

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

COLUMBIA, SOUTH CAROLINA

FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 2009 AND 2008

State of South Carolina



Office of the State Auditor

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October 2, 2009

The Honorable Mark Sanford, 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, 2009, was issued by Derrick, Stubbs & Stith, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

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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YEARS ENDED JUNE 30, 2009 AND 2008**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Enterprise Fund of the South Carolina State Education Assistance Authority as of and for the years ended June 30, 2009 and 2008 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Enterprise Fund of the South Carolina State Education Assistance Authority as of June 30, 2009 and 2008, and the respective changes in its financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the South Carolina State Education Assistance Authority taken as a whole. The schedules, listed in the table of contents as supplementary information, are presented for the purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Derrick, Stubbs & Stith, L.L.P.

September 15, 2009

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

The South Carolina State Education Assistance Authority (Authority) functions to guarantee and provide financing for education loans for students and parents. As a guarantor, the Authority processes loans submitted for guarantee, issues loan guarantees, provides collection assistance for delinquent loans, pays claims for loans in default, collects loans on which default claims have been paid, and makes appropriate responses to the Secretary. As a provider of financing, the Authority issues bonds to finance education loans.

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 (Corporation) since its inception.

The Corporation and the Authority have entered into Loan Agreements pursuant to the terms of which the Authority has agreed to lend bond proceeds to the Corporation to enable the Corporation to make or acquire education loans. The obligation of the Corporation to repay the finance loans is evidenced by a promissory note of the Corporation 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, 2009. Please read it in conjunction with the Authority's statement of net assets, statements of revenue, expenses and changes in net assets, statement of cash flows, and the notes to financial statements, which follow this section.

FINANCIAL HIGHLIGHTS:

●	The Authority's total assets at June 30, 2009 were approximately \$1,177,983,000, which is a decrease of approximately \$16,578,000 or 1% less than June 30, 2008.
●	The Authority's finance loans at June 30, 2009 were approximately \$1,068,992,000, which is an increase of approximately \$58,094,000 or 6% over June 30, 2008.
●	The Authority's operating revenue for the fiscal year ended June 30, 2009 was approximately \$55,135,000, which is a decrease of approximately \$24,675,000 or 31% over the fiscal year ended June 30, 2008.
●	The Authority's interest expense for the fiscal year ended June 30, 2009 was approximately \$25,826,000, a decrease of approximately \$26,618,000 or 51% less than reported during the fiscal year ended June 30, 2008.
●	The Authority's total other operating expenses for the fiscal year ended June 30, 2009 was approximately \$26,872,000, which is an increase of approximately \$2,067,000 or 8% over the fiscal year ended June 30, 2008.
●	The Authority's change in net assets for the fiscal year ended June 30, 2009 was approximately \$1,228,000, which is an increase of 1% in net assets over the previous fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS:

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

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

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

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

FINANCIAL ANALYSIS OF THE AUTHORITY:

The Authority's total net assets at June 30, 2009 were approximately \$146,057,000 which is an increase of approximately \$1,228,000 or 1% over June 30, 2008. Components of the Authority's balance sheet as of June 30, 2009 and June 30, 2008 were as follows:

	2009	2008	Percentage Increase/(Decrease)
Current Assets	\$ 155,729,653	\$ 254,127,980	-39%
Capital assets	160,075	222,779	-28%
Other Long-Term Assets	1,022,092,905	940,209,592	9%
Restricted Assets	<u>0</u>	<u>0</u>	0%
Total Assets	\$ <u>1,177,982,633</u>	\$ <u>1,194,560,351</u>	-1%
Current Liabilities	\$ 17,412,335	\$ 36,701,137	-53%
Long-Term Liabilities Payable	<u>1,014,513,773</u>	<u>1,013,030,435</u>	-0%
Total Liabilities	\$ <u>1,031,926,108</u>	\$ <u>1,049,731,572</u>	-2%
Net Assets:			
Invested in Capital Assets	\$ 160,075	\$ 222,779	-28%
Restricted	144,669,418	143,387,960	1%
Unrestricted	<u>1,227,032</u>	<u>1,218,040</u>	1%
Total Net Assets	\$ <u>146,056,525</u>	\$ <u>144,828,779</u>	1%
Total Liabilities and Net Assets	\$ <u>1,177,982,633</u>	\$ <u>1,194,560,351</u>	-1%

Please see Note 6 and Note 8 respectively for more detail on capital assets and long-term debt activity. The decrease noted above in the Authority's total assets is due to the retirement of bonds and a subsequent decrease in cash. Total assets decreased from approximately \$1,194,560,000 at June 30, 2008 to approximately \$1,177,983,000 at June 30, 2009. Finance loans increased 6% from approximately \$1,010,898,000 at June 30, 2008 to approximately \$1,068,992,000 at June 30, 2009.

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

	2009	2008	Percentage Increase/(Decrease)
Loan Interest Income	\$ 36,188,442	\$ 56,841,428	-36%
Guaranty Agency Income**	17,979,433	14,212,213	27%
Investment Interest Income	<u>967,101</u>	<u>8,756,366</u>	-89%
Total Operating Revenue	\$ <u>55,134,976</u>	\$ <u>79,810,007</u>	-31%
Interest Expense	\$ <u>25,826,245</u>	\$ <u>52,443,987</u>	-51%
Other Operating Expenses:			
General Administration	5,157,751	4,268,164	21%
External Loan Servicing	5,326,708	7,999,494	-33%
Borrower Incentives	2,380,298	1,353,378	76%
Consolidation and Lender Rebate Fees	2,591,141	3,164,621	-18%
Other Fees	<u>11,416,378</u>	<u>8,019,603</u>	42%
Total Other Operating Expenses	\$ <u>26,872,276</u>	\$ <u>24,805,260</u>	8%
Total Operating Expenses	\$ 52,698,521	\$ 77,249,247	-32%
Total Non-Operating (Income)Expenses	<u>1,208,709</u>	<u>(4,342,458)</u>	-128%
Change in Net Assets	1,227,746	6,903,218	-82%
Beginning Net Assets	<u>144,828,779</u>	<u>137,925,561</u>	5%
Ending Net Assets	\$ <u>146,056,525</u>	\$ <u>144,828,779</u>	1%

The decrease noted above in the Authority's change in net assets of \$5,675,472 over the prior year was due to multiple reductions in the short-term interest rates during the period. Additionally, the Authority is restricted to a statutory amount of interest that it can earn on each FFELP loan. As an incentive to offer FFELP loans, the Authority was allowed to retain the difference between the loan rate and the allowed statutory rate prior to 2006. As of 2006, however, the difference between the statutory rate and the rate earned on each loan was required to be paid to the U.S. Department of Education. The statutory rate allowed to be earned on each FFELP loan is based on an index of the three month Financial Commercial Paper rate and as a result of the economic downturn during the reporting period the normal spread relationship between the borrower's rate on the loan and the statutory rate allowed to be earned on the loans became skewed. This abnormal relationship also contributed to decrease in interest revenue during this reporting period.

The decrease in investment interest income during the year ended June 30, 2009 is primarily due to multiple reductions in short term interest rates during the reporting period. The decrease in interest expense during the year ended June 30, 2009 is also the result of multiple reductions in interest rates during the reported period due to the existing economic environment.

As noted above, the Authority's other operating expenses for the fiscal year ended June 30, 2008 increased by 8% over the previous fiscal year.

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

Non-operating expenses increased by approximately \$5,551,000 or 128% due to an increase in arbitrage payable as discussed in Note 13 of the financial statements.

DEBT ADMINISTRATION:

The Authority has funded student loan notes by issuing tax-exempt bonds. The bonds must be approved by the Authority's and the Corporation's boards 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, 2009 and June 30, 2008, the Authority had \$1,011,050,000 principal amount of bonds outstanding. Detailed information on the Authority's debt is presented in Note 8 to the financial statements.

All \$1,011,050,000 of Authority debt is publicly held and has long-term credit ratings assigned by Moody's Investors Service (Moody's), or Standard and Poor's (S&P) based on the type of security as shown in the table below. The credit ratings have been maintained, and periodically the ratings have been confirmed in connection with new parity debt issues or extensions of recycling periods.

<u>Credit Rating(s)</u>	<u>Principal Amount</u>	<u>Type of Security</u>
AAA S&P or Aaa Moody's	\$984,050,000	Senior Lien
A2 Moody's	\$ 27,000,000	Subordinate Lien

CONDITIONS AFFECTING FINANCIAL POSTION

President Obama's fiscal year 2010 budget submitted to Congress earlier this year proposed the elimination of the FFEL Program in favor of the government run Direct Loan program beginning July 1, 2010.

On July 21, 2009, the House Education and Labor Committee concluded a markup by voting to approve the Student Aid and Fiscal Responsibility Act (H.R. 3221) ("SAFRA"). SAFRA calls for all new federal student loans to be originated through the Direct Loan program effective July 1, 2010. SAFRA plans to spend the projected budgetary savings on increased maximum Pell Grants, Access and Completion Grants, community college grants, grants for minority-servicing institutions, school construction and early childhood education. On September 17, 2009, the U.S. House of Representatives adopted SAFRA. The Senate is expected to introduce their version in late September which will be considered by the Senate HELP Committee for review and eventually to the Senate floor. It is uncertain what changes will be made to the proposed legislation as it moves through the Senate and prior to the final vote by the Senate. This process is not expected to be completed until November 2009.

If the legislation eventually becomes law, it is expected that it will have an impact on the future earnings of the Authority. The impact expected cannot be projected as the terms of the legislation have not yet been completed, therefore an estimate cannot be reasonably predicted.

The U.S. Department of Education issued a report on September 8, 2009 claiming an overpayment to the Authority of approximately \$4,200,000 of principal, and over \$650,000 in interest as a result of findings in a prior examination of the Lender of Last Resort Program (LLR). The Authority believes that this claim is without merit and plans to contest the claim. Please see Note 15 to the financial statements for more detailed information.

In the second quarter of 2008, the Internal Revenue Service (IRS) performed an audit on the South Carolina State Education Assistance Authority Guaranteed Student Loan Revenue Bonds, 1998 Series (the "1998 Bonds"), issued by the Authority. As a result of the audit, the IRS issued the Authority a Form 5701-TEB notice of Proposed Issue in March of 2009 which raised issues regarding the methodology for tracking student loans originated with the proceeds of the 1998 Bonds and the treatment of the consolidation loan rebate fee paid by the Corporation to the Department of Education. The IRS asserts that the bond issue fails to qualify as a tax-exempt bond due to their findings and that interest on the 1998 Bonds to the bondholders would not be excludable from gross income under Section 103(a) of the Code. The IRS estimates that the tax exposure is approximately \$1,000,000. The Authority has responded to the IRS by disputing the conclusions contained in the Form 5701 and is awaiting a response from the IRS. Please see Note 15 to the financial statements for more detailed information.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF NET ASSETS
ENTERPRISE FUND
JUNE 30, 2009 AND 2008

	2009	2008		2009	2008
ASSETS			LIABILITIES		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 75,285,947	\$ 139,958,318	Accounts payable	53,192	82,608
Cash and cash equivalents - restricted	19,927,477	33,800,215	Compensated absences	296,098	252,042
Receivables			Due to South Carolina Student Loan Corporation	12,543,342	18,782,783
Current portion of finance loans	50,820,000	75,000,000	Consolidation rebate fee payable	1,040,492	1,096,404
Due from South Carolina Student Loan Corporation	6,845,590	1,579,200	Payable from restricted assets		
Accrued interest receivable	1,728	58,369	Accrued bond interest payable	3,306,945	16,487,300
Federal reinsurance receivable	2,026,472	3,088,865	Arbitrage payable to Federal government	172,266	-
Loan processing issuance fee receivable	287,939	177,253	Total current liabilities	17,412,335	36,701,137
Account maintenance fee receivable	534,500	465,760			
Total current assets	155,729,653	254,127,980	Long-Term Liabilities		
			Bonds payable, less current maturities, deferred amount		
Long-Term and Other Assets			of debt refunding of \$ 17,350 in 2009 and \$ 23,738 in		
Receivables			2008 and bond premium and discounts of \$ 513,713 in		
Finance loans, less current portion	1,018,171,820	935,897,827	2009 and \$ 783,025 in 2008	1,010,518,937	1,010,243,237
Deferred cost of issuance of bonds	3,921,085	4,311,765	Provision for losses on student loans	959,765	788,570
Total long-term and other assets	1,022,092,905	940,209,592	Arbitrage payable to federal government payable from		
			restricted funds	3,035,071	1,998,628
			Total long-term liabilities	1,014,513,773	1,013,030,435
			Total liabilities	1,031,926,108	1,049,731,572
Property, Plant & Equipment					
Furniture and equipment	620,431	562,025	Net Assets		
Automobile	22,338	22,338	Invested in capital assets	160,075	222,779
Less: accumulated depreciation	(482,694)	(361,584)	Restricted for		
Total property, plant & equipment	160,075	222,779	Debt service		
			Bond indentures - 1993 resolution	88,410,122	90,453,838
			Bond indentures - 2002 resolution	5,903,276	6,818,286
			Other		
			Federal government	13,982,603	9,893,783
			Guaranty agency operating account	36,373,417	36,222,053
			Unrestricted	1,227,032	1,218,040
Total assets	\$ 1,177,982,633	\$ 1,194,560,351	Total net assets	\$ 146,056,525	\$ 144,828,779

See notes to financial statements.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
ENTERPRISE FUND
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Operating Revenue		
United States Department of Education		
Loan processing and issuance fee	\$ 2,704,107	\$ 1,927,215
Account maintenance fee	2,166,053	2,322,593
Default aversion fee income	1,313,300	1,377,985
Retention on default collections (net of payments to federal government of \$ 6,437,809 in 2009 and \$ 5,666,878 in 2008)	4,157,185	3,623,024
Income from South Carolina Student Loan Corporation		
Subsidized Interest	3,400,557	4,112,817
Special allowance	(6,825,597)	49,252
Non-subsidized interest	10,525,847	12,847,444
Late charges	36,400	63,116
Miscellaneous payments of student loans	(164)	2,007
Reimbursement of bond expense	29,051,399	39,766,792
Reinsurance recoveries	275,536	246,011
Miscellaneous income	1,254,545	14
Guaranty fees	6,108,707	4,715,371
Interest/investment income	976,383	8,830,795
Net (decrease) in the fair value of investments	(9,282)	(74,429)
Total operating revenue	<u>55,134,976</u>	<u>79,810,007</u>
Operating Expenses		
Personnel	3,734,409	2,896,378
Contractual	636,915	631,205
General operating	786,427	740,581
South Carolina Student Loan Corporation for operating costs	5,326,708	7,999,494
Bond interest expense	25,826,245	52,443,987
Amortization - deferred cost of bond issuance	390,680	323,009
Default aversion fee expense	1,313,300	1,377,985
Loan fees	2,591,141	3,164,621
Federal default fee	6,108,707	2,348,304
Borrower incentives	2,380,298	1,353,378
Broker/dealer fees	2,062,946	1,956,987
Reinsurance expense	1,077,294	1,376,477
Other fees	463,451	636,841
Total operating expenses	<u>52,698,521</u>	<u>77,249,247</u>
Operating income	2,436,455	2,560,760
Non-Operating Revenues (Expenses)		
Arbitrage income (expense)	<u>(1,208,709)</u>	<u>4,342,458</u>
Change in net assets	1,227,746	6,903,218
Net Assets		
Beginning	<u>144,828,779</u>	<u>137,925,561</u>
Ending	<u><u>\$ 146,056,525</u></u>	<u><u>\$ 144,828,779</u></u>

See notes to financial statements.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND
YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Receipts from borrowers and U.S. Department of Education	\$ 19,248,992	\$ 14,025,303
Receipts from SCSLC services provided	71,392,397	122,051,466
Payments to suppliers	(69,360,886)	(96,043,231)
Payments to employees	(3,690,353)	(2,916,190)
Net cash provided by (used in) operating activities	<u>17,590,150</u>	<u>37,117,348</u>
Cash Flows from Non-Capital Financing Activities		
Finance loan advances to South Carolina Student Loan Corporation for student loans	(170,284,884)	(519,408,896)
Finance loan payments received from South Carolina Student Loan Corporation	112,190,891	322,194,496
Payment on bonds payable	-	(147,353,736)
Proceeds from issuing revenue and refunding bonds for student loans	-	131,700,000
Costs of bond issuance paid from refunding bond proceeds	-	(685,377)
Interest paid on revenue bonds	(39,006,600)	(49,287,723)
Net cash provided by (used in) non-capital financing activities	<u>(97,100,593)</u>	<u>(262,841,236)</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(58,406)	(78,769)
Cash Flows from Investing Activities		
Interest received on investment securities	1,033,022	9,825,523
Sale of investments	-	-
Net increase (decrease) in fair value of investments reported as cash equivalents	(9,282)	(74,429)
Net cash provided by investing activities	<u>1,023,740</u>	<u>9,751,094</u>
Net increase (decrease) in cash and cash equivalents	(78,545,109)	(216,051,563)
Cash and Cash Equivalents		
Beginning	<u>173,758,533</u>	<u>389,810,096</u>
Ending	<u>\$ 95,213,424</u>	<u>\$ 173,758,533</u>

See notes to financial statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND
YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in)		
Operating Activities		
Operating income	\$ 2,436,455	\$ 2,560,760
Adjustments to reconcile operating income to net cash provided by (used in) operating activities		
Purchase of student loans due to loan guarantees	(39,159,984)	(37,455,321)
Payments received from U.S. Department of Education under federal reinsurance program	40,222,380	36,822,448
Amortization of deferred cost of bond issuance	390,680	323,009
Amortization of deferred amount on refunding - interest expense	6,388	13,179
Amortization of premiums and discounts on bonds payable - interest expense	269,311	193,084
Interest/investment income (investing activities category)	(976,383)	(8,830,795)
Depreciation expense	121,110	112,674
Provision for loan losses	171,195	588,560
Net decrease in fair value of investments reported as cash equivalents (investing activities category)	9,282	74,429
Bond interest expense (non-capital financing activities category)	25,826,245	52,237,723
Changes in assets and liabilities		
(Increase) decrease in due from South Carolina Student Loan Corporation	(5,266,390)	9,477,794
(Increase) in loan processing and issuance fee receivable	(110,686)	(32,497)
(Increase) decrease in account maintenance fee receivable	(68,740)	260,826
(Decrease) in accounts payable	(29,416)	(183,397)
Increase (decrease) in compensated absences liability	44,056	(19,812)
Increase (decrease) in consolidation rebate fee payable	(55,912)	14,746
(Decrease) in federal reserve funds payable	-	(574,141)
(Decrease) in due to South Carolina Student Loan Corporation	(6,239,441)	(18,465,921)
Net cash provided by operating activities	<u><u>17,590,150</u></u>	<u><u>37,117,348</u></u>
Supplemental Disclosures of Cash Flow Information		
Interest collected on finance loans - operating activities	<u><u>13,924,676</u></u>	<u><u>7,482,468</u></u>
Arbitrage income incurred and liability accrued - non-capital financing activity	<u><u>(1,208,709)</u></u>	<u><u>4,342,458</u></u>
Retirement of fixed assets - capital and related financing activity	<u><u>-</u></u>	<u><u>63,806</u></u>
Write-off of accumulated depreciation related to retired assets - capital and related financing activity	<u><u>\$ -</u></u>	<u><u>\$ 63,806</u></u>

See notes to financial statements

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

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

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

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

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

The Authority has been authorized by the State of South Carolina to issue revenue bonds for the purpose of making student loans. The Authority has approved SCSLC as an eligible lender under its program and has designated it as the private, non-profit agency to administer these loans. It is the duty of SCSLC to process applications, make student loans and collect principal, interest, fees and penalties on such loans. Loans may or may not be subsidized. Interest is paid on subsidized loans during the enrolled, grace and deferred periods by the U.S. Department of Education. Upon entering the repayment period, the interest is paid by the borrower. Special Allowance Payments (SAP) are made to SCSLC from the U.S. Department of Education (USDE). In general, the amount of SAP is the difference between the amount of interest SCSLC receives from the borrower or the government and the variable amount that is provided under requirements of the Higher Education Act of 1965, as amended, which is a predefined rate for each type of loan. Any revenue, or expense related to SAP is paid, or charged to the Authority along with the principal and interest collected on loans as it is received for bonds under the 1993 General Resolution. Under the 2002 General Resolution, the amount necessary to pay debt service on the Authority's bonds is required to be reimbursed as defined by the 2002 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 its pro rata share based on space occupied, equipment usage, and loan servicing costs.

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

In May 1978, the Authority initiated its Student Loan Insurance Program and commenced guaranteeing Guaranteed Loans as the guaranty agency for the State under §428(c) of the Higher Education Act. In order to administer its Student Loan Insurance Program effectively, the Authority processes loans submitted for guarantee, issues loan guarantees, provides collection assistance for delinquent loans, pays claims for loans in default, collects loans on which default claims have been paid, and makes appropriate responses to the 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.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

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

Business – type activity: The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operation of each account uses a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, 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 South Carolina Student Loan Corporation and guaranteeing guaranteed loans. The Authority's Enterprise Fund is composed of the Collection Account Prior Unpledged, 1993 Resolution, 2002 Resolution, Agency Operating Account, and the Federal Student Loan Reserve Account. These accounts, except for the Federal Student Loan Reserve Account, Agency Operating Account and Collection Account Prior Unpledged, constitute pledged income for the liquidation of outstanding bonds after transfers for operations.

The Authority reports net assets reserved for current debt service as the accrued interest plus ten months of the outstanding bond principal due as of year end as required by the bond indentures (see Note 8). Under the 1993 General Resolution, restricted for bond indentures represents net assets for future debt service and includes six months interest to become due on the principal amount or three percent of the outstanding bond principal as specified under each bond series plus principal and interest collected on student loans not yet required to meet current debt service or used to make student loans. Under the 2002 General Resolution, restricted for bond indentures represents net assets for future debt service and includes one percent (1%) of the outstanding bond principal as specified under each bond series plus principal and interest allocated on student loans not yet required to meet current debt service. Under the bond resolutions, the restricted for bond indentures also includes one to four months projected operating expenses and any unamortized costs of issuances. The unrestricted is the residual equity not legally reserved for bond indentures.

The 1993 and 2002 resolution accounts each include a sinking account that is used to deposit the proceeds from the sale of bonds and collections on loans including federal interest and income from SCSLC which, as lender, bills the Department of Education directly. All investment income on investments in the debt reserve fund of the sinking account is recorded in the sinking account as required by the bond indentures. The sinking account is used to make transfers to the debt reserve and loan accounts.

The 1993 and 2002 resolution accounts each include a debt reserve account that is a part of the sinking account. Simultaneously with the issuance and delivery of any series of bonds, the Authority is required to deposit monies equal to the debt reserve requirements, based on a percentage of outstanding bonds, into the debt reserve account. These requirements include the forward funding of the debt service monies necessary to make debt service account interest, principal and cumulative sinking fund payments when due and payable. The current debt service account must contain accrued interest payable and a portion of the outstanding bond principal as of June 30, as required in the bond indentures. The balance of the account for future debt service consists of a portion of the original bond issue and a portion of the outstanding balance.

The 1993 and 2002 resolution accounts each include a loan account that is used to deposit bond proceeds which are transferred from the sinking account for the purpose of making loans and paying the cost of issuance of bonds. Other transfers from the sinking account are deposited into the loan account to reimburse monies which have been transferred to SCSLC for operations.

The Collection Account Prior Unpledged collects all payments on loans on behalf of the Authority and SCSLC. The account is required to disburse to each Authority account and to SCSLC by the tenth of each month for the prior month.

The Federal Student Loan Reserve Account (FSLRF) is used to account for activity as required by the 1998 reauthorization of the Higher Education Act. This account is used to account for investment income and insurance premiums which are paid on behalf of the borrower utilizing funds from the Agency Operating Account. The Authority has not charged insurance premiums for loans guaranteed since March 1, 1999; however, the Higher Education Act requires that the Authority charge a Federal Default Fee for certain guaranteed loans made on or after July 1, 2006 and deposit to this account.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

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

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

The Agency Operating Account is used to account for all loan processing and issuance fees, account maintenance fees, default aversion fees, and the retention on default collections. The U. S. Department of Education pays all of the fees except the default aversion fees reimbursed by the Federal Student Loan Reserve Account. The loan processing issuance fee was equal to 0.65% of the total principal amount of loans originated prior to October 1, 2003. As of October 1, 2003 the loan processing fee changed to 0.40%. The account maintenance fee was equal to 0.10% of the ending original principal balance of loans outstanding for the fiscal year prior to October 1, 2007. As of October 1, 2007, the account maintenance fee changed to 0.06% of the ending original principal balance of loans outstanding for the fiscal year. The default aversion fee is equal to one percent of the principal and interest of a loan upon which default aversion activity was performed. This is reimbursed from the Federal Student Loan Reserve Account. Should this loan subsequently default, the default aversion fee is refunded back to the FSLRF. Retention on Default Collections is reported by the Authority directly to the Department of Education for services it performs in its role as guarantor. The Authority recognizes income related to a specified portion (16% as of October 1, 2007, 23% from October 1, 2003 to September 30, 2007, and 24% prior to October 1, 2003) of collections adjusted for certain items made on behalf of the Federal government on defaulted loans. The remaining balance of collections is remitted to the Federal government. The total cumulative value at June 30, 2009 and 2008 of all defaulted student loans purchased by the Authority is \$ 309,326,403 and \$ 270,195,387, 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 FSLRF. Except for funds transferred from the Federal Student Loan Reserve Account for operating shortfalls the Agency Operating Account is considered to be the property of the guaranty agency. To date, no funds have been transferred from the FSLRF to the Agency Operating Account for operating shortfalls.

Basis of accounting: The accrual basis of accounting is used for the Education Assistance Fund. Under the accrual basis of accounting, revenue is recognized when earned, and expenses are recorded when incurred. Investment income is recorded at stated interest rates with no amortization of premiums or discounts. Net increase (decrease) in the fair value of investments includes unrealized and realized gains and losses. Bond payable premiums and discounts are amortized over the life of the bonds and netted against interest expense. The Authority applies all Government Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, when not in conflict with GASB pronouncements. In accordance with GASB Statement 20, the Authority has elected not to implement FASB Statements 103 and after.

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.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

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

Budget and budgetary accounting (continued): Expenditures in excess of the budgeted amounts are not in violation of State laws. However, these are approved by the Board.

Compensated absences: Depending on length of employment, employees earn annual vacation at the rate of twelve (12) to twenty-five (25) days per year. Employees are expected to use at least one week (5 consecutive days) each year. An employee may not carry forward more than five (5) vacation days to the next year without management's permission. Earned, but unused, annual vacation will be paid when an employee terminates employment except when this termination is involuntary or inadequate notice is given. Sick leave is earned at the rate of 7 to 10 days per year depending on length of employment. An employee may not carry forward more than sixty (60) sick days to the next year without management's approval. Employees are not paid for earned, but unused, sick days upon termination of employment. The Authority calculates the gross compensated absences liability based on recorded balances of unused vacation leave, compensatory holiday and overtime leave for those specific SCSLC employees who administer Authority operations. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded. The net change in the liability is recorded in the current year in the personnel expenses.

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

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

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

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

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.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

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

Cash and cash equivalents (continued): 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; therefore, for credit risk information pertaining to the State's internal cash management pool, see the deposits disclosures in Note 2.

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

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

Deferred amount of debt refunding: The deferred amount of debt refunding is the difference between the reacquisition price and the net carrying amount of the old debt. Reacquisition price is the amount required to repay previously issued debt in a refunding transaction and it includes principal of the old debt plus any call premium. The net carrying amount is the amount due at maturity, adjusted for any unamortized premium or discount and issuance costs related to the old debt. The amount is being amortized as a component of interest expense on the straight line basis over the shorter of the remaining life of the old debt or the life of the new debt. It is being charged to operations using the effective - interest method. This treatment applies to debt refunding after July 1, 1994.

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

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

Property and equipment: Furniture, equipment and automobiles costing over \$ 5,000 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 assets are available.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

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 default rate times 3%. However, the evaluation is inherently subjective and the provisions may significantly change in the future. The allowance for loan losses was \$ 959,765 and \$ 788,570 at June 30, 2009 and 2008, respectively.

Note 2. Deposits and Investments

All deposits and investments of the Authority are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain of the Authority's deposits and investments are deposited with the Bank of New York Mellon or Wachovia Bank, N.A. as authorized by the State Treasurer. Deposits and investments of \$ 81,910,929 and \$ 152,009,481 at June 30, 2009 and 2008, respectively, are held by the Bank of New York Mellon as trustee or custodian for the Authority.

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

	<u>2009</u>	<u>2008</u>		<u>2009</u>	<u>2008</u>
Statement of Net Assets			Footnotes		
Cash and Cash Equivalents	\$ 75,285,947	\$ 139,958,318	Cash at banks	\$ 181,771	\$ 207,522
			Deposits - STO ICM pool	13,120,725	21,541,530
			Investments		
Restricted Assets			Bank repurchase agreements	59,465,887	117,538,240
Cash and cash equivalents	<u>19,927,477</u>	<u>33,800,215</u>	U.S. treasury notes	22,445,041	34,471,241
			U.S. agency bonds	-	-
Total	<u><u>\$ 95,213,424</u></u>	<u><u>\$ 173,758,533</u></u>	Total	<u><u>\$ 95,213,424</u></u>	<u><u>\$ 173,758,533</u></u>

Deposits: State law requires full collateralization of all State Treasurer balances. The State Treasurer must correct any deficiencies in collateral within seven (7) days. At June 30, 2009 and 2008, all State Treasurer 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 Treasurer'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 Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

At June 30, 2009 and 2008, Wachovia Bank, N.A. carried a bank balance at \$ 8,645 and \$ 17,956, respectively, of unspent federal grants for the Authority. These accounts are covered by FDIC insurance.

At June 30, 2009 and 2008, the Bank of New York Mellon carried a bank balance at \$ 173,126 and \$ 189,569. These accounts are covered by FDIC insurance.

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

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Deposits (continued): The reported amount and fair value of deposits held for the various accounts of the Authority were as follows at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Collection/unpledged prior	<u>\$ 13,120,725</u>	<u>\$ 21,541,530</u>

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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Collection/unpledged prior account - Bank of New York Mellon Bank repurchase agreements	<u>\$ 1,227,030</u>	<u>\$ 1,218,018</u>
1993 resolution account - Bank of New York Mellon U.S. Treasury notes	<u>8,489,413</u>	8,476,594
Bank repurchase agreements	<u>9,338,807</u>	<u>72,751,420</u>
Total	<u>17,828,220</u>	<u>81,228,014</u>
2002 resolution account - Bank of New York Mellon U.S. Treasury notes	<u>13,955,629</u>	25,994,647
Bank repurchase agreements	<u>266,009</u>	<u>271,380</u>
Total	<u>14,221,638</u>	<u>26,266,027</u>
Agency operating account - Bank of New York Bank repurchase agreements	<u>35,474,607</u>	<u>35,605,825</u>
Federal student loan reserve account - Bank of New York Mellon Bank repurchase agreements	<u>13,159,434</u>	<u>7,691,597</u>
Totals	<u>\$ 81,910,929</u>	<u>\$ 152,009,481</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 commercial paper, corporate bonds, or equities.

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

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

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, 2009 and 2008. All Bank of New York Mellon investments are insured or registered by the Authority or its agent in the Authority's name. There are no uninsured investments.

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

These loans bear interest at a fixed rate of 2.875% to 12% or an annual variable rate of 1.88% to 3.73%, which is reset each July 1 and which is equal to the bond equivalent rate of the 91-day or 52-week Treasury Bill, determined at the final auction held prior to the immediately preceding June 1, plus 1.7 to 3.25 percent with a cap on the rate of 8.25 to 12.00 percent. These loans are repayable over a period of five (5) to thirty (30) years with a minimum payment of \$ 360 or \$ 600 per year. Repayment of principal may be scheduled to begin within sixty (60) days of final disbursement or six (6) to ten (10) months after the student graduates or ceases to be enrolled on at least a half-time basis in an eligible institution.

Loans disbursed for the 1978-79 Academic year and subsequent years appear on SCSLC's financial statements. These loans are guaranteed by the Authority and reinsured by the U.S. Department of Education. (See Note 12.) The federal default fee required by the Higher Education Act on guaranteed loans made on or after July 1, 2006 is paid by the Authority on the borrower's behalf.

Since the Authority entered into a Supplemental Guaranty Agreement with the U.S. Department of Education in 1978, under which the Federal government reinsures the Authority for amounts paid in connection with defaulted loans, the Authority has received cumulative payments to date of \$ 307,299,931 and \$ 267,106,522 as of June 30, 2009 and 2008, 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</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 in the period ended September 30, 2008 and 2007 was approximately .82% and .76%, respectively. The Authority expects the default rate to remain approximately 1%.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

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 1993 General Resolution are made pursuant to a loan agreement dated August 31, 1993, and increases (decreases) to SCSLC from the Authority's 2002 General Resolution are made pursuant to a loan agreement dated June 12, 2002. Each loan is calculated as set forth in the respective loan agreements. The finance loans as of June 30, 2009 and 2008 are as follows:

Authority Bond Resolution	2008			2009			Balance 6/30/2009
	Balance 6/30/2007	Increases	Decreases	Balance 6/30/2008	Increases	Decreases	
1993	\$ 253,471,463	\$ 187,300,000	\$ 276,673,997	\$ 164,097,466	\$ 170,284,884	\$ 112,190,891	\$ 222,191,459
2002	560,211,966	332,108,895	45,520,500	846,800,361	-	-	846,800,361
Total	<u>\$ 813,683,429</u>	<u>\$ 519,408,895</u>	<u>\$ 322,194,497</u>	<u>\$ 1,010,897,827</u>	<u>\$ 170,284,884</u>	<u>\$ 112,190,891</u>	<u>\$ 1,068,991,820</u>

Note 5. Amounts Due from/to SCSLC

The \$ 6,845,590 and \$ 1,579,200 at June 30, 2009 and 2008, respectively, amount due from SCSLC represents funds due for income earned, but not yet received, from the U.S. Department of Education and borrowers thus not remitted to the Authority and funds collected on behalf of the Authority. The Authority also owes SCSLC for funds collected on their behalf of \$ 12,543,542 and \$ 18,782,783 at June 30, 2009 and 2008, respectively. Funds collected on behalf of SCSLC are required to be paid to SCSLC by the tenth of each month.

Note 6. Capital Assets

The following is a summary of changes in capital assets for fiscal years ended June 30, 2009 and 2008:

	Balance			Balance			Balance 6/30/2009
	6/30/2007	Additions	Deletions	6/30/2008	Additions	Deletions	
Cost							
Furniture and equipment	\$ 547,062	\$ 78,769	\$ (63,806)	\$ 562,025	\$ 58,406	\$ -	\$ 620,431
Automobiles	22,338	-	-	22,338	-	-	22,338
Total	<u>569,400</u>	<u>78,769</u>	<u>(63,806)</u>	<u>584,363</u>	<u>58,406</u>	<u>-</u>	<u>642,769</u>
Accumulated Depreciation							
Furniture and equipment	(305,891)	(105,228)	63,806	(347,313)	(113,664)	-	(460,977)
Automobiles	(6,825)	(7,446)	-	(14,271)	(7,446)	-	(21,717)
Less, accumulated depreciation	<u>(312,716)</u>	<u>(112,674)</u>	<u>63,806</u>	<u>(361,584)</u>	<u>(121,110)</u>	<u>-</u>	<u>(482,694)</u>
Net capital assets	<u>\$ 256,684</u>	<u>\$ (33,905)</u>	<u>\$ -</u>	<u>\$ 222,779</u>	<u>\$ (62,704)</u>	<u>\$ -</u>	<u>\$ 160,075</u>

Note 7. Loan Guarantees

As an incentive for the states to set up state guaranty agencies, the U.S. Department of Education has made certain funds available to the states to assist in establishing a federal student loan reserve account which replaced the loan guarantee account by the 1998 Reauthorization of the Higher Education Act (Act) on July 1, 1998. Maintenance of the federal student loan reserve account will depend upon possible further Federal and State advances, investment income, federal default fee on student loans as collected, and reinsurance payments from the U.S. Department of Education. Prior to July 1, 1998, the account accumulated retention of default collections, administrative cost allowance and supplemental preclaims assistance. The Act eliminated this format (See Note 14). The U.S. Department of Education reserved the right to request repayment of advances under the Advance

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

Note 7. Loan Guarantees (Continued)

Agreement within such period as it deemed appropriate in light of the maturity and solvency of the Authority's federal student loan reserve account. As of June 30, 2009 and 2008, the Authority has reimbursed all such advances to the U.S. Department of Education that they have requested.

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

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

Note 8. Bonds and Other Payables and Restricted Assets

The Authority issues Guaranteed Student Loan Revenue Bonds or Education Loan Revenue Bonds as needed to make finance loans to the South Carolina Student Loan Corporation to make student loans (See Note 4). The finance loans to the South Carolina Student Loan Corporation are secured by loans funded by bond proceeds, related revenue from such loans, investments in accounts and earnings thereon. The bond resolutions permit the Authority or the SCSLC to accumulate borrowers' payments during the year to pay principal and interest on bonds as due. The bonds do not constitute a debt, liability or obligation of the State of South Carolina or a pledge of the faith and credit of the State of South Carolina. As of June 30, 2008, the current debt service account must contain assets equal to the accrued interest payable plus ten months of the outstanding bond principal due the following September 1 plus four (4) months principal due the following March 1 as required in the bond documents. As of June 30, 2009 and 2008, the Authority was required to have assets deposited in the current debt service account of \$ 3,550,895 and \$ 17,423,633, respectively. The Authority has deposits in restricted assets equal to the current debt service requirement in 2009 and 2008. Restricted assets of \$ 19,927,477 in 2009 and \$ 33,800,215 in 2008 include the current debt service deposits of \$ 12,623,500 in both 2009 and 2008, and the arbitrage rebate liability deposits of \$ 3,035,071 in 2009 and \$ 1,998,628 in 2008.

The Student Loan Revenue bonds as of June 30, 2009 and 2008 follow:

Issued	Original Amount	Interest Rate	Maturity Date	Balance Outstanding 6/30/2007	Issued (Retired) During FY 08	Balance Outstanding 6/30/2008	Issued (Retired) During FY 09	Balance Outstanding 6/30/2009
8/31/1994	\$ 86,845,000	4.75-6.30%	9/1/96-2014	\$ 58,475,000	\$ (6,425,000)	\$ 52,050,000	\$ -	\$ 52,050,000
8/30/1995	62,055,000	5.00-6.00%	9/1/99-2015	40,335,000	(10,435,000)	29,900,000	-	29,900,000
6/16/1999	67,300,000	Auction	9/1/07-2019	39,250,000	(15,550,000)	23,700,000	-	23,700,000
6/17/1998	49,850,000	Auction	9/1/05-2033	17,250,000	(17,250,000)	-	-	-
6/29/2000	59,050,000	Auction	3/1/05-2020	56,550,000	(36,550,000)	20,000,000	-	20,000,000
6/20/2001	49,200,000	Auction	3/1/05-2021	46,700,000	(16,700,000)	30,000,000	-	30,000,000
6/12/2002	117,500,000	Auction	3/1/05-2022	115,000,000	(36,000,000)	79,000,000	-	79,000,000
8/20/2003	100,150,000	Auction	9/1/05-2023	97,650,000	(5,650,000)	92,000,000	-	92,000,000
8/11/2004	174,700,000	Auction	3/1/06-2024	174,700,000	(3,000,000)	171,700,000	-	171,700,000
11/22/2005	208,300,000	Auction	9/1/06-2025	208,300,000	-	208,300,000	-	208,300,000
10/3/2006	172,700,000	Auction	9/1/07-2026	172,700,000	-	172,700,000	-	172,700,000
10/23/2007	131,700,000	Auction	9/1/08-2027	-	131,700,000	131,700,000	-	131,700,000
				<u>\$ 1,026,910,000</u>	<u>\$ (15,860,000)</u>	<u>\$ 1,011,050,000</u>	<u>\$ -</u>	<u>\$ 1,011,050,000</u>

The 1994, 1995, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006 and 2007 bond issues include auction rate bonds totaling \$ 1,011,050,000. The interest rate on these bonds varies every thirty-five days depending on auction rate bond markets. The average interest rates for fiscal years 2009 and 2008 have been approximately 2.50% and 3.96%, respectively. The maximum interest rate is 12%. Future interest payment projections are based upon a five year average of historical rates for these bonds. The rates used for future interest payment projections for 2009 and 2008 are 2.90% and 4.93%, respectively.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

Note 8. Bonds and Other Payables and Restricted Assets (Continued)

Optional redemption features are available for certain of the various outstanding bonds. The Authority's auction rate bonds can be optionally redeemed in full on the business day following any auction date without any call premium due.

Due to adverse market conditions, most auctions associated with auction rate bonds across a variety of sectors and asset classes have experienced widespread failure since February 11, 2008. All of the Authority's auctions have failed since this date and remain in such a state. This has had the effect of increasing the Authority's relative cost of funds. However, the historic decrease in interest rates during the 2008 and 2009 years counteracted this trend, leading to fairly low overall interest rates for the bonds.

Although the Authority has no requirement to pay off the bonds early, the Authority is actively exploring all refinancing options. They seek to issue other bonds that will refund and restructure the auction rate bonds into another security type. The Authority will likely pursue such a restructuring whenever the capital markets can provide favorable financing terms for a form of security with stable long term prospects.

The changes in debt for the years ending June 30, 2009 and 2008 follow:

<u>Long-Term Liabilities</u>	<u>6/30/2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2009</u>	<u>Current Portion</u>
Bonds payable	\$ 1,026,910,000	\$ 131,700,000	\$ (147,560,000)	\$ 1,011,050,000	\$ -	\$ -	\$ 1,011,050,000	\$ -
Compensated absences payable	271,854	292,070	(311,882)	252,042	344,056	(300,000)	296,098	296,098
Arbitrage payable to federal government	6,341,086	-	(4,342,458)	1,998,628	1,208,709	-	3,207,337	-
Deferred amount of debt refunding	(36,917)	-	13,179	(23,738)	-	6,388	(17,350)	(6,388)
Unamortized bond revenues retirement	(976,109)	-	193,084	(783,025)	-	269,312	(513,713)	(269,311)
Total	<u>\$ 1,032,509,914</u>	<u>\$ 131,992,070</u>	<u>\$ (152,008,077)</u>	<u>\$ 1,012,493,907</u>	<u>\$ 1,552,765</u>	<u>\$ (24,300)</u>	<u>\$ 1,014,022,372</u>	<u>\$ 20,399</u>

The annual requirements to retire these bonds as of June 30, 2009 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2010	\$ -	\$ 29,696,318	\$ 29,696,318
2011	-	29,696,318	29,696,318
2012	-	29,696,318	29,696,318
2013	-	29,696,318	29,696,318
2014	-	29,696,318	29,696,318
2015	52,050,000	28,931,918	80,981,918
2016	29,900,000	27,728,410	57,628,410
2017	-	27,289,302	27,289,302
2018	-	27,289,302	27,289,302
2019	23,700,000	27,289,302	50,989,302
2020	20,000,000	26,593,191	46,593,191
2021	30,000,000	26,005,756	56,005,756
2022	79,000,000	25,124,603	104,124,603
2023	92,000,000	22,804,234	114,804,234
2024	171,700,000	20,102,032	191,802,032
2025	208,300,000	15,058,901	223,358,901
2026	-	8,940,764	8,940,764
2027	172,700,000	6,404,512	179,104,512
2028	131,700,000	1,934,130	133,634,130
	<u>\$1,011,050,000</u>	<u>\$439,977,947</u>	<u>\$1,451,027,947</u>

On October 23, 2007, the Authority issued \$ 131,700,000 in Education Loan Revenue Bonds with a variable auction interest rate which is capped at 12.0 percent to provide financing for student loans. The gross proceeds were used to pay issuance costs of \$ 705,912, make certain deposits to funds of \$ 1,317,000, and purchase new student loans in the amount of \$ 129,677,088.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

Note 8. Bonds and Other Payables and Restricted Assets (Continued)

The deferred amount of debt refunding at June 30, 2009 and 2008 is \$ 17,350 and \$ 23,738, respectively. The amount of the unamortized bond discounts at June 30, 2009 and 2008 is \$ 513,713 and \$ 783,025, respectively.

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 has suspended the loan program and the Authority will reimburse all funds collected for the program.

During the fiscal years ended June 30, 2009 and 2008, collections were \$ 9,141 and \$ 19,005, respectively, from repayments by participants. The Authority repaid these amounts to the Federal Government during the years ended June 30, 2009 and 2008 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 from the Attorney General.

The Authority paid the University of South Carolina \$ 1,110 and \$ 8,961 for the years ended June 30, 2009 and 2008, respectively, for data processing services and the expense is recorded as contractual expenses.

See Note 1 regarding transactions with SCSLC.

Note 11. Employee Benefit Plans

The Authority provides retirement benefits through the South Carolina Student Loan Corporation Money Purchase Pension Plan 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. BB&T is the Trustee of the Plan. The authority under which benefits provisions are established or amended is provided in the Plan document as administrated by the Plan Trustee. The Plan issues a stand-alone report annually and may be obtained by writing to the South Carolina Student Loan Corporation, Post Office Box 21487, Columbia, S.C. 29221 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 paid monthly. A participant is 20% vested after two years service and 100% vested after six years. A participant receives normal retirement at age sixty-five. At termination of employment or reaching normal retirement age, the participant has the right to elect to receive all or any portion of his vested benefit derived from employer contributions. Voluntary contributions are not permitted. Under the plan, the portion of an employee's account that has not vested when an employee terminates, called forfeitures, reduces the employer's contribution in the year following the Plan year in which the forfeiture occurs. The total pension expense is fully funded and is included in personnel expenses under the retirement category.

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

	<u>2009</u>	<u>2008</u>
Total salary	\$ 2,359,625	\$ 2,398,716
Total covered salary	2,358,479	2,372,251
Pension expense (actual and required)	116,512	130,256
Percent pension expense to covered salary	4.94%	5.49%

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

Note 11. Employee Benefit Plans (Continued)

The Authority participates in a supplemental retirement plan. The Plan is called the South Carolina Student Loan Corporation Defined Benefit Plan, a single employer plan. The authority under which benefit provisions are established or amended is provided in the Plan document as administered by the Plan Trustee. The Plan is a defined benefit pension plan covering substantially all employees with one year of service and over 21 years of age. The Plan provides benefits based on years of service and compensation. The benefit formula uses one percent (1%) of the average of the five highest consecutive years' pay of each eligible employee multiplied by the number of years of service not to exceed 30 years. The Corporation's funding policy is to make at least the minimum annual contribution that is actuarially computed by the projected unit credit method required by the Plan. The Authority will contribute the amount billed to them by the Corporation. The Corporation issues a publicly available financial report that includes financial statements and required supplementary information for the South Carolina Student Loan Corporation Defined Benefit Plan. That report may be obtained by writing to South Carolina Student Loan Corporation, Post Office Box 21487, Columbia, South Carolina 29221 or by calling (803) 772-9480.

The total required and paid contributions for the years ended June 30, 2009 and 2008 were \$ 369,196 and \$ 470,641, respectively, representing 15.65% and 19.84% of covered salary of \$ 2,358,479 and \$ 2,372,251, respectively. Total salaries for the years ended June 30, 2009 and 2008 were \$ 2,359,625 and \$ 2,398,716, respectively. Contributions are included in the personnel expense category.

The Authority participates in the 403 (b) Defined Contribution Plan established by the South Carolina Student Loan Corporation on November 5, 2002. The Plan provides for a 5% contribution based on the participant's total annual compensation. The total amount contributed under the plan was \$ 103,003 in 2009 and \$ 96,048 in 2008. All employees are eligible who have completed one year of service and attainment of age 21. Contributions are 100% vested when made.

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 \$ 565,275 and \$ (373,852) in 2009 and 2008, respectively, and are recorded as expenses under the personnel expense category, and are paid monthly as billed by insurers. In 2008, due to a change in the retiree health insurance plan sponsored by the Corporation, employer contributions of \$ 624,154 were reduced by a benefit of \$ 998,806. The retiree health insurance plan sponsored by the South Carolina Student Loan Corporation was terminated as of June 30, 2009.

Note 12. Student Loan Guarantees

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

	<u>2009</u>	<u>2008</u>
Approved Amount for Loans	\$ 8,164,390,909	\$ 7,377,601,158
Outstanding Balance	3,338,300,223	2,865,198,181

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.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

Note 13. Rebate and Excess Earnings Liability (Continued)

The IRC and U. S. Treasury Regulations permit issuers of qualified student loan tax-exempt obligations to earn no more than 1.5% to 2.0% above the bond yield on the qualified student loans financed with such tax-exempt obligations. For excess earnings on qualified student loans, issuers may elect to pay such excess to the U. S. Treasury or return such excess to the borrowers of qualified student loans financed by the tax-exempt obligations. The Authority has elected to implement a program of borrower benefits in order to return such excess to borrowers and the program resulted in decreasing the liability. The South Carolina State Treasurer had computations made to determine the liability at June 30, 2009 and 2008. Based on those results, the Authority incurred expense (income) of \$ 1,208,709 for 2009 and \$ (4,342,458) for 2008. This expense 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, 2009 and 2008, the Authority reports \$ 3,035,071 and \$ 1,998,628, respectively, as rebate and excess earnings liability. See Note 15.

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

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

	<u>2009</u>	<u>2008</u>
Charges for Services		
United States Department of Education		
Loan processing and issuance fee	\$ 2,704,107	\$ 1,927,215
Account maintenance fee	2,166,053	2,322,593
Default aversion fee income	1,313,300	1,377,985
Retention on default collections	4,157,185	3,623,024
Income from South Carolina Student Loan Corporation		
Subsidized interest	3,400,557	4,112,817
Special allowance	(6,825,597)	49,252
Non-subsidized interest	10,525,847	12,847,444
Late charges	36,400	63,116
Miscellaneous payments of student loans	(164)	2,007
Reimbursement of bond expense	29,051,399	39,766,792
Guaranty fees	6,108,707	4,715,371
Reinsurance recoveries	275,536	246,011
Total charges for services	<u>52,913,330</u>	<u>71,053,627</u>
Operating grants and contributions		
Interest/investment income	976,383	8,830,795
Net increase(decrease) in the fair value of investments	(9,282)	(74,429)
Miscellaneous income	1,254,545	14
Arbitrage income (expense)	(1,208,709)	4,342,458
Total operating grants and contributions	<u>1,012,937</u>	<u>13,098,838</u>
Total program revenue	53,926,267	84,152,465
Less, expenses	<u>52,698,521</u>	<u>77,249,247</u>
Change in net assets	1,227,746	6,903,218
Net Assets		
Beginning	<u>144,828,779</u>	<u>137,925,561</u>
Ending	<u>\$ 146,056,525</u>	<u>\$ 144,828,779</u>

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2009 AND 2008**

Notes to Financial Statements

Note 15. Contingency

On September 8, 2009, in connection with its review of the process for determining whether borrowers qualify for a FFELP Loan under the Lender-of-Last-Resort Program (the "*LLR Program*") of the Authority established under the Higher Education Act and the Authority's internal controls relating to the FFELP Program, the United States Department of Education made findings that (i) since 1993, the Corporation has made FFELP loans under the LLR Program ("*LLR Loans*") without a specific LLR application from the borrower pursuant to the Higher Education Act, (ii) since 1994, the Corporation has denied conventional FFELP loans to borrowers based solely on the borrowers' being bankrupts or debtors under the Bankruptcy Reform Act of 1994 (the "*Bankruptcy Act*") and on the basis on such denial made LLR Loans to such borrowers in violation of the Bankruptcy Act and guidance relating thereto issued by the United States Department of Education, and (iii) the Corporation has performed default aversion activities on behalf of the Authority in violation of the Federal Regulations promulgated under the Higher Education Act.

As a result of these findings, the United States Department of Education has determined that (i) the Authority must update its policies and procedures relating to the LLR Program, reclassify all LLR Loans made since 1993, calculate the amount of overpaid reinsurance relating to such LLR Loans, and refund such overpayment to the United States Department of Education, and (ii) obtain an independent servicer, other than the Corporation, to perform default aversion activities on its behalf or begin to perform those activities with its own employees.

The United States Department of Education has calculated that the amount to be paid as a result of the incorrect classification of loans as LLR Loans and the resulting overpayment of reinsurance on LLR Loans is approximately \$ 4,850,000 by the Authority and \$ 1,000,000 by the Corporation.

The Authority and the Corporation intend to appeal these findings of the United States Department of Education.

In the second quarter of 2008, the Authority received a letter from the Internal Revenue Service informing the Authority that the Internal Revenue Service would be auditing the \$ 49,850,000 in aggregate principal amount of South Carolina State Education Assistance Authority Guaranteed Student Loan Revenue Bonds, 1998 Series (the "*1998 Bonds*") issued by the Authority in 1998 and redeemed in full in 2008. The 1998 Bonds were audited as part of a project initiative involving student loan bonds.

As part of the audit of the 1998 Bonds, the Internal Revenue issued the Authority a Form 5701-TEB Notice of Proposed Issue ("*Form 5701*") in March of 2009 which raised issues regarding (i) the Authority's methodology for tracking student loans originated with the proceeds of the 1998 Bonds and (ii) the treatment of the consolidation loan rebate fee paid by the Corporation to the Department of Education. The Form 5701 asserts that because of the foregoing issues, the bond issue fails to qualify as a tax-exempt bond issue and that, therefore, interest on the 1998 Bonds to the bondholders would not be excludable from gross income under Section 103(a) of the Code. In the Form 5701, the Internal Revenue Service estimates the tax exposure to bondholders of the 1998 Bonds in an amount of \$ 1,001,636, based on an application of 29% to collectable past and future interest paid. The Authority believes the Internal Revenue Service position is inconsistent with industry practice. The Authority has responded to the Internal Revenue Service by disputing the conclusions contained in the Form 5701 and is awaiting a response from the Internal Revenue Service.

The Authority is unable to predict the outcome of this matter at this time and is not currently able to predict whether the Internal Revenue Service will identify additional issues relating to the 1998 Bonds that are not set forth in the Form 5701 or whether the Internal Revenue Service will open other audits of other bonds of the Authority as a result of this inquiry.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF NET ASSETS BY ACCOUNTS
ENTERPRISE FUND
JUNE 30, 2009**

	Collection Account Prior Unpledged	93 Resolution	02 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
ASSETS						
Current Assets						
Cash and cash equivalents	\$ 14,356,400	\$ 11,886,607	\$ 311,236	\$ 35,493,222	\$ 13,238,482	\$ 75,285,947
Cash and cash equivalents - restricted	-	6,017,076	13,910,401	-	-	19,927,477
Receivables						
Current portion of finance loans	-	9,860,000	40,960,000	-	-	50,820,000
Due from South Carolina Student Loan Corporation	41	3,077,925	2,526,219	1,241,405	-	6,845,590
Accrued interest receivable	2	-	1,631	69	26	1,728
Federal reinsurance receivable	-	-	-	-	2,026,472	2,026,472
Loan processing issuance fee receivable	-	-	-	287,939	-	287,939
Account maintenance fee receivable	-	-	-	534,500	-	534,500
Due from other funds	(560,842)	702,617	-	(299,421)	157,646	-
Total current assets	13,795,601	31,544,225	57,709,487	37,257,714	15,422,626	155,729,653
Long-term and other assets						
Receivables						
Finance loans, less current portion	-	212,331,459	805,840,361	-	-	1,018,171,820
Deferred cost of issuance of bonds	-	426,581	3,494,504	-	-	3,921,085
Total long-term and other assets	-	212,758,040	809,334,865	-	-	1,022,092,905
Property, plant & equipment						
Furniture and equipment	-	-	-	620,431	-	620,431
Automobile	-	-	-	22,338	-	22,338
Less: accumulated depreciation	-	-	-	(482,694)	-	(482,694)
Total property, plant & equipment	-	-	-	160,075	-	160,075
Total assets	\$ 13,795,601	\$ 244,302,265	\$ 867,044,352	\$ 37,417,789	\$ 15,422,626	\$ 1,177,982,633

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF NET ASSETS BY ACCOUNTS
ENTERPRISE FUND
JUNE 30, 2009**

	Collection Account Prior Unpledged	93 Resolution	02 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
LIABILITIES						
Current Liabilities						
Accounts payable	\$ 53,192	-	\$ -	-	\$ -	53,192
Compensated absences	-	-	-	296,098	-	296,098
Due to South Carolina Student Loan Corporation	11,474,885	-	-	588,199	480,258	12,543,342
Consolidation rebate fee payable	1,040,492	-	-	-	-	1,040,492
Payable from restricted assets						
Accrued bond interest payable	-	468,792	2,838,153	-	-	3,306,945
Arbitrage payable to Federal government	-	172,266	-	-	-	172,266
Total current liabilities	12,568,569	641,058	2,838,153	884,297	480,258	17,412,335
Long-Term Liabilities						
Bonds payable, less current maturities, deferred amount of debt refunding and bond premium and discounts	-	155,118,937	855,400,000	-	-	1,010,518,937
Provision for losses on student loans	-	-	-	-	959,765	959,765
Arbitrage payable to federal government payable from restricted funds	-	132,148	2,902,923	-	-	3,035,071
Total long-term liabilities	-	155,251,085	858,302,923	-	959,765	1,014,513,773
Total liabilities	12,568,569	155,892,143	861,141,076	884,297	1,440,023	1,031,926,108
Net Assets						
Invested in capital assets	-	-	-	160,075	-	160,075
Restricted for						
Debt service	-	88,410,122	5,903,276	-	-	94,313,398
Bond indentures	-	-	-	-	-	-
Other	-	-	-	-	-	-
Federal government	-	-	-	-	13,982,603	13,982,603
Guaranty agency operating account	-	-	-	36,373,417	-	36,373,417
Unrestricted	1,227,032	-	-	-	-	1,227,032
Total net assets	\$ 1,227,032	\$ 88,410,122	\$ 5,903,276	\$ 36,533,492	\$ 13,982,603	\$ 146,056,525

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS BY ACCOUNTS
ENTERPRISE FUND
YEAR ENDED JUNE 30, 2009**

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
Operating Revenue						
United States Department of Education						
Loan processing issuance fee	\$ -	\$ -	\$ -	2,704,107	-	\$ 2,704,107
Account maintenance fee	-	-	-	2,166,053	-	2,166,053
Default aversion fee income	-	-	-	1,313,300	-	1,313,300
Retention on default collections	-	-	-	4,157,185	-	4,157,185
Income from South Carolina Student Loan Corporation						
Subsidized interest	-	3,400,557	-	-	-	3,400,557
Special allowance	-	(6,825,597)	-	-	-	(6,825,597)
Non-subsidized interest	-	10,525,847	-	-	-	10,525,847
Late charges	-	36,400	-	-	-	36,400
Miscellaneous payments of student loans	-	(164)	-	-	-	(164)
Reimbursement of bond expense	-	-	29,051,399	-	-	29,051,399
Reinsurance recoveries	-	-	-	-	275,536	275,536
Miscellaneous income	-	-	-	1,241,405	13,140	1,254,545
Guaranty fees	-	-	-	-	6,108,707	6,108,707
Interest/investment income	8,992	349,883	284,676	271,306	61,526	976,383
Net increase in the fair value of investments	-	(9,282)	-	-	-	(9,282)
Total operating revenue	8,992	7,477,644	29,336,075	11,853,356	6,458,909	55,134,976
Operating Expenses						
Personnel	-	-	-	3,734,409	-	3,734,409
Contractual services	-	-	-	636,915	-	636,915
General operating	-	-	-	786,427	-	786,427
South Carolina Student Loan Corporation for operations	-	1,179,108	4,147,600	-	-	5,326,708
Bond interest expense	-	2,800,169	23,026,076	-	-	25,826,245
Amortization - deferred cost of bond issuance	-	136,211	254,469	-	-	390,680
Default aversion fee	-	-	-	-	1,313,300	1,313,300
Loan fees	-	2,591,141	-	-	-	2,591,141
Federal default fee	-	-	-	6,108,707	-	6,108,707
Borrower incentives	-	2,380,298	-	-	-	2,380,298
Broker/dealer fees	-	570,274	1,492,672	-	-	2,062,946
Reinsurance expense	-	20,505	-	-	1,056,789	1,077,294
Other fees	-	(34,787)	-	498,238	-	463,451
Total operating expenses	-	\$ 9,642,919	\$ 28,920,817	\$ 11,764,696	\$ 2,370,089	\$ 52,698,521

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
 SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS BY ACCOUNTS
 ENTERPRISE FUND
 YEAR ENDED JUNE 30, 2009

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
Operating income	\$ 8,992	\$ (2,165,275)	\$ 415,258	\$ 88,660	\$ 4,088,820	\$ 2,436,455
Non-Operating Income (Expenses) Arbitrage income (expense)	-	121,559	(1,330,268)	-	-	(1,208,709)
Change in net assets	8,992	(2,043,716)	(915,010)	88,660	4,088,820	1,227,746
Net assets Beginning	1,218,040	90,453,838	6,818,286	36,444,832	9,893,783	144,828,779
Ending	\$ 1,227,032	\$ 88,410,122	\$ 5,903,276	\$ 36,533,492	\$ 13,982,603	\$ 146,056,525

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF CASH FLOWS BY ACCOUNTS
ENTERPRISE FUND
YEAR ENDED JUNE 30, 2009

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
Cash Flows from Operating Activities						
Receipts from borrowers and U.S. Department of Education	\$ -	\$ -	\$ -	\$ 11,727,690	\$ 7,521,302	\$ 19,248,992
Receipts from SCSLC services provided	-	10,304,714	61,087,683	-	-	71,392,397
Payments to suppliers, lenders and borrowers	(8,430,116)	(11,425,917)	(39,006,032)	(8,384,072)	(2,114,749)	(69,360,886)
Payments to employees	-	-	-	(3,690,353)	-	(3,690,353)
Net cash provided by (used in) operating activities	<u>(8,430,116)</u>	<u>(1,121,203)</u>	<u>22,081,651</u>	<u>(346,735)</u>	<u>5,406,553</u>	<u>17,590,150</u>
Cash Flows from Non-capital Financing Activities						
Finance loan increases/advances to South Carolina Student Loan Corporation for student loans	-	(170,284,884)	-	-	-	(170,284,884)
Finance loan decreases/payments received from South Carolina Student Loan Corporation	-	112,190,891	-	-	-	112,190,891
Interest paid on revenue bonds	-	(4,565,041)	(34,441,559)	-	-	(39,006,600)
Net cash (used in) non-capital financing activities	<u>-</u>	<u>(62,659,034)</u>	<u>(34,441,559)</u>	<u>-</u>	<u>-</u>	<u>(97,100,593)</u>
Cash Flows from Capital and Related Financing Activities						
Purchase of capital assets	-	-	-	(58,406)	-	(58,406)
Cash Flows from Investing Activities						
Interest received on investment securities	9,013	374,963	315,518	271,881	61,647	1,033,022
Net increase in fair value of investments reported as cash equivalents	-	(9,282)	-	-	-	(9,282)
Net cash provided by investing activities	<u>9,013</u>	<u>365,681</u>	<u>315,518</u>	<u>271,881</u>	<u>61,647</u>	<u>1,023,740</u>
Net increase (decrease) in cash and cash equivalents	<u>(8,421,103)</u>	<u>(63,414,556)</u>	<u>(12,044,390)</u>	<u>(133,260)</u>	<u>5,468,200</u>	<u>(78,545,109)</u>
Cash and Cash Equivalents						
Beginning	<u>22,777,503</u>	<u>81,318,239</u>	<u>26,266,027</u>	<u>35,626,482</u>	<u>7,770,282</u>	<u>173,758,533</u>
Ending	<u>\$ 14,356,400</u>	<u>\$ 17,903,683</u>	<u>\$ 14,221,637</u>	<u>\$ 35,493,222</u>	<u>\$ 13,238,482</u>	<u>\$ 95,213,424</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF CASH FLOWS BY ACCOUNTS
ENTERPRISE FUND
YEAR ENDED JUNE 30, 2009

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	Agency Operating Account	Federal Student Loan Reserve Account	Total
Cash Flows from Operating Activities						
Operating income (loss)	\$ 8,992	\$ (2,165,275)	\$ 415,258	\$ 88,660	\$ 4,088,820	\$ 2,436,455
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	-	-	-	-	(39,159,984)	(39,159,984)
Purchase of student loans under loan guarantees	-	-	-	-	40,222,380	40,222,380
Payments received from U.S. Department of Education under federal reinsurance program	-	136,211	254,469	-	-	390,680
Amortization of deferred cost of bond issuance	-	6,388	-	-	-	6,388
Amortization of deferred amount of refunding - interest expense	-	-	-	-	-	-
Amortization of premiums and discounts on bonds payable - interest expense	-	269,311	-	-	-	269,311
Interest/investment income (investing activities category)	(8,992)	(349,883)	(284,676)	(271,306)	(61,526)	(976,383)
Depreciation expense	-	-	-	121,110	-	121,110
Provision for loan losses	-	-	-	-	171,195	171,195
Net (increase) in fair value of investments (investing activities category)	-	9,282	-	-	-	9,282
Bond interest expense (non-capital financing activities category)	-	2,800,169	23,026,076	-	-	25,826,245
Changes in assets and liabilities						
Decrease in due from South Carolina Student Loan Corporation	(41)	(2,695,467)	(1,329,476)	(1,241,406)	-	(5,266,390)
Decrease in loan processing issuance fee receivable	-	-	-	(110,686)	-	(110,686)
Decrease in account maintenance fee receivable	-	-	-	(68,740)	-	(68,740)
(Increase) decrease in due from other funds	(1,267,954)	868,061	-	503,376	(103,483)	-
Increase (decrease) in accounts payable	(29,416)	-	-	-	-	(29,416)
Increase (decrease) in compensated absences liability	-	-	-	44,056	-	44,056
Increase in consolidation rebate fee payable	(55,912)	-	-	-	-	(55,912)
Increase (decrease) in due to South Carolina Student Loan Corporation	(7,076,793)	-	-	588,201	249,151	(6,239,441)
Net cash provided by (used in) operating activities	<u>(8,430,116)</u>	<u>(1,121,203)</u>	<u>22,081,651</u>	<u>(346,735)</u>	<u>5,406,553</u>	<u>17,590,150</u>
Supplemental Disclosures of Cash Flow Information						
Interest collected on finance loans - operating activities	-	13,926,404	-	-	-	13,924,676
Arbitrage income (expense) incurred and liability accrued - non-capital financing activity	\$ -	\$ 121,559	\$ (1,330,268)	\$ -	\$ -	\$ (1,208,709)

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF EXPENSES COMPARED TO BUDGET
YEAR ENDED JUNE 30, 2009**

	Budget	Actual	Variance (Over) Under
Operating Expenses			
Personnel			
Staff salaries	\$ 2,598,790	\$ 2,359,625	\$ 239,165
Contracted Services	-	39,571	(39,571)
Social security	198,808	167,143	31,665
Group insurance	641,996	565,275	76,721
Retirement	509,750	596,751	(87,001)
Unemployment	6,600	6,044	556
Total personnel	<u>3,955,944</u>	<u>3,734,409</u>	<u>221,535</u>
Contractual			
Loan servicing	440,791	410,421	30,370
Legal	5,000	597	4,403
Accounting	9,700	12,671	(2,971)
Credit bureau fees	237,600	75,932	161,668
Skip tracing	160,000	113,634	46,366
Enrollment verification	35,100	23,660	11,440
Total contractual	<u>888,191</u>	<u>636,915</u>	<u>251,276</u>
General Operating			
Rent	100,800	100,729	71
Telephone	77,600	67,932	9,668
Printing	78,750	68,458	10,292
Postage	243,715	241,828	1,887
Supplies	65,000	33,159	31,841
Travel	40,000	15,106	24,894
Equipment maintenance	74,830	67,080	7,750
Subscriptions and fees	32,000	29,107	2,893
Meeting and conference expense	1,000	-	1,000
Insurance - general and automotive	31,894	23,888	8,006
Outreach and awareness	53,000	15,486	37,514
Contingencies	20,000	2,544	17,456
Depreciation expense	132,500	121,110	11,390
Total general operating	<u>951,089</u>	<u>786,427</u>	<u>164,662</u>
Capital Additions			
Equipment, furniture and fixtures	<u>\$ 71,400</u>	<u>58,406</u>	<u>\$ 12,994</u>
Total personnel expenses		3,734,409	
Total contractual		636,915	
Total general operating		786,427	
Total operating expenses		<u>5,157,751</u>	
South Carolina Student Loan Corporation Operating Costs		<u>5,326,708</u>	
Other Expenses			
Interest on bonds		25,826,245	
Amortization - deferred cost of bond issuance		390,680	
Default aversion fee expense		1,313,300	
Borrower incentives		2,380,298	
Reinsurance expense and other fees		13,512,249	
Total other expenses		<u>43,422,772</u>	
Total expenses		<u>\$ 53,907,231</u>	

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF ORGANIZATIONAL DATA
YEAR ENDED JUNE 30, 2009**

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>
Mark Sanford	Governor of South Carolina
Converse A. Chellis, III	State Treasurer of South Carolina
Richard Eckstrom	Comptroller General of South Carolina
Hugh K. Leatherman, Sr.	Chairman, South Carolina Senate Finance Committee
Daniel T. Cooper	Chairman, South Carolina House of Representatives Ways and Means Committee

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2009**

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Amount of Grant</u>	<u>Expenses</u>
U.S. Department of Education Programs			
Federal Family Education Loan Program			
Direct			
Loan processing and issuance fee	84.032		\$ 2,704,107
Account maintenance fee	84.032		2,166,053
Default aversion fee income	84.032		1,313,300
Retention on default collections	84.032		4,157,185
Passed through South Carolina Student Loan Corporation			
Special allowance	84.032		-
Subsidized interest	84.032		<u>3,400,557</u>
Total Federal Family Education Loan Program (Major program)			<u><u>13,741,202</u></u>
Paul Douglas Teachers Scholarship Program (Note 6)	84.176		-
Total Department of Education			\$ <u><u>13,741,202</u></u>

Notes - CFDA #84.032:

1. Summary of Significant Accounting Policies:

This schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* The financial activity shown in this schedule reflects amounts recorded by the Authority during its fiscal year July 1, 2008 through June 30, 2009.

2. The total approved amount at June 30, 2009, of all student loans under guarantee by the South Carolina State Education Assistance Authority was \$ 8,164,390,909. The total outstanding balance of these loans was \$ 3,338,300,223. 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 loan processing and issuance fee is based on loans originated during the fiscal year. The default aversion fee is based on the balance of principal and interest on a loan that was prevented from defaulting.
3. The South Carolina State Education Assistance Authority received \$ 40,222,380 during the year ended June 30, 2009, under Federal Reinsurance Agreements pursuant to Sections 428A and 428(c) of the Higher Education Act of 1965, as amended.
4. The total value at June 30, 2009, since inception, of all defaulted student loans which the South Carolina State Education Assistance Authority has purchased under Federal reinsurance agreements was \$ 309,326,403. Retention of Default Collections is generated when the Authority retains a portion of the amount it collects on these loans on behalf of the Federal Government.
5. The U.S. Department of Education (USDE) now requires lenders to pay the USDE when the lenders have negative special allowance. The Authority paid \$ 6,825,597 for the year ending June 30, 2009.

Notes - CFDA #84.176:

6. Program participants repaid \$ 9,141 to the Authority. The Authority owes the Federal Government \$ 9,141 at June 30, 2009.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the South Carolina State Education Assistance Authority as of and for the year ended June 30, 2009, and have issued our report thereon dated September 15, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the South Carolina State Education Assistance Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 South Carolina State Education Assistance Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Carolina State Education Assistance Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Carolina State Education Assistance Authority's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Board of Directors and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Derrick, Stubbs & Stith, L.L.P.

September 15, 2009



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the South Carolina State Education Assistance Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The South Carolina State Education Assistance Authority's major federal program is identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the South Carolina State Education Assistance Authority's management. Our responsibility is to express an opinion on the South Carolina State Education Assistance Authority's compliance based on our audit.

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 South Carolina State Education Assistance 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. Our audit does not provide a legal determination on the South Carolina State Education Assistance Authority's compliance with those requirements.

In our opinion, the South Carolina State Education Assistance Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the South Carolina State Education Assistance Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the South Carolina State Education Assistance Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 South Carolina State Education Assistance Authority's internal control over compliance.

To the Members of the Authority
South Carolina State Education Assistance Authority
Page 2

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, the Board of Directors and the U.S. Department of Education and is not intended to be and should not be used by anyone other than those specified parties.

Derrick, Stulish + Stith, LLP

September 15, 2009

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2009**

1. Summary of Auditor's Results:

(i)	Type of report issued on financial statements		Unqualified
(ii)	Material weaknesses in internal control over financial reporting		None Identified
(iii)	Significant deficiencies not considered to be material weaknesses in internal control over financial reporting		None Identified
(iv)	Noncompliance material to the financial statements		None Noted
(v)	Material weaknesses in internal control over major programs		None Identified
(vi)	Significant deficiencies not considered to be material weaknesses in internal control over major programs		None Identified
(vii)	Type of report issued on compliance for major programs		Unqualified
(viii)	Audit findings required to be reported under paragraph .510(a) OMB 133		None Disclosed
(ix)	Identification of major programs:		
	U.S. Department of Education		
	Federal Family Education Loan Program	<u>CFDA#</u>	<u>Expenditure</u>
	Loan processing and issuance fee	84.032	\$ 2,704,107
	Account maintenance fee	84.032	2,166,053
	Default aversion fee income	84.032	1,313,300
	Retention on default collections	84.032	4,157,185
	Passed Through South Carolina Student Loan Corporation		
	Subsidized interest	84.032	<u>3,400,557</u>
	Total Federal Family Education Loan Program (Major program)		<u>\$ 13,741,202</u>
(x)	Dollar threshold used to distinguish between Type A and Type B programs		\$ 300,000
(xi)	South Carolina State Education Assistance Authority qualifies as a low risk auditee under paragraph .530 OMB 133		Yes

2. Findings related to the financial statements which are required to be reported in accordance with GAGAS None Reported

3. Findings and questioned costs for Federal awards including audit findings as defined in paragraph .510(a) OMB 133

(i)	Audit findings (e.g., internal control findings, compliance findings, questioned costs, or fraud)	None Reported
(ii)	Audit findings which relate to both the financial statements and Federal awards	None Reported

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF SUMMARY OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2009**

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

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2009**

There is no corrective action plan required since there are no prior audit findings and questioned costs relative to Federal Awards.