,185,516</u>	<u>\$ 85,542,499</u>

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.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 2. Deposits and Investments, Continued

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 of the total investments. All investments are made pursuant to S.C. Code Section 11-9-660 which requires all investments to be investment grade by at least two credit rating agencies.

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, 2015 and 2014. 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

In 2015, these loans were bearing interest at a fixed rate range of 2.875% to 8.5% or an annual variable rate of 1.73% to 3.13%. The annual variable rate is reset each July 1 using the bond equivalent rate of the 91-day or 52-week Treasury Bill, determined at the final auction held prior to the immediately preceding June 1, plus 1.70% to 3.25% with a cap on the rate of 8.25% to 12.0%. 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 halftime 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 USDE (See Note 12). Since the Authority entered into a Supplemental Guaranty Agreement with USDE 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 \$811,139,777 and \$744,613,301 as of June 30, 2015 and 2014, respectively, of federal reinsurance.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

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

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, 2014 and 2013, was approximately 1.6% and 2.4%, 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, 2015 and 2014 are as follows:

Bond Resolution	Balance			Balance			Balance
	June 30, 2013	Increases	Decreases	June 30, 2014	Increase	Decrease	June 30, 2015
2009	\$ 64,615,700	\$ 4,136,056	\$ (8,951,328)	\$ 59,800,428	\$ 3,570,231	\$ (9,149,705)	\$ 54,220,954

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 5. Amounts Due from/to SCSLC

The Authority owes SCSLC for funds collected on their behalf of \$5,254,731 and \$14,049,987 as of June 30, 2015 and 2014, 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. As of June 30, 2015 and 2014, SCSLC owes the Authority \$627,420 and \$694,697, respectively, for interest on the 2009 PAL General Resolution bonds. The Authority transferred unencumbered FFELP loans of the Authority in the amount of \$39,835,008 to SCSLC and SCSLC, also, contributed unencumbered loans of \$20,942,464 to provide additional equity to SCSLC's 2010 bond offering by increasing the parity of the bonds. The funds from both SCSLC and the Authority were provided through a Residual Trust Agreement which allows for all remaining loans of the Trust to be shared between SCSLC and the Authority on a prorata basis based on the percentage contribution made by each entity once all bonds have been redeemed.

Note 6. Property and Equipment

The following is a summary of changes in property and equipment for the fiscal years ended June 30, 2015 and 2014:

Cost	Balance			Balance			Balance
	June 30, 2013	Additions	Deletions	June 30, 2014	Additions	Deletions	
Furniture and equipment	\$ 544,621	\$ 62,331	\$ -	\$ 606,952	\$ 38,882	\$ -	\$ 645,834
Automobiles	<u>22,338</u>	-	-	<u>22,338</u>	-	<u>(22,338)</u>	-
Total	<u>566,959</u>	<u>62,331</u>	-	<u>629,290</u>	<u>38,882</u>	<u>(22,338)</u>	<u>645,834</u>
Accumulated depreciation							
Furniture and equipment	(397,556)	(60,602)	-	(458,158)	(65,741)	-	(523,899)
Automobiles	<u>(22,338)</u>	-	-	<u>(22,338)</u>	-	<u>22,338</u>	-
Less accumulated depreciation	<u>(419,894)</u>	<u>(60,602)</u>	-	<u>(480,496)</u>	<u>(65,741)</u>	<u>22,338</u>	<u>(523,899)</u>
Net, property, plant and equipment	<u>\$ 147,065</u>	<u>\$ 1,729</u>	<u>\$ -</u>	<u>\$ 148,794</u>	<u>\$ (26,859)</u>	<u>\$ -</u>	<u>\$ 121,935</u>

Note 7. Loan Guarantees

As an incentive for the states to set up state guaranty agencies, USDE 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 (the "Act") on July 1, 1998. Maintenance of the Federal Student Loan Reserve Account will depend upon possible further Federal and State advances, investment income, and reinsurance payments from USDE. USDE 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, 2015 and 2014, the Authority has reimbursed all such advances to USDE 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.

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.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

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 SCSLC for the purpose of making student loans (See Note 4). The finance loans to SCSLC 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 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, 2015 and 2014, the Authority was required to have assets deposited in the current debt service account of \$627,420 and \$694,697, respectively. The Authority has deposits in restricted assets equal to the current debt service requirement in 2015 and 2014. Restricted assets of \$3,595,580 in 2015 and \$3,753,939 in 2014 include the current debt service reserve deposits of \$1,027,400 and \$1,139,600 in 2015 and 2014, respectively.

On November 5, 2009, the Authority issued \$85,000,000 of fixed rate Student Loan Revenue bonds with maturity dates from October 1, 2014 through October 1, 2029 and interest rates ranging from 3.4% to 5.1%. The Student Loan Revenue bonds including outstanding principal, original issuer's discount and net outstanding balance as of June 30, 2015 and 2014 are as follows:

<u>Balance as of June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of June 30, 2015</u>
\$ 62,315,000	\$ -	\$ (5,335,000)	\$ 56,980,000	\$ -	\$ (5,610,000)	\$ 51,370,000
<u>(743,472)</u>	<u>61,956</u>	<u>-</u>	<u>(681,516)</u>	<u>61,956</u>	<u>-</u>	<u>(619,560)</u>
<u>\$ 61,571,528</u>	<u>\$ 61,956</u>	<u>\$ (5,335,000)</u>	<u>\$ 56,298,484</u>	<u>\$ 61,956</u>	<u>\$ (5,610,000)</u>	<u>\$ 50,750,440</u>

The annual requirements to retire these bonds as of June 30, 2015, are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 370,000	\$ 2,537,410	\$ 2,907,410
2017	425,000	2,521,557	2,946,557
2018	1,515,000	2,480,190	3,995,190
2019	1,830,000	2,406,730	4,236,730
2020	2,430,000	2,309,861	4,739,861
2021	2,585,000	2,193,530	4,778,530
2022	3,645,000	2,047,788	5,692,788
2023	4,865,000	1,846,411	6,711,411
2024	-	1,730,495	1,730,495
2025	12,165,000	1,422,146	13,587,146
2026	-	1,113,798	1,113,798
2027	-	1,113,798	1,113,798
2028	-	1,113,798	1,113,798
2029	-	1,113,798	1,113,798
2030	<u>21,540,000</u>	<u>556,899</u>	<u>22,096,899</u>
	<u>\$ 51,370,000</u>	<u>\$ 26,508,209</u>	<u>\$ 77,878,209</u>

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

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, 2015 and 2014, collections were \$3,242 and \$7,019, respectively, from repayments by participants. The Authority repaid these amounts to the Federal government during the years ended June 30, 2015 and 2014, 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 \$16 for the year ended June 30, 2015 and \$16 for the year ended June 30, 2014, 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. 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 administered by the plan trustee. The plan issues a stand-alone report annually and may be obtained by writing to South Carolina Student Loan Corporation, Post Office Box 102405 Columbia, South Carolina 29223.

This is a defined contribution plan in which the employer contributes 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.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 11. Employee Benefit Plans, Continued

Money Purchase Pension Plan (continued):

Pension expense, total salary and covered salary are as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Total salary	\$ 1,043,905	\$ 1,470,396
Total covered salary	931,156	1,372,933
Pension expense (actual and required)	49,458	79,303
Percent pension expense to covered salary	5.31%	5.78%

Defined Benefit Plan:

The Authority participates in a supplemental retirement plan, 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 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. SCSLC's funding policy is to make at least the minimum annual contribution that is actuarially computed by the projected unit credit method required by this plan. The Authority will contribute the amount billed to them by SCSLC. SCSLC issues a publicly available financial report that includes financial statements and required supplementary information for the DBP. That report may be obtained by writing to South Carolina Student Loan Corporation, Post Office Box 102405, Columbia, South Carolina 29223.

The Authority paid contributions for the year ended June 30, 2015 of \$96,000 and realized a loss on the assets of the plan of \$51,000. The Authority paid contributions for the year ended June 30, 2014 of \$126,633 and realized a gain on the assets of the plan of \$75,000. The actual funding contributions represented 10.31% and 9.22% of covered salary, respectively. Contributions are included in the personnel expense category.

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 and provides for a 5% contribution based on the participant's total annual compensation. The total amount contributed under the plan was \$45,391 in 2015 and \$65,672 in 2014. 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.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 11. Employee Benefit Plans, Continued

457(b) Deferred Compensation Plan:

On November 15, 2002, SCSLC established the South Carolina Student Loan Corporation 457(b) Deferred Compensation Plan. Key management employees of SCSLC 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 \$110,941 and \$169,227 in 2015 and 2014, 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 outstanding balance of student loans that the Authority has under guarantee is as follows at June 30:

	<u>2015</u>	<u>2014</u>
Outstanding balance	\$ 1,966,205,875	\$ 2,192,419,400

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.

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, 2015 and 2014. Based on those results, the Authority incurred expense (income) of \$0 for 2015 and 2014. 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, 2015 and 2014, the Authority reported \$0 as rebate and excess earnings liability.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

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

The Authority is a 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 is as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Charges for services		
United States Department of Education		
Account maintenance fee	\$ 1,389,176	\$ 1,531,541
Default aversion fee income	392,521	421,456
Retention on default collections (net of payments to federal government of \$10,672,728 in 2015 and \$11,526,081 in 2014)	6,895,725	10,071,667
Income from South Carolina Student Loan Corporation		
Subsidized interest	127,178	161,814
Special allowance	(946,265)	(1,024,623)
Non-subsidized interest	1,404,143	1,493,547
Late charges	12,367	11,529
Miscellaneous payments of student loans	(46)	(17)
Reimbursement of bond expense	3,234,864	4,206,296
Reinsurance recoveries	<u>1,141,328</u>	<u>965,462</u>
Total charges for services	<u>13,650,991</u>	<u>17,838,672</u>
Operating grants and contributions		
Investment income	53,383	37,516
Miscellaneous income	<u>2,500</u>	<u>-</u>
Total operating grants and contributions	<u>55,883</u>	<u>37,516</u>
Total program revenue	13,706,874	17,876,188
Less expenses	<u>10,144,975</u>	<u>12,850,225</u>
Change in net position	3,561,899	5,025,963
Net position		
Beginning	<u>148,931,844</u>	<u>143,905,881</u>
Ending	<u>\$ 152,493,743</u>	<u>\$ 148,931,844</u>

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 15. Subsequent Events

The Bipartisan Budget Act (BBA) (Public Law 113-67) was approved in December 2013 and included a cut in what is known as the rehabilitation retention rate for student loans effective as of July 1, 2014. Rehabilitation retention had been the largest source of revenue for guarantee agencies. Effective July 1, 2014, The Bipartisan Budget Act of 2013 amended section 428F of the Higher Education Act to allow a guaranty agency, such as the Authority, to assign a loan which has met other rehabilitation criteria to USDE if the agency has been unable to sell the loan to an eligible lender. Beginning August 4, 2015, the Authority has been unable to secure an eligible lender. At this time, USDE has not provided guaranty agencies the process for assigning such loans.

Effective August 1, 2015, SCSLC changed the Trustee for its benefit plans to USI Consulting Group Inc. This change includes the South Carolina Student Loan Corporation Money Purchase Pension Plan, the South Carolina Student Loan Corporation Defined Benefit Plan, the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan, the South Carolina Student Loan Corporation Tax Deferred Annuity Group Supplemental Retirement Annuity and the South Carolina Student Loan Corporation 457(b) Deferred Compensation Plan.

The South Carolina Restructuring Act of 2014 (Act 121) eliminated the State Budget and Control Board on June 30, 2015. Act 121 created the State Fiscal Accountability Authority (SFAA). The SFAA is governed by the Governor, State Treasurer, Comptroller General, Chairman of the Senate Finance Committee and Chairman of the House Ways and Means Committee. Effective July 1, 2015, the governance of the Authority was transferred to SFAA.

South Carolina State Education Assistance Authority
Schedule of Net Position by Account
Enterprise Fund
June 30, 2015

	<u>Collection Account Prior Unpledged</u>	<u>2009 PAL Resolution</u>	<u>Eligible Lender Trust</u>	<u>Agency Operating Account</u>	<u>Federal Student Loan Reserve Account</u>	<u>Total</u>
Assets						
Current assets						
Cash and cash equivalents	\$ 4,783,726	\$ 982,901	\$ 16,764,919	\$ 63,937,104	\$ 5,161,846	\$ 91,630,496
Cash and cash equivalents - restricted	-	3,595,580	-	-	-	3,595,580
Receivables						
Current portion of student loans	-	-	2,147,907	-	-	2,147,907
Current portion of finance loans	-	4,348,373	-	-	-	4,348,373
Interest due from borrower	-	-	411,505	-	-	411,505
Due from South Carolina Student Loan Corporation	-	627,420	-	-	-	627,420
Due from United States Department of Education	741	-	-	-	-	741
Accrued interest receivable	4	-	-	195	15	214
Federal reinsurance receivable	-	-	-	-	2,270,086	2,270,086
Account maintenance fee receivable	-	-	-	336,000	-	336,000
Due from other funds	(204,967)	53,926	250,809	19,936	(119,704)	-
Prepaid expense	-	5,333	-	-	-	5,333
Total current assets	<u>4,579,504</u>	<u>9,613,533</u>	<u>19,575,140</u>	<u>64,293,235</u>	<u>7,312,243</u>	<u>105,373,655</u>
Long-term and other assets						
Receivables						
Student loans, less current portion and net of allowance for loan loss of \$11,201	-	-	20,638,484	-	-	20,638,484
Finance loans, less current portion	-	49,872,581	-	-	-	49,872,581
Due from South Carolina Student Loan Corporation	-	-	39,835,008	-	-	39,835,008
Total long-term and other assets	<u>-</u>	<u>49,872,581</u>	<u>60,473,492</u>	<u>-</u>	<u>-</u>	<u>110,346,073</u>
Property and equipment						
Furniture and equipment	-	-	-	645,834	-	645,834
Automobile	-	-	-	-	-	-
Less: accumulated depreciation	-	-	-	(523,899)	-	(523,899)
Total property and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>121,935</u>	<u>-</u>	<u>121,935</u>
Total assets	<u>\$ 4,579,504</u>	<u>\$ 59,486,114</u>	<u>\$ 80,048,632</u>	<u>\$ 64,415,170</u>	<u>\$ 7,312,243</u>	<u>\$ 215,841,663</u>

South Carolina State Education Assistance Authority
Schedule of Net Position by Account
Enterprise Fund
June 30, 2015

	<u>Collection Account Prior Unpledged</u>	<u>2009 PAL Resolution</u>	<u>Eligible Lender Trust</u>	<u>Agency Operating Account</u>	<u>Federal Student Loan Reserve Account</u>	<u>Total</u>
Liabilities						
Current Liabilities						
Accounts payable	\$ 173,347	\$ 2,800	\$ -	\$ 4,808,722	\$ -	\$ 4,984,869
Due to South Carolina Student Loan Corporation	3,137,840	652,989	13,222	1,058,507	392,173	5,254,731
Due to United States Department of Education	-	64,321	198,558	-	-	262,879
Consolidation rebate fee payable	29,351	-	-	-	-	29,351
Payable from restricted assets						
Current portion of bonds payable	-	370,000	-	-	-	370,000
Accrued bond interest payable	-	627,420	-	-	-	627,420
Total current liabilities	<u>3,340,538</u>	<u>1,717,530</u>	<u>211,780</u>	<u>5,867,229</u>	<u>392,173</u>	<u>11,529,250</u>
Long-term liabilities						
Bonds payable, less current maturities	-	50,380,440	-	-	-	50,380,440
Provision for losses on student loans	-	-	-	-	1,438,230	1,438,230
Total long-term liabilities	<u>-</u>	<u>50,380,440</u>	<u>-</u>	<u>-</u>	<u>1,438,230</u>	<u>51,818,670</u>
Total liabilities	<u>\$ 3,340,538</u>	<u>\$ 52,097,970</u>	<u>\$ 211,780</u>	<u>\$ 5,867,229</u>	<u>\$ 1,830,403</u>	<u>\$ 63,347,920</u>
Net Position						
Net investment in capital assets	-	-	-	121,935	-	121,935
Restricted for:						
Debt service						
Bond indentures - 2009 resolution	-	7,388,144	-	-	-	7,388,144
Other						
Federal government	-	-	-	-	5,481,840	5,481,840
Guaranty agency operating account	-	-	-	58,426,006	-	58,426,006
Unrestricted	1,238,966	-	79,836,852	-	-	81,075,818
Total net position	<u>\$ 1,238,966</u>	<u>\$ 7,388,144</u>	<u>\$ 79,836,852</u>	<u>\$ 58,547,941</u>	<u>\$ 5,481,840</u>	<u>\$ 152,493,743</u>

South Carolina State Education Assistance Authority

Schedule of Revenue, Expenses and Changes in Net Position by Account

Enterprise Fund

For the year ended June 30, 2015

	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	\$ -	\$ -	\$ -	\$ 1,389,176	\$ -	\$ 1,389,176
Default aversion fee income	-	-	-	392,521	-	392,521
Retention on default collections	-	-	-	6,895,725	-	6,895,725
Income from South Carolina Student Loan Corporation						
Subsidized interest	-	-	127,178	-	-	127,178
Special allowance	-	-	(946,265)	-	-	(946,265)
Non-subsidized interest	-	-	1,404,143	-	-	1,404,143
Late charges	-	-	12,367	-	-	12,367
Miscellaneous payments of student loans	-	-	(46)	-	-	(46)
Reimbursement of bond expense	-	3,234,864	-	-	-	3,234,864
Reinsurance recoveries	-	-	-	-	1,141,328	1,141,328
Investment income	4,566	707	3,709	40,832	3,569	53,383
Miscellaneous income	-	-	-	2,500	-	2,500
Total operating revenue	<u>4,566</u>	<u>3,235,571</u>	<u>601,086</u>	<u>8,720,754</u>	<u>1,144,897</u>	<u>13,706,874</u>
Operating expenses						
Personnel	-	-	-	1,480,936	-	1,480,936
Contractual services	-	-	-	168,302	-	168,302
General operating	-	-	-	434,581	-	434,581
South Carolina Student Loan Corporation for operations	-	412,748	166,133	-	-	578,881
Bond interest expense	-	2,694,847	-	-	-	2,694,847
Default aversion fee	-	-	-	-	392,521	392,521
Loan fees	-	224,951	255,045	-	-	479,996
Borrower incentives	-	-	122,581	-	-	122,581
Broker/dealer fees	-	20,000	2,500	-	-	22,500
Reinsurance expense	-	-	4,539	-	1,364,233	1,368,772
Loan loss reserve	-	-	(6,833)	-	-	(6,833)
Third party collections	-	-	-	1,694,306	-	1,694,306
Default prevention program	-	-	-	713,585	-	713,585
Total operating expenses	<u>-</u>	<u>3,352,546</u>	<u>543,965</u>	<u>4,491,710</u>	<u>1,756,754</u>	<u>10,144,975</u>
Change in net position	4,566	(116,975)	57,121	4,229,044	(611,857)	3,561,899
Net position						
Beginning of year	1,234,400	7,505,119	79,779,731	54,318,897	6,093,697	148,931,844
End of year	<u>\$ 1,238,966</u>	<u>\$ 7,388,144</u>	<u>\$ 79,836,852</u>	<u>\$ 58,547,941</u>	<u>\$ 5,481,840</u>	<u>\$ 152,493,743</u>

South Carolina State Education Assistance Authority

Schedule of Cash Flows by Account

Enterprise Fund

For the year ended June 30, 2015

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
<i>Cash flows from operating activities</i>						
Receipts from borrowers and United States Department of Education	\$ -	\$ -	\$ -	\$ 8,713,601	\$ 1,623,342	\$ 10,336,943
Receipts from South Carolina Student Loan services provided	-	3,291,742	2,853,355	-	-	6,145,097
Payments to suppliers, lenders and borrowers	(9,274,278)	(734,926)	(561,980)	(2,498,157)	(2,771,389)	(15,840,730)
Payments for personnel	-	-	-	(1,480,936)	-	(1,480,936)
Net cash provided by (used for) operating activities	<u>(9,274,278)</u>	<u>2,556,816</u>	<u>2,291,375</u>	<u>4,734,508</u>	<u>(1,148,047)</u>	<u>(839,626)</u>
<i>Cash flows from non-capital financing activities</i>						
Finance loan advances to South Carolina Student Loan Corporation for student loans	-	(3,570,231)	-	-	-	(3,570,231)
Finance loan payments received from South Carolina Student Loan Corporation	-	9,149,705	-	-	-	9,149,705
Payment on bonds payable	-	(5,548,044)	-	-	-	(5,548,044)
Interest paid on revenue bonds	-	(2,762,124)	-	-	-	(2,762,124)
Net cash used for non-capital financing activities	<u>-</u>	<u>(2,730,694)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,730,694)</u>
<i>Cash flows from capital and related financing activities</i>						
Purchases of capital assets	-	-	-	(38,882)	-	(38,882)
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38,882)</u>	<u>-</u>	<u>(38,882)</u>
<i>Cash flows from investing activities</i>						
Interest received on investment securities	4,566	866	3,709	40,785	3,568	53,494
Net cash provided by investing activities	<u>4,566</u>	<u>866</u>	<u>3,709</u>	<u>40,785</u>	<u>3,568</u>	<u>53,494</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	(9,269,712)	(173,012)	2,295,084	4,736,411	(1,144,479)	(3,555,708)
<i>Cash and cash equivalents</i>						
Beginning of year	14,053,439	4,751,492	14,469,835	59,200,693	6,306,325	98,781,784
End of year	<u>\$ 4,783,727</u>	<u>\$ 4,578,480</u>	<u>\$ 16,764,919</u>	<u>\$ 63,937,104</u>	<u>\$ 5,161,846</u>	<u>\$ 95,226,076</u>

South Carolina State Education Assistance Authority

Schedule of Cash Flows by Account

Enterprise Fund

For the year ended June 30, 2015

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Reconciliation of change in net position to net cash provided by (used for) operating activities						
Change in net position	\$ 4,566	\$ (116,975)	\$ 57,121	\$ 4,229,044	\$ (611,857)	\$ 3,561,899
Adjustments to reconcile change in net position to net cash provided by (used for) operating activities						
Purchase of student loans under loan guarantees	-	-	-	-	(66,526,476)	(66,526,476)
Payments received from United States Department of Education under federal reinsurance program	-	-	-	-	67,008,490	67,008,490
Investment income	(4,566)	(707)	(3,709)	(40,832)	(3,569)	(53,383)
Depreciation expense	-	-	-	65,741	-	65,741
Provision for loan losses	-	-	-	-	(533,350)	(533,350)
Allowance for loan loss	-	-	6,833	-	-	6,833
Bond interest expense	-	2,694,847	-	-	-	2,694,847
Changes in assets and liabilities						
Decrease in student loan receivables	-	-	2,163,492	-	-	2,163,492
Increase in interest receivable	-	-	(13,063)	-	-	(13,063)
Decrease in due from South Carolina Student Loan Corporation	-	67,277	-	-	-	67,277
Increase in due from United States Department of Education	(741)	-	-	-	-	(741)
Decrease in account maintenance fee receivable	-	-	-	39,000	-	39,000
(Increase) decrease in due from other funds	13,700	(10,399)	98,716	(5,321)	(96,696)	-
Increase in accounts payable	55,157	-	-	-	-	55,157
Decrease in due to United States Department of Education	-	(12,157)	(16,752)	-	-	(28,909)
Decrease in consolidation rebate fee payable	(551,184)	-	-	-	-	(551,184)
Increase (decrease) in due to South Carolina Student Loan Corporation	(8,791,210)	(65,070)	(1,263)	446,876	(384,589)	(8,795,256)
Net cash provided by (used for) operating activities	<u>\$ (9,274,278)</u>	<u>\$ 2,556,816</u>	<u>\$ 2,291,375</u>	<u>\$ 4,734,508</u>	<u>\$ (1,148,047)</u>	<u>\$ (839,626)</u>

South Carolina State Education Assistance Authority

Schedule of Expenses Compared to Budget

For the year ended June 30, 2015

	Budget	Actual	Variance (Over) Under
Operating Expenses			
Personnel			
Staff salaries	\$ 1,085,000	\$ 1,043,905	\$ 41,095
Social security	84,939	72,212	12,727
Group insurance	159,261	110,941	48,320
Retirement	216,785	248,804	(32,019)
Unemployment	5,309	5,074	235
Total personnel	<u>1,551,294</u>	<u>1,480,936</u>	<u>70,358</u>
Contractual			
Information Technology	150,390	135,165	15,225
Legal	3,000	-	3,000
Accounting	24,710	24,185	525
Credit bureau fees	1,750	3,603	(1,853)
Skip tracing	-	54	(54)
Enrollment verification	6,300	5,295	1,005
Total contractual	<u>186,150</u>	<u>168,302</u>	<u>17,848</u>
General operating			
Rent	70,525	70,525	-
Telephone	38,200	23,560	14,640
Printing	24,420	57,024	(32,604)
Postage	127,140	149,953	(22,813)
Supplies	11,570	10,071	1,499
Travel	2,100	647	1,453
Equipment maintenance	30,400	35,620	(5,220)
Subscriptions and fees	3,100	3,100	-
Insurance - general and automotive	21,050	18,308	2,742
Other expenses	-	32	(32)
Depreciation expense	67,700	65,741	1,959
Total general operating	<u>396,205</u>	<u>434,581</u>	<u>(38,376)</u>
Third party collections	<u>2,415,939</u>	<u>1,694,306</u>	<u>721,633</u>
Capital additions			
Equipment, furniture and fixtures	<u>\$ 22,100</u>	<u>\$ 38,882</u>	<u>\$ (16,782)</u>
Total personnel		\$ 1,480,936	
Total contractual		168,302	
Total general operating		434,581	
Total third party collections		<u>1,694,306</u>	
Total operating expenses		3,778,125	
South Carolina Student Loan Corporation operating costs		578,881	
Other expenses			
Interest on bonds		2,694,847	
Default aversion fee expense		392,521	
Borrower incentives		122,581	
Reinsurance expense and other fees		1,864,435	
Default prevention program		713,585	
Total other expenses		<u>5,787,969</u>	
Total expenses		<u>\$ 10,144,975</u>	

South Carolina State Education Assistance Authority

Schedule of Organizational Data

For the year ended June 30, 2015

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 BOARD OF THE AUTHORITY

<u>Name</u>	<u>Office Held</u>
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

For the year ended June 30, 2015

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenses</u>
U.S. Department of Education Programs		
Federal Family Education Loan Program		
Direct		
Account maintenance fee	84.032	\$ 1,389,176
Default aversion fee income	84.032	392,521
Retention on default collections	84.032	6,895,725
Passed through South Carolina Student Loan Corporation		
Subsidized interest	84.032	<u>127,178</u>
Total Federal Family Education Loan Program		<u>8,804,600</u>
Total Department of Education		<u>\$ 8,804,600</u>

Notes - CFDA #84.032:

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, 2014 through June 30, 2015.

1. The total approved amount at June 30, 2015, of all student loans under guarantee by the Authority was \$8,746,876,164. The total outstanding balance of these loans was \$1,966,205,875. 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.
2. The Authority received \$67,008,490 during the year ended June 30, 2015, under Federal Reinsurance Agreements pursuant to Sections 428A and 428(c) of the Higher Education Act of 1965, as amended.
3. The total value at June 30, 2015, since inception, of all defaulted student loans which the Authority has purchased under Federal Reinsurance Agreements was \$811,139,777. 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.
4. USDE now requires lenders to pay USDE when the lenders have negative special allowance. The Authority paid \$946,265 for the year ended June 30, 2015.

Notes - CFDA #84.176:

1. Program participants repaid \$3,242 to the Authority. The Authority owes the Federal Government \$3,242 at June 30, 2015.



**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***

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
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 South Carolina State Education Assistance Authority (the "Authority"), a component unit of the State of South Carolina, as of and for the year ended June 30, 2015, 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 23, 2015.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2015-1.

South Carolina State Education Assistance Authority's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive style with a large, stylized initial 'E'.

Columbia, South Carolina
September 23, 2015



Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
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 each of the Authority's major federal programs for the year ended June 30, 2015. 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, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 2015-1. Our opinion on each major federal program is not modified with respect to this matter.

The Authority's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-1 that we consider to be a significant deficiency.

The Authority's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

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.

Elliott Davis Decosimo, LLC

Columbia, South Carolina
September 23, 2015

South Carolina State Education Assistance Authority

Schedule of Findings and Questioned Costs

For the year ended June 30, 2015

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on financial statements: Unmodified

Internal control over financial reporting:

 Material weakness(es) identified? No

 Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

 Material weakness(es) identified? No

 Significant deficiency(ies) identified? Yes

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.032	Federal Family Education Loan Program

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as a low risk auditee? No

2. Financial Statement Findings None

South Carolina State Education Assistance Authority

Schedule of Findings and Questioned Costs

For the year ended June 30, 2015

United States Department of Education

Item 2015-1: Federal Family Education Loan Program; CFDA #84.032

Condition: The Authority did not assign loans to the United States Department of Education (USDE).

Criteria: Per Part 4 of the OMB Circular A-133 Compliance Supplement, unless the Secretary of USDE (the “Secretary”) notifies a guaranty agency in writing that other loans must be assigned to the Secretary, a guaranty agency must assign any loan that meets all of the following criteria as of April 15th each year: (a) the unpaid principal balance is at least \$100; (b) the loan, and any other loans held by the guaranty agency for that borrower, have been held by the guaranty agency for at least five (5) years; (c) a payment has not been received on the loan in the last year; and (d) a judgment has not been entered on the loan against the borrower.

Cause: These loans were assigned a “working consolidation” status on the Authority’s system as the borrowers were attempting to consolidate their loans. When these loans did not consolidate, the “working consolidation” status was not changed to the “working” status.

Effect: The system prevented loans from being assigned to USDE when these loans met criteria described above.

Context: A sample of twenty-five (25) loans totaling \$379,935 in outstanding principal balance was selected for testing. The test discovered five (5) loans totaling \$71,214 in outstanding principal balance that were not assigned to USDE.

Recommendation: We recommend that management review the status of all loans assigned to the “working consolidation” status on a monthly basis to determine whether there are any that will not be consolidated. For those loans that will not be consolidated, we recommend that management take immediate action and reassign them to the “working” status. Furthermore, we recommend that management review all loans for indication of the four criteria described above to ensure that certain loans will be properly assigned to USDE. As a result of performing these review procedures, management will eliminate the risk of not being in compliance with the Federal award requirements prescribed by USDE.

Views of Responsible Officials and Planned Corrective Actions: The Authority agrees with the finding and changed the status of these loans from “working consolidation” to “working” on May 12, 2015. Management will assign these loans to USDE during the next subrogation process.