South Carolina State
Education Assistance Authority

Report on Financial Statements

For the years ended June 30, 2019 and 2018

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SOUTH CAROLINA OFFICE OF THE STATE AUDITOR
1401 Main Street, Suite 1200 • Columbia, SC 29201

September 30, 2019

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

This report on the audit of the financial statements of the South Carolina State Education Assistance Authority for the fiscal year ended June 30, 2019, was issued by Elliott Davis, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

George L. Kennedy, III, CPA
State Auditor

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Independent Auditor's Report

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina State Education Assistance Authority (the "Authority"), a component unit of the State of South Carolina, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina State Education Assistance Authority as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The individual fund schedules and schedule of organizational data are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Elliott Davis, LLC

Columbia, South Carolina
September 30, 2019

The South Carolina State Education Assistance Authority (the "Authority") was originally created to fill functions to provide and guarantee financing for education loans for students and parents. As a provider of financing, the Authority issued bonds to finance education loans. As a guarantor, the Authority processed loans submitted for guarantee, provided collection assistance for delinquent loans, paid claims for loans in default, collected loans on which default claims had been paid, and made appropriate responses to the United States Secretary of Education. As stipulated in the Health Care and Education Reconciliation Act ("HCERA") of 2010, effective July 1, 2010, all federal loan originations are required to be made through the federal Direct Loan Program. Therefore, the Authority did not provide a guarantee for federal loans originated since July 1, 2010.

As a result of the HCERA of 2010 and subsequent actions taken by the federal government which nationalized the federally-guaranteed student loan program, continuing guarantor operations under the guaranty agreement between the Authority and the United States Department of Education ("USDE") would result in an economic loss to the Authority. Therefore on June 22, 2016, the State Fiscal Accountability Authority ("SFAA") initiated action to terminate the guaranty agreement between the Authority and USDE. Effective December 1, 2016, a USDE designated guaranty agency accepted the transfer of all of the Authority's outstanding guarantees and the Authority's post-claim portfolio. The Authority no longer serves as a guaranty agency for the USDE.

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

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

This section of the Authority's annual financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2019. Please read it in conjunction with the Authority's Statements of Net Position, Statements of Revenue, Expenses and Changes in Net Position, Statements of Cash Flows, and the Notes to Financial Statements, which follow this section.

Financial Highlights:

The Authority's total assets at June 30, 2019 were approximately $182,637,000, which is a decrease of approximately $5,886,000 or 3% from June 30, 2018. The decrease in assets was primarily due to reductions of approximately $8,642,000 in finance loans receivable. The decrease in finance loans receivable reflected provisions of the loan agreement with SCSLC related to the Authority's 2009 Palmetto Assistance Loan ("PAL") General Resolution. This decrease was offset by an increase of approximately $4,348,000 in cash and cash equivalents.

Financial Highlights, Continued:

The Authority's operating revenues for the fiscal year ended June 30, 2019 were approximately $2,701,000, reflecting a decrease of approximately $138,000 or 5% from the fiscal year ended June 30, 2018. This decrease was attributed to the decrease in non-subsidized interest income.

The Authority's interest expense for the fiscal year ended June 30, 2019 was approximately $1,472,000, a decrease of approximately $349,000 or 19% from the fiscal year ended June 30, 2018. This reduction was primarily due to the normal payment activity on the outstanding bonds of the Authority during the fiscal year ended June 30, 2019.

Operating expenses were approximately $871,000 for the fiscal year ended June 30, 2019, a decrease of approximately $692,000 or 44% from the fiscal year ended June 30, 2018. The main reasons for the decline in operating expenses relate to both the termination of the guaranty agreement between the Authority and the USDE and the inactivity of the Default Prevention Program.

Overview of the Financial Statements:

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

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

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

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

Financial Analysis:

The Authority's total net position at June 30, 2019 was approximately $152,375,000, which is an increase of approximately $2,192,000 or 2% from June 30, 2018. Components of the Authority's Statements of Net Position as of June 30 were as follows:

	2019	2018	Percentage +/-
Current assets	$ 111,480,941	$ 105,871,500	5.3%
Long-term assets	71,155,647	82,651,587	(13.9)%
Total assets	$ 182,636,588	$ 188,523,087	(3.1)%
Current liabilities	$ 2,294,625	$ 2,409,883	(4.8)%
Long-term liabilities	27,966,986	35,930,030	(22.2)%
Total liabilities	30,261,611	38,339,913	(21.1)%
Net position:			
Restricted	69,683,755	68,358,508	1.9%
Unrestricted	82,691,222	81,824,666	1.1%
Total net position	152,374,977	150,183,174	1.5%
Total liabilities and net position	$ 182,636,588	$ 188,523,087	(3.1)%

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

	2019	2018	Percentage +/-
Operating revenues:			
Loan interest income	$ 2,701,456	$ 2,839,354	(4.9)%
Total operating revenues	2,701,456	2,839,354	(4.9)%
Operating expenses:			
General administration	25,898	160,069	(83.8)%
External loan servicing	420,830	411,941	2.2%
Borrower incentives	83,266	90,860	(8.4)%
Default prevention program	-	506,072	(100.0)%
Other fees	340,686	393,596	(13.4)%
Total operating expenses	870,680	1,562,538	(44.3)%
Operating income	1,830,776	1,276,816	43.4%

Financial Analysis, Continued:

	2019	2018	Percentage +/-
Non-operating income (expense):			
Investment income	1,833,001	983,593	86.4%
Interest expense	(1,471,974)	(1,820,982)	(19.2)%
Total non-operating income (expense)	361,027	(837,389)	143.1%
Change in net position	2,191,803	439,427	398.8%
Beginning net position	150,183,174	149,743,747	0.3%
Ending net position	$ 152,374,977	$ 150,183,174	1.5%

Debt Administration:

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

At June 30, 2019 and 2018, the Authority had $24,805,000 and $32,775,000 principal amount of bonds outstanding, respectively. Detailed information on the Authority's debt is presented in Note 7 to the financial statements.

	2019	2018	Percentage +/-
Student and finance loans receivable	$ 41,682,798	$ 51,961,489	(19.8)%
Bonds outstanding	24,805,000	32,775,000	(24.3)%

Economic Outlook:

SCSLC made the decision to transfer the servicing of its loan portfolio to a third party sub-servicer instead of performing the servicing function internally. The first conversion consisted of the Federal Family Education Loan Program ("FFELP") loans and was completed on August 19, 2016. SCSLC is the lender of these loans. The private loan conversion was completed during the fiscal year ended June 30, 2017. The student loans of the Authority are included in the loans transitioned to the sub-servicer.

As discussed further in the *Reporting Entity* section of Note 1 to the financial statements, the Authority transferred all of its outstanding guarantees and post-claim portfolio to Educational Credit Management Corporation ("ECMC") effective December 1, 2016. As part of this transfer, the Authority agreed to reimburse ECMC up to $737,000 of the default aversion fee previously earned from USDE due to claims filed by the eligible lender. The reimbursement of $737,000 was agreed to be paid out over a sixty-month period beginning December 1, 2016 through December 1, 2021 and was scheduled to be paid quarterly out of the Agency Operating Fund. As of March 31, 2018, the Authority had been invoiced and paid the entirety of the $737,000 reimbursement to ECMC.

South Carolina State Education Assistance Authority

Statements of Net Position

As of June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 27,533,321	$ 25,086,120
Cash and cash equivalents - restricted	72,488,402	70,587,574
Receivables:		
Current portion of student loans	4,015,539	2,228,282
Current portion of finance loans	6,346,620	6,916,628
Interest due from borrower	601,349	561,126
Due from South Carolina Student Loan Corporation	306,630	403,333
Due from servicers	149,358	60,913
Due from United States Department of Education	34,349	22,188
Accrued interest receivable	37	-
Prepaids	5,336	5,336
Total current assets	111,480,941	105,871,500
Long-term assets		
Receivables:		
Student loans, less current portion and net of allowance for loan loss of $25,560 in 2019 and $17,058 in 2018	10,985,449	14,409,642
Finance loans, less current portion	20,335,190	28,406,937
Due from South Carolina Student Loan Corporation	39,835,008	39,835,008
Total long-term assets	71,155,647	82,651,587
Total assets	$ 182,636,588	$ 188,523,087

	2019	2018
Liabilities		
Current liabilities		
Accounts payable	$ 17,300	$ 19,804
Due to South Carolina Student Loan Corporation	607,751	657,308
Due to United States Department of Education	68,536	101,303
Customer refunds payable	5,921	742
Unearned revenues	13,737	7,548
Payable from restricted assets:		
Current portion of bonds payable	1,275,000	1,220,000
Accrued bond interest payable	306,380	403,178
Total current liabilities	2,294,625	2,409,883
Long-term liabilities		
Due to United States Department of Education	4,808,722	4,808,722
Bonds payable, less current maturities	23,158,264	31,121,308
Total long-term liabilities	27,966,986	35,930,030
Total liabilities	$ 30,261,611	$ 38,339,913
Net Position		
Restricted for:		
Debt service		
Bond indentures - 2009 resolution	$ 7,135,028	$ 7,129,996
Other		
Guaranty agency operating account	62,548,727	61,228,512
Unrestricted	82,691,222	81,824,666
Total net position	$ 152,374,977	$ 150,183,174

See Notes to Financial Statements

South Carolina State Education Assistance Authority

Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30, 2019 and 2018

	2019	2018
Operating revenues		
Income from South Carolina Student Loan Corporation:		
Subsidized interest	$ 66,996	$ 56,718
Special allowance	(262,675)	(456,677)
Non-subsidized interest	952,111	1,089,694
Late charges	8,993	9,562
Miscellaneous payments of student loans	93	142
Reimbursement of bond expense	1,935,938	2,139,915
Total operating revenues	2,701,456	2,839,354
Operating expenses		
Contractual services	25,223	114,463
General operating	675	45,606
South Carolina Student Loan Corporation for operating costs	420,830	411,941
Loan fees	302,278	346,418
Borrower incentives	83,266	90,860
Broker/dealer fees	21,300	21,296
Reinsurance expense	8,606	19,722
Loan loss expense	8,502	5,602
Default prevention program and other miscellaneous expense	-	506,630
Total operating expenses	870,680	1,562,538
Operating income	1,830,776	1,276,816
Non-operating income (expense)		
Investment income	1,833,001	983,593
Bond interest expense	(1,471,974)	(1,820,982)
Total non-operating income (expense)	361,027	(837,389)
Change in net position	2,191,803	439,427
Net position		
Beginning of year	150,183,174	149,743,747
End of year	$ 152,374,977	$ 150,183,174

See Notes to Financial Statements

South Carolina State Education Assistance Authority

Statements of Cash Flows

For the years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Receipts from borrowers and United States Department of Education	$ 6,189	$ 4,648
Receipts from South Carolina Student Loan services provided	4,297,696	5,452,630
Payments to suppliers, lenders and borrowers	(953,759)	(1,872,109)
Net cash provided by operating activities	3,350,126	3,585,169
Cash flows from non-capital financing activities		
Finance loan advances to South Carolina Student Loan Corporation for student loans	(1,965,548)	(2,381,444)
Finance loan payments received from South Carolina Student Loan Corporation	10,607,303	9,459,653
Payments on bonds payable	(7,970,000)	(6,735,000)
Interest paid on revenue bonds	(1,506,816)	(1,839,884)
Net cash used for non-capital financing activities	(835,061)	(1,496,675)
Cash flows from investing activities		
Interest received on investment securities	1,832,964	989,316
Net cash provided by investing activities	1,832,964	989,316
Net increase in cash and cash equivalents	4,348,029	3,077,810
Cash and cash equivalents		
Beginning of year	95,673,694	92,595,884
End of year	$ 100,021,723	$ 95,673,694

See Notes to Financial Statements

Continued

South Carolina State Education Assistance Authority

Statements of Cash Flows

For the years ended June 30, 2019 and 2018

	2019	2018
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 1,830,776	$ 1,276,816
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	-	34,592
Loan loss expense	8,502	5,602
Changes in operating assets and liabilities:		
Prepaids	-	(4)
Student loans receivable	1,628,434	2,563,523
Interest due from borrower	(40,223)	(87,830)
Due from South Carolina Student Loan Corporation	96,703	80,740
Due from servicers	(88,445)	71,888
Due from United States Department of Education	(12,161)	(22,188)
Due from other funds	-	-
Accounts payable	(2,504)	(4,936,537)
Due to United States Department of Education	(32,767)	4,741,441
Customer refunds payable	5,179	(6,930)
Unearned revenues	6,189	4,648
Due to South Carolina Student Loan Corporation	(49,557)	(140,592)
Net cash provided by operating activities	$ 3,350,126	$ 3,585,169

See Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

Reporting entity:

The South Carolina State Education Assistance Authority (the "Authority") is a body politic and corporate and a public instrumentality of the State of South Carolina. The Authority is a part of the State of South Carolina created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the Code of Laws of South Carolina, 1976, as amended. The Authority is governed by the State Fiscal Accountability Authority ("SFAA") whose members by virtue of their position in State government include the Governor, State Treasurer, Comptroller General, Chairman of Senate Finance Committee and Chairman of the South Carolina House of Representatives Ways and Means Committee.

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

The Authority discharges its statutory obligations through two distinct programs. The program through which the Authority conducted 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 Student Loan Finance Program and has designated it as the private, non-profit agency to administer these loans. It is the duty of SCSLC to process applications, make student loans and collect principal, interest, fees and penalties on such loans. Loans may or may not be subsidized. Interest is paid on subsidized loans during the enrolled, grace and deferred periods by the United States Department of Education ("USDE"). Upon entering the repayment period, the interest is paid by the borrower. Special Allowance Payments ("SAP") are calculated as the difference between the amount of interest SCSLC receives from the borrower or the government and the variable amount that is provided under the requirements of the Higher Education Act of 1965, as amended, which is a predefined rate for each loan type. The SAP is calculated quarterly and the net amount of the government interest less the SAP due to USDE is paid by the Authority. Principal and interest collections from the loans held as collateral under the 2009 Palmetto Assistance Loan ("PAL") General Resolution are forwarded to the bond trustee daily.

The operations of the Authority are administered by employees of SCSLC. Previously, the Authority would reimburse SCSLC upon request for the actual operating expenses incurred in the administration of the Authority's programs in accordance with a previously approved budget. All leases and property are in the name of SCSLC and the Authority paid its pro rata share based on space occupied, equipment usage, and loan servicing costs (see Note 9). Effective July 1, 2017, the Authority and SCSLC established a contractual relationship where the Authority pays an agreed-upon cost to SCSLC which encompasses the operating expenses for the Authority.

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

Reporting entity, continued:

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

During May 1978, the Authority initiated its Student Loan Insurance Program and commenced guaranteeing Guaranteed Loans as the guaranty agency for the State of South Carolina under §428(c) of the Higher Education Act. In order to administer its Student Loan Insurance Program effectively, the Authority processed loans submitted for guarantee, issued loan guarantees, provided collection assistance for delinquent loans, paid claims for loans in default, collected payments on loans on which default claims have been paid, and made appropriate responses to the United States Secretary of Education. The Authority was 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.

As a result of the Health Care and Education Reconciliation Act of 2010 and subsequent actions taken by the federal government which nationalized the federally-guaranteed student loan program, continuing guarantor operations under the guaranty agreement between the Authority and the USDE would result in an economic loss to the Authority. Therefore on June 22, 2016, the SFAA delegated to SCSLC the authority to communicate with USDE at the appropriate time to terminate the guaranty agreement, cease operating as a guaranty agency under the Higher Education Act of 1965 and to present to the South Carolina State Treasurer all necessary documents required to effect such termination. SCSLC notified the USDE on June 22, 2016 of the intention to terminate the guaranty agreement. On July 21, 2016, SCSLC received formal notice from the USDE naming Educational Credit Management Corporation ("ECMC") as the receiving guarantor; however, initial discussion and coordination of the transfer between the parties began on July 7, 2016. Effective December 1, 2016, the Authority transferred to ECMC and ECMC accepted the transfer of all of the Authority's outstanding guarantees and its post-claim portfolio. In addition, the Authority and ECMC agreed to a sixty-month period beginning December 1, 2016 through December 1, 2021, during which the Authority would reimburse ECMC up to $737,000 of the Default Aversion Fee previously earned from USDE which was to be rebated to the USDE due to claims filed by the eligible lender during this sixty-month period. The quarterly billing of these rebates would be paid from the Agency Operating Fund. As of March 31, 2018, the Authority had been invoiced and paid the entirety of the $737,000 reimbursement to ECMC.

Business-type activity:

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

The Authority's sub-funds include the Collection/Prior Unpledged Fund, 2009 PAL General Resolution Fund, Eligible Lender Trust Fund, Agency Operating Fund, and the Federal Student Loan Reserve Fund. The Authority's activities include issuing revenue bonds to finance student loans, which are handled by SCSLC.

The Collection/Prior Unpledged Fund collects all payments on loans on behalf of the Authority and SCSLC. Funds are transferred daily to the appropriate bond trustees or monthly to SCSLC.

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

Business-type activity, continued:

The 2009 PAL General Resolution Fund constitutes pledged income for the liquidation of outstanding bonds after transfers for operations. Restricted assets of the 2009 PAL General Resolution include principal and interest funds for future debt service, a debt reserve fund equaling the greater of two percent (2%) of the outstanding bond principal or an $850,000 minimum, a Loan Fund, a General Revenue Fund which holds collections of principal and interest from borrowers, a Department Reserve Fund and a Capitalized Interest Fund. The Trustee withdraws funds from the General Revenue Fund on approximately the 10th day of each month to make deposits into the other funds to meet required interest and operating expense obligations. Any remaining funds are deposited to the principal account.

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

After termination of the guaranty agreement with the USDE effective December 1, 2016, the remaining balance of $6,809,901 held in the Federal Student Loan Reserve Fund was returned to the USDE. Prior to the termination of the guaranty agreement, the Federal Student Loan Reserve Fund was used to account for activities as required by the 1998 reauthorization of the Higher Education Act. Amounts in the Federal Student Loan Reserve Fund could only be used to pay lender claims on defaulted loans and to disburse default aversion fees to the Agency Operating Fund for default aversion activities. Upon payment to lenders for defaulted loans, these funds were then reimbursed to the Federal Student Loan Reserve Fund by USDE at a percentage determined by the Authority's default rate. Payments to lenders for defaulted loans were recorded as Federal Reinsurance Receivables. Reimbursement by USDE reduced the Federal Reinsurance Receivable. The Authority always received the maximum reimbursement allowable under the supplemental guarantee agreement (see Note 3).

Until December 1, 2016, the Agency Operating Fund was used to account for account maintenance fees, default aversion fees, and the retention on default collections. USDE paid all of the fees except the default aversion fees reimbursed by the Federal Student Loan Reserve Fund. The account maintenance fee was equal to 0.06% of the ending original principal balance of loans outstanding for the fiscal year with fiscal year 2017 being prorated due to the termination of the guaranty agreement effective December 1, 2016. The default aversion fee was equal to one percent of the principal and interest of a loan upon which default aversion activity was performed. This was reimbursed from the Federal Student Loan Reserve Fund. Should this loan subsequently default, the default aversion fee was refunded back to the Federal Student Loan Reserve Fund.

As described in the *Reporting Entity* section of this note, in conjunction with the termination of the Authority's guaranty agreement, the Authority and ECMC agreed to a sixty-month period beginning December 1, 2016 through December 1, 2021, during which the Authority would reimburse ECMC up to $737,000 of the default aversion fee previously earned from USDE which was to be rebated to the USDE due to claims filed by the eligible lender during this sixty-month period. As of March 31, 2018, the Authority had reimbursed ECMC the entirety of the $737,000 default aversion from the Agency Operating Fund.

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

Business-type activity, continued:

Also prior to December 31, 2016, retention on default collections was reported by the Authority directly to USDE for services it performed in its role as guarantor. The Authority recognized 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 was remitted to the federal government. The total cumulative payments of federal reinsurance at June 30, 2017 of all defaulted student loans purchased by the Authority was $904,053,992 (see Note 3). The Authority reported the purchased defaulted loans to USDE monthly and retained 16% of the collections on the defaulted loans. Funds in the Agency Operating Fund 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 United States Secretary of Education and for voluntary irrevocable transfers to the Federal Student Loan Reserve Fund. Except for funds transferred from the Federal Student Loan Reserve Fund for operating shortfalls, the Agency Operating Fund is considered property of the Authority. To date, no funds have been transferred from the Federal Student Loan Reserve Fund to the Agency Operating Fund for operating shortfalls. As discussed above, effective with the December 1, 2016 termination of the guaranty agreement, the remaining balance of $6,809,901 held in the Federal Student Loan Reserve Fund was returned to the USDE.

The Bipartisan Budget Act ("BBA") (Public Law 113-67) was approved during December 2013, and included a cut in what is known as the rehabilitation retention rate for student loans effective as of July 1, 2014. Rehabilitation retention had been the largest source of revenue for guaranty agencies. Effective July 1, 2014, the BBA amended section 428F of the Higher Education Act to allow a guaranty agency, such as the Authority, to assign a loan which has met other rehabilitation criteria to USDE if the agency has been unable to sell the loan to an eligible lender. Beginning August 4, 2015, the Authority was unable to secure an eligible lender. At that time, USDE had not provided guaranty agencies the process for assigning such loans. By April 25, 2016, a USDE-designated guaranty agency was available and the Authority began assigning qualifying rehabilitation loans to them. This assignment process no longer applied as of December 1, 2016, since the Authority no longer serves as a guaranty agency.

Basis of accounting:

The Authority's financial statements are prepared using the accrual basis of accounting. 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 increases (decreases) in the fair value of investments includes unrealized and realized gains and losses. Bond premiums and discounts are amortized/accreted over the life of the bonds and netted against interest expense. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* the Authority applies all GASB pronouncements and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, when not in conflict with GASB pronouncements.

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

Budget and budgetary accounting:

Certain expenses for the Authority are budgeted as a management control device. However, the cost of issuing bonds, SCSLC expenses, interest expense, 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 South Carolina State Treasurer and are not adopted by the State Legislature or printed in the Appropriations Act. The Authority is subject to State laws and regulations. Expenses in excess of the budgeted amounts are not in violation of State laws.

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 are generally 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 cash management pool and cash invested in various instruments by the Bank of New York Mellon.

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

Cash and cash equivalents, continued:

Because the State's cash management pool operates as a demand deposit account, amounts invested in the cash management pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The cash management 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 cash management 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 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 of South Carolina.

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 in the cash management 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 cash management pool. Reported interest income includes interest earnings, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments in the cash management pool. Realized gains and losses are allocated monthly and are included in the accumulated income receivable. Unrealized gains and losses are allocated at fiscal year-end based on the Authority's percentage ownership in the cash management pool.

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

Federal Student Loan Reserve Fund - provision for loan losses:

The Authority must report a provision for loan losses that represents the net present value of expected future claims, net of recoveries, to be paid on guaranteed loans, less expected reimbursements of these claims. There was no loan loss provision as of June 30, 2019 and 2018 since the Authority no longer serves as a guaranty agency.

Student loans - provision for loan losses:

The provision for losses on student loans represents the Authority's estimate of the costs related to the 2% to 3% risk sharing on FFELP loans. In making the estimate, the Authority considers the trend in default rates in the loan guarantee portfolio, past and anticipated loss experience, current operating information, and changes in economic conditions. The provision is based on total guaranteed loans times the 2% or 3% exposure risk rate times the default rate. However, the evaluation is inherently subjective and the provisions may significantly change in the future. The allowance for loan losses was $25,560 and $17,058 at June 30, 2019 and 2018, respectively.

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

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

In accordance with GASB Statement No. 65, *Items Previously Recorded as Assets and Liabilities*, the cost of issuance of bonds is being expensed in the period incurred. Any bond premiums and discounts are amortized or accreted over the terms of the bonds using the straight-line method and are recorded as an addition or deduction to interest expense. The Authority did not have any deferred outflows of resources or deferred inflows of resources as of June 30, 2019 and 2018.

Risk management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. When the guarantee agency was active, the Authority was allocated a proportionate share of the insurance expense paid by SCSLC. In addition, the Authority pays premiums to the State Insurance Reserve Fund, which accumulates assets to cover general tort claims.

When the guaranty agency was active, premiums for worker's compensation, property insurance including capital assets, group life, fidelity bonds, and employee health insurance were paid to private insurance carriers and the Authority's coverage was subject to the limits of these policies. The expenses for these items were charged to the Authority by SCSLC and were paid out of the Agency Operating Fund. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Property and equipment:

Furniture and equipment costing over $5,000 are capitalized at cost when purchased. Depreciation has been reported using the straight-line method over useful lives of three to ten years for furniture and equipment.

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 investment income and bond interest expense.

Applying restricted or unrestricted resources:

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

New accounting pronouncements:

During March 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in the notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also establishes which liabilities governments should include when disclosing information related to debt.

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

New accounting pronouncements, continued:

This Statement defines debt for purposes of disclosure in the notes to the financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to the financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The provisions of this Statement became effective for reporting periods beginning after June 15, 2018. The Authority adopted the provisions of this Statement during the fiscal year ended June 30, 2019, but such provisions did not have a material impact on the Authority's financial statements as of and for the fiscal years ended June 30, 2019 and 2018.

Reclassifications:

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

Subsequent events:

These financial statements have not been updated for subsequent events after September 30, 2019, the date these financial statements were available to be issued.

Note 2. Deposits and Investments

All deposits and investments of the Authority are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain Authority deposits and investments are deposited with the Bank of New York Mellon or Wells Fargo Bank, N.A. as authorized by the State Treasurer.

Note 2. Deposits and Investments, Continued

The following schedule reconciles deposits and investments within the footnotes to the amounts presented on the Statements of Net Position as of June 30:

	2019	2018
Statements of Net Position		
Cash and cash equivalents	$ 27,533,321	$ 25,086,120
Restricted assets		
Cash and cash equivalents	72,488,402	70,587,574
Total	$ 100,021,723	$ 95,673,694
Footnotes		
Cash at banks	$ 9,857,624	$ 7,276,910
Deposits - State cash management pool	203,120	195,865
Investments		
State cash management pool	89,960,979	88,200,919
Total	$ 100,021,723	$ 95,673,694

Deposits:

State law requires full collateralization of all State Treasury balances. The State Treasury must correct any deficiencies in collateral within seven days. At June 30, 2019 and 2018, all State Treasury bank balances were fully insured or collateralized with securities held by the State of South Carolina or by its agents in the State of South Carolina's name.

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

At June 30, 2019 and 2018, Wells Fargo Bank, N.A. carried a bank balance of $11,849 and $6,529, respectively, of unspent federal grants for the Authority. These accounts are covered by FDIC insurance and pledged securities.

At June 30, 2019 and 2018, the Bank of New York Mellon carried a bank balance of $9,845,775 and $7,270,381, respectively. These accounts are covered by FDIC insurance and pledged securities.

At June 30, 2019 and 2018, the State Treasurer's Office carried a bank balance at Bank of America on behalf of the Authority of $205,304 and $204,025, respectively. These accounts are covered by FDIC insurance and pledged securities.

Note 2. Deposits and Investments, Continued

Deposits, continued:

All other deposits are in the State's cash management pool. The value of the Authority's investment in the State's cash management pool is determined based on the fair value of the State's cash management pool's underlying portfolio. The reported amount and fair value of deposits held for the various accounts of the Authority are as follows at June 30:

	2019	2018
Collection	$ 203,120	$ 195,865

Investments:

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

As of June 30, 2019 and 2018, the Authority's recurring fair value measurements were held in the State's cash management pool totaling $ 89,960,979 and $88,200,919, respectively, and were valued using quoted market prices for similar items in an active market (Level 2 inputs). Investment income on investments is recorded when earned. Purchases and sales are accounted for on the trade date. If applicable, unrealized gains and losses on investments are recorded on the Statements of Revenues, Expenses and Changes in Net Position. Realized gains and losses on securities transactions are recorded on the accrual basis of accounting.

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

Interest rate risk:

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

Credit risk:

The Authority adheres to the State of South Carolina's investment policy, and invests in primarily U.S. government-backed obligations. The Authority does not make any investments in equities. The State's cash management pool has federal agency and corporate obligations.

Note 2. Deposits and Investments, Continued

Concentration of credit risk:

The Authority's investment policy does not allow for an investment in any one issuer that is in excess of five percent of the total investments. All investments are made pursuant to S.C. Code Section 11-9-660 which requires all investments to be investment grade by at least two credit rating agencies.

Foreign currency risk:

The Authority has no foreign currency investments.

Custodial credit risk:

Custodial credit risk 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, 2019 and 2018. 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. Federal Family Education Loans (FFEL) and Federal Reinsurance of FFEL Loans

During the fiscal year ended June 30, 2019, these loans were bearing interest at fixed rates ranging from 2.875% to 9.0% or an annual variable rate of 4.23% to 5.5%. The annual variable rate is reset each July 1 using the bond equivalent rate of the 91-day or 52-week Treasury Bill, determined at the final auction held prior to the preceding June 1, plus 1.70% to 3.2% with a cap on the rate of 8.25% to 12.0%. These loans are repayable over a period of five to thirty years with a minimum payment of $360 or $600 per year, except for in the case of income-based repayment plans. Repayment of principal may be scheduled to begin within sixty days of final disbursement or six to ten months after the student graduates or ceases to be enrolled on at least a halftime basis in an eligible institution.

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

The USDE insures loans against death or disability at 100% and default up to 100% for loans made prior to October 1, 1993; up to 98% for loans made on or after October 1, 1993, but on or before June 30, 2006; and 97% for loans made on or after July 1, 2006.

Note 4. Receivables - Finance Loans

Each bond resolution of the Authority requires that all funds advanced to SCSLC by the Authority for the purpose of making student loans be evidenced by a loan agreement, assignment of collateral and assignment of revenues between the two parties, with the student loans providing security to the bond trustee. Increases (decreases) to SCSLC representing loan advances and loan payments from the Authority's 2009 PAL General Resolution are made pursuant to a loan agreement dated October 29, 2009, and further detailed on the Statements of Cash Flows of the financial statements. Each loan is calculated as set forth in the respective loan agreements. The finance loans as of June 30, 2019 and 2018, are as follows:

Bond Resolution	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018	Increases	Decreases	Balance at June 30, 2019
2009	$ 42,401,774	$ 2,381,444	$ (9,459,653)	$ 35,323,565	$ 1,965,548	$ (10,607,303)	$ 26,681,810

Note 5. Amounts Due from/to SCSLC

The Authority owes SCSLC for funds collected on its behalf as well as services rendered on its behalf of $607,751 and $657,308 as of June 30, 2019 and 2018, respectively. Funds collected on behalf of SCSLC are required to be paid to SCSLC either daily or by the tenth of each month as required by the various bond documents. As of June 30, 2019 and 2018, SCSLC owes the Authority $306,380 and $403,178, respectively, for interest on the 2009 PAL General Resolution bonds. During the fiscal year ended June 30, 2011, the Authority transferred unencumbered FFELP loans of the Authority in the amount of $39,835,008 to SCSLC and SCSLC also contributed unencumbered loans of $20,942,464 to provide additional equity to SCSLC's 2010 bond offering by increasing the parity of the bonds. The funds from both SCSLC and the Authority were provided through a Residual Trust Agreement which allows for all remaining loans of the Trust to be shared between SCSLC and the Authority on a pro-rata basis based on the percentage contribution made by each entity once all bonds have been redeemed.

Note 6. Property and Equipment

The following is a summary of changes in property and equipment for the fiscal years ended June 30, 2019 and 2018:

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018	Additions	Deletions	Balance at June 30, 2019
Cost							
Furniture and equipment	$ 634,360	$ -	$ -	$ 634,360	$ -	$ -	$ 634,360
Total	634,360	-	-	634,360	-	-	634,360
Accumulated depreciation							
Furniture and equipment	(599,768)	(34,592)	-	(634,360)	-	-	(634,360)
Less accumulated depreciation	(599,768)	(34,592)	-	(634,360)	-	-	(634,360)
Net, property and equipment	$ 34,592	$ (34,592)	$ -	$ -	$ -	$ -	$ -

Note 7. Bonds, Other Payables and Restricted Assets

The Authority issues Guaranteed Student Loan Revenue Bonds or Education Loan Revenue Bonds as needed to make finance loans to SCSLC for the purpose of making student loans (See Note 4). The finance loans to SCSLC are secured by loans funded by bond proceeds, related revenue from such loans, related investments in accounts and earnings thereon. Loan proceeds from borrower payments are forwarded daily to the trustee to pay principal, interest and other bond related expenses when 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, 2019 and 2018, the Authority was required to have assets deposited in the current debt service account of $306,380 and $403,178, respectively. The Authority has deposits in restricted assets equal to the current debt service requirement for the years ended June 30, 2019 and 2018. Restricted assets of $72,488,402 and $70,587,574 as of June 30, 2019 and 2018, respectively, include the current debt service reserve deposits of $850,000.

On November 5, 2009, the Authority issued $85,000,000 of fixed rate Student Loan Revenue bonds with maturity dates ranging from October 1, 2014 through October 1, 2029 and interest rates ranging from 3.4% to 5.1%. The Student Loan Revenue bonds including outstanding principal, original issuer's discount and net outstanding balance as of June 30, 2019 and 2018 were as follows:

Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018	Increases	Decreases	Balance at June 30, 2019
$ 39,510,000	$ -	$ (6,735,000)	$ 32,775,000	$ -	$ (7,970,000)	$ 24,805,000
(495,648)	-	61,956	(433,692)	-	61,956	(371,736)
$ 39,014,352	$ -	$ (6,673,044)	$ 32,341,308	$ -	$ (7,908,044)	$ 24,433,264

The annual requirements to retire these bonds as of June 30, 2019 are as follows:

Fiscal Year ended June 30	Principal	Interest	Total
2020	$ 1,275,000	$ 1,213,129	$ 2,488,129
2021	1,355,000	1,152,123	2,507,123
2022	1,920,000	1,075,508	2,995,508
2023	2,560,000	969,496	3,529,496
2024	-	908,500	908,500
2025	6,390,000	746,531	7,136,531
2026	-	584,563	584,563
2027	-	584,563	584,563
2028	-	584,563	584,563
2029	-	584,563	584,563
2030	11,305,000	292,281	11,597,281
Total	$ 24,805,000	$ 8,695,820	$ 33,500,820

Note 7. Bonds, Other Payables and Restricted Assets, Continued

The Authority's 2009-1 Bonds outstanding of $24,805,000 are limited obligations of the Authority secured by and payable solely from the 2009 Trust Estate. Events of default defined in the 2009 PAL General Resolution include (a) default by the Authority in the payment of any installment of interest on the bonds, principal installment, or redemption payment, when due, (b) failure or refusal of the Authority to comply with the provisions of the Higher Education Act or any other of the covenants, agreements, or conditions contained in the 2009 PAL General Resolution or 2009-1 Series Resolution, and (c) the occurrence of an event of insolvency for the Authority or the SCSLC, as defined in the 2009 PAL General Resolution.

Provisions in the 2009 PAL General Resolution require the Trustee, upon the written request of the registered owners of twenty-five percent or more in principal amount of outstanding bonds, to proceed to protect and enforce the rights of bondholders by remedies detailed in the 2009 PAL General Resolution. These remedies include declaring all bonds due and payable and selling all assets of the 2009 Trust Estate to pay bondholders.

Note 8. Paul Douglas Teacher Scholarship Program

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

During the fiscal years ended June 30, 2019 and 2018, collections were $6,546 and $5,113, respectively, from repayments by participants. The Authority forwarded these amounts to the federal government during the fiscal years ended June 30, 2019 and 2018, due to suspension of the program. Any repayments not forwarded to the federal government are recorded as a liability. During June 2019, The Authority discharged $55,948 in both principal and interest of bad debt loans related to the Paul Douglas Teacher Scholarship Program.

Note 9. Related Party Transactions

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

See Notes 1, 4 and 5 regarding transactions with SCSLC.

Note 10. Rebate and Excess Earnings Liability

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

Note 10. Rebate and Excess Earnings Liability, Continued

The IRC and U.S. Treasury Regulations permit issuers of qualified student loan tax-exempt obligations to earn no more than 1.5% to 2.0% above the bond yield on the qualified student loans financed with such tax-exempt obligations. For excess earnings on qualified student loans, issuers may elect to pay such excess to the U. S. Treasury or return such excess to the borrowers of qualified student loans financed by the tax-exempt obligations. The South Carolina State Treasurer had computations performed to determine the liability at June 30, 2019 and 2018. Based on those results, the Authority incurred no expense or income for the fiscal years ended June 30, 2019 and 2018. This expense (income) is determined using the "Future Value" method of determining the 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, 2019 and 2018, the Authority reported no rebate and excess earnings liability.

Note 11. 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 FFEL Program, the USDE made findings in a Final Program Review Determination (the " FPRD") that (i) since 1993, the SCSLC made FFELP loans under the LLR Program (" LLR Loans") without a request from the borrower to do so in violation of the Higher Education Act, (ii) since 1994, the SCSLC denied conventional FFELP loans to borrowers based solely on the fact that the borrowers had filed for bankruptcy, and on the basis of such denial, made LLR Loans to such borrowers in violation of the Bankruptcy Reform Act of 1994 (the "Bankruptcy Act") and guidance relating thereto issued by the USDE, and (iii) the SCSLC performed default aversion activities on behalf of the Authority in violation of the conflict of interest prohibitions contained in the Code of Federal Regulations promulgated under the Higher Education Act.

As a result of these findings, the USDE determined in the FPRD that the Authority (i) 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 USDE, (ii) must require the SCSLC to identify the specific loans designated as LLR Loans as a result of the SCSLC's denial of a conventional loan because of a bankruptcy filing and reverse that designation, instruct the SCSLC to update its lending policies and procedures to comply with the Bankruptcy Act and associated guidance provided by the USDE, and (iii) must obtain an independent servicer, other than the SCSLC, to perform default aversion activities on its behalf or begin to perform those activities with its own employees.

In the FPRD, the USDE 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 was approximately $4.1 million plus interest of approximately $654,000 by the Authority and approximately $1 million by the SCSLC. As of June 30, 2010, the SCSLC recorded a liability of approximately $1 million and the Authority recorded a liability of approximately $4.8 million to recognize the potential exposure to these findings.

On October 23, 2009, the Authority appealed the first finding of the FPRD on the grounds that, among other things, the USDE's position was not supported by the statute and regulations on which it relied. On May 20, 2010, the USDE issued a ruling sustaining this finding of the FPRD. On July 6, 2010, the Authority appealed the decision to the Secretary of Education. As of June 30, 2019, this appeal was still outstanding and remains pending with the USDE.

Note 11. Contingency, Contingency

With respect to the second finding, the Authority provided additional information to the USDE via a letter dated January 16, 2010, which stated that the Authority caused the SCSLC to discontinue the challenged practice and calculated the total associated liability of the Authority and SCSLC to be approximately $35,000. On February 22, 2010, the USDE informed the Authority that the calculation provided in the January 16, 2010, letter was acceptable, and on March 18, 2010, the SCSLC and Authority confirmed to the USDE that they had made the necessary payments to resolve the issue.

With respect to the third finding, on January 16, 2010, the Authority formally requested a meeting with the USDE to discuss alternatives for implementing changes to its default aversion activities that would be satisfactory to the USDE and least disruptive to the Authority. On February 22, 2010, the USDE informed the Authority that it would respond to this request at some point in the future. To date, no response has been received.

Note 12. Required Information on Business-Type Activity for the State of South Carolina

The Authority is a discretely presented component unit of the State of South Carolina and is not required to present government-wide financial statements. However, the State of South Carolina requires business-type activities for its government-wide Statement of Activities. The required information was as follows for the fiscal years ended June 30:

	2019	2018
Charges for services:		
Income from South Carolina Student Loan Corporation:		
Subsidized interest	$ 66,996	$ 56,718
Special allowance	(262,675)	(456,677)
Non-subsidized interest	952,111	1,089,694
Late charges	8,993	9,562
Miscellaneous payments of student loans	93	142
Reimbursement of bond expense	1,935,938	2,139,915
Total charges for services	2,701,456	2,839,354
General revenue:		
Investment income	1,833,001	983,593
Total general revenue	1,833,001	983,593
Total program revenues	4,534,457	3,822,947
Less expenses	2,342,654	3,383,520
Change in net position	2,191,803	439,427
Net position		
Beginning	150,183,174	149,743,747
Ending	$ 152,374,977	$ 150,183,174

South Carolina State Education Assistance Authority

Schedule of Net Position by Fund

As of June 30, 2019

	Collection/ Prior Unpledged Fund	2009 PAL Resolution Fund	Eligible Lender Trust Fund	Agency Operating Fund	Total
Assets					
Current assets					
Cash and cash equivalents	$ 1,495,249	$ -	$ 26,038,072	$ -	$ 27,533,321
Cash and cash equivalents - restricted	-	5,110,377	-	67,378,025	72,488,402
Receivables:					
Current portion of student loans	-	-	4,015,539	-	4,015,539
Current portion of finance loans	-	6,346,620	-	-	6,346,620
Interest due from borrower	-	-	601,349	-	601,349
Due from South Carolina Student Loan Corporation	-	306,630	-	-	306,630
Due from servicers	-	145,305	4,053	-	149,358
Due from United States Department of Education	-	34,349	-	-	34,349
Accrued interest receivable	-	-	-	37	37
Prepaids	-	5,336	-	-	5,336
Total current assets	1,495,249	11,948,617	30,659,013	67,378,062	111,480,941
Long-term assets					
Receivables:					
Student loans, less current portion and net of allowance for loan loss of $25,560	-	-	10,985,449	-	10,985,449
Finance loans, less current portion	-	20,335,190	-	-	20,335,190
Due from South Carolina Student Loan Corporation	-	-	39,835,008	-	39,835,008
Total long-term assets	-	20,335,190	50,820,457	-	71,155,647
Total assets	$ 1,495,249	$ 32,283,807	$ 81,479,470	$ 67,378,062	$ 182,636,588

Continued

South Carolina State Education Assistance Authority

Schedule of Net Position by Fund

As of June 30, 2019

	Collection/ Prior Unpledged Fund	2009 PAL Resolution Fund	Eligible Lender Trust Fund	Agency Operating Fund	Total
Liabilities					
Current Liabilities					
Accounts payable	$ -	$ 2,800	$ -	$ 14,500	$ 17,300
Due to South Carolina Student Loan Corporation	196,614	396,309	8,715	6,113	607,751
Due to United States Department of Education	-	10,026	58,510	-	68,536
Customer refunds payable	5,921	-	-	-	5,921
Unearned revenues	13,737	-	-	-	13,737
Payable from restricted assets:					
Current portion of bonds payable	-	1,275,000	-	-	1,275,000
Accrued bond interest payable	-	306,380	-	-	306,380
Total current liabilities	216,272	1,990,515	67,225	20,613	2,294,625
Long-term liabilities					
Due to United States Department of Education	-	-	-	4,808,722	4,808,722
Bonds payable, less current maturities	-	23,158,264	-	-	23,158,264
Total long-term liabilities	-	23,158,264	-	4,808,722	27,966,986
Total liabilities	$ 216,272	$ 25,148,779	$ 67,225	$ 4,829,335	$ 30,261,611
Net Position					
Restricted for:					
Debt service					
Bond indentures - 2009 resolution	$ -	$ 7,135,028	$ -	$ -	$ 7,135,028
Other					
Guaranty agency operating account	-	-	-	62,548,727	62,548,727
Unrestricted	1,278,977	-	81,412,245	-	82,691,222
Total net position	$ 1,278,977	$ 7,135,028	$ 81,412,245	$ 62,548,727	$ 152,374,977

South Carolina State Education Assistance Authority

Schedule of Revenues, Expenses and Changes in Net Position by Fund

For the year ended June 30, 2019

	Collection/ Prior Unpledged Fund	2009 PAL Resolution Fund	Eligible Lender Trust Fund	Agency Operating Fund	Total
Operating revenues					
Income from South Carolina Student Loan Corporation:					
Subsidized interest	$ -	$ -	$ 66,996	$ -	$ 66,996
Special allowance	-	-	(262,675)	-	(262,675)
Non-subsidized interest	-	-	952,111	-	952,111
Late charges	-	-	8,993	-	8,993
Miscellaneous payments of student loans	27	-	66	-	93
Reimbursement of bond expense	-	1,935,938	-	-	1,935,938
Total operating revenues	27	1,935,938	765,491	-	2,701,456
Operating expenses					
Contractual services	-	-	-	25,223	25,223
General operating	675	-	-	-	675
South Carolina Student Loan Corporation for operating costs	-	310,481	110,349	-	420,830
Loan fees	-	129,651	172,627	-	302,278
Borrower incentives	-	-	83,266	-	83,266
Broker/dealer fees	-	18,800	2,500	-	21,300
Reinsurance expense	-	-	8,606	-	8,606
Loan loss expense	-	-	8,502	-	8,502
Total operating expenses	675	458,932	385,850	25,223	870,680
Operating income (loss)	(648)	1,477,006	379,641	(25,223)	1,830,776
Non-operating income (expense)					
Investment income	-	-	487,563	1,345,438	1,833,001
Bond interest expense	-	(1,471,974)	-	-	(1,471,974)
Total non-operating income (expense)	-	(1,471,974)	487,563	1,345,438	361,027
Change in net position	(648)	5,032	867,204	1,320,215	2,191,803
Net position					
Beginning of year	1,279,625	7,129,996	80,545,041	61,228,512	150,183,174
End of year	$ 1,278,977	$ 7,135,028	$ 81,412,245	$ 62,548,727	$ 152,374,977

South Carolina State Education Assistance Authority

Schedule of Cash Flows by Fund

For the year ended June 30, 2019

	Collection/ Prior Unpledged Fund	2009 PAL Resolution Fund	Eligible Lender Trust Fund	Agency Operating Fund	Total
Cash flows from operating activities					
Receipts from borrowers and United States Department of Education	$ 6,189	$ -	$ -	$ -	$ 6,189
Receipts from South Carolina Student Loan services provided	27	1,932,792	2,364,877	-	4,297,696
Payments to suppliers, lenders and borrowers	6,359	(520,690)	(417,814)	(21,614)	(953,759)
Net cash provided by (used for) operating activities	12,575	1,412,102	1,947,063	(21,614)	3,350,126
Cash flows from non-capital financing activities					
Finance loan advances to South Carolina Student Loan Corporation for student loans	-	(1,965,548)	-	-	(1,965,548)
Finance loan payments received from South Carolina Student Loan Corporation	-	10,607,303	-	-	10,607,303
Payments on bonds payable	-	(7,970,000)	-	-	(7,970,000)
Interest paid on revenue bonds	-	(1,506,816)	-	-	(1,506,816)
Net cash used for non-capital financing activities	-	(835,061)	-	-	(835,061)
Cash flows from investing activities					
Interest received on investment securities	-	-	487,563	1,345,401	1,832,964
Net cash provided by investing activities	-	-	487,563	1,345,401	1,832,964
Net increase (decrease) in cash and cash equivalents	12,575	577,041	2,434,626	1,323,787	4,348,029
Cash and cash equivalents					
Beginning of year	1,482,674	4,533,336	23,603,446	66,054,238	95,673,694
End of year	$ 1,495,249	$ 5,110,377	$ 26,038,072	$ 67,378,025	$ 100,021,723

Continued

South Carolina State Education Assistance Authority

Schedule of Cash Flows by Fund

For the year ended June 30, 2019

	Collection/ Prior Unpledged Fund	2009 PAL Resolution Fund	Eligible Lender Trust Fund	Agency Operating Fund	Total
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities					
Operating income (loss)	$ (648)	$ 1,477,006	$ 379,641	$ (25,223)	$ 1,830,776
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities					
Loan loss expense	-	-	8,502	-	8,502
Changes in operating assets and liabilities					
Student loans receivable	-	-	1,628,434	-	1,628,434
Interest due from borrower	-	-	(40,223)	-	(40,223)
Due from South Carolina Student Loan Corporation	-	96,703	-	-	96,703
Due from servicers	-	(91,118)	2,673	-	(88,445)
Due from United States Department of Education	-	(12,161)	-	-	(12,161)
Due from (to) other funds	(3,430)	3,430	-	-	-
Accounts payable	-	-	-	(2,504)	(2,504)
Due to United States Department of Education	-	(1,749)	(31,018)	-	(32,767)
Customer refunds payable	5,179	-	-	-	5,179
Unearned revenues	6,189	-	-	-	6,189
Due to South Carolina Student Loan Corporation	5,285	(60,009)	(946)	6,113	(49,557)
Net cash provided by (used for) operating activities	$ 12,575	$ 1,412,102	$ 1,947,063	$ (21,614)	$ 3,350,126

CREATION

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

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

MEMBERS OF THE AUTHORITY

Name	Office Held
Henry D. McMaster	Governor of South Carolina
Curtis M. Loftis, Jr.	State Treasurer of South Carolina
Richard Eckstrom	Comptroller General of South Carolina
Hugh K. Leatherman, Sr.	Chairman, South Carolina Senate Finance Committee
G. Murrell Smith	Chairman, South Carolina House of Representatives Ways and Means Committee

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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*

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Carolina State Education Assistance Authority (the "Authority"), a component unit of the State of South Carolina, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Elliott Davis, LLC

Columbia, South Carolina
September 30, 2019

Section I. Summary of Auditor's Results

Financial Statements

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

Section II. Financial Statement Findings

None reported