

**South Carolina State
Education Assistance Authority**

Report on Financial Statements

For the years ended June 30, 2014 and 2013

State of South Carolina



Office of the State Auditor

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September 10, 2014

The Honorable Nikki R. Haley, Governor
and
Members of the Authority
South Carolina State Education Assistance Authority
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina State Education Assistance Authority and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2014, was issued by Elliott Davis, L.L.C., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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

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

RHGjr/cwc

South Carolina State Education Assistance Authority

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina State Education Assistance Authority (the "Authority"), a component unit of the State of South Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Notes 1 and 15 to the financial statements, the Authority adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Prior Period Financial Statements

The financial statements of the Authority as of June 30, 2013, were audited by other auditors whose report dated September 4, 2013, expressed an unmodified opinion on those statements.

Required Supplementary Information

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

Other Information

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

The individual account financial statements, schedule of expenses compared to budget, schedule of organizational data and schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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, schedule of expenses compared to budget, schedule of organizational data and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2014 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.

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

Columbia, South Carolina
September 10, 2014

South Carolina State Education Assistance Authority

Management's Discussion and Analysis

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

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

SCSLC and the Authority have entered into Loan Agreements 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, 2014. 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, 2014 were approximately \$227,749,000 which is a decrease of approximately \$1,462,000 or 1% from June 30, 2013. The decrease in assets was primarily due to reductions of approximately \$4,815,000 in finance loan receivables, approximately \$3,703,000 in federal reinsurance receivables and approximately \$1,807,000 in student loan receivables, or 7%, 57% and 7%, respectively, for the period which were partially offset by an increase in cash and cash equivalents of approximately \$8,963,000 or 10%.

The federal reinsurance receivable decrease is attributed to both a decrease in the amount of loans requested for default reinsurance from the previous fiscal year as well as an increase in the rehabilitated loans repurchased by lenders resulting in a reduced net amount of federal reinsurance receivable at year end. 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 increase in cash and cash equivalents resulted from more cash on hand in the Agency Operating Account.

The Authority's operating revenue for the fiscal year ended June 30, 2014 was approximately \$17,876,000 reflecting an increase of approximately \$1,491,000 or 9% from the fiscal year ended June 30, 2013. This increase is primarily attributed to an increase of approximately \$1,596,000 or 19% in retention on default collections and an increase of approximately \$259,000 or 37% in reinsurance recoveries for the period, offset by a decrease of approximately \$398,000 of default aversion fee income for the same period.

South Carolina State Education Assistance Authority

Management's Discussion and Analysis

Financial Highlights, Continued:

The Authority's interest expense for the fiscal year ended June 30, 2014 was approximately \$2,984,000, a decrease of approximately \$334,000 or 10% from the fiscal year ended June 30, 2013. This reduction is primarily due to the normal payment activity on the outstanding bonds of the Authority during fiscal year 2014.

The Authority's change in net position for the fiscal year ended June 30, 2014 was approximately \$5,026,000 which is an increase of approximately 3% over the previous fiscal year's net position. This increase was the result of an overall increase of approximately 9% in revenue coupled with an approximate 2% reduction in expenses.

Overview of the Financial Statements:

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

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

Statements of Revenues, Expenses and Changes in Net Position - This statement presents the Authority's operating revenues, operating expenses and changes in net position for the fiscal year.

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

South Carolina State Education Assistance Authority

Management's Discussion and Analysis

Financial Analysis of the Authority:

The Authority's total net position at June 30, 2014 was approximately \$148,932,000 which is an increase of approximately \$5,026,000 or 3% from June 30, 2013. Components of the Authority's statements of net position as of June 30 were as follows:

	<u>2014</u>	<u>Restated 2013</u>	<u>Percentage +/-</u>
Current assets	\$ 109,811,957	\$ 105,142,927	4.44%
Long-term assets			
Capital assets	148,794	147,065	1.18%
Other long-term assets	<u>117,787,876</u>	<u>123,921,002</u>	-4.95%
Total assets	<u>227,748,627</u>	<u>229,210,994</u>	-0.64%
Current liabilities	20,881,719	22,098,448	-5.50%
Long-term liabilities	<u>57,935,064</u>	<u>63,206,665</u>	-8.34%
Total liabilities	<u>78,816,783</u>	<u>85,305,113</u>	-7.61%
Net position:			
Net investment in capital assets	148,794	147,065	1.18%
Restricted	67,768,919	62,793,265	7.92%
Unrestricted	<u>81,014,131</u>	<u>80,965,551</u>	0.06%
Total net position	<u>148,931,844</u>	<u>143,905,881</u>	3.49%
Total liabilities and net position	<u>\$ 227,748,627</u>	<u>\$ 229,210,994</u>	-0.64%

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

	<u>2014</u>	<u>Restated 2013</u>	<u>Percentage +/-</u>
Loan interest income	\$ 4,371,696	\$ 4,629,043	-5.56%
Guaranty agency income	13,466,976	11,659,912	15.50%
Investment income	<u>37,516</u>	<u>96,188</u>	-61.00%
Total operating revenue	<u>\$ 17,876,188</u>	<u>\$ 16,385,143</u>	9.10%
Interest expense	<u>\$ 2,984,418</u>	<u>\$ 3,318,384</u>	-10.06%
Other operating expenses:			
General administration	4,709,401	3,974,347	18.49%
External loan servicing	617,556	626,637	-1.45%
Borrower incentives	123,998	127,396	-2.67%
Other fees	<u>4,414,852</u>	<u>5,095,802</u>	-13.36%
Total other operating expenses	<u>\$ 9,865,807</u>	<u>\$ 9,824,182</u>	0.42%

South Carolina State Education Assistance Authority

Management's Discussion and Analysis

Financial Analysis of the Authority, Continued:

	<u>2014</u>	<u>Restated 2013</u>	<u>Percentage +/-</u>
Total operating expenses	\$ 12,850,225	\$ 13,142,566	-2.22%
Change in net position	\$ 5,025,963	\$ 3,242,577	55.00%
Beginning net position (as restated)	<u>143,905,881</u>	<u>140,663,304</u>	2.31%
Ending net position	<u>\$ 148,931,844</u>	<u>\$ 143,905,881</u>	3.49%

The increase noted above in the Authority's net position of \$5,025,963 from the prior year was primarily a result of increased net revenues during the current fiscal year.

Debt Administration:

The Authority has funded student loan notes by issuing tax-exempt bonds. The bonds must be approved by the Authority's and 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, 2014 and 2013, the Authority had \$56,980,000 and \$62,315,000 principal amount of bonds outstanding, respectively. Detailed information on the Authority's debt is presented in Note 8 to the financial statements.

	<u>2014</u>	<u>Restated 2013</u>	<u>Percentage +/-</u>
Student and finance loan receivables	\$ 84,757,144	\$ 91,379,753	-7.25%
Bonds outstanding	\$ 56,980,000	\$ 62,315,000	-8.56%

South Carolina State Education Assistance Authority

Statements of Net Position

Enterprise Fund

June 30, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>		<u>2014</u>	<u>Restated 2013</u>
Assets			Liabilities		
Current assets			Current liabilities		
Cash and cash equivalents	\$ 95,027,845	\$ 85,266,340	Accounts payable	\$ 4,929,712	\$ 5,172,156
Cash and cash equivalents - restricted	3,753,939	4,552,858	Due to South Carolina Student Loan Corporation	14,049,987	15,233,199
Receivables			Due to United States Department of Education	291,788	304,365
Current portion of student loans	2,269,950	1,872,463	Consolidation rebate fee payable	580,535	628,978
Current portion of finance loans	4,534,326	5,421,296	Payable from restricted assets		
Interest due from borrower	398,442	403,745		335,000	-
Due from South Carolina Student Loan Corporation	694,697	759,750	Current portion of bonds payable	694,697	759,750
Accrued interest receivable	325	647	Accrued bond interest payable	<u>20,881,719</u>	<u>22,098,448</u>
Federal reinsurance receivable	2,752,100	6,455,495	Total current liabilities		
Account maintenance fee receivable	375,000	405,000	Long-Term Liabilities		
Prepaid expense	5,333	5,333	Bonds payable, less current maturities	55,963,484	61,571,528
Total current assets	<u>109,811,957</u>	<u>105,142,927</u>	Provision for losses on student loans	1,971,580	1,635,137
			Total long-term liabilities	<u>57,935,064</u>	<u>63,206,665</u>
Long-Term and Other Assets			Total liabilities	<u>\$ 78,816,783</u>	<u>\$ 85,305,113</u>
Receivables			Net Position		
Student loans, less current portion and net of	22,686,766	24,891,590	Net investment in capital assets	\$ 148,794	\$ 147,065
allowance for loan loss of \$18,034 in 2014 and \$12,758 in 2013	55,266,102	59,194,404	Restricted for		
Finance loans, less current portion	39,835,008	39,835,008	Debt service	7,505,119	7,110,293
Due from South Carolina Student Loan Corporation	<u>117,787,876</u>	<u>123,921,002</u>	Bond indentures - 2009 resolution		
Total long-term and other assets			Other	6,093,697	8,853,826
Property, plant and equipment			Federal government	54,170,103	46,829,146
Furniture and equipment	606,952	544,621	Guaranty agency operating account	81,014,131	80,965,551
Automobile	22,338	22,338	Unrestricted	<u>\$ 148,931,844</u>	<u>\$ 143,905,881</u>
Less: accumulated depreciation	(480,496)	(419,894)	Total net position		
Total property, plant & equipment	<u>148,794</u>	<u>147,065</u>			
Total assets	<u>\$ 227,748,627</u>	<u>\$ 229,210,994</u>			

See Notes to Financial Statements

South Carolina State Education Assistance Authority

Statements of Revenue, Expenses and Changes in Net Position

Enterprise Fund

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
Operating revenue		
United States Department of Education		
Account maintenance fee	\$ 1,531,541	\$ 1,659,115
Default aversion fee income	421,456	819,206
Retention on default collections (net of payments to federal government of \$11,526,081 in 2014 and \$10,432,100 in 2013)	10,071,667	8,475,628
Income from South Carolina Student Loan Corporation		
Subsidized interest	161,814	182,546
Special allowance	(1,024,623)	(1,089,433)
Non-subsidized interest	1,493,547	1,599,193
Late charges	11,529	10,972
Miscellaneous payments of student loans	(17)	(45)
Reimbursement of bond expense	4,206,296	3,924,780
Reinsurance recoveries	965,462	705,963
Miscellaneous income	-	1,030
Investment income	37,516	96,188
Total operating revenue	<u>17,876,188</u>	<u>16,385,143</u>
Operating expenses		
Personnel	1,964,407	1,314,060
Contractual	210,559	220,337
General operating	454,576	461,970
South Carolina Student Loan Corporation for operating costs	617,556	626,637
Bond interest expense	2,984,418	3,318,384
Default aversion fee expense	421,456	819,206
Loan fees	525,167	570,769
Borrower incentives	123,998	127,396
Broker/dealer fees	143,812	21,300
Reinsurance expense	3,319,141	3,683,208
Loan loss reserve	5,276	1,319
Third party collections	2,079,859	1,977,980
Total operating expenses	<u>12,850,225</u>	<u>13,142,566</u>
Change in net position	5,025,963	3,242,577
Net position		
Beginning of year, as originally reported	143,905,881	141,392,509
Cumulative effect of change in accounting principle (see Note 15)	-	(729,205)
Beginning of year, as restated	<u>143,905,881</u>	<u>140,663,304</u>
End of year	<u>\$ 148,931,844</u>	<u>\$ 143,905,881</u>

See Notes to Financial Statements

South Carolina State Education Assistance Authority

Statements of Cash Flows

Enterprise Fund

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
<i>Cash flows from operating activities</i>		
Receipts from borrowers and U.S. Department of Education	\$ 16,708,906	\$ 9,413,310
Receipts from SCSLC services provided	6,488,621	8,076,511
Payments to suppliers, lenders and borrowers	(8,738,798)	(19,105,994)
Payments to employees	(1,964,407)	(1,314,060)
Net cash provided by (used for) operating activities	<u>12,494,322</u>	<u>(2,930,233)</u>
<i>Cash flows from non-capital financing activities</i>		
Finance loan advances to South Carolina Student Loan Corporation for student loans	(4,136,056)	(4,476,367)
Finance loan payments received from South Carolina Student Loan Corporation	8,951,328	8,337,585
Payment on bonds payable	(5,273,044)	(7,448,044)
Interest paid on revenue bonds	(3,049,471)	(3,409,960)
Net cash used for non-capital financing activities	<u>(3,507,243)</u>	<u>(6,996,786)</u>
<i>Cash flows from capital and related financing activities</i>		
Purchases of capital assets	(62,331)	(161,319)
Net cash used for capital and related financing activities	<u>(62,331)</u>	<u>(161,319)</u>
<i>Cash flows from investing activities</i>		
Interest received on investment securities	37,838	96,709
Net cash used for investing activities	<u>37,838</u>	<u>96,709</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	8,962,586	(9,991,629)
<i>Cash and cash equivalents</i>		
Beginning of year	89,819,198	99,810,827
End of year	<u>\$ 98,781,784</u>	<u>\$ 89,819,198</u>

South Carolina State Education Assistance Authority

Statements of Cash Flows

Enterprise Fund

For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
Reconciliation of change in net position to net cash provided by (used for) operating activities		
Change in net position	\$ 5,025,963	\$ 3,242,577
Adjustments to reconcile change in net position to net cash provided by (used for) operating activities		
Purchase of student loans due under guarantees	(99,100,714)	(123,454,729)
Payments received from U.S. Department of Education under federal reinsurance program	102,804,109	121,079,364
Investment income	(37,516)	(96,188)
Depreciation expense	60,602	54,522
Provision for loan losses	336,443	312,536
Allowance for loan loss	(5,276)	(1,319)
Bond interest expense	2,984,418	3,318,384
Changes in assets and liabilities:		
Decrease in student loan receivables	1,812,613	2,814,872
Decrease in interest receivables	5,303	58,634
Decrease in due from South Carolina Student Loan Corporation	65,053	91,576
Decrease in account maintenance fee receivable	30,000	60,000
Increase (decrease) in accounts payable	(242,444)	122,052
Decrease in due to United States Department of Education	(12,577)	(36,918)
Decrease in consolidation rebate fee payable	(48,443)	(74,808)
Decrease in due to South Carolina Student Loan Corporation	(1,183,212)	(10,420,788)
Net cash provided by (used for) operating activities	<u>\$ 12,494,322</u>	<u>\$ (2,930,233)</u>
Supplemental disclosures of cash flow information		
Disposal of fully depreciated assets	<u>\$ -</u>	<u>\$ (276,812)</u>
Depreciation on fully depreciated assets	<u>\$ -</u>	<u>\$ (276,812)</u>

See Notes to Financial Statements

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

Note 1. Nature of Business and Significant Accounting Policies

Reporting entity:

The South Carolina State Education Assistance Authority (the "Authority") is a body politic and corporate and a public instrumentality of the State of South Carolina. The Authority is a part of the State of South Carolina created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the Code of Laws of South Carolina, 1976, as amended. The Authority is governed by its members who are the members of the State Budget and Control Board (the "Board"). The Board consists of five members by virtue of their position in State government. They are the Governor, 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 U.S. Department of Education ("USDE"). Upon entering the repayment period, the interest is paid by the borrower. Special Allowance Payments (SAP) are made to SCSLC from USDE. In general, the amount of SAP is the difference between the amount of interest SCSLC receives from the borrower or the government and the variable amount that is provided under requirements of the Higher Education Act of 1965, as amended, which is a predefined rate for each type of loan. Any revenue or expense related to SAP is paid, or charged to the Authority along with the principal and interest collected on loans as it is received for bonds under the 2009 PAL General Resolution.

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

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

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

Reporting entity, continued:

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

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

Business-type activity:

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

The Authority's Enterprise Fund, called "Education Assistance Fund", reports the activities to fulfill the entity's authorized purposes of issuing revenue bonds to finance student loans which are handled by SCSLC and guaranteeing federal loans. The Authority's enterprise fund is composed of the Collection Account Prior Unpledged, Eligible Lender Trust, 2009 PAL General Resolution, Agency Operating Account, and the Federal Student Loan Reserve Account.

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

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

The 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, 2014 and 2013

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

Amounts in the Federal Student Loan Reserve Account can only be used to pay lender claims on defaulted loans and to disburse default aversion fees to the Agency Operating Account for default aversion activities. Upon payment to lenders for defaulted loans, these funds are then reimbursed to the Federal Student Loan Reserve Account by 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, 2014 and 2013, of all defaulted student loans purchased by the Authority is \$744,613,301 and \$654,895,704, respectively (See Note 3). The Authority records the purchased defaulted loans as assets, but only recognizes its portion of the share of any recoveries in the year of collection. Funds in the Agency Operating Account can only be used for application processing, loan disbursement, enrollment and repayment status management, permitted default prevention activities, default collection activities, school and lender training, compliance monitoring and other student financial aid related activities as determined by the Secretary and for voluntary irrevocable transfers to the Federal Student Loan Reserve Account. Except for funds transferred from the Federal Student Loan Reserve Account for operating shortfalls, the Agency Operating Account is considered to be the property of the Authority. To date, no funds have been transferred from the Federal Student Loan Reserve Account to the Agency Operating Account for operating shortfalls.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

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, 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, 2014 and 2013

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, 2014 and 2013

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

Federal Student Loan Reserve Account - Provision for loan losses:

The Authority must report a provision for loan losses that represents the net present value of expected future claims, net of recoveries, to be paid on guaranteed loans, less expected reimbursements of these claims. The loan loss provision was \$1,971,580 and \$1,635,137 as of June 30, 2014 and 2013, 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, 2014 and 2013.

Risk management:

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

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

Property and equipment:

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

Operating and non-operating revenues/expenses:

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

Applying restricted or unrestricted resources:

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

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

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

Provision for losses on student loans:

The provision for losses on student loans represents the Authority's estimate of the costs related to the 2% to 5% risk sharing on FFELP loans and losses related to servicing of loans by the Authority. In making the estimate, the Authority considers the trend in default rates in the loan guarantee portfolio, past and anticipated loss experience, current operating information, and changes in economic conditions. The provision is based on total guaranteed loans times the 2% or 3% exposure risk rate times the default rate. However, the evaluation is inherently subjective and the provisions may significantly change in the future. The allowance for loan losses was \$18,034 and \$12,758 at June 30, 2014 and 2013, respectively.

New accounting pronouncements:

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statements and Interpretations; (2) Accounting Principles Board Opinions; and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. These pronouncements collectively are referred to as the "FASB and AICPA pronouncements." This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011, with early adoption encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The Authority elected to adopt this accounting standard for the year ended June 30, 2013.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. This Statement defined deferred outflows of resources and deferred inflows of resources as a consumption and acquisition of net position by the entity that is applicable to a future reporting period, respectively. This Statement also defined net position as the residual of all other elements presented in a statement of financial position. This Statement amends the reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definition of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011, with early adoption encouraged. The Authority elected to adopt this accounting standard for the fiscal year ended June 30, 2013.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

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

New accounting pronouncements, continued:

In March 2012, the GASB approved GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement reclassifies and recognizes certain items that were formerly reported as assets and liabilities as four financial statement elements: deferred outflows of resources, outflows of resources, deferred inflows of resources, and inflows of resources. Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. The provisions of this Statement are effective for financial statements for period beginning after December 15, 2012, with early adoption encouraged. The provisions of this Statement are required to be applied retroactively for all periods presented, including reporting a restatement of beginning net position as described in Note 15. The Authority elected to adopt this accounting standard for the year ended June 30, 2014. The Authority did not have any deferred outflows of resources or deferred inflows of resources as of June 30, 2014 and 2013.

Reclassifications:

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

Subsequent events:

These financial statements have not been updated for subsequent events after September 10, 2014, the date these financial statements were available to be issued.

Note 2. Deposits and Investments

All deposits and investments of the Authority are under the control of the State Treasury who, by law, has sole authority for investing State funds. Certain Authority deposits and investments are deposited with the Bank of New York Mellon or Wells Fargo Bank, N.A. as authorized by the State Treasurer. Deposits and investments of \$85,542,499 and \$75,451,178 at June 30, 2014 and 2013, respectively, are held by the Bank of New York Mellon as trustee or custodian for the Authority.

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

	<u>2014</u>	<u>Restated 2013</u>
Statements of net position		
Cash and cash equivalents	\$ 95,027,845	\$ 85,266,340
Restricted assets		
Cash and cash equivalents	<u>3,753,939</u>	<u>4,552,858</u>
Total	<u>\$ 98,781,784</u>	<u>\$ 89,819,198</u>
Footnotes		
Cash at banks	\$ 445,359	\$ 88,527
Deposits – State Treasurer’s cash management pool	12,793,926	14,279,493
Investments		
Bank repurchase agreements	67,721,995	59,012,437
U.S. treasury notes	17,819,332	16,437,658
Money market accounts	<u>1,172</u>	<u>1,083</u>
Total	<u>\$ 98,781,784</u>	<u>\$ 89,819,198</u>

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

Note 2. Deposits and Investments, Continued

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, 2014 and 2013, 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, 2014 and 2013, Wells Fargo Bank, N.A. carried a bank balance at \$25,116 and \$18,094, respectively, of unspent federal grants for the Authority. These accounts are covered by FDIC insurance.

At June 30, 2014 and 2013, the Bank of New York Mellon carried a bank balance at \$420,243 and \$70,433, respectively. These accounts are covered by FDIC insurance and pledged securities.

All other deposits are in the State Treasury 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>2014</u>	<u>2013</u>
Collection/unpledged prior	\$ 12,793,926	\$ 14,279,493

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

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

	<u>2014</u>	<u>2013</u>
Collection/unpledged prior account - Bank of New York Mellon		
Bank repurchase agreements	\$ 1,234,396	\$ 1,233,787
Agency operating account - Bank of New York Mellon		
Money market	703	523
Bank repurchase agreements	<u>59,090,603</u>	<u>50,977,213</u>
	<u>59,091,306</u>	<u>50,977,736</u>

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

Note 2. Deposits and Investments, Continued

Investments, continued:

	<u>2014</u>	<u>2013</u>
Federal student loan reserve account - Bank of New York Mellon		
Money market	469	560
Bank repurchase agreements	<u>5,995,000</u>	<u>4,983,000</u>
	<u>5,995,469</u>	<u>4,983,560</u>
Eligible Lender Trust account - Bank of New York Mellon		
U.S. Treasury notes	13,969,363	11,815,450
Bank repurchase agreements	<u>500,472</u>	<u>1,020,048</u>
	<u>14,469,835</u>	<u>12,835,498</u>
2009 PAL General Resolution account - Bank of New York Mellon		
U.S. Treasury notes	3,849,969	4,622,208
Bank repurchase agreements	<u>901,524</u>	<u>798,389</u>
	<u>4,751,493</u>	<u>5,420,597</u>
Totals	<u>\$ 85,542,499</u>	<u>\$ 75,451,178</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.

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

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

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

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

Custodial credit risk: This is the risk that the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counter party to the investment transaction fails. The investments at Bank of New York Mellon are categorized to give an indication of the level of the custodial credit risk assumed by the Authority at June 30, 2014 and 2013. 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.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

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

These loans bear interest at a fixed rate range of 2.875% to 8.25%. These loans are repayable over a period of five (5) to thirty (30) years with a minimum payment of \$ 360 or \$ 600 per year, except for in the case of income-based repayment plans. Repayment of principal may be scheduled to begin within sixty (60) days of final disbursement or six (6) to ten (10) months after the student graduates or ceases to be enrolled on at least a 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 \$744,613,301 and \$654,895,704 as of June 30, 2014 and 2013, respectively, of federal reinsurance.

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

<u>Claims Rate</u>	<u>Federal payment for loans made prior to October 1, 1993</u>	<u>Federal payment for loans made on or after October 1, 1993 and before October 1, 1998</u>	<u>Federal payment for loans made on or after October 1, 1998</u>
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, 2013 and 2012, was approximately 2.4% and 1.5%, respectively.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

Note 4. Note Receivable Finance Loans

Each bond resolution of the Authority requires that all funds advanced to SCSLC by the Authority for the purpose of making student loans be evidenced by a loan agreement, assignment of collateral and assignment of revenues between the two parties, with the student loans providing security to the bond trustee. Increases (decreases) to SCSLC from the Authority's 2009 PAL General Resolution are made pursuant to a loan agreement dated October 29, 2009. Each loan is calculated as set forth in the respective loan agreements. The finance loans as of June 30, 2014 and 2013 are as follows:

<u>Bond Resolution</u>	<u>Balance June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 2014</u>
2009	\$ 68,476,918	\$ 4,476,367	\$ (8,337,585)	\$ 64,615,700	\$ 4,136,056	\$ (8,951,328)	\$ 59,800,428

Note 5. Amounts Due from/to SCSLC

The Authority owes SCSLC for funds collected on their behalf of \$14,049,987 and \$15,233,199 as of June 30, 2014 and 2013, 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, 2014 and 2013, SCSLC owes the Authority \$694,697 and \$759,750, 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, Plant and Equipment

The following is a summary of changes in property, plant and equipment for the fiscal years ended June 30, 2014 and 2013:

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
Cost							
Furniture and equipment	\$ 660,114	\$ 161,319	\$ (276,812)	\$ 544,621	\$ 62,331	\$ -	\$ 606,952
Automobiles	22,338	-	-	22,338	-	-	22,338
Total	682,452	161,319	(276,812)	566,959	62,331	-	629,290
Accumulated depreciation							
Furniture and equipment	(619,846)	(54,522)	276,812	(397,556)	(60,602)	-	(458,158)
Automobiles	(22,338)	-	-	(22,338)	-	-	(22,338)
Less accumulated depreciation	(642,184)	(54,522)	276,812	(419,894)	(60,602)	-	(480,496)
Net, property, plant and equipment	\$ 40,268	\$ 106,797	\$ -	\$ 147,065	\$ 1,729	\$ -	\$ 148,794

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

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, federal default fees on student loans as collected, and reinsurance payments from USDE. Prior to July 1, 1998, the account accumulated retention of default collections, administrative cost allowance and supplemental preclaims assistance. The Act eliminated this format. 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, 2014 and 2013, 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.

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, 2014 and 2013, the Authority was required to have assets deposited in the current debt service account of \$694,697 and \$759,750, respectively. The Authority has deposits in restricted assets equal to the current debt service requirement in 2014 and 2013. Restricted assets of \$3,753,939 in 2014 and \$4,552,858 in 2013 include the current debt service reserve deposits of \$1,139,600 and \$1,349,500 in 2014 and 2013, respectively.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

Note 8. Bonds and Other Payables and Restricted Assets, Continued

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 as of June 30, 2014 and 2013 are as follows:

<u>Balance as of June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance as of June 30, 2014</u>
\$ 69,825,000	\$ -	\$(7,510,000)	\$ 62,315,000	\$ -	\$(5,335,000)	\$ 56,980,000
<u>(805,428)</u>	<u>61,956</u>	<u>-</u>	<u>(743,472)</u>	<u>61,956</u>	<u>-</u>	<u>(681,516)</u>
<u>\$ 69,019,572</u>	<u>\$ 61,956</u>	<u>\$ (7,510,000)</u>	<u>\$ 61,571,528</u>	<u>\$ 61,956</u>	<u>\$ (5,335,000)</u>	<u>\$ 56,298,484</u>

The annual requirements to retire these bonds as of June 30, 2014, are as follows:

<u>Year ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 335,000	\$ 2,811,608	\$ 3,146,608
2016	405,000	2,798,032	3,203,032
2017	470,000	2,780,580	3,250,580
2018	1,675,000	2,734,842	4,409,842
2019	2,015,000	2,653,809	4,668,809
2020	2,680,000	2,547,046	5,227,046
2021	2,850,000	2,418,769	5,268,769
2022	4,020,000	2,258,055	6,278,055
2023	5,365,000	2,035,973	7,400,973
2024	-	1,908,144	1,908,144
2025	13,410,000	1,568,238	14,978,238
2026	-	1,228,331	1,228,331
2027	-	1,228,331	1,228,331
2028	-	1,228,331	1,228,331
2029	-	1,228,331	1,228,331
2030	23,755,000	614,166	24,369,166
	<u>\$ 56,980,000</u>	<u>\$ 32,042,586</u>	<u>\$ 89,022,586</u>

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

Note 9. Paul Douglas Teacher Scholarship Program

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

During the fiscal years ended June 30, 2014 and 2013, collections were \$7,019 and \$8,513, respectively, from repayments by participants. The Authority repaid these amounts to the Federal government during the years ended June 30, 2014 and 2013, due to suspension of the program. Any repayments not repaid to the Federal government are recorded as a liability.

Note 10. Related Party Transactions

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

The Authority paid the University of South Carolina \$16 for the year ended June 30, 2014 and \$25 for the year ending June 30, 2013, for data processing services and the expense is recorded as contractual expenses. See Notes 1 and 5 regarding transactions with SCSLC.

Note 11. Employee Benefit Plans

Money Purchase Pension Plan:

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

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

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

Note 11. Employee Benefit Plans, Continued

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

	<u>2014</u>	<u>2013</u>
Total salary	\$ 1,470,396	\$ 1,428,087
Total covered salary	1,372,933	1,152,569
Pension expense (actual and required)	79,303	57,049
Percent pension expense to covered salary	5.78%	4.95%

Defined Benefit Plan:

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

The Authority paid contributions for the year ended June 30, 2014 of \$126,633 and realized a gain on the assets of the plan of \$75,000. The Authority paid contributions for the year ended June 30, 2013 of \$110,000 and realized a gain on the assets of the plan of \$611,000. The actual funding contributions represented 9.22% and 9.54% of covered salary, respectively. Contributions are included in the personnel expense category.

403(b) Defined Contribution Plan:

The Authority participates in the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan which was established on November 5, 2002. The Plan provides for a 5% contribution based on the participant's total annual compensation. The total amount expensed under the plan was \$65,672 in 2014 and \$46,271 in 2013. All employees who have completed one year of service and attainment of age 21 are eligible to receive employer contributions. Contributions are 100% vested when made.

Tax Deferred Annuity:

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

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

Note 11. Employee Benefit Plans, Continued

457(b) Deferred Compensation Plan:

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

Other Employee Benefits

Certain health care, dental, long-term disability and life insurance benefits are provided to active employees through various private insurers. Employees scheduled for 30 hours or more per week may be eligible to receive these benefits. Employer contributions applicable to those benefits were \$169,227 and \$165,677 in 2014 and 2013, 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>2014</u>	<u>2013</u>
Outstanding balance	\$ 2,192,419,400	\$ 2,420,366,399

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, 2014 and 2013. Based on those results, the Authority incurred expense (income) of \$0 for 2014 and 2013. 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, 2014 and 2013, the Authority reported \$0 as rebate and excess earnings liability.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

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>2014</u>	<u>Restated 2013</u>
Charges for services		
United States Department of Education		
Account maintenance fee	\$ 1,531,541	\$ 1,659,115
Default aversion fee income	421,456	819,206
Retention on default collections (net of payments to federal government of \$11,526,081 in 2014 and \$10,432,100 in 2013)	10,071,667	8,475,628
Income from South Carolina Student Loan Corporation		
Subsidized interest	161,814	182,546
Special allowance	(1,024,623)	(1,089,433)
Non-subsidized interest	1,493,547	1,599,193
Late charges	11,529	10,972
Miscellaneous payments of student loans	(17)	(45)
Reimbursement of bond expense	4,206,296	3,924,780
Reinsurance recoveries	<u>965,462</u>	<u>705,963</u>
Total charges for services	<u>17,838,672</u>	<u>16,287,925</u>
Operating grants and contributions		
Interest/investment income	37,516	96,188
Miscellaneous income	-	1,030
Total operating grants and contributions	<u>37,516</u>	<u>97,218</u>
Total program revenue	17,876,188	16,385,143
Less expenses	<u>12,850,225</u>	<u>13,142,566</u>
Change in net position	5,025,963	3,242,577
Net position		
Beginning (as restated)	<u>143,905,881</u>	<u>140,663,304</u>
Ending	<u>\$ 148,931,844</u>	<u>\$ 143,905,881</u>

Note 15. Change in Accounting Principle and Restatement of Beginning Net Position

During the year ended June 30, 2014, the Authority adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Due to the change in this accounting principle, beginning net position for the year ended June 30, 2013 has been decreased by \$729,205, from \$141,392,509 to \$140,663,304, and the change in net position has been increased by \$56,093, from \$3,186,484 to \$3,242,577. These differences represent a restatement for bond issue costs that were amortized under prior standards, but expensed in the period incurred under the new standards.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2014 and 2013

Note 16. Subsequent Events

The Bipartisan Budget Act (BBA) (Public Law 113-67) was approved in December 2013 and included a cut in what is known as the rehabilitation retention rate for student loans effective as of July 1, 2014. Rehabilitation retention had been the largest source of revenue for guarantee agencies.

South Carolina State Education Assistance Authority
Schedule of Net Position by Account
Enterprise Fund
June 30, 2014

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Assets						
Current assets						
Cash and cash equivalents	\$ 14,053,439	\$ 997,553	\$ 14,469,835	\$ 59,200,693	\$ 6,306,325	\$ 95,027,845
Cash and cash equivalents - restricted	-	3,753,939	-	-	-	3,753,939
Receivables	-	-	2,269,950	-	-	2,269,950
Current portion of student loans	-	-	-	-	-	-
Current portion of finance loans	-	4,534,326	-	-	-	4,534,326
Interest due from borrower	-	-	398,442	-	-	398,442
Due from South Carolina Student Loan Corporation	-	694,697	-	-	-	694,697
Accrued interest receivable	3	160	-	148	14	325
Federal reinsurance receivable	-	-	-	-	2,752,100	2,752,100
Account maintenance fee receivable	-	-	-	375,000	-	375,000
Due from other funds	(191,267)	43,527	349,525	14,615	(216,400)	-
Prepaid expense	-	5,333	-	-	-	5,333
	<u>13,862,175</u>	<u>10,029,535</u>	<u>17,487,752</u>	<u>59,590,456</u>	<u>8,842,039</u>	<u>109,811,957</u>
Total current assets						
Long-term and other assets						
Receivables						
Student loans, less current portion and net of	-	-	22,686,766	-	-	22,686,766
allowance for loan loss of \$18,034	-	55,266,102	-	-	-	55,266,102
Finance loans, less current portion	-	-	39,835,008	-	-	39,835,008
Due from South Carolina Student Loan Corporation	-	-	-	-	-	-
	<u>-</u>	<u>55,266,102</u>	<u>62,521,774</u>	<u>-</u>	<u>-</u>	<u>117,787,876</u>
Total long-term and other assets						
Property, plant and equipment						
Furniture and equipment	-	-	-	606,952	-	606,952
Automobile	-	-	-	22,338	-	22,338
Less: accumulated depreciation	-	-	-	(480,496)	-	(480,496)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,794</u>	<u>-</u>	<u>148,794</u>
Total property, plant and equipment	<u>\$ 13,862,175</u>	<u>\$ 65,295,637</u>	<u>\$ 80,009,526</u>	<u>\$ 59,739,250</u>	<u>\$ 8,842,039</u>	<u>\$ 227,748,627</u>
Total assets						

South Carolina State Education Assistance Authority
Schedule of Net Position by Account
Enterprise Fund
June 30, 2014

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Liabilities						
Current Liabilities						
Accounts payable	\$ 118,190	\$ 2,800	\$ -	\$ 4,808,722	\$ -	\$ 4,929,712
Due to South Carolina Student Loan Corporation	11,929,050	718,059	14,485	611,631	776,762	14,049,987
Due to United States Department of Education	-	76,478	215,310	-	-	291,788
Consolidation rebate fee payable	580,535	-	-	-	-	580,535
Payable from restricted assets	-	-	-	-	-	-
Current portion of bonds payable	-	335,000	-	-	-	335,000
Accrued bond interest payable	-	694,697	-	-	-	694,697
	<u>12,627,775</u>	<u>1,827,034</u>	<u>229,795</u>	<u>5,420,353</u>	<u>776,762</u>	<u>20,881,719</u>
Total current liabilities						
Long-term liabilities						
Bonds payable, less current maturities	-	55,963,484	-	-	-	55,963,484
Provision for losses on student loans	-	-	-	-	1,971,580	1,971,580
	-	<u>55,963,484</u>	-	-	<u>1,971,580</u>	<u>57,935,064</u>
Total long-term liabilities	<u>\$ 12,627,775</u>	<u>\$ 57,790,518</u>	<u>\$ 229,795</u>	<u>\$ 5,420,353</u>	<u>\$ 2,748,342</u>	<u>\$ 78,816,783</u>
Total liabilities						
Net Position						
Invested in capital assets	-	-	-	148,794	-	148,794
Restricted for						
Debt service	-	7,505,119	-	-	-	7,505,119
Bond indentures - 2009 resolution	-	-	-	-	6,093,697	6,093,697
Other	-	-	-	-	-	-
Federal government	-	-	-	54,170,103	-	54,170,103
Guaranty agency operating account	-	-	-	-	-	-
Restricted	1,234,400	-	79,779,731	-	-	81,014,131
	<u>\$ 1,234,400</u>	<u>\$ 7,505,119</u>	<u>\$ 79,779,731</u>	<u>\$ 54,318,897</u>	<u>\$ 6,093,697</u>	<u>\$ 148,931,844</u>
Total net position						

South Carolina State Education Assistance Authority

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

Enterprise Fund

For the year ended June 30, 2014

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Operating revenue						
United States Department of Education						
Account maintenance fee	\$ -	\$ -	\$ -	\$ 1,531,541	\$ -	\$ 1,531,541
Default aversion fee income	-	-	-	421,456	-	421,456
Retention on default collections	-	-	-	10,071,667	-	10,071,667
Income from South Carolina Student Loan Corporation						
Subsidized interest	-	-	161,814	-	-	161,814
Special allowance	-	-	(1,024,623)	-	-	(1,024,623)
Non-subsidized interest	-	-	1,493,547	-	-	1,493,547
Late charges	-	-	11,529	-	-	11,529
Miscellaneous payments of student loans	-	-	(17)	-	-	(17)
Reimbursement of bond expense	-	4,206,296	-	-	-	4,206,296
Reinsurance recoveries	-	-	-	-	965,462	965,462
Investment income	601	1,809	5,457	27,423	2,226	37,516
Total operating revenue	<u>601</u>	<u>4,208,105</u>	<u>647,707</u>	<u>12,052,087</u>	<u>967,688</u>	<u>17,876,188</u>
Operating expenses						
Personnel	-	-	-	1,964,407	-	1,964,407
Contractual services	-	-	-	210,559	-	210,559
General operating	-	-	-	454,576	-	454,576
South Carolina Student Loan Corporation for operations	-	437,842	179,714	-	-	617,556
Bond interest expense	-	2,984,418	-	-	-	2,984,418
Default aversion fee	-	-	-	-	421,456	421,456
Loan fees	-	249,707	275,460	-	-	525,167
Borrower incentives	-	-	123,998	-	-	123,998
Broker/dealer fees	-	141,312	2,500	-	-	143,812
Reinsurance expense	-	-	12,780	-	3,306,361	3,319,141
Loan loss reserve	-	-	5,276	-	-	5,276
Third party collections	-	-	-	2,079,859	-	2,079,859
Total operating expenses	<u>-</u>	<u>3,813,279</u>	<u>599,728</u>	<u>4,709,401</u>	<u>3,727,817</u>	<u>12,850,225</u>
Change in net position	601	394,826	47,979	7,342,686	(2,760,129)	5,025,963
Net position						
Beginning of year, as restated	1,233,799	7,110,293	79,731,752	46,976,211	8,853,826	143,905,881
End of year	<u>\$ 1,234,400</u>	<u>\$ 7,505,119</u>	<u>\$ 79,779,731</u>	<u>\$ 54,318,897</u>	<u>\$ 6,093,697</u>	<u>\$ 148,931,844</u>

South Carolina State Education Assistance Authority

Schedule of Cash Flows by Account

Enterprise Fund

For the year ended June 30, 2014

	Collection Account Prior Unpledged	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Cash flows from operating activities						
Receipts from borrowers and U.S. Department of Education	\$ -	\$ -	\$ -	\$ 12,040,049	\$ 4,668,857	\$ 16,708,906
Receipts from SCSLC services provided	-	4,256,425	2,232,196	-	-	6,488,621
Payments to suppliers, lenders and borrowers	(1,478,546)	(1,420,011)	(603,315)	(1,831,661)	(3,405,265)	(8,738,798)
Payments to employees	-	-	-	(1,964,407)	-	(1,964,407)
Net cash provided by (used for) operating activities	(1,478,546)	2,836,414	1,628,881	8,243,981	1,263,592	12,494,322
Cash flows from non-capital financing activities						
Finance loan advances to South Carolina Student Loan Corporation	-	(4,136,056)	-	-	-	(4,136,056)
Finance loan payments received from South Carolina Student Loan Corporation	-	8,951,328	-	-	-	8,951,328
Payment on bonds payable	-	(5,273,044)	-	-	-	(5,273,044)
Interest paid on revenue bonds	-	(3,049,471)	-	-	-	(3,049,471)
Net cash used for non-capital financing activities	-	(3,507,243)	-	-	-	(3,507,243)
Cash flows from capital and related financing activities						
Purchases of capital assets	-	-	-	(62,331)	-	(62,331)
Net cash used for capital and related financing activities	-	-	-	(62,331)	-	(62,331)
Cash flows from investing activities						
Interest received on investment securities	610	1,725	5,457	27,785	2,261	37,838
Net cash provided by investing activities	610	1,725	5,457	27,785	2,261	37,838
Net increase (decrease) in cash and cash equivalents	(1,477,936)	(669,104)	1,634,338	8,209,435	1,265,853	8,962,586
Cash and cash equivalents						
Beginning of year	15,531,374	5,420,596	12,835,498	50,991,258	5,040,472	89,819,198
End of year	\$ 14,053,438	\$ 4,751,492	\$ 14,469,836	\$ 59,200,693	\$ 6,306,325	\$ 98,781,784

South Carolina State Education Assistance Authority

Schedule of Cash Flows by Account

Enterprise Fund

For the year ended June 30, 2014

	<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>
<i>Cash flows from operating activities</i>						
Change in net position	\$ 601	\$ 394,826	\$ 47,979	\$ 7,342,686	\$ (2,760,129)	\$ 5,025,963
Adjustments to reconcile change in net position to net cash provided by (used for) operating activities						
Purchase of student loans under loan guarantees	-	-	-	-	(99,100,714)	(99,100,714)
Payments received from U.S. Department of Education under federal reinsurance program	(601)	(1,809)	(5,457)	(27,423)	102,804,109	102,804,109
Investment income	-	-	-	60,602	(2,226)	(37,516)
Depreciation expense	-	-	-	-	336,443	336,443
Provision for loan losses	-	-	(5,276)	-	-	(5,276)
Allowance for loan loss	-	2,984,418	-	-	-	2,984,418
Bond interest expense	-	-	-	-	-	-
Changes in assets and liabilities	-	-	1,812,613	-	-	1,812,613
Decrease in student loan receivables	-	-	5,303	-	-	5,303
Decrease in interest receivable	-	65,053	-	-	-	65,053
Decrease in due from South Carolina Student Loan Corporation	-	-	-	30,000	-	30,000
Decrease in account maintenance fee receivable	103,396	(14,924)	(222,694)	(51,104)	185,326	-
(Increase) decrease in due from other funds	(242,444)	-	-	-	-	(242,444)
Decrease in accounts payable	-	(10,036)	(2,541)	-	-	(12,577)
Decrease in due to United States Department of Education	(48,443)	-	-	-	-	(48,443)
Decrease in consolidation rebate fee payable	(1,291,055)	(581,114)	(1,046)	889,220	(199,217)	(1,183,212)
Increase (decrease) in due to South Carolina Student Loan Corporation	<u>\$ (1,478,546)</u>	<u>\$ 2,836,414</u>	<u>\$ 1,628,881</u>	<u>\$ 8,243,981</u>	<u>\$ 1,263,592</u>	<u>\$ 12,494,322</u>
Net cash provided by (used for) operating activities						

South Carolina State Education Assistance Authority
Schedule of Expenses Compared to Budget
For the year ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Over) Under</u>
Operating Expenses			
Personnel			
Staff salaries	\$ 1,470,000	\$ 1,470,396	\$ (396)
Social security	99,960	102,790	(2,830)
Group insurance	176,400	169,227	7,173
Retirement	330,750	216,000	114,750
Unemployment	5,880	5,994	(114)
Total personnel	<u>2,082,990</u>	<u>1,964,407</u>	<u>118,583</u>
Contractual			
Information Technology	203,000	163,788	39,212
Legal	7,500	-	7,500
Accounting	24,300	23,101	1,199
Credit bureau fees	1,400	1,535	(135)
Skip tracing	27,500	15,393	12,107
Enrollment verification	7,500	6,742	758
Total contractual	<u>271,200</u>	<u>210,559</u>	<u>60,641</u>
General operating			
Rent	82,440	82,440	-
Telephone	62,000	31,229	30,771
Printing	56,000	28,907	27,093
Postage	167,500	163,192	4,308
Supplies	16,400	13,748	2,652
Travel	4,500	2,415	2,085
Equipment maintenance	53,250	41,592	11,658
Subscriptions and fees	-	3,100	(3,100)
Insurance - general and automotive	33,000	27,075	5,925
Outreach and awareness	2,500	-	2,500
Contingencies	-	98	(98)
Other expenses	200	178	22
Depreciation expense	85,035	60,602	24,433
Total general operating	<u>562,825</u>	<u>454,576</u>	<u>108,249</u>
Third party collections	<u>1,900,000</u>	<u>2,079,859</u>	<u>(179,859)</u>
Capital additions			
Equipment, furniture and fixtures	<u>\$ 70,000</u>	<u>\$ 62,331</u>	<u>\$ 7,669</u>
Total personnel		\$ 1,964,407	
Total contractual		210,559	
Total general operating		454,576	
Total third party collections		<u>2,079,859</u>	
Total operating expenses		4,709,401	
South Carolina Student Loan Corporation operating costs		617,556	
Other expenses			
Interest on bonds		2,984,418	
Default aversion fee expense		421,456	
Borrower incentives		123,998	
Reinsurance expense and other fees		<u>3,993,396</u>	
Total other expenses		<u>7,523,268</u>	
Total expenses		<u>\$ 12,850,225</u>	

South Carolina State Education Assistance Authority

Schedule of Organizational Data

For the year ended June 30, 2014

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, 2014

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenses</u>
U.S. Department of Education Programs		
Federal Family Education Loan Program		
Direct		
Account maintenance fee	84.032	\$ 1,531,541
Default aversion fee income	84.032	421,456
Retention on default collections	84.032	10,071,667
Passed through South Carolina Student Loan Corporation		
Subsidized interest	84.032	<u>161,814</u>
Total Federal Family Education Loan Program		<u>12,186,478</u>
Total Department of Education		<u>\$ 12,186,478</u>

Notes - CFDA #84.032:

Summary of Significant Accounting Policies: This schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The financial activity shown in this schedule reflects amounts recorded by the Authority during its fiscal year July 1, 2013 through June 30, 2014.

1. The total approved amount at June 30, 2014, of all student loans under guarantee by the Authority was \$8,747,008,618. The total outstanding balance of these loans was \$2,192,419,400. 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 \$102,804,109 during the year ended June 30, 2014, 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, 2014, since inception, of all defaulted student loans which the Authority has purchased under Federal Reinsurance Agreements was \$744,613,301. 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 \$1,024,623 for the year ended June 30, 2014.

Notes - CFDA #84.176:

1. Program participants repaid \$7,019 to the Authority. The Authority owes the Federal Government \$7,019 at June 30, 2014.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Carolina State Education Assistance Authority (the "Authority"), a component unit of the State of South Carolina, as of and for the year ended June 30, 2014, 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 10, 2014.

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, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
September 10, 2014



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

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

Report on Compliance for Each Major Federal Program

We have audited South Carolina State Education Assistance Authority's (the "Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2014. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

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

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

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

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

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

Columbia, South Carolina
September 10, 2014

South Carolina State Education Assistance Authority

Schedule of Findings and Questioned Costs

For the year ended June 30, 2014

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on financial statements:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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 510(a) of OMB Circular A-133?	No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 365,594</u>
Auditee qualified as a low risk auditee?	No

2. Financial Statement Findings	None
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South Carolina State Education Assistance Authority

Summary Schedule of Prior Audit Findings

For the year ended June 30, 2013

U.S. Department of Education

Item 2013-1: Federal Family Education Loan Program; CFDA #84.032

Condition: The Authority provides default aversion activities when properly notified by a lender designed to prevent a default by the borrower in accordance with 34 CFR Section 682.404(k). The Authority receives a 1% fee based on outstanding principle and interest on the borrower's loan. However, if a loan on which the Authority has received the default aversion fee subsequently is paid as a default claim, the Authority must rebate the default aversion fee. The predecessor auditor discovered two instances from a sample of twenty-five transactions in which the default aversion fee was not returned when the loan went into default. Total fees of \$162 were not returned.

Recommendation: It was recommended by the predecessor auditor that the Authority return default aversion fees when the loan has defaulted in accordance with federal guidelines and Authority procedures.

Current status: System reports were reviewed and revised to capture all defaulted loans where the Authority had previously been paid a default aversion fee. The \$162 was returned in August 2013 to the Federal Fund.