

**South Carolina Student  
Loan Corporation**

*Report on Consolidated Financial Statements*

*For the year ended June 30, 2014*

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# South Carolina Student Loan Corporation

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## Independent Auditor's Report

To the Board of Directors  
South Carolina Student Loan Corporation  
Columbia, South Carolina

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of South Carolina Student Loan Corporation (Corporation) which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of South Carolina Student Loan Corporation as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## Other Matters

The financial statements of South Carolina Student Loan Corporation, as of and for the year ended June 30, 2013, were audited by other auditors whose report dated September 9, 2013 expressed an unmodified opinion of those statements. South Carolina Student Loan Corporation presents a memorandum column for the prior year which we did not audit.

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the South Carolina Student Loan Corporation's consolidated financial statements. 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 consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements.

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2014, on our consideration of the Corporation'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* in considering the Corporation's internal control over financial reporting and compliance.

Columbia, South Carolina  
September 22, 2014



**South Carolina Student Loan Corporation**  
**Consolidated Statement of Financial Position**  
**As of June 30, 2014 (with comparative amounts for 2013)**

	2014			2013
	Unrestricted	Temporarily Restricted	Total	Totals Memorandum Only
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 61,859,660	\$ 94,529,620	\$ 156,389,280	\$ 196,346,078
Investments	57,851,619	-	57,851,619	56,609,063
Current portion of student loan receivables	7,305,891	279,720,882	287,026,773	263,071,398
Interest due from borrowers	707,151	42,312,715	43,019,866	51,416,441
Accounts receivable	1,193,175	-	1,193,175	1,781,845
Due from SC State Education Assistance Authority	1,807,340	12,242,648	14,049,988	15,233,199
Accrued investment income	170,548	33,539	204,087	325,131
Prepaid expenses	130,768	71,065	201,833	78,340
Due from (to) other funds	698,153	(698,153)	-	-
Total current assets	<u>131,724,305</u>	<u>428,212,316</u>	<u>559,936,621</u>	<u>584,861,495</u>
<b>Long-term receivables and other assets</b>				
Other student loan receivables, less current portion and net of allowance for loan loss of \$ 37,319,064	68,279,752	2,117,691,985	2,185,971,737	2,444,105,577
Teacher loans receivable - less allowance for teacher loan cancellations of \$12,856,764 and current portion	-	25,702,979	25,702,979	24,515,398
Overfunded defined benefit plan	770,942	-	770,942	471,053
Deferred cost of issuance of debt	-	7,276,166	7,276,166	8,758,395
Due from (to) other funds	20,942,464	(20,942,464)	-	-
Total long-term receivables and other assets	<u>89,993,158</u>	<u>2,129,728,666</u>	<u>2,219,721,824</u>	<u>2,477,850,423</u>
<b>Property and equipment</b>				
Land	364,900	-	364,900	929,900
Building	4,358,670	-	4,358,670	6,144,448
Furniture and equipment	2,336,419	-	2,336,419	10,906,653
Automobiles	53,348	-	53,348	73,563
Less, accumulated depreciation	(1,994,164)	-	(1,994,164)	(10,961,870)
Net property and equipment	<u>5,119,173</u>	<u>-</u>	<u>5,119,173</u>	<u>7,092,694</u>
Total assets	<u>\$ 226,836,636</u>	<u>\$ 2,557,940,982</u>	<u>\$ 2,784,777,618</u>	<u>\$ 3,069,804,612</u>

See notes to consolidated financial statements

**South Carolina Student Loan Corporation**  
**Consolidated Statement of Financial Position**  
**As of June 30, 2014 (with comparative amounts for 2013)**

	2014			2013
	Unrestricted	Temporarily Restricted	Total	Totals Memorandum Only
<b>Liabilities and Net Assets</b>				
<b>Current liabilities</b>				
Current portion of notes payable - finance loans	\$ -	\$ 4,534,326	\$ 4,534,326	\$ 5,421,296
Current maturities of bonds payable	-	359,306,222	359,306,222	413,445,925
Interest payable	-	2,182,208	2,182,208	2,441,699
Accounts payable	2,868,123	10,643	2,878,766	4,423,397
Deferred revenue	2,882,146	386,877	3,269,023	1,357,222
Teacher loan liability	-	983,334	983,334	581,514
Accrued pension payable	310,343	-	310,343	308,270
Compensated absences	1,863,733	-	1,863,733	1,688,039
Due to SC State Education Assistance Authority	-	694,697	694,697	759,750
Due to United States Department of Education	108,517	10,699,334	10,807,851	11,234,709
Total current liabilities	8,032,862	378,797,641	386,830,503	441,661,821
<b>Noncurrent liabilities</b>				
Bonds payable less, current maturities	-	1,793,692,931	1,793,692,931	2,044,781,324
Less, bond discounts	-	(8,248,244)	(8,248,244)	(9,975,744)
Net bonds payable less, current maturities and bond discounts	-	1,785,444,687	1,785,444,687	2,034,805,580
Due to SC State Education Assistance Authority	-	39,835,008	39,835,008	39,835,008
Notes payable - finance loans less, current maturities	-	55,266,102	55,266,102	59,194,404
Total noncurrent liabilities	-	1,880,545,797	1,880,545,797	2,133,834,992
Total liabilities	8,032,862	2,259,343,438	2,267,376,300	2,575,496,813
<b>Net Assets</b>				
<b>Temporarily restricted</b>				
For bond indentures - current debt service	-	11,058,166	11,058,166	14,441,551
For bond indentures	-	239,965,286	239,965,286	217,404,684
For teacher loans	-	47,574,092	47,574,092	43,649,045
Total temporarily restricted	-	298,597,544	298,597,544	275,495,280
<b>Unrestricted</b>				
Board designated	100,000	-	100,000	100,000
Undesignated	218,703,774	-	218,703,774	218,712,519
Total unrestricted	218,803,774	-	218,803,774	218,812,519
Total net assets	218,803,774	298,597,544	517,401,318	494,307,799
Total liabilities and net assets	\$ 226,836,636	\$ 2,557,940,982	\$ 2,784,777,618	\$ 3,069,804,612

See Notes to Consolidated Financial Statements

## South Carolina Student Loan Corporation

### Consolidated Statement of Activities

For the year ended June 30, 2014 (with comparative amounts for 2013)

	2014			2013
	Unrestricted	Temporarily Restricted	Total	Totals Memorandum Only
<b>Revenue</b>				
Income from United States Department of Education				
Student loan interest - subsidized	\$ 88,778	\$ 12,761,070	\$ 12,849,848	\$ 16,311,659
Special allowances	(444,081)	(56,254,667)	(56,698,748)	(62,489,482)
Student loan interest - non-subsidized	2,995,020	122,456,922	125,451,942	134,655,597
Investment income	422,469	275,077	697,546	3,445,952
Unrealized gain (loss) on investments	834,926	(2,042)	832,884	325,828
Late charges	39,417	2,119,666	2,159,083	2,188,268
Miscellaneous payments of student loans	(83)	(6,348)	(6,431)	(32,239)
Miscellaneous income	-	57,886	57,886	57,907
State appropriations - Department of Education	-	5,753,185	5,753,185	4,881,832
Remittance from SC State Education Assistance Authority				
for operating cost	617,555	-	617,555	626,637
Servicing fees	10,298,524	-	10,298,524	14,809,666
Other	1,166,527	-	1,166,527	3,003,541
Net assets released from restrictions	64,058,485	(64,058,485)	-	-
Total revenue	<u>80,077,537</u>	<u>23,102,264</u>	<u>103,179,801</u>	<u>117,785,166</u>
<b>Expenses</b>				
Personnel	11,829,750	-	11,829,750	14,850,871
Contractual services	5,106,651	-	5,106,651	9,095,013
General operating	6,257,755	-	6,257,755	13,940,513
Interest on debt	23,424,849	-	23,424,849	28,261,623
TLP cancellations	4,707,663	-	4,707,663	5,726,172
Amortization of deferred cost of bond issuance	3,209,733	-	3,209,733	3,159,411
Payments to SC State Education Assistance Authority				
for student loan income	4,206,296	-	4,206,296	3,924,780
Loan fees	9,712,649	-	9,712,649	10,592,920
Reinsurance expense	1,627,729	-	1,627,729	1,846,187
Borrower incentives	6,159,167	-	6,159,167	6,157,795
Broker dealer fees	388,778	-	388,778	403,628
Building expenses	457,375	-	457,375	930,353
Loan loss expense	2,764,468	-	2,764,468	6,961,140
Campus Partners valuation expense	-	-	-	1,245,000
Other	449,339	-	449,339	717,298
Total expenses	<u>80,302,202</u>	<u>-</u>	<u>80,302,202</u>	<u>107,812,704</u>
<b>Employee benefits - related changes other than net periodic pension cost</b>	<u>215,920</u>	<u>-</u>	<u>215,920</u>	<u>1,897,878</u>
<b>Change in net assets</b>	(8,745)	23,102,264	23,093,519	11,870,340
<b>Net assets</b>				
Beginning	218,812,519	275,495,280	494,307,799	482,437,459
Ending	<u>\$ 218,803,774</u>	<u>\$ 298,597,544</u>	<u>\$ 517,401,318</u>	<u>\$ 494,307,799</u>

See Notes to Consolidated Financial Statements

## South Carolina Student Loan Corporation

### Consolidated Statement of Cash Flows

For the year ended June 30, 2014 (with comparative amounts for 2013)

	2014			2013 Totals Memorandum Only
	Unrestricted	Temporarily Restricted	Total	
<b>Cash flows from operating activities</b>				
Change in net assets	\$ (8,745)	\$ 23,102,264	\$ 23,093,519	\$ 11,870,340
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities				
Depreciation	413,077	-	413,077	1,746,615
Unrealized gain on investments	(834,926)	-	(834,926)	(393,673)
Impairment of building	-	-	-	340,000
Amortization of bond discounts	-	1,727,499	1,727,499	1,727,498
Amortization of cost for debt issuance	-	1,482,234	1,482,234	1,780,916
Loan Loss Expense	144,760	2,619,708	2,764,468	6,961,140
Teacher loan cancellations	-	4,707,663	4,707,663	5,726,172
Gain on the sale of fixed assets	(202,000)	-	(202,000)	-
Changes in operating assets and liabilities				
(Increase) decrease in due from SC State Education				
Assistance Authority	(1,727,467)	2,910,678	1,183,211	10,421,680
(Increase) decrease in interest due from borrowers	(387,141)	8,783,717	8,396,576	14,309,519
(Increase) decrease in accounts receivable	(2,768,192)	-	(2,768,192)	(1,951,141)
(Increase) decrease in accrued investment income	(128,015)	5,920	(122,095)	(58,186)
Increase in prepaid expenses	(101,150)	(22,345)	(123,495)	32,798
Increase (decrease) in overfunded defined benefit plan	(299,889)	-	(299,889)	-
Increase (decrease) in due to (from) other funds	(28,304)	28,304	-	-
Decrease in interest payable	-	(259,492)	(259,492)	(775,631)
Increase (decrease) in accounts payable	(1,537,801)	(6,832)	(1,544,633)	2,491,366
Increase (decrease) in deferred revenue	1,969,772	(57,971)	1,911,801	(720,103)
Increase (decrease) in accrued pension expense	2,073	-	2,073	(2,407,855)
Increase in compensated absences	175,695	-	175,695	237,507
Increase in teacher loan liability	-	401,821	401,821	184,015
(Increase) decrease in due to US Department of Education	298,419	(725,278)	(426,859)	(987,478)
Decrease in due to SC State Education				
Assistance Authority	-	(65,053)	(65,053)	(91,576)
Net cash provided by operating activities	(5,019,834)	44,632,837	39,613,003	50,443,923
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	(259,094)	-	(259,094)	(229,115)
Proceeds from sale of property and equipment	2,415,211	-	2,415,211	-
Change in student loan receivables, net	(32,365,977)	263,727,927	231,361,950	314,069,619
Change in teacher loan receivables, net	-	(5,843,199)	(5,843,199)	(5,917,817)
Net purchases on investments	(801,302)	-	(801,302)	(661,896)
Net cash provided by (used in) investing activities	(31,011,162)	257,884,728	226,873,566	307,260,791
<b>Cash flows from financing activities</b>				
Change in financing loans, net	3,600,000	(4,815,272)	(1,215,272)	(3,861,219)
Payments on line of credit	-	-	-	(307,316,715)
Issuance of bonds payable	-	-	-	323,620,000
Payments of bonds payable	-	(305,228,095)	(305,228,095)	(382,055,377)
Payments of bond issuance costs	-	-	-	(1,811,281)
Net cash provided by (used in) financing activities	3,600,000	(310,043,367)	(306,443,367)	(371,424,592)
<b>Net increase (decrease) in cash and cash equivalents</b>	(32,430,996)	(7,525,802)	(39,956,798)	(13,719,878)
<b>Cash and cash equivalents</b>				
Beginning	94,290,656	102,055,422	196,346,078	210,065,956
Ending	61,859,660	94,529,620	156,389,280	196,346,078
<b>Supplemental disclosures of cash flow information</b>				
Cash payments for interest	-	23,684,342	23,684,342	28,829,342
Disposal of fully depreciated property and equipment	\$ 709,361	\$ -	\$ 709,361	\$ 783,760

See Notes to Consolidated Financial Statements



# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2014

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### Note 1. Summary of Significant Accounting Policies

#### Reporting entity:

The South Carolina Student Loan Corporation (“Corporation” or “SCSLC”) was incorporated November 15, 1973, under the Laws of the State of South Carolina. Its corporate goal is to receive, disburse and administer funds exclusively for educational purposes without pecuniary gain or profit to its members and to aid in the fulfillment of the desire and direction of the People of South Carolina in making loans available to students and parents to attend eligible post secondary institutions. Funds from various sources are administered by the Corporation to achieve this goal.

On January 1, 2011, SCSLC signed an agreement with Performant Financial Services (PFC) to provide debt collection services as a subcontractor for loans held by the United States Department of Education (DOE) for which PFC is collecting under a Master Servicing Agreement with the DOE. On April 1, 2011, SCSLC formed EdVantage Corporation (EdVantage), which is a controlled affiliate of SCSLC for the purpose of providing this subcontractor service. EdVantage ceased providing subcontractor services for PFC as of April 1, 2014; however, EdVantage has maintained required licensing. On April 1, 2014, EdVantage began providing collection services for the South Carolina State Education Assistance Authority (Authority).

On May 17, 2011, SCSLC entered into a Memorandum of Understanding with the DOE to provide Direct Loan Servicing activities for loans held by the DOE. SCSLC was awarded Authority to Operate (ATO) status on June 25, 2012, from the DOE for a ninety (90) day period. SCSLC was also awarded “go live” status on August 20, 2012, and SCSLC began providing these services in October 2012 under the name of EdManage, which is a functional area under SCSLC doing business as EdManage. EdManage entered this agreement with the DOE with the understanding that it would receive an initial allocation of 100,000 accounts to service, with the expectation that additional loan allocations would be received at later dates. In April 2013, the DOE notified all not-for-profit (NFP) DL Servicers that future loan allocations would be suspended indefinitely as a result of sequestration. As a result of the indefinite suspension of future loan allocations, EdManage contacted the DOE on May 22, 2013, and requested that they be authorized to discontinue their DL servicing program and be allowed to transfer their DL Loans to another DL Servicer. On June 7, 2013, EdManage received authorization from the DOE to become a subcontractor instead of a prime contractor and to transfer their DL Loans to another NFP DL servicer, subject to several conditions. EdManage met the transfer conditions and transferred its loan portfolio on August 29, 2013, to another “qualified not-for-profit servicer”.

On February 26, 2013, SCSLC bought the remaining interest in Educational Loan Services d/b/a Campus Partners (see Note 4).

The Corporation administers the operations of the Authority. The Authority is a body politic and corporate and a public instrumentality of the State of South Carolina. The Authority is part of the State of South Carolina created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the Code of Laws of South Carolina, 1976 as amended. The Authority is governed by its members, who are the members of the State Budget and Control Board (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.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2014

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Reporting entity, continued:

The basic, but not the only, criteria for including a component unit in the reporting entity is the governing body's oversight responsibility for such component unit. Financial accountability is the most important element of oversight responsibility. Neither the Authority nor the Corporation is considered a component unit of the other because each is a legally separate organization and not financially accountable to/for the other.

The accompanying financial statements present the consolidated financial position, results of activities and cash flows of the South Carolina Student Loan Corporation and its controlled affiliate and subsidiary.

#### Overall operating arrangement:

The Authority, as a guaranty agency, has approved the Corporation as an eligible lender to administer the Federal Family Education Loan (FFEL) Program. It is the duty of the Corporation 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 DOE. Upon entering the repayment period, the interest is paid by the borrower. Effective July 1, 2010, the FFEL program was discontinued and all future federal loans are originated through the Direct Loan program. The Corporation does, however, continue to make private student loans.

The Corporation financed both FFEL and private student loans using several sources. One source is the issuance of tax-exempt revenue bonds by the Authority. The Corporation, using the proceeds of these bonds as described in Note 7, makes loans. The Corporation remits proceeds on these loans to the Authority as required by loan agreements.

The operations of the Authority are administered by employees of the Corporation. The Authority reimburses the Corporation upon request for the actual operating costs and expenses plus reasonable capital costs incurred in accordance with a previously approved budget.

During fiscal 1984-85, the Corporation began administering the Teacher Loan Program (TLP). The TLP is a part of the Education Improvement Act of 1984 (Act) passed by the South Carolina General Assembly. The Corporation was named in the Act as the administrator of this program. The funds for operations and for making loans are provided by state appropriations. The intent of the program is to attract, through financial assistance, talented individuals and to encourage them to enter teaching in areas of critical need within the state. Loans are canceled at the greater of a specified dollar amount or 20% to 33 1/3% per year for each year of teaching in a critical subject and/or location. These loans are repaid by the borrower if the borrower does not teach. TLP loans made for academic years before 1994-95 are guaranteed by the Authority. Loans made for academic years 1994-95 or after are non-guaranteed.

During the 1995-96 year, the Corporation began making and servicing alternative loans through the Palmetto Assistance Loan Program (PAL). PAL offered supplemental loans for students and parents of students enrolled at least half-time in an eligible school and for fourth year medical students with specified Federal loans originated through SCSLC who were seeking funds for their residency and relocation. These loans were funded from Corporation accumulated unrestricted net assets and bond funds. The Corporation discontinued offering this PAL loan program in December 2008 due to lack of funds.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2014

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Overall operating arrangement (continued):

During the 2009-2010 year, the Corporation restructured PAL and began marketing the restructured program. The new PAL restricts the offering of loans only to students. The student must be enrolled on at least a half-time basis in a certificate or degree granting program and attending an eligible school in the state of South Carolina, or be a resident of South Carolina and attending an eligible college or university within the United States. These loans are funded by a \$85,000,000 bond offering issued by the South Carolina State Education Assistance Authority dated October 2, 2009.

During May 2013, the Corporation began offering PAL Consolidation Loans. The new PAL Consolidation Loan restricts the offering of loans to students who are in a grace period or post-enrollment repayment status and in good standing on all education loans being consolidated. The student must have a FICO score of 670 or above and a debt to income ratio of 30% or less. The student also must have loans made for attendance at Title IV eligible schools located in the United States, be a South Carolina resident or a nonresident with eligible loans made for attendance at eligible in-state schools, and cannot be incarcerated. These consolidation loans are being funded from the balance sheet of the Corporation.

The Corporation has entered into other financing agreements to provide additional funding for student loans (see Note 9).

#### Basis of accounting:

These statements are prepared using the accrual method of accounting recognizing income when earned regardless of when received and expenses when incurred regardless of when paid.

#### Consolidation policy:

The consolidated financial statements include the accounts of the Corporation and its controlled affiliate, EdVantage and subsidiary, Campus Partners. All material inter-corporation accounts and transactions of the consolidated subsidiary have been eliminated in the consolidation.

#### Display of net assets by class:

The Corporation adheres to the disclosures and display requirements of ASC 958 Not-For-Profit-Entities. ASC 958 establishes standards for external financial reporting by non-profit organizations and requires that resources be classified for accounting and reporting purposes as follows:

#### Unrestricted net assets:

Net assets that are not subject to restrictions. These net assets, including Board designated, are legally unrestricted and can be used in any Corporation activity.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2014

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Temporarily restricted net assets:

Net assets subject to restrictions that will be met either by actions of the Corporation and/or the passage of time. These net assets are made up of guaranteed student loans and cash from various funding sources.

#### Permanently restricted net assets:

Net assets subject to stipulations that must be maintained permanently by the Corporation. The Corporation does not have any such net assets.

#### 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 and disclosures of contingent 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:

For purposes of reporting cash flows, the Corporation considers all certificates of deposit, regardless of maturity, and Treasury Bills, commercial paper and money market funds with a maturity of three months or less, including those that are classified as restricted assets, to be cash equivalents.

#### Concentration risk:

The Corporation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. At June 30, 2014, all of the Corporation's cash was held in demand deposit accounts covered by federal depository insurance or by collateral held by the Corporation's agent in the Corporation's name.

#### Investments:

Investments are valued at fair market value. Realized and unrealized gains and losses on sale of investments are determined based on the cost of investments.

#### Allowance for teacher loan cancellations:

The allowance for cancellations on teacher loans represents the Corporation's estimate of teachers who will teach in critical need areas in South Carolina and meet the criteria for annual cancellation of the greater of a specified dollar amount or 20% to 33 1/3% of their loan balances. In making the estimate, the Corporation considers the trend in the loan portfolio and current operating information. The allowance is based on total teacher loans times the expected cancellation rate. The evaluation is inherently subjective and the allowance could significantly change in the future. The allowance was \$12,856,764 at June 30, 2014. The Corporation maintains \$983,334 as a liability at June 30, 2014, for the undisbursed funds from the Teacher Loan Program. The Corporation matches the receipt of the funds from the State of South Carolina with the disbursement of the funds to the teachers who are expected for cancellation.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2014

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### Note 1. Summary of Significant Accounting Policies, Continued

#### Provision for losses on student loans:

The provision for losses on student loans represents the Corporation's estimate of the costs related to the 2% to 3% risk sharing on FFEL loans and losses related to servicing all guaranteed loans by the Corporation that are not covered by its financings (See Note 6). The Corporation makes no provision of losses on student loans securing any of its financings as all of the borrowings disclosed in Note 6 are nonrecourse to the Corporation. The holders of the Bonds have all the credit risk for student loan losses that occur in each "trust estate". The provision also includes an estimate for non-guaranteed loans. In making the estimate, the Corporation 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 evaluation is inherently subjective and the provisions may significantly change in the future. Additionally, the Corporation maintains a 100% allowance for all PAL loans past due 180 days or greater. The allowance for loan losses was \$37,319,064 at June 30, 2014 (see Note 6 on Federal Reinsurance of FFEL loans).

#### Property and equipment:

Property and equipment costing over \$10,000, for SCSLC and \$3,500 for its Campus Partners subsidiary is 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, three years for automobiles and computers and thirty-nine years for the building.

#### Amortization of deferred cost of issuance of bonds and bond premiums and accretion of bond discounts:

Cost of issuance of bonds and bond premiums and discounts are being amortized/accreted over the lives of the bond issues on a straight-line basis and are included in operating expenses.

#### Compensated absences:

Annual leave is earned at the rate of 12 to 25 days per year depending on length of employment. Employees are expected to use at least one week (5 consecutive days) each year. Earned, but unused, annual leave will be paid when an employee terminates his/her employment. Sick leave is earned at the rate of 10 days per year. Employees are not paid for earned, but unused, sick days upon termination of employment.

#### Income taxes:

The Corporation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Management has evaluated the Corporation's tax positions and concluded that the Corporation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Corporation is no longer subject to income tax examination by the U.S. federal, state or local tax authorities for years before 2011. EdVantage is also exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. Management has evaluated EdVantage's tax positions and concluded that EdVantage had no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2014

### Note 1. Summary of Significant Accounting Policies, Continued

#### Comparative amounts:

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

### Note 2. Cash and Cash Equivalents

As of June 30, 2014, cash and cash equivalents include demand deposits and short-term investments with a maturity of three months or less as follows:

	<u>Cost</u>	<u>Market Value</u>
Unrestricted		
South Carolina State Treasurer pool	\$ 566,436	\$ 566,436
Collateralized demand deposits	<u>61,293,224</u>	<u>61,293,224</u>
Total unrestricted	<u>\$ 61,859,660</u>	<u>\$ 61,859,660</u>
Temporarily restricted		
Collateralized demand deposits	\$ 34,367	\$ 34,367
Money market	41,453,274	41,453,274
South Carolina State Treasurer pool	17,742,331	17,742,331
Guaranteed investment contracts	<u>35,299,648</u>	<u>35,299,648</u>
Total temporarily restricted	<u>\$ 94,529,620</u>	<u>\$ 94,529,620</u>

Cash and Cash Equivalents included in the Teacher Loan Program include the South Carolina State Treasurer Pool totaling \$17,742,331.

### Note 3. Investments

Market value of investments is determined by quoted market values and consists of the following as of June 30, 2014:

	<u>Cost</u>	<u>Market Value</u>
Mutual funds	\$ 5,255,436	\$ 6,663,447
Corporate bonds	41,774,475	41,812,192
Insured deposits	<u>9,375,980</u>	<u>9,375,980</u>
Total	<u>\$ 56,405,891</u>	<u>\$ 57,851,619</u>

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statement of financial position.

## **South Carolina Student Loan Corporation**

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

**June 30, 2014**

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#### **Note 4. Investment in Educational Loan Services (ELS) d/b/a Campus Partners**

On November 23, 2011, SCSLC signed a contract with Educational Loan Servicing, LLC (ELS) d/b/a Campus Partners (CP) as a vendor to provide a platform and servicing functionality sufficient to meet the requirements for servicing DOE Direct Loans. Subsequently, on February 1, 2012 SCSLC purchased 27.67% ownership of ELS for \$4,000,000 from JPT Partners (JPT), which was the sole owner of all equity of ELS, with an option to purchase from JPT an additional 23.37% at a later date for \$3,500,000 for a total ownership of 50.00%. As a result of several delays by CP in providing the contracted servicing platform for Direct Loans (DL), SCSLC evaluated its current investment in ELS and declined to make the additional \$3,500,000 investment. On June 20, 2012, SCSLC made an offer under certain conditions to CP to provide a revocable line of credit for \$6,000,000 for a term of three years at a rate of prime plus 1.5% to provide CP sufficient funding to complete the development of the servicing platform. Additional terms of the offer to provide the \$6,000,000 line of credit was that the initial \$4,000,000 investment would represent a 51.00% ownership by SCSLC, as SCSLC believed that the equity value had declined as a result of the delays in the delivery of the servicing platform. Also, the Board of Directors of ELS would be restructured from three members to five members with three members appointed by SCSLC and two members appointed by JPT. All decisions would be approved by a majority vote. The amended offer term sheet also included several less significant provisions that would need to be met in order for SCSLC to provide the line of credit. On July 30, 2012, SCSLC extended the revocable \$6,000,000 to CP and as a result of the conditions to provide the note, SCSLC obtained an additional 23.33% of ELS for a total ownership of 51%. On February 26, 2013, SCSLC purchased the remaining 49% of equity in CP from ELS for a purchase price of \$1,245,000, resulting in an ownership of 100% of CP.

#### **Note 5. Amounts Due From (to) the Corporation**

As of June 30, 2014, the Authority owes the Corporation funds collected on their behalf of \$14,049,988, which are required to be paid by the tenth of each month. The Corporation owes the Authority funds it contributed to the 2010-1 General Resolution \$39,835,008 (see Note 7) and \$694,697 for interest on the 2009 PAL bond.

#### **Note 6. Federal Family Education Loans and Federal Reinsurance of FFEL Loans**

In 2014, these loans were bearing interest at fixed rates ranging from 2.875% to 10.0% or an annual variable rate of 1.75% to 3.38%. The annual variable rate is reset each July 1 using the bond equivalent rate of the 91-day or 52-week Treasury Bill, determined at the final auction held prior to the immediately preceding June 1, plus 1.70% to 3.25% with a cap on the rate of 8.25% to 12.0%. The repayment period for these loans is five (5) to thirty (30) years with a minimum payment of \$360 or \$600 per year, except in the case of income-based repayment plans. Repayment of principal may be scheduled to begin within sixty (60) days of final disbursement or six (6) to ten (10) months after the student graduates or ceases to be enrolled on at least a half-time basis in an eligible institution.

Certain borrowers may elect an income-based repayment plan, which can result in a payment amount less than is required to fully pay principal on the loan. After 25 years in the income-based repayment plan, any remaining debt is discharged.

Loans are insured against death, disability and default by the Authority at 97% to 100% and are reinsured by the U.S. Department of Education 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. Total loans insured by the Authority at June 30, 2014, are \$2,192,419,400.

## **South Carolina Student Loan Corporation**

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

***June 30, 2014***

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#### **Note 6. Federal Family Education Loans and Federal Reinsurance of FFEL Loans, Continued**

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.

The origination fee for Stafford loans was 3% for loans first disbursed on or before June 30, 2006. It decreased to 2% on July 1, 2006; to 1.50% on July 1, 2007; 1% on July 1, 2008; and 0.50% on July 1, 2009. The origination fee for Stafford Loans was eliminated as of July 1, 2010. The origination fee for PLUS loans remained at 3% through June 30, 2010. This fee is no longer paid/received after July 1, 2010, due to SCSLC no longer originating FFEL loans.

The Health Care and Education Reconciliation Act of 2010 (HCRA) was signed into law on March 30, 2010, requiring all new federal student loans be originated through the Federal Direct Loan program as of July 1, 2010. The Corporation's ability to originate FFEL loans terminated on June 30, 2010. As a result, the Corporation's servicing revenues were reduced during the year as the aggregate loan portfolio being serviced by the Corporation began to decline. This trend has continued and is reflected in reductions in the FFEL portfolio primarily due to consolidation of these loans to the DL Consolidation program offered by the DOE and receipt of normal borrower payments. Additionally, since the FFEL loan program was the major component of the Corporation's lending activity, it is expected that the future asset growth and related earnings on that portion of the asset growth will continue to be impacted. The Corporation is currently evaluating the potential impact to its future revenue stream and is also currently exploring alternative revenue sources to offset the impact of the declining FFEL portfolio. The potential impact cannot be reasonably predicted.

#### **Note 7. Bonds Payable**

The Corporation issued bonds for the first time in the year ended June 30, 1997. All of the Corporation's bonds and notes are secured only by loans funded by bond proceeds or otherwise pledged, related revenue from such loans, investments and earnings on investments in related accounts and by a debt service reserve funded from bond proceeds. The Corporation's bonds and notes are each secured by assets held by a trustee in one of five trust estates governed by the applicable general resolution and other bond documents. The bond documents require the Corporation to accumulate collections from borrowers to pay principal and interest on bonds. The bonds and notes do not constitute a debt, liability or obligation of the State of South Carolina or any agency thereof but are limited obligations of the Corporation.

The debt service funds in the applicable general resolution contain assets equal to the interest and principal accumulated to make the next payments of principal and interest due. As of June 30, 2014, the Corporation held funds on deposit in the debt service funds of \$11,058,166.



## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2014

#### Note 7. Bonds Payable, Continued

The bonds outstanding as of June 30, 2014, are as follows:

<u>Issued</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Balance Outstanding June 30, 2013</u>	<u>Issued (Retired) During FY 2014</u>	<u>Balance Outstanding June 2014</u>
November 10, 2004	\$ 180,000,000	6/1/2034	\$ 135,550,000	\$ (6,500,000)	\$ 129,050,000
July 19, 2005	700,000,000	12/3/2018 - 12/1/2023	489,052,000	(54,294,000)	434,758,000
July 11, 2006	500,000,000	12/2/2019 - 12/1/2022	379,215,000	(64,100,000)	315,115,000
October 25, 2006	182,000,000	9/2/2046	129,400,000	(11,000,000)	118,400,000
June 25, 2008	600,000,000	9/2/2014 - 9/3/2024	315,583,590	(49,708,597)	265,874,993
November 30, 2010	920,000,000	1/25/2021 - 10/27/2036	699,775,333	(77,532,714)	622,242,619
February 20, 2013	323,620,000	1/25/2041	309,651,326	(42,092,785)	267,558,541
			<u>\$ 2,458,227,249</u>	<u>\$ (305,228,096)</u>	<u>\$ 2,152,999,153</u>

#### London Interbank Offered Rate (LIBOR) Indexed Bonds Secured by 1996 General Resolution:

The Corporation's LIBOR Indexed Bonds in the 1996 General Resolution totaled \$749,873,000 as of June 30, 2014, and have variable interest rates equal to three-month LIBOR plus 0.09% to 0.14%, as adjusted quarterly. Throughout the year ended June 30, 2014, none of the rates exceeded 0.41465%. Future interest payment projections are based upon the ten-year weighted average rate at June 30, 2014, which was 1.663%.

The LIBOR Indexed Bonds are subject to pro rata principal reduction payments prior to maturity based on targeted amortization schedules set forth in the 1996 General Resolution. The current liability of \$169,889,000 disclosed on the balance sheet as of June 30, 2014 reflects payments to be made in accordance with these targeted amortization schedules. The Corporation estimates receipt of student loan receivables of \$100,370,487 for the same period, which will not be sufficient to make these payments; however, failure by the Corporation to make any payment reflected by an applicable targeted amortization schedule for the LIBOR Indexed Bonds does not constitute a payment default under the 1996 General Resolution. The Corporation intends to make payments with respect to the LIBOR Indexed Bonds in accordance with the targeted amortization schedules set forth in the 1996 General Resolution to the extent allowable by available funds after payment of required obligations during the targeted period. (See Note 17 for further discussion.)

#### Auction Rate Securities Secured by 2004 General Resolution:

The Corporation's auction rate securities (ARS) totaled \$247,450,000 as of June 30, 2014, and have variable interest rates determined by auctions every 28 days. These ARS experienced the first failed auction in February 2008, and have been in a failed auction mode since that time. The payment of principal and interest on the ARS, when due, is insured by Ambac Assurance Corporation. The interest rates are subject to a maximum of the lesser of (i) a nominal cap of 17% or 20%, depending on the series, or (ii) one-month LIBOR plus 1.50% to LIBOR plus 2.50%, depending on the then-current rating of the ARS. Due to the current rating on the bonds, they bear a rate of one-month LIBOR plus 2.50%. The ARS are subject to redemption in whole or in part at par plus accrued interest on the first day of any auction period.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2014

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#### Note 7. Bonds Payable, Continued

Due to adverse market conditions, most auctions associated with ARS across a variety of sectors and asset classes have experienced widespread failure since February 11, 2008. All of the Corporation's auctions have failed since this date, and the interest rates have been set at the applicable maximum rates. This has had the effect of increasing the Corporation's relative cost of funds. Although the Corporation has no requirement to refinance its ARS, the Corporation was able to successfully refinance \$275,000,000 of ARS as part of the 2008-1 Series transaction. On June 10, 2013, the Corporation initiated a Cash Tender Offer, an Exchange Offer, and a Consent solicitation to all bond holders of the 2004 General Resolution. The Corporation made this offer under the condition that fifty percent (50%) or more bondholders would be required to participate and that the offer would expire on July 10, 2013, at 5:00 p.m. New York City time. As a result of the failure of the offer not meeting the Participation Condition, the offer expired on July 10, 2013.

#### LIBOR Notes Secured by 2008-1 General Resolution:

On June 25, 2008, the Corporation issued \$600,000,000 of Student Loan Backed Notes, 2008-1 Series, with variable interest rates ranging from three-month LIBOR plus 0.50% to LIBOR plus 1%. Proceeds of the issue were used to (i) finance student loans, (ii) refinance certain prior bonds, (iii) fund the Debt Service Reserve Fund, (iv) fund the Operating Fund, (v) fund the Department Reserve Fund and (vi) pay cost of issuance.

Principal and interest on the LIBOR Notes are to be paid on each Distribution Date (the first business day of each March, June, September, and December beginning September 2008). Principal will be paid first on the A-1 Notes until paid in full, second on the A-2 Notes until paid in full, third on the A-3 Notes until paid in full and fourth on the A-4 Notes until paid in full. The A-1 notes have been paid in full. The LIBOR Notes issued under the 2008-1 General Resolution are subject to optional redemption on the Distribution Date immediately following the date when the Pool Balance is 10% or less of the Initial Pool Balance. The LIBOR Notes Secured by 2008-1 General Resolution balance as of June 30, 2014 was \$265,874,993.

#### LIBOR Notes Secured by the 2010-1 General Resolution:

On November 30, 2010, the Corporation issued \$920,000,000 of Student Loan Backed Notes, 2010-1 Series, with variable interest rates ranging from three-month LIBOR plus 0.45% to three-month LIBOR plus 1.05%. Proceeds of the issue were used to (i) refinance the Corporation's credit facility with the Royal Bank of Canada, (ii) refinance prior indebtedness of the South Carolina State Education Assistance Authority, consisting of Auction Rate Securities issued under the Authority's 2002 General Resolution, (iii) fund the Debt Service Reserve Fund, (iv) fund the Capitalized Interest Fund, and (v) pay cost of issuance.

The Corporation transferred unencumbered FFEL loans of the Authority in the amount of \$39,835,008 and unencumbered loans of the Corporation of \$20,942,464 principal and interest to provide additional equity to the bond offering by increasing the parity of the bonds. The funds from both the Corporation and the Authority were provided through a Residual Trust Agreement, which allows for all remaining loans of the Trust to be shared between the Corporation and the Authority on a prorata basis, based on the percentage (%) contribution made by each entity once all bonds have been redeemed.

## South Carolina Student Loan Corporation

### *Notes to Consolidated Financial Statements*

*June 30, 2014*

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#### **Note 7. Bonds Payable, Continued**

The Corporation entered into an agreement with Nelnet [currently one of the four approved Title IV Additional Servicers (TIVAS) for servicing of DL Loans for DOE] to provide backup servicing in the event of the failure of the current servicer to provide those services. As a result, the Corporation provides Nelnet a data file of the loans securing the Trust on a quarterly calendar basis.

Principal and interest on the LIBOR notes is to be paid on each Distribution Date (the twenty-fifth day of each January, April, July, and October, or the next business day if such day is not a business day). Principal will be paid first on the A-1 Notes until paid in full, second on the A-2 Notes until paid in full, and third on the A-3 Notes until paid in full. The Notes are subject to optional redemption on the next Distribution Date occurring when the Pool Balance is 10% or less of the Initial Pool Balance. The balance of the Notes as of June 30, 2014 was \$622,242,619.

#### *LIBOR Notes Secured by the 2013-1 General Resolution:*

On February 20, 2013, the Corporation issued \$323,620,000 of Student Loan Backed Notes, 2013-1 Series, with a variable interest rate of one-month LIBOR plus 0.50%. Proceeds of the issue were used to (i) prepay the Corporation's Funding Note under the Straight A Funding federal conduit, (ii) refinance the Corporation's credit facility with the Royal Bank of Canada, (iii) fund a distribution to the Corporation for the pledge of certain FFELP student loans, (iv) fund the Debt Service Reserve Fund, (v) fund the Capitalized Interest Fund, and (vi) pay cost of issuance.

The Corporation entered into an agreement with Nelnet (currently one of the four approved TIVAS for servicing of DL Loans for DOE) to provide backup servicing in the event of the failure of the current servicer to provide those services. As a result, the Corporation provides Nelnet a data file of the loans securing the Trust on a quarterly calendar basis.

Principal and interest on the LIBOR notes is to be paid on each Distribution Date (the twenty-fifth day of each month, or the next business day if such day is not a business day). The Notes are subject to optional redemption on the next Distribution Date occurring when the Pool Balance is 10% or less of the Initial Pool Balance. The balance of the notes as of June 30, 2014 was \$267,558,541.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2014

### Note 7. Bonds Payable, Continued

#### Projected debt service:

As of June 30, 2014, the scheduled debt service to retire the bonds and notes of the Corporation is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 169,889,000	\$ 44,737,234	\$ 214,626,234
2016	148,153,000	41,947,684	190,100,684
2017	120,491,000	39,654,268	160,145,268
2018	419,563,072	36,786,190	456,349,262
2019	111,653,000	30,282,597	141,935,597
2020	45,998,922	29,224,533	75,223,455
2021	262,790,571	27,530,263	290,320,834
2022	-	24,197,537	24,197,537
2023	-	24,197,537	24,197,537
2024	-	24,197,537	24,197,537
2025	-	24,197,537	24,197,537
2026	359,452,047	19,638,945	379,090,992
2027	-	18,119,414	18,119,414
2028	-	18,119,414	18,119,414
2029	-	18,119,414	18,119,414
2030	-	18,119,414	18,119,414
2031	-	18,119,414	18,119,414
2032	-	18,119,414	18,119,414
2033	-	18,119,414	18,119,414
2034	129,050,000	18,119,414	147,169,414
2035	-	15,748,252	15,748,252
2036	-	15,748,252	15,748,252
2037	-	15,748,252	15,748,252
2038	-	15,748,252	15,748,252
2039	-	15,748,252	15,748,252
2040	-	15,748,252	15,748,252
2041	267,558,541	10,092,930	277,651,471
2042	-	2,175,478	2,175,478
2043	-	2,175,478	2,175,478
2044	-	2,175,478	2,175,478
2045	-	2,175,478	2,175,478
2046	-	2,175,478	2,175,478
2047	118,400,000	543,870	118,943,870
	<u>\$ 2,152,999,153</u>	<u>\$ 627,550,876</u>	<u>\$ 2,780,550,029</u>

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2014

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### Note 7. Bonds Payable, Continued

The weighted average interest rate used for future interest payment projections was 1.663%. An additional 0.15% was added to this rate when calculating the 2004 Resolution in order to account for Broker Dealer Fees. This estimate is inherently subjective and the rate may change significantly in the future.

As outlined in the 2004 General Resolution, the 2008-1 General Resolution, the 2010-1 General Resolution, and the 2013-1 General Resolution the Corporation is making either optional redemption payments or principal distributions to pay down the bonds when they receive excess revenues from the student loan receivables. At June 30, 2014, the Corporation estimated they would make optional redemption or principal distribution payments for the next year in the amount of \$359,306,222.

### Note 8. Notes Payable - 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. Advances to the Corporation from the Authority's 2009 PAL General Resolution are made pursuant to a loan agreement dated October 29, 2009. Since the bonds for the 2009 PAL were issued after the peak Student Loan Funding period, the Corporation was only able to finance new student loans of approximately \$40,000,000, while the bonds outstanding were \$85,000,000. Due to market conditions during the 2009-2010 fiscal year and restrictions on types of investment instruments available to the Authority, interest earned on its investments from the excess funds received from the bond issuance was less than the interest expense of the bonds. The terms of the note agreement between SCSLC and the Authority, as a result of the 2009 PAL General Resolution, require the Corporation to reimburse the Authority for the difference between the interest earned and the interest expense. The Corporation was aware of this situation at the time of issuance of the bonds, but expected loan activity during the 2010-2011 school year would be sufficient to allow it to recover from this situation in the near term. As a result of the Corporation reimbursing the Authority for the negative spread on interest during fiscal 2010, the Corporation realized a loss for the year in the 2009 PAL Resolution and ended the year with a negative Net Asset Balance. During Fiscal 2012-2013, market conditions continued to be suppressed resulting in additional negative spread on interest and a realized loss for the year in the 2009 PAL Resolution. In October 2013 the Corporation contributed \$6,717,492 of PAL loans from its unrestricted portfolio to the 2009 PAL Resolution resulting in a positive Net Asset Balance of \$1,813,145 at June 30, 2014. Each loan is calculated as set forth in the respective loan agreements.

The finance loan balances as of June 30, 2014 and 2013 are as follows:

<u>Bond Resolution</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
2009	\$ 59,800,428	\$ 64,615,700

## **South Carolina Student Loan Corporation**

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

***June 30, 2014***

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#### **Note 9. Other notes Payable - Straight-A Funding**

On July 7, 2009, the Corporation entered into an agreement with DOE under the Loan Purchase Commitment Program, (commonly known as Conduit, or Straight-A funding) to finance all of the outstanding loans in the 2008-2009 LPP program in addition to \$155.6 million of outstanding loans issued under the 1993 Resolution for an aggregate amount of \$372.4 million. The agreement was finalized on July 30, 2009. The Conduit, or Straight-A funding, facility provides liquidity support to eligible student lenders for FFEL Program Stafford and PLUS loans first disbursed by September 2009. In addition to providing financing cost based on market rate, a significant benefit to lenders is that eligible loans are permitted to have borrower benefits. Funding from the Conduit is provided indirectly by the capital markets through the sale to private investors of government back-stopped asset-backed commercial paper. The Corporation received funding equal to 97% of the principal and interest of the pledged student loans through the issuance of a funding note which was purchased by the Conduit. The Funding note matures on June 30, 2015. The commercial paper issued by the Conduit has short-term maturities generally ranging up to 90 days. In the event the commercial paper issued by the Conduit cannot be reissued at maturity and the Conduit does not have sufficient cash to repay investors, the Federal Financing Bank (FFB) has committed to provide short-term liquidity to the Conduit. If the Conduit is not able to issue sufficient commercial paper to repay its investors or liquidity advances from the FFB, the Corporation can either secure alternative financing and repay the Conduit borrowings or sell the pledged student loans to DOE at a predetermined price based on first disbursement date and certain other loan criteria. On February 20, 2013, the Corporation issued \$323,620,000 of Student Loan Backed Notes, 2013-1 Series. Proceeds from the 2013-1 issuance were used to pay off the outstanding balance of the Straight-A Funding (see Note 7 for further discussion).

#### **Note 10. Special Allowance Income or Expense**

As an inducement to the lender to make guaranteed student loans, the DOE pays the Corporation a special allowance on the unpaid principal of the Federal loans which is based on a variable percentage rate. It was instituted to assure the interest rate and other limitations of the Higher Education Act, in the context of the market conditions, would not adversely affect access to student loans or cause the rate of return on student loans to be less than equitable.

For loans disbursed prior to April 1, 2006, lenders are entitled to retain interest income in excess of the special allowance support level in instances when the loan rate exceeds the special allowance support level. However, lenders are not allowed to retain interest income in excess of the special allowance support level on loans disbursed on or after April 1, 2006, and are required to rebate any such excess interest to the federal government on a quarterly basis. This modification effectively limits lenders' returns to the special allowance support level. For the year ended June 30, 2014, the Corporation remitted \$56,698,748 of interest income in excess of the special allowance support level to the DOE.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2014

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#### Note 11. Employee Benefit Plans

##### Money Purchase Pension Plan:

The Corporation provides retirement benefits through the South Carolina Student Loan Corporation Money Purchase Pension Plan (MPPP) for all employees who have completed one year of service and attained age 21. The MPPP was originally established on July 1, 1975. BB&T is the Trustee of this plan. This is a defined contribution plan in which the employer contributes 5.6% of the participant's total annual compensation plus 5.6% of compensation exceeding the social security wage base. Contributions are paid monthly. A participant is 20% vested after two years service and 100% vested after six years of service. 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. Forfeitures under the plan reduce the employer's contribution in the year following the plan year in which the forfeiture occurs. The total retirement expense for 2014 was \$370,599 of which the Authority reimbursed \$79,303, and is fully funded.

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

The South Carolina Student Loan Corporation 403(b) Defined Contribution Plan was established on November 5, 2002, and subsequently amended on January 1, 2009. The plan provides for a 5% contribution by the Corporation based on the participant's total annual compensation. The total amount contributed under the plan in 2014 was \$310,343 of which the Authority reimbursed \$65,672 for its employees. All employees who have completed one year of service and attained age 21 are eligible to receive employer contributions. Contributions are 100% vested when made.

##### 401(k) Profit Sharing Plan:

SCSLC's subsidiary, Campus Partners maintains a defined contribution 401(k) profit sharing plan for all employees who have six months of service and attained the age of 21. Participants may make voluntary contributions equal to 100% of elective deferrals, up to 3% of each participant's annual compensation. Campus Partners may also elect to make discretionary contributions. CP contributions to this plan vest ratably over a four year period, beginning with the second year of participation. Contribution expense for the year ended June 30, 2014 was \$8,727.

##### Tax Deferred Annuity:

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

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2014

### Note 11. Employee Benefit Plans, Continued

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

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

#### Defined Benefit Pension Plan:

The Corporation established the South Carolina Student Loan Defined Benefit Plan (DBP) on July 1, 1998. The defined benefit pension plan covers substantially all employees with a minimum one year of service and 21 years of age. The DBP provides benefits based on the average of a participant's highest five consecutive years of pay. The benefit formula uses one percent of this average pay times years of service not to exceed thirty (30) years. The Corporation pension funding policy is to make at least the minimum annual contribution that is actuarially computed by the projected unit credit method required by this plan. The following sets forth the benefit obligation, the fair value of plan assets, and the funded status of the Corporation's plan, as well as the amounts recognized in the Corporation's financial statements at June 30, 2014:

Change in benefit obligation:	
Benefit obligation at end of prior plan year	\$ (12,486,878)
Service cost	(395,933)
Interest cost	(599,414)
Actuarial gain (loss)	(1,352,652)
Actual distributions	<u>399,678</u>
Benefit obligation at end of year	<u>(14,435,199)</u>
Change in plan assets:	
Plan assets at fair value at beginning of year	12,957,931
Actual return on plan assets	2,047,888
Actual employer contributions	600,000
Actual distributions (benefits) paid	<u>(399,678)</u>
Plan assets at fair value at end of year	<u>15,206,141</u>
Funded status at end of year	<u>\$ 770,942</u>
Amounts recognized in the statements of financial position consist of:	
Overfunded defined benefit plan	<u>\$ 770,942</u>
Amounts recognized in unrestricted net assets consists of the following:	
Unrecognized net actuarial loss	\$ 2,497,119
Unrecognized prior service cost	<u>(43,168)</u>
Net amount recognized	<u>\$ 2,453,951</u>



# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2014

### Note 11. Employee Benefit Plans, Continued

The following are weighted average assumptions used to determine benefits, obligations and net periodic benefit cost as of June 30, 2014 and 2013. The measurement date of the projected benefits obligation and Plan assets was June 30, 2014.

	<u>2014</u>	<u>2013</u>
Assumptions used		
Weighted-average assumptions used in computing ending obligations		
Discount rate	4.24%	4.80%
Rate of compensation increase	4.00%	4.00%
Weighted-average assumptions used in computing net cost		
Discount rate	4.24%	4.80%
Rate of compensation increase	4.00%	4.00%
Expected return on plan assets	7.00%	7.00%

The Corporation's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plans' asset allocation and liability structure over a long-term period. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (1) historical real returns, net of inflation, for the asset classes covered by the investment policy and (2) projections in inflation over the long-term period during which benefits are payable to plan participants.

Components of net periodic benefit cost and employee benefit-related changes other than net periodic pension cost are as follows:

Net periodic benefit cost	
Service cost	\$ 395,933
Interest cost	599,414
Expected return on plan assets	(913,625)
Amortization of prior service cost	(26,484)
Amortization of net gain (loss)	<u>227,661</u>
Net periodic benefit cost	<u>282,899</u>
Administrative expenses	<u>66,944</u>
Net periodic benefit cost	<u>\$ 349,843</u>
Corporation's share	\$ 262,383
Authority's share	<u>87,460</u>
	<u>\$ 349,843</u>

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2014

#### Note 11. Employee Benefit Plans, Continued

Employee benefit - related changes other than net periodic pension cost	
Net gain (loss)	\$ 218,389
Prior service cost	-
Amortization of prior service cost	26,484
Amortization of net gain (loss)	<u>(227,661)</u>
Employee benefit - related changes other than net periodic benefit cost	<u>\$ 17,212</u>
Corporation's share	\$ 12,909
Authority's share	<u>4,303</u>
	<u>\$ 17,212</u>
Total net periodic benefit cost and employee benefit - related changes other than net periodic benefit cost	<u>\$ 367,055</u>

The net pension (gain) expense for this Defined Benefit Pension Plan totaled \$300,111 plus \$66,944 of administrative expenses, totaling \$367,055 for the year ended June 30, 2014. The Authority recorded an expense of \$91,763 and the Corporation recorded an expense \$275,292 to the expense for this Plan for its employees for the year ended June 30, 2014. No participant contributions are permitted by the pension plan.

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$155,247 and (\$26,484), respectively. The accumulated benefit obligation for the defined benefit pension plan was \$13,146,517 at June 30, 2014.

Defined Benefit Pension Plan assets include life insurance policies and mutual funds. See target asset allocation below.

The Corporation's target asset allocation as of June 30, 2014, by asset category, is as follows:

Money market	5%
Equity securities	61%
Debt securities	27%
Insurance policies	<u>7%</u>
	<u>100%</u>

The Corporation's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges (shown above) by major asset categories.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2014

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#### Note 11. Employee Benefit Plans, Continued

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plan's actuarial assumptions and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The investment policy is reviewed quarterly by the Corporation and a designated third-party fiduciary for investment matters. The policy is established and administered in a manner that is compliant at all times with applicable government regulations.

The Corporation expects to contribute \$600,000 to its Defined Benefit Plan during 2014-2015.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2015	\$	527,400
2016		559,800
2017		587,600
2018		619,000
2019		655,900
2020 - 2024		3,858,800

#### Note 12. Rental Property, Operating Leases and Commitments

The Corporation owns and conducts its business from an office building in the northeast area of Columbia, South Carolina. The entire building is utilized by SCSLC and its controlled affiliate. Certain lease expense is charged to the Authority and EdVantage Corporation based on space occupied in the building. The Corporation also owned another office building in the Columbia area and leased a portion of the office space to four tenants under lease agreements of varying duration. This building was sold as of December 13, 2013 with any lease agreements transferring to the new building owners. Excluding charges to its controlled affiliate, building rental income for fiscal 2014 and 2013 was \$109,404 and \$135,993, respectively. In addition, the Corporation leases computer software and mail room equipment for terms of 36 to 60 month periods. Future minimum lease payments are as follows:

2015	\$	251,909
2016		69,626

Additionally, the Corporation's Campus Partners subsidiary leases office space in Winston Salem, North Carolina under the terms of a non-cancelable operating lease expiring March 2015. The lease contains fixed increases as well as increases based on Consumer Price Index (CPI) and requires CP to pay its share of any increases in real estate taxes and operating expenses. CP also leases certain office equipment under operating lease arrangements which expire through January 2017.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2014

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#### Note 12. Rental Property, Operating Leases and Commitments, Continued

Future minimum lease payments for CP under the office lease obligation and equipment operating lease arrangements as of June 30, 2014 are as follows:

2015	\$	598,418
2016		92,128
2017		33,970

Campus Partners has also entered in to various software licenses as detailed below:

Sirius Computer Solutions Services Agreement - CP entered into a managed services agreement in October 2011 with Sirius Computer Solutions, Inc. to host CP's loan servicing system. The term of the agreement is for sixty (60) months, with a monthly base payment of \$89,500 in the first twelve (12) months of the agreement, and a monthly base payment of \$129,700 due thereafter. This agreement has a three (3) month extension at the end of the term to negotiate the terms and length of a renewal agreement. This agreement has a three (3) year renewal term option. As a result of CP discontinuing the DL Servicing product, they are currently reviewing the capacity needs of the remaining business and expect to renegotiate this contract during the next year.

CA Technologies License Agreement - CP entered into a license agreement in September 2011 with CA Technologies. The term of the agreement is sixty (60) months. Quarterly payments under this agreement are approximately \$120,000 per quarter for the first three (3) years and \$90,000 per quarter thereafter. This agreement has a three (3) year renewal term option. As a result of CP discontinuing the DL Servicing product, they are currently reviewing the capacity needs of the remaining business and expect to renegotiate this contract during the next year.

Non-Recourse Sale Agreements - CP entered into three (3) non-recourse sale agreements in 2008. The sale agreements were consummated to transfer all rights, title and interest in private student loans retained on CP's balance sheet in early 2008, and contained customary representations and warranties with respect to the condition of the private student loans as of the sale dates. As of June 30, 2014, CP does not have any repurchase obligations with respect to breaches of the customary representations and warranties contained in these sale agreements, and views the probability of any future repurchase obligations as remote.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2014

#### Note 13. Assets Released from Restrictions

Net assets during the year ended June 30, 2014, were released from restrictions by incurring expenses satisfying the restricted purposes and by occurrence of other events specified as follows:

Personnel	\$	242,022
Contractual services		22,752
General operating		47,209
Interest on debt		23,424,849
TLP cancellations		4,707,663
Amortization of deferred cost of bond issuance		3,209,733
Payments to SC State Education Assistance Authority for student loan income		4,206,296
Loan fees		9,616,779
Reinsurance expense		1,607,469
Borrowers incentives		6,140,660
Broker dealer fees		388,778
Loan loss expense		2,619,708
Other		445,991
Total expenses		<u>56,679,909</u>
Transfers related to contributed loans for 2009 PAL General Resolution		(6,754,447)
Transfer from taxable bond financings for loan servicing		<u>14,133,023</u>
Total	\$	<u>64,058,485</u>

#### Note 14. Disclosures About Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- Level 1      Observable, unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2      Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in inactive markets and inputs other than quoted prices, such as interest rates, yield curves and prepayment speeds.
- Level 3      Inputs to the valuation methodology are unobservable and significant to the fair values measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2014

### Note 14. Disclosures About Fair Value of Financial Instruments, Continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2014 and 2013.

Cash and cash equivalents' carrying amounts approximate fair value because of the short maturity of those instruments. The fair value of the investments is based on quoted market rates or similar quoted market rates. Student loan receivables' carrying value approximates fair value based on like sale of student loans within the industry. In 2011, the Corporation sold a portion of its loans from the FFEL program at par value. Debt instrument's carrying value also approximates fair value based on the prices for the same or similar debt issues and on current rates offered to the Corporation for debt of the same remaining maturities with similar collateral requirements.

	<u>Carrying Value</u>	<u>Estimated Fair Value</u>		
Financial assets				
Cash and cash equivalents	\$ 156,389,280	\$ 156,389,280		
Investments	57,851,619	57,851,619		
Student loan receivables	2,470,826,063	2,470,826,063		
Teacher loan receivables	25,877,426	25,877,426		
Financial liabilities				
Notes payable	\$ 59,800,428	\$ 59,800,428		
Bonds payable	2,152,999,153	2,152,999,153		
	<u>June 30, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets				
Cash and cash equivalents	\$ 156,389,280	\$ 156,389,280	\$ -	\$ -
Money market	1,406	1,406	-	-
Insured deposits	9,374,574	9,374,574	-	-
Mutual funds	6,663,447	6,663,447	-	-
Corporate bonds	41,812,192	-	41,812,192	-
Student loan receivables	2,470,824,063	-	2,470,824,063	-
Teacher loan receivables	27,877,426	-	27,877,426	-
Total financial assets	<u>\$ 2,712,942,388</u>	<u>\$ 172,428,707</u>	<u>\$ 2,540,513,681</u>	<u>\$ -</u>
Financial liabilities				
Notes payable	\$ 59,800,428	\$ -	\$ 59,800,428	\$ -
Bonds payable	2,152,999,153	-	2,152,999,153	-
Total financial liabilities	<u>\$ 2,212,799,581</u>	<u>\$ -</u>	<u>\$ 2,212,799,581</u>	<u>\$ -</u>

### Note 15. Reclassifications

Certain reclassifications of fiscal year 2013 amounts were made on the statement of financial position and the statement of activities for comparability to fiscal year 2014 with no effect on the change in net assets.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2014

#### Note 16. Board Designated Net Assets

During fiscal year 2006, the Board designated funds to establish the Mackie Scholarship Fund to award scholarships to employees or family members of employees. As of June 30, 2014, \$100,000 is available for future scholarships.

#### Note 17. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through the date the financial statements were available to be issued and no subsequent events occurred requiring accrual.

On August 20, 2014 the Corporation issued Education Loan Revenue Bonds totaling \$501,500,000 as the 2014 Series under the 1996 General Resolution. The 2014 Series Bonds were issued in two Classes, including the Senior Bonds and the Subordinate Bonds. The Senior Bonds consist of two tranches referred to as the A-1 Bonds and the A-2 Bonds. The following table summarizes key characteristics of the 2014 Series:

Class/Tranche	Original Principal Amount	Interest Rate	Stated Maturity	Price to Public
A-1	\$328,000,000	1-month LIBOR plus 0.75%	May 1, 2030	100.00000%
A-2	\$100,500,000	1-month LIBOR plus 1.00%	January 3, 2033	99.53271%
B-Subordinate	\$ 73,000,000	1-month LIBOR plus 1.50%	August 1, 2035	94.22693%

The initial proceeds of the 2014 Series Bonds are being used in connection with the Corporation's Student Loans Finance Program to: 1) pay Targeted Amortization Payments for prior bonds issued under the 1996 General Resolution that have not been satisfied prior to the 2014 Series issuance (see Note 7), 2) finance repurchased Education Loans held as unencumbered assets of the Corporation as of June 30, 2014, 3) fund certain Funds and Accounts under the 1996 General Resolution including the Supplemental Reserve Fund, the General Revenue Fund, the Senior Lien Account and the Subordinate Lien Account of the Debt Service Reserve Fund, and 4) pay costs and expenses associated with the issuance for the 2014 Series. The Corporation was paid \$40,760,340 for the repurchased Education loans at closing.

The 1996 General Resolution permits releases of cash on or prior to September 3, 2014 if the defined parity ratio on all outstanding Senior Bonds of the 1996 General Resolution exceeds 112% and the defined parity ratio on all outstanding Bonds of the 1996 General Resolution exceeds 104%. Such releases were made to the Corporation on August 20, 2014 for \$97,772,843 and on September 2, 2014 for \$27,657,121. After September 3, 2014, no such releases will be permitted to be made until all of the bonds issued under the 1996 General Resolution have been paid in full.

The Corporation was served notice regarding a case filed in United States District Court and has retained legal counsel in the appropriate jurisdiction. This matter is under review and investigation. At this time it is premature to comment on the alleged facts or any potential liability of the Corporation.

## South Carolina Student Loan Corporation

### Consolidated Schedule of Financial Position By Fund - Unrestricted

June 30, 2014

	Operating/SLC	Campus Partners	Eliminations	Total
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 60,996,430	\$ 863,230	\$ -	\$ 61,859,660
Investments	57,851,619	-	-	57,851,619
Investment in Campus Partners	-	-	-	-
Current portion of student loan receivables	7,305,891	-	-	7,305,891
Interest due from borrowers	707,151	-	-	707,151
Accounts receivable	12,769,302	920,209	(12,496,336)	1,193,175
Due from SC State Education Assistance Authority	1,807,340	-	-	1,807,340
Accrued investment income	797,531	145,435	(772,418)	170,548
Prepaid expenses	130,768	-	-	130,768
Due from (to) other funds	698,153	-	-	698,153
Total current assets	<u>143,064,185</u>	<u>1,928,874</u>	<u>(13,268,754)</u>	<u>131,724,305</u>
<b>Long-term receivables and other assets</b>				
Other student loan receivables less, current portion and allowance for loan loss	68,279,752	-	-	68,279,752
Overfunded defined benefit plan	770,942	-	-	770,942
Due from (to) other funds	20,942,464	-	-	20,942,464
Total long-term receivables and other assets	<u>89,993,158</u>	<u>-</u>	<u>-</u>	<u>89,993,158</u>
<b>Property and equipment</b>				
Land	364,900	-	-	364,900
Building	4,358,670	-	-	4,358,670
Furniture and equipment	2,285,999	50,420	-	2,336,419
Automobiles	53,348	-	-	53,348
Less, accumulated depreciation	(1,947,945)	(46,219)	-	(1,994,164)
Net property and equipment	<u>5,114,972</u>	<u>4,201</u>	<u>-</u>	<u>5,119,173</u>
Total assets	<u>\$ 238,172,315</u>	<u>\$ 1,933,075</u>	<u>\$ (13,268,754)</u>	<u>\$ 226,836,636</u>
<b>Liabilities and Net Assets</b>				
<b>Current liabilities</b>				
Current portion of notes payable	\$ -	\$ 12,496,336	\$ (12,496,336)	\$ -
Interest payable	-	772,418	(772,418)	-
Accounts payable	1,925,626	942,497	-	2,868,123
Deferred revenue	2,882,146	-	-	2,882,146
Accrued pension payable	310,343	-	-	310,343
Compensated absences	1,863,733	-	-	1,863,733
Due to United States Department of Education	108,517	-	-	108,517
Total current liabilities	<u>7,090,365</u>	<u>14,211,251</u>	<u>(13,268,754)</u>	<u>8,032,862</u>
<b>Net assets</b>				
Board designated for scholarships	100,000	-	-	100,000
Unrestricted	230,981,950	(12,278,176)	-	218,703,774
Total net assets	<u>231,081,950</u>	<u>(12,278,176)</u>	<u>-</u>	<u>218,803,774</u>
Total liabilities and net assets	<u>\$ 238,172,315</u>	<u>\$ 1,933,075</u>	<u>\$ (13,268,754)</u>	<u>\$ 226,836,636</u>



**South Carolina Student Loan Corporation**  
**Consolidated Schedule of Financial Position by Fund - Temporarily Restricted**  
**June 30, 2014**

	Teacher Loans	96 Resolution	04 Resolution	08 Resolution	2010-1 Resolution	2013-1 Resolution	Tax Exempt 09 PAL Resolution	Total Temporarily Restricted
<b>Assets</b>								
<b>Current assets</b>								
Cash and cash equivalents	\$ 17,742,331	\$ 20,282,221	\$ 8,178,382	\$ 11,661,497	\$ 29,365,424	\$ 7,265,398	\$ 34,367	\$ 94,529,620
Current portion of student loan receivables	2,174,447	100,370,487	18,553,031	43,965,188	74,564,884	35,558,519	4,534,326	279,720,882
Interest due from borrowers	2,686,224	11,477,185	2,716,303	4,960,548	12,038,253	7,997,656	436,546	42,312,715
Due from SC State Education Assistance Authority	204,171	9,671,401	95,238	482,504	749,330	352,988	687,016	12,242,648
Accrued investment income	29,261	2,391	248	1,234	128	277	-	33,539
Prepaid expenses	-	-	10,758	-	33,963	26,344	-	71,065
Due from (to) other funds	17,988	1,375	(114,896)	(113,684)	(343,005)	(146,222)	291	(698,153)
Total current assets	22,854,422	141,805,060	29,439,064	60,957,287	116,408,977	51,054,960	5,692,546	428,212,316
<b>Long-term receivables and other assets</b>								
Other student loan receivables less, current portion and allowance for loan loss	-	783,405,792	224,258,624	259,192,189	562,136,587	232,173,042	56,525,751	2,117,691,985
Teacher loans receivable - less allowance for teacher loan cancellations and current portion	25,702,979	-	-	-	-	-	-	25,702,979
Deferred cost of issuance of debt	-	853,336	925,650	347,168	3,451,967	1,698,045	-	7,276,166
Due from (to) Other Funds	-	-	-	-	(20,942,464)	-	-	(20,942,464)
Total investments and long-term receivables	25,702,979	784,259,128	225,184,274	259,539,357	544,646,090	233,871,087	56,525,751	2,129,728,666
Total assets	\$ 48,557,401	\$ 926,064,188	\$ 254,623,338	\$ 320,496,644	\$ 661,055,067	\$ 284,926,047	\$ 62,218,297	\$ 2,557,940,982
<b>Liabilities and Net Assets</b>								
<b>Current liabilities</b>								
Current portion of notes payable - finance loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,534,326	\$ 4,534,326
Current maturities of bonds payable	-	169,889,000	17,962,712	49,708,597	77,532,714	44,213,199	-	359,306,222
Interest payable	-	210,198	271,074	227,954	1,443,907	29,075	-	2,182,208
Accounts payable	-	-	10,643	-	-	-	-	10,643
Deferred revenue	-	-	-	-	-	-	386,877	386,877
Teacher loan liability	983,334	-	-	-	-	-	-	983,334
Due to SC State Education Assistance Authority	-	-	-	-	-	-	694,697	694,697
Due to United States Department of Education	(25)	2,145,554	53,472	1,417,321	4,521,558	2,561,454	-	10,699,334
Total current liabilities	983,309	172,244,752	18,297,901	51,353,872	83,498,179	46,803,728	5,615,900	378,797,641
<b>Noncurrent liabilities</b>								
Bonds payable less, current maturities and bond Less, bond discounts	-	579,984,000	229,487,288	216,166,396	544,709,905	223,345,342	-	1,793,692,931
Net bonds payable less, current maturities and bond discounts	-	(2,467,695)	-	(87,098)	(5,693,451)	-	-	(8,248,244)
Due to SC State Education Assistance Authority	-	577,516,305	229,487,288	216,079,298	539,016,454	223,345,342	-	1,785,444,687
Notes payable - finance loans less, current maturities	-	-	-	-	39,835,008	-	-	39,835,008
Total noncurrent liabilities	-	577,516,305	229,487,288	216,079,298	578,851,462	223,345,342	55,266,102	1,880,545,797
Total liabilities	983,309	749,761,057	247,785,189	267,433,170	662,349,641	270,149,070	60,882,002	2,259,343,438
<b>Net assets</b>								
Temporarily restricted for bond indentures current debt service	-	9,478,287	1,579,879	-	-	-	-	11,058,166
Temporarily restricted for bond indentures	-	166,824,844	5,258,270	53,063,474	(1,294,574)	14,776,977	1,336,295	239,965,286
Temporarily restricted for teacher loans	47,574,092	-	-	-	-	-	-	47,574,092
Total net assets	47,574,092	176,303,131	6,838,149	53,063,474	(1,294,574)	14,776,977	1,336,295	298,597,544
Total liabilities and net assets	\$ 48,557,401	\$ 926,064,188	\$ 254,623,338	\$ 320,496,644	\$ 661,055,067	\$ 284,926,047	\$ 62,218,297	\$ 2,557,940,982

## South Carolina Student Loan Corporation

### Consolidated Schedule of Activities By Fund - Unrestricted

For the year ended June 30, 2014

	Operating/SLC	Campus Partners	Eliminations	Total
<b>Revenue</b>				
Income from United States Department of Education				
student loan interest - subsidized	\$ 88,778	\$ -	\$ -	\$ 88,778
Special allowances	(444,081)	-	-	(444,081)
Student loan interest - non-subsidized	2,995,020	-	-	2,995,020
Investment income	951,750	-	(529,281)	422,469
Unrealized gain (loss) on investments	834,926	-	-	834,926
Late charges	39,417	-	-	39,417
Miscellaneous payments of student loans	(83)	-	-	(83)
Remittance from SC State Education Assistance				
Authority for operating cost	617,555	-	-	617,555
Servicing Fees	1,536,562	8,977,390	(215,428)	10,298,524
Other	1,166,527	-	-	1,166,527
Total revenue	<u>7,786,371</u>	<u>8,977,390</u>	<u>(744,709)</u>	<u>16,019,052</u>
<b>Expenses</b>				
Personnel	7,618,284	3,969,444	-	11,587,728
Contractual services	1,660,526	3,638,801	(215,428)	5,083,899
General operating	2,131,106	4,608,721	(529,281)	6,210,546
Loan fees	95,870	-	-	95,870
Reinsurance expense	20,260	-	-	20,260
Borrower incentives	18,507	-	-	18,507
Building rental expenses	457,375	-	-	457,375
Loan loss expense	144,760	-	-	144,760
Campus Partners valuation expense	3,348	-	-	3,348
Total expenses	<u>12,150,036</u>	<u>12,216,966</u>	<u>(744,709)</u>	<u>23,622,293</u>
<b>Employee benefits - related changes other than net periodic pension cost (expense) benefit</b>	<u>215,920</u>	<u>-</u>	<u>-</u>	<u>215,920</u>
<b>Transfer between accounts</b>				
Transfers in	60,037,217	-	-	60,037,217
Transfers out	(52,658,641)	-	-	(52,658,641)
Total transfers between accounts	<u>7,378,576</u>	<u>-</u>	<u>-</u>	<u>7,378,576</u>
<b>Change in net assets</b>	<u>3,230,831</u>	<u>(3,239,576)</u>	<u>-</u>	<u>(8,745)</u>
<b>Net assets</b>				
Beginning	227,851,119	(9,038,600)	-	218,812,519
Ending	<u>\$ 231,081,950</u>	<u>\$ (12,278,176)</u>	<u>\$ -</u>	<u>\$ 218,803,774</u>

**South Carolina Student Loan Corporation**

**Consolidated Schedule of Activities by Fund - Temporarily Restricted**

**For the year ended June 30, 2014**

	Teacher Loans	96 Resolution	04 Resolution	08 Resolution	2010-1 Resolution	2013-1 Resolution	Tax Exempt 09 PAL Resolution	Total
<b>Revenue</b>								
Income from United States Department of Education								
student loan interest - subsidized	\$ 147	\$ 3,839,049	\$ 53,422	\$ 1,933,868	\$ 4,773,916	\$ 2,089,631	\$ 71,037	\$ 12,761,070
Special allowances	-	(12,636,542)	(273,146)	(7,759,524)	(22,593,823)	(12,682,819)	(308,813)	(56,254,667)
Student loan interest - non-subsidized	2,971,878	41,180,554	9,277,079	13,446,700	35,210,290	16,443,706	3,926,715	122,456,922
Investment income	175,709	57,883	9,077	27,174	1,487	3,747	-	275,077
Unrealized (loss) on investments	(2,042)	-	-	-	-	-	-	(2,042)
Late charges	62,571	725,994	182,292	377,491	504,420	213,880	53,018	2,119,666
Miscellaneous payments of student loans	(37)	(1,545)	(212)	(1,865)	(1,786)	(846)	(57)	(6,348)
Miscellaneous income	-	-	-	-	-	-	57,886	57,886
State appropriations - Department of Education	5,753,185	-	-	-	-	-	-	5,753,185
Total revenue	<u>8,961,411</u>	<u>33,165,393</u>	<u>9,248,512</u>	<u>8,023,844</u>	<u>17,894,504</u>	<u>6,067,299</u>	<u>3,799,786</u>	<u>87,160,749</u>
<b>Expenses</b>								
Personnel	242,022	-	-	-	-	-	-	242,022
Contractual services	22,752	-	-	-	-	-	-	22,752
General operating	47,209	-	-	-	-	-	-	47,209
Interest on debt	-	3,037,320	7,038,848	3,147,074	8,236,710	1,964,897	-	23,424,849
TLP cancellations	4,707,663	-	-	-	-	-	-	4,707,663
Amortization of deferred cost of bond issuance	-	678,638	102,085	579,021	1,770,081	79,908	-	3,209,733
Payments to SC State Education Assistance								
Authority for student loan income	-	-	-	-	-	-	4,206,296	4,206,296
Loan fees	-	6,848,149	132,763	-	2,536,607	99,260	-	9,616,779
Reinsurance expense	-	549,453	9,007	167,371	388,749	472,235	20,654	1,607,469
Borrower incentives	16,718	3,391,037	219,932	490,425	1,870,224	2,637	149,687	6,140,660
Broker dealer fees	-	64,864	166,651	37,890	90,650	28,723	-	388,778
Loan loss expense	-	-	1,919,007	-	-	-	700,701	2,619,708
Other	-	-	445,991	-	-	-	-	445,991
Total expenses	<u>5,036,364</u>	<u>14,569,461</u>	<u>10,034,284</u>	<u>4,421,781</u>	<u>14,893,021</u>	<u>2,647,660</u>	<u>5,077,338</u>	<u>56,679,909</u>
<b>Transfer between accounts</b>								
Transfers in	-	24,954	-	1,373	8,660	1,968	6,717,492	6,754,447
Transfers out	-	(5,052,000)	(1,414,345)	(1,453,844)	(4,346,505)	(1,866,329)	-	(14,133,023)
Total transfers between accounts	<u>-</u>	<u>(5,027,046)</u>	<u>(1,414,345)</u>	<u>(1,452,471)</u>	<u>(4,337,845)</u>	<u>(1,864,361)</u>	<u>6,717,492</u>	<u>(7,378,576)</u>
<b>Change in net assets</b>	<b>3,925,047</b>	<b>13,568,886</b>	<b>(2,200,117)</b>	<b>2,149,592</b>	<b>(1,336,362)</b>	<b>1,555,278</b>	<b>5,439,940</b>	<b>23,102,264</b>
<b>Net assets</b>								
Beginning	43,649,045	162,734,245	9,038,266	50,913,882	41,788	13,221,699	(4,103,645)	275,495,280
Ending	<u>\$ 47,574,092</u>	<u>\$ 176,303,131</u>	<u>\$ 6,838,149</u>	<u>\$ 53,063,474</u>	<u>\$ (1,294,574)</u>	<u>\$ 14,776,977</u>	<u>\$ 1,336,295</u>	<u>\$ 298,597,544</u>

**South Carolina Student Loan Corporation**  
**Consolidated Schedule of Cash Flows By Fund - Unrestricted**  
**For the year ended June 30, 2014**

	Operating/SLC	Campus Partners	Elimination	Unrestricted
Cash Flows from Operating Activities				
Change in net assets	\$ 3,230,831	\$ (3,239,576)	\$ -	\$ (8,745)
Adjustments to reconcile change in net assets to net cash used in operating activities				
Depreciation	366,858	46,219	-	413,077
Unrealized gain on investments	(834,926)	-	-	(834,926)
Loan Loss Expense	144,760	-	-	144,760
Gain on the sale of fixed assets	(202,000)	-	-	(202,000)
Changes in operating assets and liabilities				
Increase in due from SC State Education				
Assistance Authority	(1,727,467)	-	-	(1,727,467)
(Increase) decrease in interest due from borrowers	(391,417)	4,276	-	(387,141)
(Increase) decrease in accounts receivable	(3,634,908)	866,716	-	(2,768,192)
(Increase) decrease in accrued investment income	(511,861)	(145,435)	529,281	(128,015)
Increase in prepaid expenses	(101,150)	-	-	(101,150)
Increase (decrease) in overfunded defined benefit plan	(299,889)	-	-	(299,889)
Decrease in due to (from) other funds	(28,304)	-	-	(28,304)
Increase (decrease) in interest payable	-	529,281	(529,281)	-
Increase (decrease) in accounts payable	61,597	(1,599,398)	-	(1,537,801)
Increase in deferred revenue	1,969,772	-	-	1,969,772
Increase in accrued pension expense	2,073	-	-	2,073
Increase in compensated absences	175,695	-	-	175,695
Increase in teacher loan liability	-	-	-	-
Decrease in due to US Department of Education	298,419	-	-	298,419
<b>Net cash used in operating activities</b>	<b>(1,481,917)</b>	<b>(3,537,917)</b>	<b>-</b>	<b>(5,019,834)</b>
Cash Flows from Investing Activities				
Purchase of property and equipment	(208,674)	(50,420)	-	(259,094)
Proceeds from sale of property and equipment	2,415,211	-	-	2,415,211
Change in student loan receivables, net	(32,365,977)	-	-	(32,365,977)
Change in teacher loan receivables, net	-	-	-	-
Net proceeds (purchases) on investments	(801,302)	-	-	(801,302)
<b>Net cash used in investing activities</b>	<b>(30,960,742)</b>	<b>(50,420)</b>	<b>-</b>	<b>(31,011,162)</b>
Cash Flows from Financing Activities				
Change in financing loans, net	-	3,600,000	-	3,600,000
<b>Net cash provided by financing activities</b>	<b>-</b>	<b>3,600,000</b>	<b>-</b>	<b>3,600,000</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(32,442,659)</b>	<b>11,663</b>	<b>-</b>	<b>(32,430,996)</b>
Cash and Cash Equivalents				
Beginning	93,439,089	851,567	-	94,290,656
<b>Ending</b>	<b>60,996,430</b>	<b>863,230</b>	<b>-</b>	<b>61,859,660</b>
Supplemental Disclosure of Cash Flow Information				
Cash payments for interest	-	-	-	-
Disposal of fully depreciated property and equipment	\$ 709,361	\$ -	\$ -	\$ 709,361

**South Carolina Student Loan Corporation**

*Consolidated Schedule of Cash Flows By Fund - Temporarily Restricted*

*For the year ended June 30, 2014*

	Teacher Loans	96 Resolution	04 Resolution	08 Resolution	2010-1 Resolution	2013-1 Resolution	Tax Exempt 09 PAL Resolution	Total
<b>Cash Flows from Operating Activities</b>								
Change in net assets	\$ 3,925,047	\$ 13,568,886	\$ (2,200,117)	\$ 2,149,592	\$ (1,336,362)	\$ 1,555,278	\$ 5,439,940	\$ 23,102,264
Adjustments to reconcile change in net assets to net cash provided by operating activities								
Depreciation	-	-	-	-	-	-	-	-
Unrealized (gain) loss on investments	-	-	-	-	-	-	-	-
Amortization of bond discounts	-	509,411	-	116,130	1,101,958	-	-	1,727,499
Amortization of cost for debt issuance	-	169,227	102,085	462,891	668,123	79,908	-	1,482,234
Loan Loss Expense	-	-	1,919,007	-	-	-	700,701	2,619,708
Teacher loan cancellations	4,707,663	-	-	-	-	-	-	4,707,663
Gain on the sale of fixed assets	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities								
(Increase) decrease in due from SC State Education Assistance Authority	(30,602)	818,604	49,811	445,625	841,228	181,356	604,656	2,910,678
(Increase) decrease in interest due from borrowers	(8,411)	1,911,857	925,178	1,220,629	2,511,474	2,228,588	(5,598)	8,783,717
(Increase) decrease in accounts receivable	-	-	-	-	-	-	-	-
(Increase) decrease in accrued investment income	3,648	1,040	584	525	19	104	-	5,920
Increase in prepaid expenses	-	-	266	-	3,733	(26,344)	-	(22,345)
Increase (decrease) in overfunded defined benefit plan	-	-	-	-	-	-	-	-
Increase (decrease) in due to (from) other funds	109,815	124	(6,338)	(16,044)	(39,301)	(19,952)	-	28,304
Increase (decrease) in interest payable	-	(54,359)	211	(33,804)	(164,850)	(6,690)	-	(259,492)
Increase (decrease) in accounts payable	-	-	(899)	-	-	(5,933)	-	(6,832)
Increase (decrease) in deferred revenue	-	-	-	-	-	-	(57,971)	(57,971)
Increase (decrease) in accrued pension expense	-	-	-	-	-	-	-	-
Increase (decrease) in compensated absences	-	-	-	-	-	-	-	-
Increase (decrease) in teacher loan liability	401,821	-	-	-	-	-	-	401,821
(Increase) decrease in due to US Department of Education	8	(89,333)	(6,668)	(90,725)	(314,429)	(224,131)	-	(725,278)
(Decrease) increase in due to SC State Education Assistance Authority	-	-	-	-	-	-	(65,053)	(65,053)
Net cash provided by operating activities	<u>9,108,989</u>	<u>16,835,457</u>	<u>783,120</u>	<u>4,254,819</u>	<u>3,271,593</u>	<u>3,762,184</u>	<u>6,616,675</u>	<u>44,632,837</u>
<b>Cash Flows from Investing Activities</b>								
Purchase of property and equipment	-	-	-	-	-	-	-	-
Sale of property and equipment	-	-	-	-	-	-	-	-
Change in student loan receivables, net	-	98,132,660	15,210,058	44,118,400	70,937,087	37,131,125	(1,801,403)	263,727,927
Change in teacher loan receivables, net	(5,843,199)	-	-	-	-	-	-	(5,843,199)
Purchase of investments	-	-	-	-	-	-	-	-
Net cash provided by (used in) investing activities	<u>(5,843,199)</u>	<u>98,132,660</u>	<u>15,210,058</u>	<u>44,118,400</u>	<u>70,937,087</u>	<u>37,131,125</u>	<u>(1,801,403)</u>	<u>257,884,728</u>
<b>Cash Flows from Financing Activities</b>								
Change in financing loans, net	-	-	-	-	-	-	(4,815,272)	(4,815,272)
Payments of bonds payable	-	(118,394,000)	(17,500,000)	(49,708,597)	(77,532,714)	(42,092,784)	-	(305,228,095)
Net cash provided by (used in) financing activities	<u>-</u>	<u>(118,394,000)</u>	<u>(17,500,000)</u>	<u>(49,708,597)</u>	<u>(77,532,714)</u>	<u>(42,092,784)</u>	<u>(4,815,272)</u>	<u>(310,043,367)</u>
Net increase (decrease) in cash and cash equivalents	3,265,790	(3,425,883)	(1,506,822)	(1,335,378)	(3,324,034)	(1,199,475)	-	(7,525,802)
<b>Cash and Cash Equivalents</b>								
Beginning	14,476,541	23,708,104	9,685,204	12,996,876	32,689,457	8,464,873	34,367	102,055,422
Ending	<u>17,742,331</u>	<u>20,282,221</u>	<u>8,178,382</u>	<u>11,661,498</u>	<u>29,365,423</u>	<u>7,265,398</u>	<u>34,367</u>	<u>94,529,620</u>
<b>Supplemental disclosure of cash flow information</b>								
Cash payments for interest	-	3,091,679	7,038,638	3,180,877	8,401,561	1,971,587	-	23,684,342
Disposal of fully depreciated property and equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**South Carolina Student Loan Corporation**  
**Consolidated Schedule of Property and Equipment**  
**For the year ended June 30, 2014**

	Balance as of June 30, 2013	Additions	Disposals	Balance as of June 30, 2014
<b>Cost</b>				
Land 1	\$ 565,000	\$ -	\$ (565,000)	\$ -
Land 2	364,900	-	-	364,900
Total land	<u>929,900</u>	<u>-</u>	<u>-</u>	<u>364,900</u>
Building 1	1,785,778	-	(1,785,778)	-
Building 2	4,358,670	-	-	4,358,670
Total buildings	<u>6,144,448</u>	<u>-</u>	<u>(1,785,778)</u>	<u>4,358,670</u>
Campus Partners furniture and fixtures	-	50,420	-	50,420
SCSLC furniture and fixtures	2,227,796	208,674	(150,471)	2,285,999
SCSLC automobiles	73,563	-	(20,215)	53,348
Cost total	<u>9,375,707</u>	<u>259,094</u>	<u>(1,956,464)</u>	<u>7,113,337</u>
<b>Accumulated depreciation</b>				
Building 1	528,980	-	(528,980)	-
Building 2	247,367	148,848	(111,263)	284,952
Total buildings	<u>776,347</u>	<u>148,848</u>	<u>(640,243)</u>	<u>284,952</u>
Campus Partners furniture and fixtures	-	46,219	-	46,219
SCSLC furniture and fixtures	1,433,103	225,445	(48,903)	1,609,645
SCSLC automobiles	73,563	-	(20,215)	53,348
Accumulated depreciation total	<u>2,283,013</u>	<u>420,512</u>	<u>(709,361)</u>	<u>1,994,164</u>
Net book value	<u>\$ 7,092,694</u>	<u>\$ (161,418)</u>	<u>\$ (1,247,103)</u>	<u>\$ 5,119,173</u>

## South Carolina Student Loan Corporation

### Consolidated Schedule of Expenses

For the year ended June 30, 2014

	Operating/SLC		Teacher Loan	
	2014	2013	2014	2013
<b>Operating expenses</b>				
Personnel				
Staff salaries	\$ 5,549,457	\$ 5,857,203	\$ 183,648	\$ 172,148
Social security	373,482	400,825	12,335	11,615
Group insurance	641,347	697,603	20,307	19,881
Retirement	1,033,415	1,226,946	25,013	(43,514)
Unemployment	20,583	18,180	719	550
Total personnel	<u>7,618,284</u>	<u>8,200,757</u>	<u>242,022</u>	<u>160,680</u>
Contractual				
Loan servicing	693,430	1,750,747	19,654	16,104
Information technology	51,912	63,067	-	-
Legal	680,614	(15,961)	-	-
Accounting	154,269	245,994	3,098	2,484
Skip tracing	50,656	52,349	-	-
Credit bureau	29,645	30,585	-	-
Total contractual	<u>1,660,526</u>	<u>2,126,781</u>	<u>22,752</u>	<u>18,588</u>
<b>General operating</b>				
Rent	(91,200)	(84,329)	8,759	8,759
Telephone	137,131	347,216	5,799	3,721
Printing	197,143	227,253	710	1,616
Postage	735,475	1,100,089	23,646	22,379
Supplies	63,561	60,967	1,764	1,755
Travel	59,583	46,528	-	-
Equipment maintenance	125,793	118,132	4,991	5,326
Subscriptions and fees	51,535	51,223	-	-
Meeting and conference expenses	60,000	49,500	-	-
Insurance - general and automotive	100,753	91,482	1,528	1,330
Outreach and awareness	6,380	6,374	-	-
Contingencies	14,548	16,304	12	-
Depreciation	224,191	212,260	-	-
Third party collections	198,987	262,058	-	-
Other operating expenses	247,226	217,652	-	-
Total general operating	<u>2,131,106</u>	<u>2,722,709</u>	<u>47,209</u>	<u>44,886</u>
Total operating expenses	<u>11,409,916</u>	<u>13,050,247</u>	<u>311,983</u>	<u>224,154</u>
<b>Employee benefits - related changes other than net periodic pension cost (benefit)</b>				
	<u>(215,920)</u>	<u>(1,897,878)</u>	<u>-</u>	<u>-</u>
<b>Capital additions</b>				
Property, equipment, furniture and fixtures	<u>208,674</u>	<u>229,116</u>	<u>-</u>	<u>-</u>
Total operating expenses, employee benefits - related changes and capital additions	<u>\$ 11,402,670</u>	<u>\$ 11,381,485</u>	<u>\$ 311,983</u>	<u>\$ 224,154</u>

## South Carolina Student Loan Corporation

### Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Amount of Grant</u>	<u>Expenses</u>
U.S. Department of Education Programs			
Higher Education Act Insured Loans Contract			
Federal Family Education Loan Program			
Special allowances (See #2 below)	84.032		See #2 Below
Subsidized interest	84.032		<u>\$ 12,849,947</u>
Total U.S. Department of Education Programs (Major program)			<u>\$ 12,849,947</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 Corporation during its fiscal year July 1, 2012, through June 30, 2013.
2. Special Allowances: The U.S. Department of Education (USDE) now requires lenders to pay the USDE when lenders have negative special allowance. The Corporation paid \$56,698,749 for the year ended June 30, 2014.





**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 Board of Directors  
Management of South Carolina Student Loan Corporation  
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 consolidated financial statements of the South Carolina Student Loan Corporation (Corporation), as of and for the year ended June 30 2014, and the related notes to the consolidated financial statements, which collectively comprise the basic financial statements, and have issued our report thereon dated September 22, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation's consolidated 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 Corporation'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 consolidated 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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Columbia, South Carolina  
September 22, 2014



**Independent Auditor's Report on Compliance with Requirements  
That Could Have a Direct and Material Effect for Each Major Program  
and on Internal Control Over Compliance Required by OMB Circular A-133**

To the Board of Directors  
South Carolina Student Loan Corporation  
Columbia, South Carolina

**Report on Compliance for Each Major Federal Program**

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

**Management's Responsibility**

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

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

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

## Report on Internal Control Over Compliance

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

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

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

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

Columbia, South Carolina  
September 22, 2014

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

# South Carolina Student Loan Corporation

## Summary of Findings and Questioned Costs

Year Ended June 30, 2014

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### 1. Summary of Auditor's Results

#### *Financial Statements*

Type of report issued on financial statements:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	None identified
Significant deficiency(ies) identified	None identified
Noncompliance material to financial statements noted?	None reported

#### *Federal Awards*

Internal control over financial reporting:	
Material weakness(es) identified?	None identified
Significant deficiency(ies) identified	None identified

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? None

Identification of major programs:

U.S. Department of Education	<u>CFDA#</u>	<u>Expenditure</u>
Higher Education Act Insured Loan Program		
Federal Family Education Loan Program		
Subsidized interest	84.032	\$12,849,947

Dollar threshold used to distinguish between Type A and Type B programs \$ 385,498

South Carolina Student Loan Corporation qualifies as a low risk auditee under paragraph .530 OMB 133 No

2. **Financial Statement Findings** None reported

3. **Findings and Questioned Costs for Federal Awards** None reported

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## **South Carolina Student Loan Corporation**

*Summary of Prior Year Audit Findings*

*Year Ended June 30, 2014*

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

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**South Carolina Student Loan Corporation*****Schedule of Corrective Action Plan******Year Ended June 30, 2014***

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