

**South Carolina State  
Education Assistance Authority**

*Report on Financial Statements*

*For the years ended June 30, 2016 and 2015*



**South Carolina  
Office of the State Auditor**

**George L. Kennedy, III, CPA  
State Auditor**

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September 27, 2016

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for the fiscal year ended June 30, 2016, was issued by Elliott Davis Decosimo, LLC, 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 blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA  
State Auditor

GLKIII/trb

# South Carolina State Education Assistance Authority

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## Independent Auditor's Report

Mr. George L. Kennedy, III, CPA  
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, 2016 and 2015, 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 an opinion 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, 2016 and 2015, 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 4 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate 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 an opinion 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 Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 27, 2016 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 27, 2016

# South Carolina State Education Assistance Authority

## *Management's Discussion and Analysis*

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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 federal 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, 2016. 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, 2016 were approximately \$211,448,000 which is a decrease of approximately \$4,393,000 or 2% from June 30, 2015. The decrease in assets was primarily due to reductions of approximately \$5,742,000 in finance loan receivables and approximately \$1,815,000 in net student loan receivables.

The decrease in finance loans receivable reflected provisions of the loan agreement with SCSLC related to the Authority's 2009 PAL General Resolution. 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 Authority's operating revenue for the fiscal year ended June 30, 2016 was approximately \$10,046,000 reflecting a decrease of approximately \$3,661,000 or 27% from the fiscal year ended June 30, 2015. This decrease is primarily attributed to a decrease of approximately \$2,322,000 or 33% in retention on default collections caused by two factors. First, there was reduced fee income related to the volume of rehabilitations completed during the current fiscal year due to the absence of either an eligible lender to buy or a federal assignment process to receive the related loans for a period of approximately nine months. The second factor contributing to the decrease in revenue year over year relates to the additional federal programs offered to borrowers for Income Based Repayment (IBR) plans. Substantially reduced payments under these programs directly impacted the default collections retention earned by the Authority.

# South Carolina State Education Assistance Authority

## *Management's Discussion and Analysis*

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### **Financial Highlights, Continued:**

The Authority's interest expense for the fiscal year ended June 30, 2016 was approximately \$2,421,000, a decrease of approximately \$274,000 or 10% from the fiscal year ended June 30, 2015. This reduction was primarily due to the normal payment activity on the outstanding bonds of the Authority during fiscal year 2016.

Other operating expenses decreased approximately \$1,589,000 or 21%, for the fiscal year ended June 30, 2016 compared to the fiscal year ended June 30, 2015. The main reason for the decrease related to a reduction in other fees of approximately \$1,303,000 due to less reinsurance expense for the current fiscal year. The decrease of the default reinsurance expense resulted from a change effective December 1, 2015 when the USDE started paying 100% on all defaults.

During fiscal year 2015, the State Budget and Control Board, currently known as the State Fiscal Accountability Authority ("SFAA"), 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 \$1,250,000 were incurred for this 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 Statements 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 Statements 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, 2016 was approximately \$154,258,000, which is an increase of approximately \$1,764,000 or 1% from June 30, 2015. Components of the Authority's Statements of Net Position as of June 30 were as follows:

	<u>2016</u>	<u>2015</u>	<u>Percentage +/-</u>
Current assets	\$ 110,269,765	\$ 105,373,655	4.65%
Long-term assets			
Capital assets	93,264	121,935	-23.51%
Other long-term assets	<u>101,085,261</u>	<u>110,346,073</u>	-8.39%
Total assets	<u>\$ 211,448,290</u>	<u>\$ 215,841,663</u>	-2.04%
Current liabilities	\$ 11,987,726	\$ 11,529,250	-3.98%
Long-term liabilities	<u>45,202,571</u>	<u>51,818,670</u>	-12.77%
Total liabilities	<u>57,190,297</u>	<u>63,347,920</u>	-9.72%
Net position:			
Net investment in capital assets	93,264	121,935	-23.51%
Restricted	72,993,931	71,295,990	2.38%
Unrestricted	<u>81,170,798</u>	<u>81,075,818</u>	0.12%
Total net position	<u>154,257,993</u>	<u>152,493,743</u>	1.16%
Total liabilities and net position	<u>\$ 211,448,290</u>	<u>\$ 215,841,663</u>	-2.04%

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

	<u>2016</u>	<u>2015</u>	<u>Percentage +/-</u>
Loan interest income	\$ 3,495,294	\$ 3,832,241	-8.79%
Guaranty agency income	6,401,068	9,821,250	-34.82%
Investment income	<u>149,250</u>	<u>53,383</u>	179.58%
Total operating revenue	<u>\$ 10,045,612</u>	<u>\$ 13,706,874</u>	-26.71%
Interest expense	<u>\$ 2,420,706</u>	<u>\$ 2,694,847</u>	-10.17%
Other operating expenses:			
General administration	3,290,529	3,778,125	-12.91%
External loan servicing	526,163	578,881	-9.11%
Borrower incentives	115,552	122,581	-5.73%
Default prevention program	1,250,000	713,585	75.17%
Other fees	<u>678,412</u>	<u>2,256,956</u>	-69.94%
Total other operating expenses	<u>5,860,656</u>	<u>7,450,128</u>	-21.33%

# South Carolina State Education Assistance Authority

## Management's Discussion and Analysis

### Financial Analysis of the Authority, Continued:

	<u>2016</u>	<u>2015</u>	<u>Percentage +/-</u>
Total operating expenses	\$ 8,281,362	\$ 10,144,975	-18.37%
Change in net position	\$ 1,764,250	\$ 3,561,899	-50.47%
Beginning net position	<u>152,493,743</u>	<u>148,931,844</u>	2.39%
Ending net position	<u>\$ 154,257,993</u>	<u>\$ 152,493,743</u>	1.16%

### 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, 2016 and 2015, the Authority had \$45,385,000 and \$51,370,000 principal amount of bonds outstanding, respectively. Detailed information on the Authority's debt is presented in Note 8 to the financial statements.

	<u>2016</u>	<u>2015</u>	<u>Percentage +/-</u>
Student and finance loan receivables	\$ 69,449,542	\$ 77,007,345	-9.81%
Bonds outstanding	\$ 45,385,000	\$ 51,370,000	-11.65%

### Economic Outlook:

As a result of the Health Care and Education Reconciliation Act of 2010 and subsequent actions taken by the federal government which nationalized the federally-guaranteed Student Loan Finance Program, continuing guarantor operations under the guaranty agreement between the Authority and the USDE would result in an economic loss to the Authority. Therefore, on June 22, 2016, the SFAA delegated to SCSLC the authority to communicate with the USDE at the appropriate time to terminate the guaranty agreements, cease operating as a guaranty agency under the Higher Education Act of 1965 and to present to the South Carolina State Treasurer all necessary documents required to effect such termination. SCSLC notified the USDE on June 22, 2016 of the intention to terminate the guaranty agreement. On July 21, 2016 SCSLC received formal notice from the USDE formally naming Educational Credit Management Corporation (ECMC) as the receiving guarantor; however, initial discussion and coordination of the transfer between the parties began on July 7, 2016. The related conversion is scheduled for December 1, 2016. The costs, if any, to the Authority related to the conversion have not been determined or approved at this time. All other activities of the Authority will continue after the termination of the guaranty agreement.

Recently SCSLC made the decision to transfer the servicing of its loan portfolio to a third party sub-servicer instead of performing the servicing function internally. The first conversion of loans was completed on August 19, 2016, with all conversion phases expected to be completed within the fiscal year ended June 30, 2017. Transactions between SCSLC which is also the lender for Federal Family Education Loan Program ("FFELP") loans in its loan portfolio and the Authority serving in the guaranty function are being transitioned to the sub-servicer.

Also as part of the termination of the guaranty agreement, the USDE has indicated a reserve will be required for any default aversion fees previously earned and received by the Authority that would need to be refunded to the USDE for any future defaults on the loans associated with these default aversion fees. The amount of the reserve has not been determined at this time.

**South Carolina State Education Assistance Authority**  
**Statements of Net Position**  
**June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>
<b>Assets</b>			<b>Liabilities</b>		
<b>Current assets</b>			<b>Current liabilities</b>		
Cash and cash equivalents	\$ 93,778,399	\$ 91,630,496	Accounts payable	\$ 4,900,433	\$ 4,984,869
Cash and cash equivalents - restricted	3,275,779	3,595,580	Due to South Carolina Student Loan Corporation	5,908,177	5,254,731
Receivables			Due to United States Department of Education	242,042	262,879
Current portion of student loans	2,011,044	2,147,907	Consolidation rebate fee payable	1,869	29,351
Current portion of finance loans	6,188,245	4,348,373	Payable from restricted assets		
Interest due from borrower	422,249	411,505	Current portion of bonds payable	380,000	370,000
Due from South Carolina Student Loan Corporation	555,205	627,420	Accrued bond interest payable	555,205	627,420
Due from United States Department of Education	-	741	Total current liabilities	<u>11,987,726</u>	<u>11,529,250</u>
Accrued interest receivable	698	214			
Federal reinsurance receivable	3,732,810	2,270,086	<b>Long-Term Liabilities</b>		
Account maintenance fee receivable	300,000	336,000	Bonds payable, less current maturities	44,447,396	50,380,440
Prepays	5,336	5,333	Provision for losses on student loans	755,175	1,438,230
Total current assets	<u>110,269,765</u>	<u>105,373,655</u>	Total long-term liabilities	<u>45,202,571</u>	<u>51,818,670</u>
			Total liabilities	<u>\$ 57,190,297</u>	<u>\$ 63,347,920</u>
<b>Long-Term and Other Assets</b>			<b>Net Position</b>		
Receivables			Net investment in capital assets	\$ 93,264	\$ 121,935
Student loans, less current portion and net of			Restricted for:		
allowance for loan loss of \$4,650 in 2016 and \$11,201 in 2015	18,959,848	20,638,484	Debt service		
Finance loans, less current portion	42,290,405	49,872,581	Bond indentures - 2009 resolution	7,285,129	7,388,144
Due from South Carolina Student Loan Corporation	39,835,008	39,835,008	Other		
Total long-term and other assets	<u>101,085,261</u>	<u>110,346,073</u>	Federal government	5,685,587	5,481,840
			Guaranty agency operating account	60,023,216	58,426,006
<b>Property and equipment</b>			Unrestricted	81,170,797	81,075,818
Furniture and equipment	634,360	645,834	Total net position	<u>\$ 154,257,993</u>	<u>\$ 152,493,743</u>
Less: accumulated depreciation	(541,096)	(523,899)			
Total property and equipment	<u>93,264</u>	<u>121,935</u>			
Total assets	<u>\$ 211,448,290</u>	<u>\$ 215,841,663</u>			

See Notes to Financial Statements

**South Carolina State Education Assistance Authority**  
**Statements of Revenue, Expenses and Changes in Net Position**  
**For the years ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating revenue</b>		
United States Department of Education		
Account maintenance fee	\$ 1,250,160	\$ 1,389,176
Default aversion fee income	161,801	392,521
Retention on default collections (net of payments to federal government of \$8,007,771 in 2016 and \$10,672,728 in 2015)	4,573,697	6,895,725
Income from South Carolina Student Loan Corporation		
Subsidized interest	101,912	127,178
Special allowance	(828,140)	(946,265)
Non-subsidized interest	1,298,919	1,404,143
Late charges	10,975	12,367
Miscellaneous payments of student loans	(5)	(46)
Reimbursement of bond expense	2,911,633	3,234,864
Reinsurance recoveries	415,410	1,141,328
Investment income	149,250	53,383
Miscellaneous income	-	2,500
Total operating revenue	<u>10,045,612</u>	<u>13,706,874</u>
<b>Operating expenses</b>		
Personnel	1,990,397	1,480,936
Contractual	191,926	168,302
General operating	465,111	434,581
South Carolina Student Loan Corporation for operating costs	526,163	578,881
Bond interest expense	2,420,706	2,694,847
Default aversion fee expense	161,801	392,521
Loan fees	436,422	479,996
Borrower incentives	115,552	122,581
Broker/dealer fees	21,297	22,500
Reinsurance expense	65,443	1,368,772
Loan loss reserve	(6,551)	(6,833)
Third party collections	643,095	1,694,306
Default prevention program	1,250,000	713,585
Total operating expenses	<u>8,281,362</u>	<u>10,144,975</u>
<b>Change in net position</b>	1,764,250	3,561,899
<b>Net position</b>		
Beginning of year	152,493,743	148,931,844
End of year	<u>\$ 154,257,993</u>	<u>\$ 152,493,743</u>

See Notes to Financial Statements

## South Carolina State Education Assistance Authority

### Statements of Cash Flows

For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Receipts from borrowers and United States Department of Education	\$ 4,980,848	\$ 10,336,943
Receipts from South Carolina Student Loan services provided	5,188,385	6,145,097
Payments to suppliers, lenders and borrowers	(3,781,700)	(15,840,730)
Payments for personnel	(1,990,397)	(1,480,936)
Net cash provided by (used for) operating activities	<u>4,397,136</u>	<u>(839,626)</u>
<b>Cash flows from non-capital financing activities</b>		
Finance loan advances to South Carolina Student Loan Corporation for student loans	(3,226,268)	(3,570,231)
Finance loan payments received from South Carolina Student Loan Corporation	8,968,572	9,149,705
Payment on bonds payable	(5,923,044)	(5,548,044)
Interest paid on revenue bonds	(2,492,921)	(2,762,124)
Net cash used for non-capital financing activities	<u>(2,673,661)</u>	<u>(2,730,694)</u>
<b>Cash flows from capital and related financing activities</b>		
Purchases of capital assets	(44,139)	(38,882)
Net cash used for capital and related financing activities	<u>(44,139)</u>	<u>(38,882)</u>
<b>Cash flows from investing activities</b>		
Interest received on investment securities	148,766	53,494
Net cash provided by investing activities	<u>148,766</u>	<u>53,494</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	1,828,102	(3,555,708)
<b>Cash and cash equivalents</b>		
Beginning of year	95,226,076	98,781,784
End of year	<u>\$ 97,054,178</u>	<u>\$ 95,226,076</u>

## South Carolina State Education Assistance Authority

### Statements of Cash Flows

For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>Reconciliation of change in net position to net cash provided by (used for) operating activities</b>		
Change in net position	\$ 1,764,250	\$ 3,561,899
Adjustments to reconcile change in net position to net cash provided by (used for) operating activities		
Purchase of student loans due under guarantees	(63,483,822)	(66,526,476)
Payments received from United States Department of Education under federal reinsurance program	62,021,098	67,008,490
Investment income	(149,250)	(53,383)
Depreciation expense	72,810	65,741
Provision for loan losses	(683,055)	(533,350)
Allowance for loan loss	(6,551)	(6,833)
Bond interest expense	2,420,706	2,694,847
Changes in assets and liabilities:		
Increase in prepaids	(3)	-
Decrease in student loan receivables	1,822,050	2,177,158
Increase in interest receivables	(10,744)	(13,063)
Decrease in due from South Carolina Student Loan Corporation	72,215	67,277
Decrease (increase) in due from United States Department of Education	741	(741)
Decrease in account maintenance fee receivable	36,000	39,000
(Decrease) increase in accounts payable	(84,436)	55,157
Decrease in due to United States Department of Education	(20,837)	(28,909)
Decrease in consolidation rebate fee payable	(27,482)	(551,184)
Increase (decrease) in due to South Carolina Student Loan Corporation	653,446	(8,795,256)
Net cash provided by (used for) operating activities	<u>\$ 4,397,136</u>	<u>\$ (839,626)</u>

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

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### 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. Through June 30, 2015, the Authority was governed by its members who were the members of the State Budget and Control Board (the "Board"). The South Carolina Restructuring Act of 2015 ("Act 121") eliminated the Board on June 30, 2015 and created the State Fiscal Accountability Authority ("SFAA") whose members now govern the Authority. As with the Board, the SFAA consists of five members by virtue of their position in State government including 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.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

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

#### Reporting entity, continued:

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.

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 payments on 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 activity from 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 which holds 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 10<sup>th</sup> 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, 2016 and 2015

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### 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, 2016 and 2015, of all defaulted student loans purchased by the Authority is \$874,623,598 and \$811,139,777, 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.

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 guaranty agencies. Effective July 1, 2014, the BBA 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 was unable to secure an eligible lender. At that time, USDE had not provided guaranty agencies the process for assigning such loans. By April 25, 2016 a USDE-designated guaranty agency was available and the Authority began assigning qualifying rehabilitation loans to them.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

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### 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, 2016 and 2015

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### 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, 2016 and 2015

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### 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 \$755,175 and \$1,438,230 as of June 30, 2016 and 2015, respectively.

#### Student loans - provision for losses:

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 \$4,650 and \$11,201 at June 30, 2016 and 2015, 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, 2016 and 2015.

#### 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 and equipment 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.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

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

#### 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.

#### New accounting pronouncements:

In February 2015, the GASB approved GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs - other than quoted prices - included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. Quoted prices provided by third parties are permitted, as long as a government determines that those quoted prices are developed in accordance with the provisions of this Statement.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

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

#### New accounting pronouncements (continued):

This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged. The Authority adopted this accounting standard for the fiscal year ended June 30, 2016.

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, 2016 and 2015.

#### 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.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

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

#### Subsequent events:

These financial statements have not been updated for subsequent events after September 27, 2016, 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 Treasurer 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>2016</u>	<u>2015</u>
Statements of Net Position		
Cash and cash equivalents	\$ 93,778,399	\$ 91,630,496
Restricted assets		
Cash and cash equivalents	<u>3,275,779</u>	<u>3,595,580</u>
Total	<u>\$ 97,054,178</u>	<u>\$ 95,226,076</u>
Footnotes		
Cash at banks	\$ 24,457,683	\$ 21,500,549
Deposits - State Treasurer's cash management pool	4,446,493	3,540,011
Investments		
Bank repurchase agreements	68,149,000	70,184,000
Money market accounts	<u>1,002</u>	<u>1,516</u>
Total	<u>\$ 97,054,178</u>	<u>\$ 95,226,076</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, 2016 and 2015, 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, 2016 and 2015, Wells Fargo Bank, N.A. carried a bank balance at \$6,936 and \$4,753, respectively, of unspent federal grants for the Authority. These accounts are covered by FDIC insurance.

At June 30, 2016 and 2015, the Bank of New York Mellon carried a bank balance at \$24,450,747 and \$21,495,796, respectively. These accounts are covered by FDIC insurance and pledged securities.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

### Note 2. Deposits and Investments, Continued

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>2016</u>	<u>2015</u>
Collection	\$ 4,446,493	\$ 3,540,011

**Investments:** The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2016 and 2015, the Authority's recurring fair value measurements are bank repurchase agreements of \$68,149,000 and \$70,184,000, respectively, and are valued using quoted market prices for similar items in an active market (Level 2 inputs). 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>2016</u>	<u>2015</u>
Collection/unpledged prior account - Bank of New York Mellon		
Bank repurchase agreements	<u>\$ 1,250,836</u>	<u>\$ 1,238,963</u>
Agency operating account - Bank of New York Mellon		
Money market	975	872
Bank repurchase agreements	<u>65,089,164</u>	<u>63,901,037</u>
	<u>65,090,139</u>	<u>63,901,909</u>
Federal student loan reserve account - Bank of New York Mellon		
Money market	27	644
Bank repurchase agreements	<u>1,809,000</u>	<u>5,044,000</u>
	<u>1,809,027</u>	<u>5,044,644</u>
Totals	<u>\$ 68,150,002</u>	<u>\$ 70,185,516</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, 2016 and 2015

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#### 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. The State Investment Pool has Federal agency and corporate obligations.

**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, 2016 and 2015. 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 2016, these loans were bearing interest at a fixed rate range of 2.875% to 10.0% or an annual variable rate of 1.72% to 3.54%. 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 \$874,623,598 and \$811,139,777 as of June 30, 2016 and 2015, respectively, of federal reinsurance.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

### 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, 2015 and 2014, was approximately 0.7% and 1.6%, respectively.

The Consolidated Appropriations Act (ACT), 2016, Pub. L. 114-113, signed by the President on December 18, 2015, changed the maximum reinsurance percentage for guaranty agencies in the FFEL program. Prior to this time, the USDE reimbursed guaranty agencies 95% of the amount they pay lenders on default claims with reductions to 85% and 75% if the agency's default payment rate hit certain trigger figures. The Act changes the 95% reinsurance rate to 100%. The Guaranty Agency started requesting reinsurance at the 100% rate effective December 1, 2015.

### Note 4. Receivables - 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 representing loan advances and loan payments from the Authority's 2009 PAL General Resolution are made pursuant to a loan agreement dated October 29, 2009 and further detailed on the Statement of Cash Flows of the financial statements. Each loan is calculated as set forth in the respective loan agreements. The finance loans as of June 30, 2016 and 2015 are as follows:

Bond Resolution	Balance			Balance			Balance		
	June 30, 2014	Increases	Decreases	June 30, 2015	Increases	Decreases	June 30, 2016		
2009	\$ 59,800,428	\$ 3,570,231	\$ (9,149,705)	\$ 54,220,954	\$ 3,226,268	\$ (8,968,572)	\$ 48,478,650		

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

### Note 5. Amounts Due from/to SCSLC

The Authority owes SCSLC for funds collected on their behalf of \$5,908,177 and \$5,254,731 as of June 30, 2016 and 2015, 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, 2016 and 2015, SCSLC owes the Authority \$555,205 and \$627,420, 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, 2016 and 2015:

Cost	Balance			Balance			Balance
	June 30, 2014	Additions	Deletions	June 30, 2015	Additions	Deletions	
Furniture and equipment	\$ 606,952	\$ 38,882	\$ -	\$ 645,834	\$ 44,139	\$ (55,613)	\$ 634,360
Automobiles	<u>22,338</u>	-	<u>(22,338)</u>	-	-	-	-
Total	<u>629,290</u>	<u>38,882</u>	<u>(22,338)</u>	<u>645,834</u>	<u>44,139</u>	<u>(55,613)</u>	<u>634,360</u>
Accumulated depreciation							
Furniture and equipment	(458,158)	(65,741)	-	(523,899)	(72,810)	55,613	(541,096)
Automobiles	<u>(22,338)</u>	-	<u>22,338</u>	-	-	-	-
Less accumulated depreciation	<u>(480,496)</u>	<u>(64,741)</u>	<u>22,338</u>	<u>(523,899)</u>	<u>(72,810)</u>	<u>55,613</u>	<u>(541,096)</u>
Net, property and equipment	<u>\$ 148,794</u>	<u>\$ (26,859)</u>	<u>\$ -</u>	<u>\$ 121,935</u>	<u>\$ (28,671)</u>	<u>\$ -</u>	<u>\$ 93,264</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, 2016 and 2015, 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, 2016 and 2015

### 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, 2016 and 2015, the Authority was required to have assets deposited in the current debt service account of \$555,205 and \$627,420, respectively. The Authority has deposits in restricted assets equal to the current debt service requirement in 2016 and 2015. Restricted assets of \$3,275,779 in 2016 and \$3,595,580 in 2015 include the current debt service reserve deposits of \$907,770 and \$1,027,400 in 2016 and 2015, 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, 2016 and 2015 are as follows:

<u>Balance as of June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of June 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of June 30, 2016</u>
\$ 56,980,000	\$ -	\$ (5,610,000)	\$ 51,370,000	\$ -	\$ (5,985,000)	\$ 45,385,000
<u>(681,516)</u>	<u>61,956</u>	<u>-</u>	<u>(619,560)</u>	<u>61,956</u>	<u>-</u>	<u>(557,604)</u>
<u>\$ 56,298,484</u>	<u>\$ 61,956</u>	<u>\$ (5,610,000)</u>	<u>\$ 50,750,440</u>	<u>\$ 61,956</u>	<u>\$ (5,985,000)</u>	<u>\$ 44,827,396</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>
2017	\$ 380,000	\$ 2,243,864	\$ 2,623,864
2018	1,350,000	2,206,976	3,556,976
2019	1,630,000	2,141,532	3,771,532
2020	2,160,000	2,055,352	4,215,352
2021	2,300,000	1,951,895	4,251,895
2022	3,245,000	1,822,177	5,067,177
2023	4,330,000	1,642,926	5,972,926
2024	-	1,539,758	1,539,758
2025	10,825,000	1,265,374	12,090,374
2026	-	990,990	990,990
2027	-	990,990	990,990
2028	-	990,990	990,990
2029	-	990,990	990,990
2030	19,165,000	495,495	19,660,495
	<u>\$ 45,385,000</u>	<u>\$ 21,329,309</u>	<u>\$ 66,714,309</u>

## **South Carolina State Education Assistance Authority**

### ***Notes to Financial Statements***

***June 30, 2016 and 2015***

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#### **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 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, 2016 and 2015, collections were \$2,160 and \$3,242, respectively, from repayments by participants. The Authority repaid these amounts to the Federal government during the years ended June 30, 2016 and 2015, 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 \$46 for the year ended June 30, 2016 and \$16 for the year ended June 30, 2015, 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**

Effective August 1, 2015, SCSLC changed the Trustee for its benefit plans from BB&T 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. However, any contributions to the TDS GSRA prior to July 1, 2015 remain in that plan with the prior trustee, TIAA CREF, until paid out to the participant under the terms of a release or transferred to another qualified plan as directed by the participant and allowed by the annuity terms.

##### **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. The authority under which benefits provisions are established or amended is provided in the plan document as administrated by the plan trustee. The plan issues a stand-alone report annually and may be obtained by writing to South Carolina Student Loan Corporation, Post Office Box 102405 Columbia, South Carolina 29224.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

### Note 11. Employee Benefit Plans, Continued

#### Money Purchase Pension Plan (continued):

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. Contributions within the plan are employee self-directed.

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

	<u>2016</u>	<u>2015</u>
Total salary	\$ 1,141,160	\$ 1,043,905
Total covered salary	998,250	931,156
Pension expense (actual and required)	57,818	49,458
Percent pension expense to covered salary	5.79%	5.31%

#### 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. 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 29224.

The Authority paid contributions for the year ended June 30, 2016 of \$107,800 and realized a loss on the assets of the plan of \$393,591. 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 \$51,048. The actual funding contributions represented 10.80% and 10.31% of covered salary, respectively. Contributions are included in the personnel expense category.

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

### Note 11. Employee Benefit Plans, Continued

#### 403(b) Defined Contribution Plan:

Effective July 1, 2015 the Corporation consolidated the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan and the South Carolina Student Loan Corporation Tax Deferred Annuity (TDA) Group Supplemental Retirement Annuity (GSRA) into a single plan known as the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan [403(b) DC Plan]. The 403(b) DC Plan continues to offer the same provisions as the previous separate plans, but is now administered under one plan for both the non-elective and pre-tax deferral contribution types.

Prior to the consolidation the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan, as established on November 5, 2002, provided for the non-elective type of contribution. The 403(b) DC Plan continues to provide for a 5% contribution based on the participant's total annual compensation. The total amount contributed under the plan was \$63,539 in 2016 and \$45,391 in 2015. All employees who have completed one year of service and attainment of age 21 are eligible to receive employer contributions. Contributions are 100% vested immediately with investment of the contributions within the plan being employee self-directed.

Established on January 1, 1995 and subsequently amended on January 1, 2009, the South Carolina Student Loan Corporation TDA GSRA provided the pre-tax deferral (elective) type of contribution. As a part of the 403(b) DC Plan beginning July 1, 2015, employees continue to be eligible to participate in the elective portion of the 403(b) DC Plan upon hire. Employee participation in this plan is voluntary and funded only through employee contributions. Employee contributions are 100% vested immediately with investment of the contributions within the plan being employee self-directed.

#### 457(b) Deferred Compensation Plan:

On November 15, 2002, 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 \$114,561 and \$110,941 in 2016 and 2015, 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>2016</u>	<u>2015</u>
Outstanding balance	\$ 1,733,613,091	\$ 1,966,205,875

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

### 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, 2016 and 2015. Based on those results, the Authority incurred no expense or income for 2016 and 2015. 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, 2016 and 2015, the Authority reported no rebate and excess earnings liability.

### 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>2016</u>	<u>2015</u>
Charges for services		
United States Department of Education		
Account maintenance fee	\$ 1,250,160	\$ 1,389,176
Default aversion fee income	161,801	392,521
Retention on default collections (net of payments to federal government of \$8,007,771 in 2016 and \$10,672,728 in 2015)	4,573,697	6,895,725
Income from South Carolina Student Loan Corporation		
Subsidized interest	101,912	127,178
Special allowance	(828,140)	(946,265)
Non-subsidized interest	1,298,919	1,404,143
Late charges	10,975	12,367
Miscellaneous payments of student loans	(5)	(46)
Reimbursement of bond expense	2,911,633	3,234,864
Reinsurance recoveries	<u>415,410</u>	<u>1,141,328</u>
Total charges for services	<u>9,896,362</u>	<u>13,650,991</u>

# South Carolina State Education Assistance Authority

## Notes to Financial Statements

June 30, 2016 and 2015

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

	<u>2016</u>	<u>2015</u>
Operating grants and contributions		
Investment income	149,250	53,383
Miscellaneous income	-	2,500
Total operating grants and contributions	<u>149,250</u>	<u>55,883</u>
Total program revenue	10,045,612	13,706,874
Less expenses	<u>8,281,362</u>	<u>10,144,975</u>
Change in net position	1,764,250	3,561,899
Net position		
Beginning	<u>152,493,743</u>	<u>148,931,844</u>
Ending	<u>\$ 154,257,993</u>	<u>\$ 152,493,743</u>

### Note 15. Subsequent Events

As a result of the Health Care and Education Reconciliation Act of 2010 and subsequent actions taken by the federal government which nationalized the federally-guaranteed student loan program, continuing guarantor operations under the guaranty agreement between the Authority and the USDE would result in an economic loss to the Authority. Therefore, on June 22, 2016, the SFAA delegated to SCSLC the authority to communicate with USDE at the appropriate time to terminate the guaranty agreements, cease operating as a guaranty agency under the Higher Education Act of 1965 and to present to the South Carolina State Treasurer all necessary documents required to effect such termination. SCSLC notified the USDE on June 22, 2016 of the intention to terminate the guaranty agreement. On July 21, 2016 SCSLC received formal notice from the USDE naming Educational Credit Management Corporation ("ECMC") as the receiving guarantor; however, initial discussion and coordination of the transfer between the parties began on July 7, 2016. The related conversion is scheduled for December 1, 2016. The costs, if any, to the Authority related to the conversion have not been determined or approved at this time.

Recently the Corporation made the decision to transfer the servicing of its loan portfolio to a third party sub-servicer instead of performing the servicing function internally. The first conversion of loans was completed on August 19, 2016, with all conversion phases expected to be completed within the fiscal year ended June 30, 2017. Both the Corporation and the Authority are holders of FFEL loans which are being transitioned to the sub-servicer.

The MPPP and DBP experienced a partial termination on August 18, 2016 due to a reduction in workforce at SCSLC. All contributions to the MPPP and DBP for the affected employees were immediately 100% vested.

Also as part of the termination of the guaranty agreement, the USDE has indicated a reserve will be required for any default aversion fees previously earned and received by the Authority that would need to be refunded to the USDE for any future defaults on the loans associated with these default aversion fees. The amount of the reserve has not been determined at this time.

**South Carolina State Education Assistance Authority**  
**Schedule of Net Position by Account**  
**June 30, 2016**

	<b>Collection Account Prior Unpledged</b>	<b>2009 PAL Resolution</b>	<b>Eligible Lender Trust</b>	<b>Agency Operating Account</b>	<b>Federal Student Loan Reserve Account</b>	<b>Total</b>
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 5,704,265	\$ 928,048	\$ 18,472,686	\$ 65,132,152	\$ 3,541,248	\$ 93,778,399
Cash and cash equivalents - restricted	-	3,275,779	-	-	-	3,275,779
<b>Receivables</b>						
Current portion of student loans	-	-	2,011,044	-	-	2,011,044
Current portion of finance loans	-	6,188,245	-	-	-	6,188,245
Interest due from borrower	-	-	422,249	-	-	422,249
Due from South Carolina Student Loan Corporation	-	555,205	-	-	-	555,205
Due from United States Department of Education	-	-	-	-	-	-
Accrued interest receivable	10	-	-	669	19	698
Federal reinsurance receivable	-	-	-	-	3,732,810	3,732,810
Account maintenance fee receivable	-	-	-	300,000	-	300,000
Due from other funds	(400,918)	65,939	422,675	13,432	(101,128)	-
Prepays	-	5,336	-	-	-	5,336
Total current assets	<u>5,303,357</u>	<u>11,018,552</u>	<u>21,328,654</u>	<u>65,446,253</u>	<u>7,172,949</u>	<u>110,269,765</u>
<b>Long-term and other assets</b>						
<b>Receivables</b>						
Student loans, less current portion and net of allowance for loan loss of \$4,650	-	-	18,959,848	-	-	18,959,848
Finance loans, less current portion	-	42,290,405	-	-	-	42,290,405
Due from South Carolina Student Loan Corporation	-	-	39,835,008	-	-	39,835,008
Total long-term and other assets	<u>-</u>	<u>42,290,405</u>	<u>58,794,856</u>	<u>-</u>	<u>-</u>	<u>101,085,261</u>
<b>Property and equipment</b>						
Furniture and equipment	-	-	-	634,360	-	634,360
Less: accumulated depreciation	-	-	-	(541,096)	-	(541,096)
Total property and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,264</u>	<u>-</u>	<u>93,264</u>
Total assets	<u>\$ 5,303,357</u>	<u>\$ 53,308,957</u>	<u>\$ 80,123,510</u>	<u>\$ 65,539,517</u>	<u>\$ 7,172,949</u>	<u>\$ 211,448,290</u>

**South Carolina State Education Assistance Authority**  
**Schedule of Net Position by Account**  
**June 30, 2016**

	<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>
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Accounts payable	\$ 88,911	\$ 2,800	\$ -	\$ 4,808,722	\$ -	\$ 4,900,433
Due to South Carolina Student Loan Corporation	3,961,729	587,781	12,165	614,315	732,187	5,908,177
Due to United States Department of Education	-	50,646	191,396	-	-	242,042
Consolidation rebate fee payable	1,869	-	-	-	-	1,869
Payable from restricted assets						
Current portion of bonds payable	-	380,000	-	-	-	380,000
Accrued bond interest payable	-	555,205	-	-	-	555,205
Total current liabilities	<u>4,052,509</u>	<u>1,576,432</u>	<u>203,561</u>	<u>5,423,037</u>	<u>732,187</u>	<u>11,987,726</u>
<b>Long-term liabilities</b>						
Bonds payable, less current maturities	-	44,447,396	-	-	-	44,447,396
Provision for losses on student loans	-	-	-	-	755,175	755,175
Total long-term liabilities	<u>-</u>	<u>44,447,396</u>	<u>-</u>	<u>-</u>	<u>755,175</u>	<u>45,202,571</u>
Total liabilities	<u>\$ 4,052,509</u>	<u>\$ 46,023,828</u>	<u>\$ 203,561</u>	<u>\$ 5,423,037</u>	<u>\$ 1,487,362</u>	<u>\$ 57,190,297</u>
<b>Net Position</b>						
Net investment in capital assets	-	-	-	93,264	-	93,264
Restricted for:						
Debt service						
Bond indentures - 2009 resolution	-	7,285,129	-	-	-	7,285,129
Other						
Federal government	-	-	-	-	5,685,587	5,685,587
Guaranty agency operating account	-	-	-	60,023,216	-	60,023,216
Unrestricted	1,250,848	-	79,919,949	-	-	81,170,797
Total net position	<u>\$ 1,250,848</u>	<u>\$ 7,285,129</u>	<u>\$ 79,919,949</u>	<u>\$ 60,116,480</u>	<u>\$ 5,685,587</u>	<u>\$ 154,257,993</u>

**South Carolina State Education Assistance Authority**  
**Schedule of Revenue, Expenses and Changes in Net Position by Account**  
**For the year ended June 30, 2016**

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
<b>Operating revenue</b>						
United States Department of Education						
Account maintenance fee	\$ -	\$ -	\$ -	\$ 1,250,160	\$ -	\$ 1,250,160
Default aversion fee income	-	-	-	161,801	-	161,801
Retention on default collections	-	-	-	4,573,697	-	4,573,697
Income from South Carolina Student Loan Corporation						
Subsidized interest	-	-	101,912	-	-	101,912
Special allowance	-	-	(828,140)	-	-	(828,140)
Non-subsidized interest	-	-	1,298,919	-	-	1,298,919
Late charges	-	-	10,975	-	-	10,975
Miscellaneous payments of student loans	-	-	(5)	-	-	(5)
Reimbursement of bond expense	-	2,911,633	-	-	-	2,911,633
Reinsurance recoveries	-	-	-	-	415,410	415,410
Investment income	11,882	1,361	6,740	123,410	5,857	149,250
Total operating revenue	<u>11,882</u>	<u>2,912,994</u>	<u>590,401</u>	<u>6,109,068</u>	<u>421,267</u>	<u>10,045,612</u>
<b>Operating expenses</b>						
Personnel	-	-	-	1,990,397	-	1,990,397
Contractual services	-	-	-	191,926	-	191,926
General operating	-	-	-	465,111	-	465,111
South Carolina Student Loan Corporation for operations	-	374,050	152,113	-	-	526,163
Bond interest expense	-	2,420,706	-	-	-	2,420,706
Default aversion fee	-	-	-	-	161,801	161,801
Loan fees	-	202,456	233,966	-	-	436,422
Borrower incentives	-	-	115,552	-	-	115,552
Broker/dealer fees	-	18,797	2,500	-	-	21,297
Reinsurance expense	-	-	9,724	-	55,719	65,443
Loan loss reserve	-	-	(6,551)	-	-	(6,551)
Third party collections	-	-	-	643,095	-	643,095
Default prevention program	-	-	-	1,250,000	-	1,250,000
Total operating expenses	<u>-</u>	<u>3,016,009</u>	<u>507,304</u>	<u>4,540,529</u>	<u>217,520</u>	<u>8,281,362</u>
<b>Change in net position</b>	11,882	(103,015)	83,097	1,568,539	203,747	1,764,250
Net position						
Beginning of year	1,238,966	7,388,144	79,836,852	58,547,941	5,481,840	152,493,743
End of year	<u>\$ 1,250,848</u>	<u>\$ 7,285,129</u>	<u>\$ 79,919,949</u>	<u>\$ 60,116,480</u>	<u>\$ 5,685,587</u>	<u>\$ 154,257,993</u>

**South Carolina State Education Assistance Authority**  
**Schedule of Cash Flows by Account**  
**For the year ended June 30, 2016**

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
<b>Cash flows from operating activities</b>						
Receipts from borrowers and United States Department of Education	\$ -	\$ -	\$ -	\$ 6,028,162	\$ (1,047,314)	\$ 4,980,848
Receipts from South Carolina Student Loan services provided	-	2,971,835	2,216,550	-	-	5,188,385
Payments to suppliers, lenders and borrowers	908,663	(674,189)	(515,523)	(2,921,514)	(579,137)	(3,781,700)
Payments for personnel	-	-	-	(1,990,397)	-	(1,990,397)
Net cash provided by (used for) operating activities	908,663	2,297,646	1,701,027	1,116,251	(1,626,451)	4,397,136
<b>Cash flows from non-capital financing activities</b>						
Finance loan advances to South Carolina Student Loan Corporation for student loans	-	(3,226,268)	-	-	-	(3,226,268)
Finance loan payments received from South Carolina Student Loan Corporation	-	8,968,572	-	-	-	8,968,572
Payment on bonds payable	-	(5,923,044)	-	-	-	(5,923,044)
Interest paid on revenue bonds	-	(2,492,921)	-	-	-	(2,492,921)
Net cash used for non-capital financing activities	-	(2,673,661)	-	-	-	(2,673,661)
<b>Cash flows from capital and related financing activities</b>						
Purchases of capital assets	-	-	-	(44,139)	-	(44,139)
Net cash used for capital and related financing activities	-	-	-	(44,139)	-	(44,139)
<b>Cash flows from investing activities</b>						
Interest received on investment securities	11,876	1,361	6,740	122,936	5,853	148,766
Net cash provided by investing activities	11,876	1,361	6,740	122,936	5,853	148,766
<b>Net increase (decrease) in cash and cash equivalents</b>	920,539	(374,654)	1,707,767	1,195,048	(1,620,598)	1,828,102
<b>Cash and cash equivalents</b>						
Beginning of year	4,783,726	4,578,481	16,764,919	63,937,104	5,161,846	95,226,076
End of year	\$ 5,704,265	\$ 4,203,827	\$ 18,472,686	\$ 65,132,152	\$ 3,541,248	\$ 97,054,178

**South Carolina State Education Assistance Authority**  
**Schedule of Cash Flows by Account**  
**For the year ended June 30, 2016**

	<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>
<b>Reconciliation of change in net position to net cash provided by (used for) operating activities</b>						
Change in net position	\$ 11,882	\$ (103,015)	\$ 83,097	\$ 1,568,539	\$ 203,747	\$ 1,764,250
Adjustments to reconcile change in net position to net cash provided by (used for) operating activities						
Purchase of student loans under loan guarantees	-	-	-	-	(63,483,822)	(63,483,822)
Payments received from United States Department of Education under federal reinsurance program	-	-	-	-	62,021,098	62,021,098
Investment income	(11,882)	(1,361)	(6,740)	(123,410)	(5,857)	(149,250)
Depreciation expense	-	-	-	72,810	-	72,810
Provision for loan losses	-	-	-	-	(683,055)	(683,055)
Allowance for loan loss	-	-	(6,551)	-	-	(6,551)
Bond interest expense	-	2,420,706	-	-	-	2,420,706
Changes in assets and liabilities						
Increase in prepaids	-	(3)	-	-	-	(3)
Decrease in student loan receivables	-	-	1,822,050	-	-	1,822,050
Increase in interest receivable	-	-	(10,744)	-	-	(10,744)
Decrease in due from South Carolina Student Loan Corporation	-	72,215	-	-	-	72,215
Increase in due from United States Department of Education	741	-	-	-	-	741
Decrease in account maintenance fee receivable	-	-	-	36,000	-	36,000
(Increase) decrease in due from other funds	195,951	(12,013)	(171,866)	6,504	(18,576)	-
Decrease in accounts payable	(84,436)	-	-	-	-	(84,436)
Decrease in due to United States Department of Education	-	(13,675)	(7,162)	-	-	(20,837)
Decrease in consolidation rebate fee payable	(27,482)	-	-	-	-	(27,482)
Increase (decrease) in due to South Carolina Student Loan Corporation	823,889	(65,208)	(1,057)	(444,192)	340,014	653,446
Net cash provided by (used for) operating activities	<u>\$ 908,663</u>	<u>\$ 2,297,646</u>	<u>\$ 1,701,027</u>	<u>\$ 1,116,251</u>	<u>\$ (1,626,451)</u>	<u>\$ 4,397,136</u>

## South Carolina State Education Assistance Authority

### Schedule of Expenses Compared to Budget

For the year ended June 30, 2016

	Budget	Actual	Variance (Over) Under
<b>Operating Expenses</b>			
<b>Personnel</b>			
Staff salaries	\$ 1,057,900	\$ 1,141,160	\$ (83,260)
Social security	79,340	76,607	2,733
Group insurance	142,820	117,802	25,018
Retirement	221,890	650,899	(429,009)
Unemployment	5,290	3,929	1,361
Total personnel	<u>1,507,240</u>	<u>1,990,397</u>	<u>(483,157)</u>
<b>Contractual</b>			
Information Technology	160,110	153,428	6,682
Legal	3,000	-	3,000
Accounting	27,130	28,515	(1,385)
Credit bureau fees	3,160	4,294	(1,134)
Skip tracing	-	1,472	(1,472)
Enrollment verification	4,950	4,217	733
Total contractual	<u>198,350</u>	<u>191,926</u>	<u>6,424</u>
<b>General operating</b>			
Rent	70,525	70,525	-
Telephone	40,000	28,528	11,472
Printing	45,000	54,461	(9,461)
Postage	176,000	159,621	16,379
Supplies	10,000	12,007	(2,007)
Travel	1,000	686	314
Equipment maintenance	37,750	35,201	2,549
Subscriptions and fees	3,100	3,100	-
Insurance - general and automotive	18,230	24,895	(6,665)
Other expenses	-	3,277	(3,277)
Depreciation expense	73,250	72,810	440
Total general operating	<u>474,855</u>	<u>465,111</u>	<u>9,744</u>
<b>Third party collections</b>	<u>1,110,390</u>	<u>643,095</u>	<u>467,295</u>
<b>Capital additions</b>			
Equipment, furniture and fixtures	<u>\$ 22,100</u>	<u>\$ 44,139</u>	<u>\$ (22,039)</u>
Total personnel		\$ 1,990,397	
Total contractual		191,926	
Total general operating		465,111	
Total third party collections		<u>643,095</u>	
Total operating expenses		3,290,529	
<b>South Carolina Student Loan Corporation operating costs</b>		526,163	
<b>Other expenses</b>			
Interest on bonds		2,420,706	
Default aversion fee expense		161,801	
Borrower incentives		115,552	
Reinsurance expense and other fees		516,611	
Default prevention program		<u>1,250,000</u>	
Total other expenses		<u>4,464,670</u>	
Total expenses		<u>\$ 8,281,362</u>	

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## South Carolina State Education Assistance Authority

### *Schedule of Organizational Data*

*For the year ended June 30, 2016*

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#### CREATION

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

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

#### MEMBERS OF THE AUTHORITY

<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, 2016

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education Programs		
Federal Family Education Loan Program		
Direct		
Account maintenance fee	84.032	\$ 1,250,160
Default aversion fee	84.032	161,801
Retention on default collections	84.032	4,573,697
Passed through South Carolina Student Loan Corporation		
Subsidized interest	84.032	<u>101,912</u>
Total Federal Family Education Loan Program		<u>6,087,570</u>
Total Department of Education		<u>\$ 6,087,570</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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The financial activity shown in this schedule reflects amounts recorded by the Authority during its fiscal year July 1, 2015 through June 30, 2016.

1. The total approved amount at June 30, 2016, of all student loans under guarantee by the Authority was \$8,746,518,265. The total outstanding balance of these loans was \$1,733,613,091. 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 \$62,021,098 during the year ended June 30, 2016, 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, 2016, since inception, of all defaulted student loans which the Authority has purchased under Federal Reinsurance Agreements was \$874,623,598. 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 \$828,140 for the year ended June 30, 2016.

### Notes - CFDA #84.176:

1. Program participants repaid \$2,160 to the Authority. The Authority owes the Federal Government \$2,160 at June 30, 2016.



**Independent Auditor’s Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Mr. George L. Kennedy, III, CPA  
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 years ended June 30, 2016 and 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 27, 2016.

**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 opinion 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

Columbia, South Carolina  
September 27, 2016



## **Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance**

Mr. George L. Kennedy, III, CPA  
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 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, 2016. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

## 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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 long, sweeping underline.

Columbia, South Carolina  
September 27, 2016

# South Carolina State Education Assistance Authority

## Schedule of Findings and Questioned Costs

For the year ended June 30, 2016

### Section I. Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

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 2 CFR 200.516(a)?  Yes  No

Identification of major federal programs:

<u>CFDA #</u>	<u>Program / Cluster Name</u>
84.032	Federal Family Education Loan Program

Dollar threshold used to distinguish between  
Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee?  Yes  No

**Section II. Financial Statement Findings**  Yes  None reported

**Section III. Federal Award Findings and Questioned Costs**  Yes  None reported

## South Carolina State Education Assistance Authority

### Summary Schedule of Prior Audit Findings

For the year ended June 30, 2016

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#### 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). 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 15<sup>th</sup> 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.

**Recommendation:** We recommended 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 recommended that management take immediate action and reassign them to the “working” status. Furthermore, we recommended that management review all loans for indication of the four criteria described above to ensure that certain loans would be properly assigned to USDE. As a result of performing these review procedures, management would eliminate the risk of not being in compliance with the Federal award requirements prescribed by USDE.

**Current Status:** The Authority changed the status of these loans from “working consolidation” to “working” on May 12, 2015. Management assigned these loans to USDE during the next subrogation process. No similar finding was noted during the fiscal year 2016 audit.