

**South Carolina Student  
Loan Corporation**

*Report on Consolidated Financial Statements*

*For the year ended June 30, 2019*

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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 (the "Corporation"), which comprise the consolidated statement of financial position as of June 30, 2019, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Carolina Student Loan Corporation as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Adoption of New Accounting Standard**

As described in Note 1, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. This Update addresses the presentation of net asset classifications for consistency and understandability, provides information about liquidity and availability of resources, and allows consistency in information provided about expenses and investment return. The Corporation adopted the provisions of this ASU during the year ended June 30, 2019. The adoption of this ASU did not have any impact on the Corporation’s total net assets or changes in net assets. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited South Carolina Student Loan Corporation’s 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated September 28, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidated schedules by fund, consolidated schedule of property and equipment, schedule of expenses for the operating fund and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2019 on our consideration of the Corporation’s internal control over financial reporting and on 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 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 30, 2019

**South Carolina Student Loan Corporation**  
**Consolidated Statement of Financial Position**  
**As of June 30, 2019 (with comparative amounts for 2018)**

	2019			2018
	Without Restrictions	With Restrictions	Total	Totals Memorandum Only
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 12,913,428	\$ 64,820,374	\$ 77,733,802	\$ 148,432,033
Investments	207,042,146	-	207,042,146	186,732,240
Current portion of student loans receivable	11,029,313	176,758,898	187,788,211	222,202,504
Current portion of teacher loans receivable	-	2,807,325	2,807,325	2,006,114
Interest due from borrowers	1,176,772	41,385,553	42,562,325	40,231,406
Accounts receivable	27,120	8,575	35,695	29,793
Due from United States Department of Education	36,871	689,427	726,298	355,690
Due from servicers	100,206	1,347,659	1,447,865	2,178,693
Due from South Carolina State Education Assistance Authority	44,571	563,180	607,751	657,308
Accrued investment income	29,513	51,570	81,083	211,824
Prepaid expenses	434,562	56,829	491,391	1,365,937
Due from (to) other funds	297,591	(295,463)	2,128	-
Total current assets	<u>233,132,093</u>	<u>288,193,927</u>	<u>521,326,020</u>	<u>604,403,542</u>
<b>Long-term receivables and other assets</b>				
Student loans receivable, net of current portion and allowance for loan loss of \$31,887,008	85,725,247	1,012,771,625	1,098,496,872	1,261,308,805
Teacher loans receivable, net of current portion and allowance for loan cancellations of \$10,840,394	-	28,732,024	28,732,024	29,283,900
Overfunded defined benefit plan	1,644,316	-	1,644,316	2,491,955
Due from (to) other funds	20,942,464	(20,942,464)	-	-
Total long-term receivables and other assets	<u>108,312,027</u>	<u>1,020,561,185</u>	<u>1,128,873,212</u>	<u>1,293,084,660</u>
<b>Property and equipment</b>				
Land	364,900	-	364,900	364,900
Building	4,358,670	-	4,358,670	4,358,670
Furniture and equipment	4,517,229	-	4,517,229	2,822,500
Automobiles	80,030	-	80,030	113,046
Less accumulated depreciation	(3,856,221)	-	(3,856,221)	(3,301,583)
Net property and equipment	<u>5,464,608</u>	<u>-</u>	<u>5,464,608</u>	<u>4,357,533</u>
Total assets	<u>\$ 346,908,728</u>	<u>\$ 1,308,755,112</u>	<u>\$ 1,655,663,840</u>	<u>\$ 1,901,845,735</u>

See Notes to Consolidated Financial Statements

(Continued)

**South Carolina Student Loan Corporation**  
**Consolidated Statement of Financial Position**  
**As of June 30, 2019 (with comparative amounts for 2018)**

	2019			2018
	Without Restrictions	With Restrictions	Total	Totals Memorandum Only
<b>Liabilities and Net Assets</b>				
<b>Current liabilities</b>				
Current maturities of notes payable - finance loans	\$ -	\$ 6,346,620	\$ 6,346,620	\$ 6,916,628
Current maturities of bonds payable	-	166,398,390	166,398,390	240,209,402
Interest payable	-	3,354,429	3,354,429	3,857,652
Accounts payable	1,732,082	13,051	1,745,133	1,740,827
Unearned revenues	223,580	403,413	626,993	836,065
Customer refunds payable	18,426	-	18,426	8,658
Teacher loan liability	-	1,072,340	1,072,340	1,309,353
Compensated absences	1,014,892	-	1,014,892	1,009,437
Due to South Carolina State Education Assistance Authority	251	-	251	155
Due to United States Department of Education	19,564	1,400,260	1,419,824	2,310,969
Total current liabilities	<u>3,008,795</u>	<u>178,988,503</u>	<u>181,997,298</u>	<u>258,199,146</u>
<b>Noncurrent liabilities</b>				
Notes payable - finance loans, net of current maturities	-	20,335,190	20,335,190	28,406,937
Bonds payable, net of current maturities	-	806,835,850	806,835,850	983,160,525
Payable to the State of South Carolina	-	50,660,027	50,660,027	46,595,315
Due to South Carolina State Education Assistance Authority	-	39,835,008	39,835,008	39,835,008
Total noncurrent liabilities	<u>-</u>	<u>917,666,075</u>	<u>917,666,075</u>	<u>1,097,997,785</u>
Total liabilities	<u>3,008,795</u>	<u>1,096,654,578</u>	<u>1,099,663,373</u>	<u>1,356,196,931</u>
<b>Net Assets</b>				
<b>Net assets with restrictions</b>				
Bond indentures - current debt service	-	8,034,351	8,034,351	14,211,020
Bond indentures	-	204,066,183	204,066,183	187,847,736
Total net assets with restrictions	<u>-</u>	<u>212,100,534</u>	<u>212,100,534</u>	<u>202,058,756</u>
<b>Net assets without restrictions</b>				
Board designated for scholarships	-	-	-	100,000
Board designated for Power:Ed	10,000,000	-	10,000,000	-
Undesignated	333,899,933	-	333,899,933	343,490,048
Total net assets without restrictions	<u>343,899,933</u>	<u>-</u>	<u>343,899,933</u>	<u>343,590,048</u>
Total net assets	<u>343,899,933</u>	<u>212,100,534</u>	<u>556,000,467</u>	<u>545,648,804</u>
Total liabilities and net assets	<u>\$ 346,908,728</u>	<u>\$ 1,308,755,112</u>	<u>\$ 1,655,663,840</u>	<u>\$ 1,901,845,735</u>

**See Notes to Consolidated Financial Statements**

## South Carolina Student Loan Corporation

### Consolidated Statement of Activities

For the year ended June 30, 2019 (with comparative amounts for 2018)

	2019			2018
	Without Restrictions	With Restrictions	Total	Totals Memorandum Only
<b>Revenues</b>				
Income from United States Department of Education:				
Student loan interest - subsidized	\$ 66,604	\$ 5,666,978	\$ 5,733,582	\$ 5,937,291
Special allowances	(72,055)	(7,179,658)	(7,251,713)	(18,309,815)
Student loan interest - unsubsidized	5,772,579	67,316,474	73,089,053	81,904,941
Investment income	4,744,234	1,467,294	6,211,528	4,238,246
Unrealized gain on investments	595,911	-	595,911	693,771
Late charges	55,043	1,085,881	1,140,924	1,305,470
Miscellaneous payments of student loans	286	12,396	12,682	15,599
Remittance from South Carolina State Education Assistance Authority				
for operating costs	420,830	-	420,830	411,940
Servicing fees	337,647	-	337,647	368,920
Other	292,583	-	292,583	356,734
Net assets released from restrictions	58,327,587	(58,327,587)	-	-
Total revenues	<u>70,541,249</u>	<u>10,041,778</u>	<u>80,583,027</u>	<u>76,923,097</u>
<b>Expenses</b>				
Personnel	4,051,952	-	4,051,952	2,375,248
Contractual services	5,033,638	-	5,033,638	5,589,894
General operating	1,609,785	-	1,609,785	1,206,723
Interest on debt	41,898,239	-	41,898,239	38,874,734
Payments to South Carolina State Education Assistance Authority				
for student loan income	1,935,938	-	1,935,938	2,139,915
Loan fees	5,477,597	-	5,477,597	6,346,334
Reinsurance expense	911,368	-	911,368	1,456,891
Borrower incentives	3,813,030	-	3,813,030	4,283,820
Broker dealer fees	246,358	-	246,358	265,550
Building expense	190,487	-	190,487	239,943
Loan loss expense	5,062,972	-	5,062,972	2,979,562
Total expenses	<u>70,231,364</u>	<u>-</u>	<u>70,231,364</u>	<u>65,758,614</u>
<b>Changes in net assets</b>	309,885	10,041,778	10,351,663	11,164,483
<b>Net assets</b>				
Beginning	343,590,048	202,058,756	545,648,804	534,484,321
Ending	<u>\$ 343,899,933</u>	<u>\$ 212,100,534</u>	<u>\$ 556,000,467</u>	<u>\$ 545,648,804</u>

See Notes to Consolidated Financial Statements

## South Carolina Student Loan Corporation

### Consolidated Statement of Functional Expenses

For the year ended June 30, 2019

	Program Expenses		Supporting Services	Total Expenses
	PAL and PAL Refi	FFEL	Management and General	
<b>Operating</b>				
<b>Personnel</b>				
Staff salaries	\$ 1,941,294	\$ 242,662	\$ 242,662	\$ 2,426,618
Social security	127,861	15,983	15,983	159,827
Group insurance	143,851	17,981	17,981	179,813
Retirement	1,012,308	126,538	126,538	1,265,384
Unemployment	16,248	2,031	2,031	20,310
Total personnel	3,241,562	405,195	405,195	4,051,952
<b>Contractual</b>				
Information technology	639,853	65,857	65,857	771,567
Third party servicing fees	1,068,749	2,434,596	-	3,503,345
Legal and professional	34,566	-	400,833	435,399
Accounting	-	-	168,335	168,335
Skip tracing	1,500	-	-	1,500
Credit bureau	60,154	-	-	60,154
Loan servicing	95,838	-	-	95,838
Total contractual	1,900,660	2,500,453	635,025	5,036,138
Total operating	5,142,222	2,905,648	1,040,220	9,088,090
<b>General operating</b>				
Telephone	64,976	8,122	8,122	81,220
Printing	9,877	1,235	1,235	12,347
Postage	20,672	2,584	2,584	25,840
Supplies	12,318	1,540	1,540	15,398
Travel	22,355	2,795	2,795	27,945
Equipment maintenance	34,007	4,251	4,251	42,509
Subscriptions and fees	81,915	10,240	10,240	102,395
Meeting and conference expenses	166,809	20,851	20,851	208,511
Insurance - general and automotive	50,792	6,349	6,349	63,490
Outreach and awareness	275,345	-	20,000	295,345
Depreciation	-	-	587,654	587,654
Building	-	-	190,487	190,487
Third party collections	91,355	-	-	91,355
Other operating expense and contingencies	-	-	53,276	53,276
Total general operating	830,421	57,967	909,384	1,797,772
<b>Student loans</b>				
Loan fees	-	5,477,597	-	5,477,597
Reinsurance expense	-	911,368	-	911,368
Borrower incentives	206,799	3,606,231	-	3,813,030
Loan loss expense	5,062,972	-	-	5,062,972
Broker dealer fees	31,012	215,346	-	246,358
Payments to South Carolina State Education Assistance				
Authority for student loan income	1,098,258	837,680	-	1,935,938
Interest on debt	5,457,382	36,440,857	-	41,898,239
Total student loans	11,856,423	47,489,079	-	59,345,502
Total functional expenses	\$ 17,829,066	\$ 50,452,694	\$ 1,949,604	\$ 70,231,364

See Notes to Consolidated Financial Statements



**South Carolina Student Loan Corporation**
**Consolidated Statement of Cash Flows**
**For the year ended June 30, 2019 (with comparative amounts for 2018)**

	<b>2019</b>			<b>2018</b>
	<b>Without Restrictions</b>	<b>With Restrictions</b>	<b>Total</b>	<b>Totals Memorandum Only</b>
<b>Cash flows from operating activities</b>				
Changes in net assets	\$ 309,885	\$ 10,041,778	\$ 10,351,663	\$ 11,164,483
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:				
Depreciation	587,654	-	587,654	356,652
Unrealized gain on investments	(595,911)	-	(595,911)	(693,771)
Amortization of bond discounts	-	3,798,754	3,798,754	1,861,742
Loan loss expense	1,307,570	3,755,402	5,062,972	2,979,562
Changes in operating assets and liabilities:				
Due from South Carolina State Education Assistance Authority	(9,250)	58,807	49,557	140,592
Interest due from borrowers	(294,412)	(2,036,507)	(2,330,919)	(5,985,863)
Accounts receivable	-	(5,902)	(5,902)	36,206
Due from United States Department of Education	(25,754)	(344,854)	(370,608)	(314,344)
Due from servicers	(45,419)	776,247	730,828	465,247
Accrued investment income	94,191	36,550	130,741	(128,136)
Prepaid expenses	871,096	3,450	874,546	(1,162,433)
Defined benefit plan	847,639	-	847,639	(1,568,888)
Due from (to) other funds	106,807	(108,935)	(2,128)	-
Interest payable	-	(503,223)	(503,223)	827,137
Accounts payable	(8,745)	13,051	4,306	(73,803)
Unearned revenues	(54,306)	(154,766)	(209,072)	(193,134)
Defined benefit plan obligation	-	-	-	(165,303)
Compensated absences	5,455	-	5,455	(438,497)
Teacher loan liability	-	(237,013)	(237,013)	338,725
Customer refunds payable	9,768	-	9,768	(114,317)
Payable to the State of South Carolina	-	4,064,712	4,064,712	(11,807,269)
Due to United States Department of Education	11,294	(902,439)	(891,145)	(3,064,060)
Due to South Carolina State Education Assistance Authority	96	-	96	118
Net cash provided by (used for) operating activities	<u>3,117,658</u>	<u>18,255,112</u>	<u>21,372,770</u>	<u>(7,539,354)</u>
<b>Cash flows from investing activities</b>				
Purchases of property and equipment	(1,694,729)	-	(1,694,729)	(169,376)
Net changes in student loans receivable	(10,085,798)	202,249,052	192,163,254	257,651,953
Net changes in teacher loans receivable	-	(249,335)	(249,335)	(709,138)
Net purchases of investments	(19,713,995)	-	(19,713,995)	(1,352,784)
Net cash provided by (used for) investing activities	<u>(31,494,522)</u>	<u>201,999,717</u>	<u>170,505,195</u>	<u>255,420,655</u>
<b>Cash flows from financing activities</b>				
Net changes in notes payable - finance loans	-	(8,641,755)	(8,641,755)	(7,078,209)
Net payments on bonds payable	-	(253,934,441)	(253,934,441)	(269,902,950)
Net cash used for financing activities	<u>-</u>	<u>(262,576,196)</u>	<u>(262,576,196)</u>	<u>(276,981,159)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(28,376,864)</u>	<u>(42,321,367)</u>	<u>(70,698,231)</u>	<u>(29,099,858)</u>
<b>Cash and cash equivalents</b>				
Beginning	41,290,292	107,141,741	148,432,033	177,531,891
Ending	<u>\$ 12,913,428</u>	<u>\$ 64,820,374</u>	<u>\$ 77,733,802</u>	<u>\$ 148,432,033</u>
<b>Supplemental disclosures of cash flow information</b>				
Cash payments for interest	<u>\$ -</u>	<u>\$ 38,602,709</u>	<u>\$ 38,602,709</u>	<u>\$ 33,667,314</u>
Disposal of fully depreciated property and equipment	<u>\$ 33,016</u>	<u>\$ -</u>	<u>\$ 33,016</u>	<u>\$ -</u>

**See Notes to Consolidated Financial Statements**

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

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### Note 1. Summary of Significant Accounting Policies

#### Reporting entity:

The South Carolina Student Loan Corporation (the "Corporation") was incorporated on 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 of students to attend eligible post-secondary institutions. Funds from various sources are administered by the Corporation to achieve this goal.

During the fiscal year ended June 30, 2019, the Corporation's Board of Directors established Power:Ed as an arm of the Corporation to assist in fulfilling some of the Corporation's philanthropic initiatives within its mission. See Note 18 for further discussion.

Effective September 10, 2015, Palmetto Investment Holdings, Inc. ("PIHI"), a South Carolina Corporation (C-Corp) was organized as a wholly-owned subsidiary of the Corporation. PIHI functions as the holding company for for-profit ventures within the Corporation's consolidated corporate structure. Also effective September 10, 2015, SC3 Solutions, LLC ("SC3") was formed under the Laws of the State of South Carolina as a wholly-owned subsidiary of PIHI. Since its inception, SC3 has operated as a call and customer contact center with a client base within the healthcare industry. After careful consideration, the Corporation decided to discontinue this service line and ended the contact center activity as of October 6, 2017.

On April 1, 2011, the Corporation formed EdVantage Corporation ("EdVantage"), which is a controlled affiliate of the Corporation for the purpose of providing debt collector services. EdVantage is not actively serving as a debt collector at this time.

The Corporation is the sole owner of Educational Loan Services, LLC ("ELS"), d/b/a Campus Partners ("CP"), a provider of servicing of student educational loans for universities, colleges and other educational institutions nationwide (see Note 5 and Note 18).

The Corporation administers the operations of the South Carolina State Education Assistance Authority (the "Authority"). The Authority is a body politic as well as a corporate and 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 the State Fiscal Accountability Authority ("SFAA") whose members by virtue of their position in State government include the Governor, State Treasurer, Comptroller General, Chairman of the Senate Finance Committee and Chairman of the South Carolina House of Representatives Ways and Means Committee.

On June 22, 2016, the SFAA delegated to the Corporation the authority to communicate with the United States Department of Education ("USDE") at the appropriate time to terminate the guaranty agreement between the Authority and USDE, cease operating as a guaranty agency under the Higher Education Act of 1965 and to present to the State Treasurer all necessary documents required to effect such termination. The Corporation notified the USDE on June 22, 2016 of the intention to terminate the guaranty agreement.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

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

#### Reporting entity, continued:

On July 21, 2016, the Corporation received notice from the USDE formally naming Educational Credit Management Corporation ("ECMC") as the receiving guarantor; however, initial discussion and coordination of the transfer between the parties began on July 7, 2016. The related conversion occurred on December 1, 2016. During the fiscal year ended June 30, 2017, the level of services provided by the Corporation to the Authority were reduced due to the termination of the guaranty agreement between the Authority and USDE, the transfer of the guaranty agency function to ECMC on December 1, 2016 and the completion of subsequent reporting to the USDE which closed the guaranty function of the Authority with the USDE. Since this time, the Corporation has performed specified services for the Authority on a contractual basis with mutually agreed-upon terms.

The basic, but not the only, criterion 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 Corporation and its controlled affiliate and subsidiaries.

#### 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 USDE. 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 serve as the eligible lender of the previously originated FFEL loans. The Corporation also continues to originate private student loans.

The Corporation financed both FFEL and private student loans using several sources. One source was the issuance of tax-exempt revenue bonds by the Authority. The Corporation, using the proceeds of these bonds as described in Note 8, makes loans. The Corporation remits proceeds on these loans to the Authority as required by a loan agreement between the two entities.

During the fiscal year ended June 30, 1985, the Corporation began administering the Teacher Loan Program ("TLP"). The TLP is a part of the Education Improvement Act of 1984 (the "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 of South Carolina. Loans are cancelled 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 in a critical subject or critical location. TLP loans made for academic years before 1994-1995 are guaranteed by the Authority. TLP loans made for academic years 1994-1995 or after are non-guaranteed.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2019

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

##### Overall operating arrangement, continued:

As stipulated by the South Carolina Code of Laws when the TLP began during the fiscal year ended June 30, 1985, a separate revolving State-owned bank account was designated and established for the TLP. The account is named the EIA Revolving Student Loan Program Fund 41L1 ("Fund 41L1"). Funds generated from repayments to the TLP must be retained in this account for the purpose of making TLP loans in keeping with the stipulation of the originally appropriated funds. Transactional activity of Fund 41L1 is directed by the Corporation as it administers the program while the investment of funds in the account is directed by the State Treasurer. As of June 30, 2019, the balance of Fund 41L1 was \$11,840,498.

The Commission on Higher Education in consultation with the State Department of Education and the Corporation developed the Governor's Teacher Scholarship Loan Program to provide talented and qualified State residents loans not to exceed \$5,000 a year to attend public or private colleges and universities for the purpose of becoming certified teachers employed in the public schools of South Carolina. Recipients of a loan are entitled to have 100% of the amount of the loan plus accrued interest cancelled if he/she becomes certified and teaches in a South Carolina public school for at least five years. The Corporation began making loans under this program during 1990; however, due to lack of funding through State appropriations, the program ceased after the 1997-1998 academic year.

During the fiscal year ended June 30, 1996, the Corporation began making and servicing supplemental loans through the Palmetto Assistance Loan ("PAL") Program. The PAL Program 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 the Corporation who were seeking funds for their residency and relocation. These loans were funded from the Corporation's accumulated unrestricted net assets and bond funds. The Corporation discontinued offering this PAL Program during December 2008.

During the fiscal year ended June 30, 2010, the Corporation restructured the PAL Program and began marketing the restructured program. The new PAL Program 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 an \$85,000,000 bond offering issued by the Authority dated November 5, 2009.

During the fiscal year ended June 30, 2012, the Corporation began disbursing PAL Program in-school loans out of the Corporation's unrestricted net assets.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

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

#### Overall operating arrangement, continued:

During May 2013, the Corporation began offering PAL Program Consolidation Loans. This PAL Program Consolidation Loan restricted the offering of loans to students who were in a grace period or post-enrollment repayment status and in good standing on all education loans being consolidated. The student was required to have a FICO score of 670 or above and a debt to income ratio of 30% or less. The student was also required to have loans made for attendance at 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 not be incarcerated. These consolidation loans were funded from available funds of the Corporation. During August 2014, this program was terminated due to lower volume attributed to a new federal consolidation loan program allowing both FFEL Program and Direct Loan Program loans to be consolidated into one federal consolidation loan.

During mid-2015, the Corporation began offering the Palmetto Assistance Loan Refinancing Loan ("PAL ReFi") Program through an initial targeted direct mailing to eligible South Carolina residents who obtained federal Parent Loan for Undergraduate Student (PLUS) loans on or after July 1, 2010. As of June 30, 2019, a minimum FICO score of 670 is required as part of the determination of the creditworthiness of each applicant. These loans are funded from available funds of the Corporation that are without restrictions.

During the fiscal year ended June 30, 2019, the Corporation made adjustments to the interest rates for the PAL Program. Borrowers may receive a range of 4.75% to 8.95% fixed rates depending upon their credit score and enrolled payment option. The required minimum FICO credit score remained at 670. Parent borrowers now have the option of applying for the PAL Program loan in their name for a benefiting student. Fixed interest rates for the PAL Refi Program loan were changed to 4.24%, 5.24% and 6.24% for the 5, 10 and 15 year terms, respectively, as selected by the borrower. These loans are funded from available funds of the Corporation that are without restrictions.

During the fiscal year ended June 30, 2019, the Corporation introduced a variable rate option for its PAL Program, with borrowers receiving rates ranging from 3.625% to 8.675%, depending on their credit score, enrolled payment selection, and repayment term selection. The variable rate is reset quarterly using the one-month LIBOR rate two business days prior to the start of each quarter, plus a margin of 1.50% to 6.05%, with a cap on the rate of 12.00%. For both fixed and variable rate loans in its PAL Program, the Corporation also introduced an option for student borrowers to fully defer payments while in school, and an option for parent borrowers to begin repayment immediately following loan disbursement.

The Health Care and Education Reconciliation Act of 2010 nationalized the federally-guaranteed student loan program mandating that all federal student loans made on or after July 1, 2010 be originated by the USDE. Without the ability to continue to originate these federal loans, the Corporation's student loan portfolio steadily decreased and reached a level which was not economically feasible to continue to service in-house. After entering into a contract with National Education Loan Network ("Nelnet") to perform the servicing function on the Corporation's behalf for FFEL loans, the Corporation formally began transitioning its student loan servicing function to Nelnet and completed the conversion of FFEL loans on August 19, 2016.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

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

#### Overall operating arrangement, continued:

Transition of private loans to Firstmark Services, a division of Nelnet, was completed on January 13, 2017. Loans outstanding for the TLP were transitioned to Firstmark Services effective February 16, 2019.

#### Basis of accounting:

These statements are prepared using the accrual basis 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 subsidiaries including ELS/CP, PIHI, and SC3. The Teacher Loan Fund is included on the consolidated Statement of Financial Position of the Corporation as a liability due to the State of South Carolina. All material inter-corporation accounts and transactions of the consolidated subsidiaries 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:

**Net assets without restrictions** - Net assets without restrictions include those designated by the Corporation's Board of Directors and can be used in any Corporation activity.

**Net assets with restrictions** - Net assets with restrictions consist of accumulated assets and liabilities for the general resolutions of outstanding bonds.

#### 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; 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 assets with restrictions, to be cash equivalents.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

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

#### Concentration risk:

The Corporation maintains its cash in bank deposit accounts, which, at times, may exceed the federally insured limit. At June 30, 2019, all of the Corporation's cash was held in institutions that are covered by federal depository insurance; however, some demand deposit accounts exceeded the federally insured limit. The Corporation monitors each of these institutions for financial deterioration characteristics on a continuous basis, and as of June 30, 2019, believed each institution is well-capitalized with no going concern issues.

#### Investments:

Investments are classified as available-for-sale and initially recorded at cost with adjustments for amortization of premiums or discounts over the level yield method. Thereafter, investments are recorded at fair value and any changes in unrealized gains or losses are recorded through the Consolidated Statement of Activities. Realized gains or losses on sale of investments are determined using the specific identification method.

#### 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 \$10,840,394 at June 30, 2019. The Corporation maintains \$1,072,340 as a liability at June 30, 2019, for the undisbursed funds from the TLP. 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.

#### Student loans - provision for losses:

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 Program loans and losses related to servicing all guaranteed loans by the Corporation that are not covered by its financings (See Note 7). The Corporation makes no provision for losses on student loans securing any of its financings as all of the borrowings disclosed in Note 8 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 PAL Program loans. In making the estimate, the Corporation considers default rate trends, 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.

For all PAL Program loans 180 days or more past due, the Corporation maintains a 100% allowance. For the fiscal year ended June 30, 2019, the Corporation increased its allowance for loan loss related to PAL Program loans by allowing additional amounts for delinquent loans 15 to 179 days past due. PAL Program loans 15 to 179 days past due are grouped by level of delinquency and amounts are reserved based on the percentage of each group that is expected to default. The percentage used for each group is based on the Corporation's last ten years of default experience. The total calculated allowance is then adjusted by the Corporation's recovery rate. The Corporation's recovery rate was 10% for the fiscal year ended June 30, 2019. The allowance for loan losses was \$31,887,008 at June 30, 2019 (see Note 16).

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

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

#### Property and equipment:

The Corporation's property and equipment costing over \$10,000 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 thirty-nine years for the building.

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

The 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 interest on debt.

#### Compensated absences:

Annual leave is earned at the rate of twelve to twenty-five days per year depending on length of employment. Employees are expected to use at least one week (five 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 ten 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 has 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 2016.

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. PIHI is a taxable entity. Management has evaluated PIHI'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. No income tax provision is needed at this time.

#### Availability of funds for general expenses:

The Corporation has certain net assets that are available for general expenses within one year of June 30, 2019 based on conducting the normal activities of its programs in the coming fiscal year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenses within one year (see Note 4).

#### Expense allocation:

The costs of providing programs and activities of the Corporation's funds without restrictions have been summarized on a functional basis in the Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.



# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

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

#### Expense allocation, continued:

Expenses of the Corporation include:

**Program expenses** - Program expenses include the costs associated with specific programs of the Corporation.

**Supporting services** - Supporting services include the general, administrative and operating costs of the Corporation.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function, and therefore, require allocation on a reasonable basis that is consistently applied. Personnel, general operating, and contractual services expenses included allocations on the basis of management's reasonable estimate of time spent for each category. The allocation used was 10% for Management and General Supporting Services, 80% for Program Expenses of PAL, and 10% for Program Expenses of FFEL. Where applicable, management allocated expenses based on the direct cost method for these categories as well. Management determined that a more appropriate allocation for expenses, such as interest on debt, payments to the South Carolina Education Assistance Authority for student loan income, and broker dealer fees would be based on loan volume of programs by bond trust and was allocated accordingly.

#### Adoption of new accounting standard:

The Financial Accounting Standards Board ("FASB"), on August 18, 2016, published ASU ("Accounting Standards Update") No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes how not-for-profit organizations classify their net assets, with groups required to categorize assets as either those with donor restrictions or without. The standard also requires new information about an organization's liquidity and an analysis of expenses by nature and function. The update aims to help charities, universities, foundations, and other not-for-profit groups better convey how they spend and manage their resources. The Corporation has adopted this standard for the fiscal year ended June 30, 2019 and has adjusted the presentation of these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented. As allowed under the standard, a Consolidated Statement of Functional Expenses and the liquidity footnote disclosure presented in Note 4 have not been presented for the fiscal year ended June 30, 2018.

#### Recently issued accounting pronouncements:

During February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. This accounting standard establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2019

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

##### Recently issued accounting pronouncements, continued:

The new guidance (1) results in a more faithful representation of the rights and obligations arising from leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases; (2) results in fewer opportunities for organizations to structure leasing transactions to achieve a particular accounting outcome on the statement of financial position; (3) improves understanding and comparability of lessees' financial commitments regardless of the manner they choose to finance the assets used in their businesses; (4) aligns lessor accounting and sale and leaseback transactions guidance more closely to comparable guidance in Topic 606, *Revenue from Contracts with Customers*, and Topic 610, *Other Income*; (5) provides users of financial statements with additional information about lessors' leasing activities and lessors' exposure to credit and asset risk as a result of leasing; and (6) clarifies the definition of a lease to address practice issues that were raised about the previous definition of a lease and to align the concept of control, as it is used in the definition of a lease, more closely with the control principle in both Topic 606 and Topic 810, *Consolidation*.

The new guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is currently evaluating the potential effects of this accounting standard on the Corporation's consolidated financial statements.

During November 2016, the FASB released Accounting Standards Update No. 2016-18, *Statement of Cash Flows (Topic 230)*, and the amendments in this accounting standard apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments in this accounting standard require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this accounting standard do not provide a definition of restricted cash or restricted cash equivalents.

The amendments in this accounting standard are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption during an interim period. If an entity early adopts the amendments during an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in this accounting standard should be applied using a retrospective transition method to each period presented. Management is currently evaluating the potential effects of this accounting standard on the Corporation's consolidated financial statements.

During August 2018, the FASB released Accounting Standards Update No. 2018-13, *Fair Value Measurement (Topic 820)* to amend the disclosure requirements for fair value measurement. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in the FASB's Concepts Statement, *Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements*, including the consideration of costs and benefits. The amendments of this Update include the removal, modifications and additions of certain disclosure requirements.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

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

#### Recently issued accounting pronouncements, continued:

The following disclosure requirements were removed from Topic 820: (1) The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (2) The policy for timing of transfers between levels; (3) The valuation processes for Level 3 fair value measurements; and (4) For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

The following disclosure requirements were modified in Topic 820: (1) In lieu of a roll-forward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities; (2) For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and (3) the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

The following disclosure requirements were added to Topic 820; however, the disclosures are not required for nonpublic entities: (1) The changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and (2) The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements.

The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. Management is currently evaluating the potential effects of this accounting standard on the Corporation's consolidated financial statements.

#### 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 consolidated financial statements for the year ended June 30, 2018, from which the summarized information was derived.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

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

#### Subsequent events:

In preparing these financial statements, management has evaluated events and transactions for potential recognition and disclosure through September 30, 2019, the date these financial statements were available to be issued.

### Note 2. Cash and Cash Equivalents

As of June 30, 2019, 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>
Without restrictions		
South Carolina State Treasurer pool	\$ 3,818	\$ 3,818
Collateralized demand deposits	8,317,664	8,317,664
Money market	<u>4,591,946</u>	<u>4,591,946</u>
Total without restrictions	<u>\$ 12,913,428</u>	<u>\$ 12,913,428</u>
With restrictions		
Collateralized demand deposits	\$ 33,765	\$ 33,765
Money market	48,794,042	48,794,042
South Carolina State Treasurer pool	<u>15,825,339</u>	<u>15,992,567</u>
Total with restrictions	<u>\$ 64,653,146</u>	<u>\$ 64,820,374</u>

Included in the balance of cash and cash equivalents with restrictions is a total of \$15,992,567 of the TLP fund that resides in the South Carolina State Treasurer Pool.

### Note 3. Investments

The market value of investments is determined by quoted market values and consists of the following as of June 30, 2019:

	<u>Cost</u>	<u>Market Value</u>
Mutual funds	\$ 7,770,673	\$ 8,829,259
Corporate stocks/bonds	143,819,394	145,741,551
Insured deposits/repurchase obligations	<u>52,471,336</u>	<u>52,471,336</u>
Total	<u>\$ 204,061,403</u>	<u>\$ 207,042,146</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 Consolidated Statement of Financial Position.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2019

#### Note 3. Investments, Continued

For the fiscal year ended June 30, 2019, the Corporation's realized investment income was \$6,211,528, unrealized gain on investments was \$595,911, and investment expense was \$224,485. The Corporation's net investment income was \$6,582,954 for the fiscal year ended June 30, 2019.

#### Note 4. Availability and Liquidity

Financial assets available for general expenses without restrictions limiting their use within one year of the Statement of Financial Position date of June 30, 2019 were comprised of the following at June 30, 2019:

Total assets at June 30, 2019	<u>\$ 1,655,663,840</u>
Less amounts not available to be used within one year due to illiquidity:	
Prepaid expenses	434,562
Overfunded defined benefit plan	1,644,316
Student loans receivable, net of current portion and allowance for loan loss	85,725,247
Due from other funds	20,942,464
Net property and equipment	<u>5,464,608</u>
	<u>114,211,197</u>
Less amounts not available to be used within one year due to restrictions:	
Assets with restrictions	1,308,755,112
Board designated assets, Power:Ed	<u>10,000,000</u>
	<u>1,318,755,112</u>
Financial assets available to meet cash needs for expenses due within one year	<u>\$ 222,697,531</u>

As a part of the Corporation's liquidity management, its policy is to have adequate cash and other short-term investments to meet its financial obligations which become due within the next twelve months. This assessment is performed daily to ensure there are adequate funds for a rolling twelve month period.

#### Note 5. Investment in Educational Loan Services, LLC ("ELS") d/b/a Campus Partners

On November 23, 2011, the Corporation 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 USDE direct loans. Subsequently on February 1, 2012, the Corporation 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 23.33% at a later date for \$3,500,000 for a total ownership of 51.00%. As a result of several delays by CP in providing the contracted servicing platform for Direct Loans, the Corporation evaluated its current investment in ELS and declined to make the additional \$3,500,000 investment. On June 20, 2012, the Corporation 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 1.50% 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 the Corporation, as the Corporation 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 the Corporation and two members appointed by JPT.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2019

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#### **Note 5. Investment in Educational Loan Services, LLC ("ELS") d/b/a Campus Partners, Continued**

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 the Corporation to provide the line of credit. On July 30, 2012, the Corporation extended the revocable \$6,000,000 line of credit to CP and as a result of the conditions to provide the note, the Corporation obtained an additional 23.33% of ELS for a total ownership of 51.00%. On February 26, 2013, the Corporation purchased the remaining 49.00% of equity in CP from ELS for a purchase price of \$1,245,000, resulting in an ownership of 100.00% of CP.

On June 11, 2015, ELS entered into an agreement with Heartland Payment Systems, Inc. ("HPS, Inc.") resulting in the sale of all CP customer contracts to HPS, Inc. The contract included managing the servicing, accounting and processing of Perkins and institutional student loans for higher education institutions. Under the terms of the agreement, for a specified period, CP continued to coordinate certain transition services needed by HPS, Inc. to perform under the terms of the contracts using CP's servicing system. CP also shared in the contract revenue with HPS, Inc. as specified in the agreement. As a result of this transaction, the \$13,396,336 note payable from CP to the Corporation was reduced to \$920,000 at June 30, 2015. The Corporation recorded a valuation allowance of \$12,476,336 on the note for the year ended June 30, 2015. CP recorded income for cancellation of debt related to the valuation allowance for \$12,476,336 on the note payable for the year ended June 30, 2015. These amounts were eliminated in the consolidated financial statements.

On July 15, 2016, ELS entered into an agreement with Heartland Payment Systems, LLC ("HPS, LLC") resulting in the sale of the majority of the remaining assets of CP including contracts with vendors, the "Campus Partners" name and stated trademark registrations, and other specified assets related to the servicing of customer contracts sold to HPS, Inc. in the June 11, 2015 agreement. Under the new agreement, HPS, LLC's assumption of responsibility for the contracts with vendors was completed through either an assignment of the contract from ELS/CP to HPS, LLC as provided for by the vendor or negotiation of a new contract between HPS, LLC and the vendor coupled with termination of any existing contract that ELS/CP had with the respective vendor. The purchase price of the assets was \$724,165. The term for the shared revenue related to the June 11, 2015 agreement was adjusted to end as of May 31, 2016. ELS was dissolved as of May 20, 2019. See Note 18 for further discussion.

#### **Note 6. Amounts Due from (to) the South Carolina State Education Assistance Authority**

As of June 30, 2019, the Authority owes the Corporation funds collected on their behalf of \$607,751, which are required to be paid by the tenth of each month. The Corporation owes the Authority funds related to its contribution of loans in the amount of \$39,835,008 to the 2010-1 General Resolution (see Note 8) and \$306,380 for deferred costs of issuance on the 2009 PAL General Resolution.

#### **Note 7. Federal Family Education Loans and Federal Reinsurance Loans**

During the fiscal year ended June 30, 2019, these loans were bearing interest at fixed rates ranging from 2.875% to 9.000% or an annual variable rate of 4.23% to 5.59%. As required by the HEA, the annual variable rate is reset each July 1 using either the bond equivalent rate of the 91-day Treasury Bill, determined at the final auction held prior to the preceding June 1, or the weekly average of the one-year constant maturity Treasury yield as published for the last calendar week ending on or before June 26 of each year, plus 1.70% to 3.25% with a cap on the rate of 8.25% to 12.00%.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2019

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#### Note 7. Federal Family Education Loans and Federal Reinsurance Loans, Continued

The repayment period for these loans is five to thirty 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 days of final disbursement or six to ten 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 twenty-five years in the income-based repayment plan, any remaining debt is discharged.

The USDE insures loans against death or disability at 100% and default up to 100% for loans made prior to October 1, 1993; up to 98% for loans made on or after October 1, 1993, but on or before June 30, 2006; and 97% for loans made on or after July 1, 2006. Total loans insured at June 30, 2019 are \$1,063,824,882.

Loans may or may not be subsidized. Interest is paid on subsidized loans during the enrolled, grace and deferred periods by the USDE. 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 the Corporation no longer originating FFEL Program 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 to be originated through the Federal Direct Loan Program as of July 1, 2010. The Corporation's ability to originate FFEL Program loans terminated on June 30, 2010. As a result, the Corporation's servicing revenues were reduced year over 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 Direct Loan Consolidation Program offered by the USDE and receipt of normal borrower payments. Additionally, since the FFEL 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 on 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 8. Bonds Payable

The Corporation issued bonds for the first time during 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.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2019

#### Note 8. Bonds Payable, Continued

The transactions for each bond resolution are accounted for in a resolution specific fund. These funds are considered restricted as described in the *Net Assets with Restrictions* section of Note 1 and are included in the Corporation's consolidated financial statements.

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, 2019, the Corporation held funds on deposit as cash with restrictions in the debt service funds of \$8,034,351.

The bonds outstanding as of June 30, 2019 are as follows:

<u>Issued</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Balance Outstanding at June 30, 2018</u>	<u>Issued (Retired)</u>	<u>Balance Outstanding at June 30, 2019</u>
July 19, 2005	\$ 700,000,000	12/3/2018 - 12/1/2023	\$ 29,654,000	\$ (29,654,000)	\$ -
June 25, 2008	600,000,000	9/2/2014 - 9/3/2024	103,493,606	(33,122,836)	70,370,770
November 30, 2010	920,000,000	1/25/2021 - 10/27/2036	342,575,235	(55,369,929)	287,205,306
February 20, 2013	323,620,000	1/25/2041	133,667,838	(24,685,753)	108,982,085
August 20, 2014	501,500,000	4/1/2030 - 8/1/2035	501,500,000	(88,305,831)	413,194,169
November 25, 2015	198,400,000	1/25/2036	<u>135,403,720</u>	<u>(22,796,088)</u>	<u>112,607,632</u>
			<u>1,246,294,399</u>	<u>\$ (253,934,437)</u>	<u>992,359,962</u>
Less: unamortized costs of issuance			<u>(22,924,472)</u>		<u>(19,125,722)</u>
			<u>\$ 1,223,369,927</u>		<u>\$ 973,234,240</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 \$413,194,169 as of June 30, 2019, and have variable interest rates equal to three-month LIBOR plus 0.12% to 0.14%, as adjusted quarterly, or one-month LIBOR plus 0.75% to 1.5%, as adjusted monthly. Throughout the fiscal year ended June 30, 2019, none of the rates exceeded 4.019%. Future interest payment projections are based upon the ten-year weighted average rate at June 30, 2019, which was 2.092%.

The 2005 and 2006 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 principal and interest payments on the 2005 and 2006 Series bonds are paid quarterly on the distribution dates (the first business day of each March, June, September and December). During the fiscal year ended June 30, 2019, the 2005 and 2006 Series bonds were paid in full.

On August 20, 2014, the Corporation issued \$501,500,000 of Education Loan Revenue Bonds, 2014 Series, under the 1996 General Resolution. Proceeds of the issue were used to: (i) pay target amortization payments for prior bonds within the 1996 General Resolution that had not been satisfied prior to the 2014 Series issuance, (ii) finance repurchased education loans held as unencumbered assets of the Corporation, (iii) fund certain accounts and funds required 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 Fund, and (iv) pay cost of issuance.



## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2019

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#### Note 8. Bonds Payable, Continued

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

During the fiscal year ended June 30, 2019, the Supplemental Reserve Fund was then used in its entirety to begin payments on the 2014 Series bonds when the 2005 Series bonds were paid in full. Principal and interest payments for the 2014 Series bonds are paid on distribution dates (the first business day of each month).

##### LIBOR Notes Secured by the 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 three-month 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 and A-2 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 the 2008-1 General Resolution had a balance of \$70,370,770 as of June 30, 2019.

##### 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 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 Program 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 pro-rata basis, based on the percentage contribution made by each entity once all bonds have been redeemed.

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 A-1 notes have been paid in full. The LIBOR 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 LIBOR Notes secured by the 2010-1 General Resolution had a balance of \$287,205,306 as of June 30, 2019.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2019

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#### Note 8. Bonds Payable, Continued

##### 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 FFEL Program loans, (iv) fund the Debt Service Reserve Fund, (v) fund the Capitalized Interest Fund, and (vi) pay cost of issuance.

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 LIBOR 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 LIBOR Notes secured by the 2013-1 General Resolution had a balance of \$108,982,085 as of June 30, 2019.

##### LIBOR Notes Secured by the 2015-A General Resolution:

On November 25, 2015, the Corporation issued \$198,400,000 of Student Loan Backed Notes, 2015-A Series, with a variable interest rate of 1-month LIBOR plus 1.50%. Proceeds of the issue were used to (i) fund the purchase pursuant to the Corporation's Tender Offer of the Auction Rate Securities issued by the 2004 Trust together with accrued interest, (ii) fund the redemption at par of the portion of the remaining Auction Rate Securities issued by the Corporation's 2004 Trust together with accrued interest, (iii) fund the Collection Fund, (iv) fund the Debt Service Reserve Fund, (v) fund the Operating Fund, (vi) fund the Department Reserve fund and (vii) pay costs of issuance.

Principal and interest payments for the LIBOR Notes are 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) beginning January 25, 2016. The LIBOR 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 LIBOR Notes secured by the 2015-1 General Resolution had a balance of \$112,607,632 as of June 30, 2019.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

### Note 8. Bonds Payable, Continued

#### Projected debt service:

As of June 30, 2019, 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>
2020	\$ -	\$ 48,104,502	\$ 48,104,502
2021	-	48,104,502	48,104,502
2022	-	48,104,502	48,104,502
2023	-	48,104,502	48,104,502
2024	-	48,104,502	48,104,502
2025	70,370,770	46,992,291	117,363,061
2026	62,205,306	45,615,732	107,821,038
2027	-	45,285,002	45,285,002
2028	-	45,285,002	45,285,002
2029	-	45,285,002	45,285,002
2030	239,694,169	41,461,813	281,155,982
2031	-	29,992,247	29,992,247
2032	-	29,992,247	29,992,247
2033	100,500,000	27,320,575	127,820,575
2034	-	23,580,235	23,580,235
2035	-	23,580,235	23,580,235
2036	185,607,632	17,304,170	202,911,802
2037	225,000,000	8,881,593	233,881,593
2038	-	6,953,178	6,953,178
2039	-	6,953,178	6,953,178
2040	-	6,953,178	6,953,178
2041	<u>108,982,085</u>	<u>4,208,003</u>	<u>113,190,087</u>
	<u>\$ 992,359,962</u>	<u>\$ 696,166,191</u>	<u>\$ 1,688,526,153</u>

The weighted average interest rate used for future interest payment projections was 2.092%. This estimate is inherently subjective and the rate may change significantly in the future.

As outlined in the 2008-1 General Resolution, the 2010-1 General Resolution, the 2013-1 General Resolution and the 2015-1 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 loans receivable. At June 30, 2019, the Corporation estimated they would make optional redemption or principal distribution payments for the next fiscal year in the amount of approximately \$210,000,000.

## **South Carolina Student Loan Corporation**

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

***June 30, 2019***

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#### **Note 9. Notes Payable - Finance Loans**

Each bond resolution of the Authority requires that all funds advanced to the Corporation 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 General Resolution 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 fiscal year ended June 30, 2010 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. During October 2013, the Corporation contributed \$6,717,492 of PAL Program loans from its unrestricted portfolio to the 2009 PAL General Resolution. During July 2018, the Corporation made a loan contribution of PAL Program loans to the 2009 PAL General Resolution in the amount of \$11,227,151. The net asset balance was \$9,560,227 at June 30, 2019. The notes payable - finance loan balance as of June 30, 2019 was \$26,681,810.

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

Special allowance was instituted to ensure 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, 2019, the Corporation remitted \$7,251,713 of interest income in excess of the special allowance support level to the USDE.

#### **Note 11. Employee Benefit Plans**

Effective August 1, 2015, the Corporation changed the trustee for its benefit plans from BB&T or TIAA CREF to USI Consulting Group Inc. This change included the South Carolina Student Loan Corporation Money Purchase Pension Plan, the South Carolina Student Loan Corporation Defined Benefit Plan, the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan, the South Carolina Student Loan Corporation Tax Deferred Annuity Group Supplemental Retirement Annuity and the South Carolina Student Loan Corporation 457(b) Deferred Compensation Plan. However, any contributions to the South Carolina Student Loan Corporation Tax Deferred Annuity ("TDA") Group Supplemental Retirement Annuity ("GSRA") prior to July 1, 2015 remain in that plan with the prior trustee, TIAA CREF, until paid out to the participant under the terms of a release or transferred to another qualified plan as directed by the participant and allowed by the annuity terms.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2019

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

##### 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 twenty-one. The MPPP was originally established on July 1, 1975. 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 annually. A participant is 20% vested after two years of 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 during the year following the plan year in which the forfeiture occurs. Contributions within the plan are employee self-directed. The total retirement expense for the fiscal year ended June 30, 2019 was \$159,909 and is fully funded. The MPPP experienced a partial termination on August 18, 2016 due to the reduction in workforce at the Corporation. Therefore, all contributions to the MPPP were immediately 100% vested for affected employees.

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

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

Prior to the consolidation, the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan, as established on November 5, 2002 and subsequently amended on January 1, 2009, provided for the non-elective type of contribution. The 403(b) DC Plan continued to provide for a 5% contribution based on the participant's total annual compensation. All employees who have completed one year of service and attainment of age twenty-one are eligible to receive employer contributions. Contributions are 100% vested immediately with investment of the contributions within the plan being employee self-directed.

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

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

On November 15, 2002, 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.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

### Note 11. Employee Benefit Plans, Continued

#### Defined Benefit Pension Plan:

The Corporation established the South Carolina Student Loan Defined Benefit Plan ("DBP") on July 1, 1998. The DBP covers substantially all employees with a minimum of one year of service and twenty-one 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 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. During November 2018, the Corporation's Board of Directors approved the de-risking of the DBP. This process was completed during May 2019. Related settlement accounting was recognized during the fiscal year ended June 30, 2019. 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 consolidated financial statements at June 30, 2019:

Change in projected benefit obligation:	
Projected benefit obligation at June 30, 2018	\$ 16,984,907
Service cost	157,930
Interest cost	697,349
Actuarial loss	1,704,440
Benefits paid	(318,554)
Curtailments	<u>(14,281,667)</u>
Projected benefit obligation at June 30, 2019	<u>\$ 4,944,415</u>
Change in fair value of plan assets:	
Fair value of plan assets at June 30, 2018	\$ 19,476,862
Actual return on assets	125,906
Employer contributions	16,650
Benefits paid	(318,544)
Settlements	<u>(12,712,143)</u>
Fair value of plan assets at June 30, 2019	<u>\$ 6,588,731</u>
Funded status	<u>\$ 1,644,316</u>
Amounts recognized in the Consolidated Statement of Financial Position:	
Non-current assets	<u>\$ 1,644,316</u>
Amounts recognized in the Consolidated Statement of Activities:	
Net loss	<u>\$ 862,985</u>

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

### Note 11. Employee Benefit Plans, Continued

#### Defined Benefit Pension Plan, continued:

The following are weighted average assumptions used to determine benefits, obligations and net periodic benefit cost as of June 30, 2019 and 2018. The measurement date of the projected benefits obligation and plan assets was June 30, 2019.

	<u>2019</u>	<u>2018</u>
Assumptions used		
Weighted-average assumptions used to determine benefit obligations		
Discount rate	3.57%	4.17%
Rate of compensation increase	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate	4.17%	3.83%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	4.00%	4.00%

The Corporation's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plan's 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 for the year ended June 30, 2019 are as follows:

Net periodic benefit cost	
Service cost	\$ 157,930
Interest cost	697,349
Expected return on plan assets	(1,338,784)
Settlement loss	<u>2,219,104</u>
Total benefit cost	<u>1,735,599</u>
Administrative expenses	<u>(225,379)</u>
Net periodic benefit cost	<u>\$ 1,510,220</u>
Employee benefit - related changes other than net periodic benefit cost	<u>\$ (871,310)</u>
Total net periodic benefit cost and employee benefit - related changes other than net periodic benefit cost	<u>\$ 638,910</u>

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

### Note 11. Employee Benefit Plans, Continued

#### Defined Benefit Pension Plan, continued:

The net pension loss for the DBP totaled \$638,910 plus \$225,379 of administrative expenses, totaling \$864,289 for the fiscal year ended June 30, 2019. The accumulated benefit obligation for the DBP was \$4,253,061 at June 30, 2019.

The DBP experienced a partial termination on August 18, 2016 due to the reduction in workforce at the Corporation. Therefore, all contributions to the DBP were immediately 100% vested for affected employees. The DBP's plan assets include life insurance policies and mutual funds. See the target asset allocation below.

The Corporation's target asset allocation as of June 30, 2019, by asset category, is as follows:

Money market	1.69%
Debt securities	32.77%
Equity securities	52.08%
Insurance policies	<u>13.46%</u>
	<u>100.00%</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 asset allocation percentages (shown above) by major asset categories.

The objectives of the target asset 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 does not expect to make contributions to its DBP during the fiscal year ending June 30, 2020.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the fiscal years ending June 30:

2020	\$	120,000
2021		134,000
2022		145,000
2023		155,000
2024		186,000
2025 - 2029		1,180,000



# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

### 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 the Corporation. However, prior to the Authority and Corporation establishing a contractual relationship effective July 1, 2017, certain lease expense was charged to the Authority based on space occupied in the building. In addition, the Corporation leases mail room equipment for terms of thirty-six to sixty month periods. Required minimum lease payments are \$33,222 for the fiscal year ending June 30, 2020.

CP entered into three non-recourse sale agreements during 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, 2019, 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.

### Note 13. Assets Released from Restrictions

Net assets during the fiscal year ended June 30, 2019 were released from restrictions by incurring expenses satisfying the restricted purposes and by occurrence of other events specified as follows:

Interest on debt	\$ 41,898,239
Payments to South Carolina State Education Assistance Authority for student loan income	1,935,938
Loan fees	5,410,569
Reinsurance expense	892,014
Borrowers incentives	3,775,422
Broker dealer fees	246,358
Loan loss expense	<u>3,755,402</u>
Total expenses	<u>57,913,942</u>
Transfer from taxable bonds/financings for loan servicing	<u>413,645</u>
Total	<u>\$ 58,327,587</u>

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2019

### 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 value 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.

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, 2019 compared to the prior year.

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. Management believes that the student loans receivable's carrying value approximates fair value based on like sale of student loans within the industry. Management also believes that debt instruments' carrying value 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	\$ 61,741,235	\$ 61,741,235
Cash and cash equivalents - TLP	15,825,339	15,992,567
Investments	204,061,403	207,042,146
Student loans receivable, net	1,286,285,083	1,286,285,083
Teacher loans receivable, net	31,539,349	31,539,349
Financial liabilities		
Notes payable	26,681,810	26,681,810
Bonds payable, net	973,234,240	973,234,240

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2019

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

	<u>June 30, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets				
Cash and cash equivalents	\$ 61,741,235	\$ 61,741,235	\$ -	\$ -
Cash and cash equivalents – TLP	15,992,567	15,992,567	-	-
Insured deposits/repurchase				
Obligations	52,471,336	52,471,336	-	-
Mutual funds	8,829,259	8,829,259	-	-
Corporate bonds	145,741,551	-	145,741,551	-
Student loans receivable, net	1,286,285,083	-	1,286,285,083	-
Teacher loans receivable, net	31,539,349	-	31,539,349	-
Total financial assets	<u>\$ 1,602,600,380</u>	<u>\$ 139,034,397</u>	<u>\$ 1,463,565,983</u>	<u>\$ -</u>
Financial liabilities				
Notes payable	\$ 26,681,810	\$ -	\$ 26,681,810	\$ -
Bonds payable, net	<u>973,234,240</u>	<u>-</u>	<u>973,234,240</u>	<u>-</u>
Total financial liabilities	<u>\$ 999,916,050</u>	<u>\$ -</u>	<u>\$ 999,916,050</u>	<u>\$ -</u>

#### Note 15. Board Designated Net Assets

During the fiscal year ended June 30, 2006, the Board of Directors designated funds to establish the Mackie Scholarship Fund to award scholarships to employees or family members of employees. At the August 14, 2018 Board of Directors meeting, the Board of Directors effectively ended the program and these monies are no longer restricted for the purpose of making future scholarships.

During the fiscal year ended June 30, 2019, the Board of Directors established Power:Ed as an arm of the Corporation to assist in fulfilling some of the Corporation's philanthropic initiatives. Power:Ed's mission is to support educational priorities in South Carolina with the goal of getting more South Carolinians prepared for the workforce. To date, the Corporation has designated \$10,000,000 to Power:Ed for its future endeavors.

#### Note 16. Change in Accounting Estimate

As described in Note 1, the Corporation made a change in an accounting estimate related to its allowance for loan loss on its PAL Program loans during the fiscal year ended June 30, 2019. Historically for the PAL Program, the Corporation reserved all loans 180 days or more past due at 100%. In making the estimate, the Corporation considers default rate trends, 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.

For all PAL Program loans 180 days or more past due, the Corporation maintains a 100% allowance. For the fiscal year end June 30, 2019, the Corporation increased its allowance for loan loss related to PAL Program loans by allowing additional amounts for delinquent loans 15 to 179 days past due. PAL Program loans 15 to 179 days past due are grouped by level of delinquency and amounts are reserved based on the percentage of each group that is expected to default. The percentage used for each group is based on the Corporation's last ten years of default experience. The total calculated allowance is then adjusted by the Corporation's recovery rate. The Corporation's recovery rate was 10% for the fiscal year ended June 30, 2019. The allowance for loan losses was \$31,887,008 at June 30, 2019.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2019

#### Note 17. Teacher Loan Program Fiscal Year 2019 Activity

As discussed in Note 1, the Corporation is the administrator for the TLP. For the fiscal year ended June 30, 2019, the Corporation received \$6,350,784 in appropriations from the State Department of Education for the purpose of issuing new teacher loans. Loans are cancelled 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 as set forth in the South Carolina Code of Laws. These loans are repaid by the borrower in the event the borrower does not teach in a critical subject and/or location.

For the fiscal year ended June 30, 2019, the TLP cancelled \$4,632,892 of teacher loans. The activities of the TLP are summarized below:

#### Revenues:

Subsidized student loan interest	\$	160
Unsubsidized student loan interest		2,432,645
Late charges		124,211
Miscellaneous payments of student loans		(162)
State appropriations - State Department of Education		6,350,784
Investment income		266,389
Other		<u>114,251</u>
		9,288,278

#### Expenses:

Contractual services		587,406
Borrower incentives		3,268
TLP cancellations		<u>4,632,892</u>
		<u>5,223,566</u>

Additions to payable to the State

Payable to the State, beginning		<u>46,595,315</u>
Payable to the State, ending		<u>\$ 50,660,027</u>

#### Note 18. Subsequent Events

A motion was made and carried at the June 12, 2018 Annual Meeting of the Board of Managers of ELS giving the Corporation the authority to dissolve ELS. Official dissolution of the entity with the Secretary of State for the State of Delaware was effective May 20, 2019 and liquidation of all assets was completed as of August 30, 2019.

**South Carolina Student Loan Corporation**

*Consolidated Schedule of Financial Position By Fund - Without Restrictions*

As of June 30, 2019

	Operating/SLC	Campus Partners	PIHI	SC3	Eliminations	Total
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 11,804,407	\$ 1,097,869	\$ 6,150	\$ 5,002	\$ -	\$ 12,913,428
Investments	208,282,146	-	(540,000)	(700,000)	-	207,042,146
Current portion of student loans receivable	11,029,313	-	-	-	-	11,029,313
Interest due from borrowers	1,176,772	-	-	-	-	1,176,772
Accounts receivable	947,120	-	-	-	(920,000)	27,120
Due from subsidiaries	109,744	-	(109,744)	-	-	-
Due from United States Department of Education	36,871	-	-	-	-	36,871
Due from servicers	100,206	-	-	-	-	100,206
Due from South Carolina State Education Assistance Authority	44,571	-	-	-	-	44,571
Accrued investment income	29,513	-	-	-	-	29,513
Prepaid expenses	434,562	-	-	-	-	434,562
Due from other funds	297,591	-	-	-	-	297,591
Total current assets	<u>234,292,816</u>	<u>1,097,869</u>	<u>(643,594)</u>	<u>(694,998)</u>	<u>(920,000)</u>	<u>233,132,093</u>
<b>Long-term receivables and other assets</b>						
Student loans receivable, net of current portion and allowance for loan loss for \$12,452,051	85,725,247	-	-	-	-	85,725,247
Overfunded defined benefit plan	1,644,316	-	-	-	-	1,644,316
Due from other funds	20,942,464	-	-	-	-	20,942,464
Total long-term receivables and other assets	<u>108,312,027</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>108,312,027</u>
<b>Property and equipment</b>						
Land	364,900	-	-	-	-	364,900
Building	4,358,670	-	-	-	-	4,358,670
Furniture and equipment	4,517,229	-	-	-	-	4,517,229
Automobiles	80,030	-	-	-	-	80,030
Less accumulated depreciation	(3,856,221)	-	-	-	-	(3,856,221)
Net property and equipment	5,464,608	-	-	-	-	5,464,608
Total assets	<u>\$ 348,069,451</u>	<u>\$ 1,097,869</u>	<u>\$ (643,594)</u>	<u>\$ (694,998)</u>	<u>\$ (920,000)</u>	<u>\$ 346,908,728</u>
<b>Liabilities and Net Assets</b>						
<b>Current liabilities</b>						
Current maturities of notes payable - finance loans	\$ -	\$ 920,000	\$ -	\$ -	\$ (920,000)	\$ -
Accounts payable	1,730,729	1,353	-	-	-	1,732,082
Unearned revenues	223,580	-	-	-	-	223,580
Customer refunds payable	18,426	-	-	-	-	18,426
Compensated absences	1,014,892	-	-	-	-	1,014,892
Due to South Carolina State Education Assistance Authority	251	-	-	-	-	251
Due to United States Department of Education	19,564	-	(106,044)	106,044	-	19,564
Total current liabilities	<u>3,007,442</u>	<u>921,353</u>	<u>(106,044)</u>	<u>106,044</u>	<u>(920,000)</u>	<u>3,008,795</u>
Total liabilities	<u>3,007,442</u>	<u>921,353</u>	<u>(106,044)</u>	<u>106,044</u>	<u>(920,000)</u>	<u>3,008,795</u>
<b>Net assets</b>						
Board designated for Power:Ed	10,000,000	-	-	-	-	10,000,000
Undesignated	335,062,009	176,516	(537,550)	(801,042)	-	333,899,933
Total net assets	<u>345,062,009</u>	<u>176,516</u>	<u>(537,550)</u>	<u>(801,042)</u>	<u>-</u>	<u>343,899,933</u>
Total liabilities and net assets	<u>\$ 348,069,451</u>	<u>\$ 1,097,869</u>	<u>\$ (643,594)</u>	<u>\$ (694,998)</u>	<u>\$ (920,000)</u>	<u>\$ 346,908,728</u>

**South Carolina Student Loan Corporation**  
**Consolidated Schedule of Financial Position by Fund - With Restrictions**  
**As of June 30, 2019**

	Teacher Loans	1996 Resolution	2008 Resolution	2010-1 Resolution	2013-1 Resolution	Tax Exempt 2009 PAL Resolution	2015 Resolution	Total
<b>Assets</b>								
<b>Current assets</b>								
Cash and cash equivalents	\$ 15,992,567	\$ 15,960,233	\$ 4,448,987	\$ 21,728,626	\$ 3,574,466	\$ 33,764	\$ 3,081,731	\$ 64,820,374
Current portion of student loans receivable	-	65,614,647	22,072,467	46,337,595	18,183,921	6,294,286	18,255,982	176,758,898
Current portion of teacher loans receivable	2,807,325	-	-	-	-	-	-	2,807,325
Interest due from borrowers	3,986,356	12,442,969	4,658,388	12,042,944	5,761,596	329,943	2,163,357	41,385,553
Accounts receivable	8,575	-	-	-	-	-	-	8,575
Due from United States Department of Education	83	689,344	-	-	-	-	-	689,427
Due from servicers	26,199	428,812	159,770	439,208	176,104	-	117,566	1,347,659
Due from South Carolina State Education Assistance Authority	190,160	-	-	-	-	372,236	784	563,180
Accrued investment income	-	-	6,349	36,708	8,513	-	-	51,570
Prepaid expenses	-	5,164	-	19,251	20,535	-	11,879	56,829
Due from (to) other funds	2,129	118,873	(47,079)	(165,899)	(63,820)	894	(140,561)	(295,463)
Total current assets	23,013,394	95,260,042	31,298,882	80,438,433	27,661,315	7,031,123	23,490,738	288,193,927
<b>Long-term receivables and other assets</b>								
Student loans receivable, net of current portion and allowance for loan loss of \$19,434,957	-	385,005,762	103,472,279	259,936,464	98,300,311	29,614,327	136,442,482	1,012,771,625
Teacher loans receivable, net of current portion and allowance for loan cancellations of \$10,840,394	28,732,024	-	-	-	-	-	-	28,732,024
Due to other funds	-	-	-	(20,942,464)	-	-	-	(20,942,464)
Total long-term receivables and other assets	28,732,024	385,005,762	103,472,279	238,994,000	98,300,311	29,614,327	136,442,482	1,020,561,185
Total assets	\$ 51,745,418	\$ 480,265,804	\$ 134,771,161	\$ 319,432,433	\$ 125,961,626	\$ 36,645,450	\$ 159,933,220	\$ 1,308,755,112
<b>Liabilities and Net Assets</b>								
<b>Current liabilities</b>								
Current maturities of notes payable - finance loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,346,620	\$ -	\$ 6,346,620
Current maturities of bonds payable	-	63,193,444	23,603,641	43,275,289	17,146,885	-	19,179,131	166,398,390
Interest payable	-	1,087,306	206,436	1,934,656	52,754	-	73,277	3,354,429
Accounts payable	13,051	-	-	-	-	-	-	13,051
Unearned revenues	-	-	-	-	-	403,413	-	403,413
Teacher loan liability	1,072,340	-	-	-	-	-	-	1,072,340
Due to United States Department of Education	-	294,607	63,919	578,626	449,344	-	13,764	1,400,260
Total current liabilities	1,085,391	64,575,357	23,873,996	45,788,571	17,648,983	6,750,033	19,266,172	178,988,503
<b>Noncurrent liabilities</b>								
Notes payable - finance loans, net of current maturities	-	-	-	-	-	20,335,190	-	20,335,190
Bonds payable, net of current maturities	-	345,868,276	46,767,129	241,901,276	90,564,579	-	81,734,590	806,835,850
Payable to the State of South Carolina	50,660,027	-	-	-	-	-	-	50,660,027
Due to South Carolina State Education Assistance Authority	-	-	-	39,835,008	-	-	-	39,835,008
Total noncurrent liabilities	50,660,027	345,868,276	46,767,129	281,736,284	90,564,579	20,335,190	81,734,590	917,666,075
Total liabilities	51,745,418	410,443,633	70,641,125	327,524,855	108,213,562	27,085,223	101,000,762	1,096,654,578
<b>Net assets</b>								
Bond indentures - current debt service	-	8,034,351	-	-	-	-	-	8,034,351
Bond indentures	-	61,787,820	64,130,036	(8,092,422)	17,748,064	9,560,227	58,932,458	204,066,183
Total net assets	-	69,822,171	64,130,036	(8,092,422)	17,748,064	9,560,227	58,932,458	212,100,534
Total liabilities and net assets	\$ 51,745,418	\$ 480,265,804	\$ 134,771,161	\$ 319,432,433	\$ 125,961,626	\$ 36,645,450	\$ 159,933,220	\$ 1,308,755,112

**South Carolina Student Loan Corporation**
*Consolidated Schedule of Activities By Fund - Without Restrictions*
*For the year ended June 30, 2019*

	Operating/SLC	Campus Partners	PIHI	SC3	Eliminations	Total
<b>Revenues</b>						
Income from United States Department of Education:						
Student loan interest - subsidized	\$ 66,604	\$ -	\$ -	\$ -	\$ -	\$ 66,604
Special allowances	(72,055)	-	-	-	-	(72,055)
Student loan interest - unsubsidized	5,772,579	-	-	-	-	5,772,579
Investment income	4,744,234	-	-	-	-	4,744,234
Unrealized gain on investments	595,911	-	-	-	-	595,911
Late charges	55,043	-	-	-	-	55,043
Miscellaneous payments of student loans	286	-	-	-	-	286
Remittance from South Carolina						
State Education Assistance Authority for operating costs	420,830	-	-	-	-	420,830
Servicing fees	337,647	-	-	-	-	337,647
Other	257,539	35,044	-	-	-	292,583
Total revenues	<u>12,178,618</u>	<u>35,044</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,213,662</u>
<b>Expenses</b>						
Personnel	4,051,952	-	-	-	-	4,051,952
Contractual services	5,033,638	-	-	-	-	5,033,638
General operating	1,596,891	9,082	3,812	-	-	1,609,785
Loan fees	67,028	-	-	-	-	67,028
Reinsurance expense	19,354	-	-	-	-	19,354
Borrower incentives	37,608	-	-	-	-	37,608
Building expense	190,487	-	-	-	-	190,487
Loan loss expense	1,307,570	-	-	-	-	1,307,570
Total expenses	<u>12,304,528</u>	<u>9,082</u>	<u>3,812</u>	<u>-</u>	<u>-</u>	<u>12,317,422</u>
<b>Transfers between accounts</b>						
Transfers in	60,262,027	-	-	-	-	60,262,027
Transfers out	(59,848,382)	-	-	-	-	(59,848,382)
Total transfers between accounts	<u>413,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>413,645</u>
<b>Changes in net assets</b>	287,735	25,962	(3,812)	-	-	309,885
<b>Net assets</b>						
Beginning	344,774,274	150,554	(533,738)	(801,042)	-	343,590,048
Ending	<u>\$ 345,062,009</u>	<u>\$ 176,516</u>	<u>\$ (537,550)</u>	<u>\$ (801,042)</u>	<u>\$ -</u>	<u>\$ 343,899,933</u>

**South Carolina Student Loan Corporation**

*Consolidated Schedule of Activities by Fund - With Restrictions*

*For the year ended June 30, 2019*

	<b>Teacher Loans</b>	<b>1996 Resolution</b>	<b>2008 Resolution</b>	<b>2010-1 Resolution</b>	<b>2013-1 Resolution</b>	<b>Tax Exempt 2009 PAL Resolution</b>	<b>2015 Resolution</b>	<b>Total</b>
<b>Revenues</b>								
Income from United States Department of Education:								
Student loan interest - subsidized	\$ -	\$ 1,759,927	\$ 895,684	\$ 2,008,039	\$ 802,108	\$ 37,773	\$ 163,447	\$ 5,666,978
Special allowances	-	973,312	(1,227,952)	(4,102,943)	(2,760,816)	96,200	(157,459)	(7,179,658)
Student loan interest - unsubsidized	-	22,596,835	6,983,817	18,120,439	7,632,589	2,744,289	9,238,505	67,316,474
Investment income	-	727,610	157,526	380,460	117,076	-	84,622	1,467,294
Late charges	-	415,302	69,266	312,762	140,145	45,009	103,397	1,085,881
Miscellaneous payments of student loans	-	3,897	2,113	3,765	2,293	66	262	12,396
Total revenues	-	<u>26,476,883</u>	<u>6,880,454</u>	<u>16,722,522</u>	<u>5,933,395</u>	<u>2,923,337</u>	<u>9,432,774</u>	<u>68,369,365</u>
<b>Expenses</b>								
Interest on debt	-	16,416,188	3,143,707	12,234,189	3,557,392	-	6,546,763	41,898,239
Payments to South Carolina State Education Assistance Authority for student loan income	-	-	-	-	-	1,935,938	-	1,935,938
Loan fees	-	3,780,424	-	1,427,777	49,854	-	152,514	5,410,569
Reinsurance expense	-	355,677	96,542	209,532	199,614	4,825	25,824	892,014
Borrower incentives	-	1,970,683	273,539	1,167,559	78,865	94,713	190,063	3,775,422
Broker dealer fees	-	91,405	23,546	57,407	36,798	-	37,202	246,358
Loan loss expense	-	-	-	-	-	817,948	2,937,454	3,755,402
Total expenses	-	<u>22,614,377</u>	<u>3,537,334</u>	<u>15,096,464</u>	<u>3,922,523</u>	<u>2,853,424</u>	<u>9,889,820</u>	<u>57,913,942</u>
<b>Transfers between accounts</b>								
Transfers in	-	1,501	-	-	-	11,227,151	-	11,228,652
Transfers out	-	(2,673,130)	(621,139)	(2,144,467)	(4,417,898)	-	(1,785,663)	(11,642,297)
Total transfers between accounts	-	<u>(2,671,629)</u>	<u>(621,139)</u>	<u>(2,144,467)</u>	<u>(4,417,898)</u>	<u>11,227,151</u>	<u>(1,785,663)</u>	<u>(413,645)</u>
<b>Changes in net assets</b>								
	-	1,190,877	2,721,981	(518,409)	(2,407,026)	11,297,064	(2,242,709)	10,041,778
<b>Net assets</b>								
Beginning	-	68,631,294	61,408,055	(7,574,013)	20,155,090	(1,736,837)	61,175,167	202,058,756
Ending	\$ -	<u>\$ 69,822,171</u>	<u>\$ 64,130,036</u>	<u>\$ (8,092,422)</u>	<u>\$ 17,748,064</u>	<u>\$ 9,560,227</u>	<u>\$ 58,932,458</u>	<u>\$ 212,100,534</u>



**South Carolina Student Loan Corporation**  
**Consolidated Schedule of Cash Flows By Fund - Without Restrictions**  
**For the year ended June 30, 2019**

	Operating/SLC	Campus Partners	PIHI	SC3	Total
<b>Cash flows from operating activities</b>					
Changes in net assets	\$ 287,735	\$ 25,962	\$ (3,812)	\$ -	\$ 309,885
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:					
Depreciation	587,654	-	-	-	587,654
Unrealized gain on investments	(595,911)	-	-	-	(595,911)
Loan loss expense	1,307,570	-	-	-	1,307,570
Changes in operating assets and liabilities:					
Due from South Carolina State Education Assistance Authority	(9,250)	-	-	-	(9,250)
Interest due from borrowers	(294,412)	-	-	-	(294,412)
Due from United States Department of Education	(25,754)	-	-	-	(25,754)
Due from servicers	(45,419)	-	-	-	(45,419)
Accrued investment income	94,191	-	-	-	94,191
Due from subsidiaries	(2,500)	-	2,500	-	-
Prepaid expenses	871,096	-	-	-	871,096
Overfunded defined benefit plan	847,639	-	-	-	847,639
Due from other funds	106,807	-	-	-	106,807
Accounts payable	(10,098)	1,353	-	-	(8,745)
Unearned revenues	(54,306)	-	-	-	(54,306)
Compensated absences	5,455	-	-	-	5,455
Customer refunds payable	9,768	-	-	-	9,768
Due to United States Department of Education	11,294	-	-	-	11,294
Due to South Carolina State Education Assistance Authority	96	-	-	-	96
Net cash provided by (used for) operating activities	<u>3,091,655</u>	<u>27,315</u>	<u>(1,312)</u>	<u>-</u>	<u>3,117,658</u>
<b>Cash flows from investing activities</b>					
Purchases of property and equipment	(1,694,729)	-	-	-	(1,694,729)
Net changes in student loans receivable	(10,085,798)	-	-	-	(10,085,798)
Net purchases of investments	(19,713,995)	-	-	-	(19,713,995)
Net cash used for investing activities	<u>(31,494,522)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(31,494,522)</u>
Net increase (decrease) in cash and cash equivalents	(28,402,867)	27,315	(1,312)	-	(28,376,864)
<b>Cash and cash equivalents</b>					
Beginning	40,207,274	1,070,554	7,462	5,002	41,290,292
Ending	<u>\$ 11,804,407</u>	<u>\$ 1,097,869</u>	<u>\$ 6,150</u>	<u>\$ 5,002</u>	<u>\$ 12,913,428</u>
<b>Supplemental disclosure of cash flow information</b>					
Disposal of fully depreciated property and equipment	<u>\$ 33,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,016</u>

**South Carolina Student Loan Corporation**

**Consolidated Schedule of Cash Flows By Fund - With Restrictions**

**For the year ended June 30, 2019**

	Teacher Loans	1996 Resolution	2008 Resolution	2010-1 Resolution	2013-1 Resolution	Tax Exempt 2009 PAL Resolution	2015 Resolution	Total
<b>Cash flows from operating activities</b>								
Changes in net assets	\$ -	\$ 1,190,877	\$ 2,721,981	\$ (518,409)	\$ (2,407,026)	\$ 11,297,064	\$ (2,242,709)	\$ 10,041,778
Adjustments to reconcile changes in net assets to net cash provided by (used for) operating activities:								
Amortization of bond discounts and cost of issuance	-	949,102	-	1,054,108	84,240	-	1,711,304	3,798,754
Loan loss expense	-	-	-	-	-	817,948	2,937,454	3,755,402
Changes in operating assets and liabilities:								
Due from South Carolina State Education								
Assistance Authority	(5,225)	-	-	-	-	61,956	2,076	58,807
Interest due from borrowers	(91,031)	(618,861)	(356,671)	(649,752)	(55,463)	(16,435)	(248,294)	(2,036,507)
Accounts receivable	(5,902)	-	-	-	-	-	-	(5,902)
Due from United States Department of Education	(83)	(344,771)	-	-	-	-	-	(344,854)
Due from servicers	(26,199)	307,117	66,449	110,447	115,514	-	202,919	776,247
Accrued investment income	-	39,714	1,201	(6,031)	1,666	-	-	36,550
Prepaid expenses	-	907	-	1,739	808	-	(4)	3,450
Due to other funds	(2,129)	(36,476)	(10,540)	(28,949)	(13,814)	(425)	(16,602)	(108,935)
Interest payable	-	(181,501)	(80,761)	(228,225)	(4,971)	-	(7,765)	(503,223)
Accounts payable	13,051	-	-	-	-	-	-	13,051
Unearned revenues	-	-	-	-	-	(154,766)	-	(154,766)
Teacher loan liability	(237,013)	-	-	-	-	-	-	(237,013)
Payable to the State of South Carolina	4,064,712	-	-	-	-	-	-	4,064,712
Due to United States Department of Education	-	(46,176)	(69,669)	(500,151)	(269,438)	-	(17,005)	(902,439)
Net cash provided by (used for) operating activities	3,710,181	1,259,932	2,271,990	(765,223)	(2,548,484)	12,005,342	2,321,374	18,255,112
<b>Cash flows from investing activities</b>								
Net changes in student loans receivable	-	79,582,963	28,106,740	53,445,876	24,299,765	(3,364,012)	20,177,720	202,249,052
Net changes in teacher loans receivable	(249,335)	-	-	-	-	-	-	(249,335)
Net cash provided by (used for) investing activities	(249,335)	79,582,963	28,106,740	53,445,876	24,299,765	(3,364,012)	20,177,720	201,999,717
<b>Cash flows from financing activities</b>								
Net changes in notes payable - finance loans	-	-	-	-	-	(8,641,755)	-	(8,641,755)
Net payments on bonds payable	-	(117,959,831)	(33,122,837)	(55,369,931)	(24,685,754)	-	(22,796,088)	(253,934,441)
Net cash used for financing activities	-	(117,959,831)	(33,122,837)	(55,369,931)	(24,685,754)	(8,641,755)	(22,796,088)	(262,576,196)
Net increase (decrease) in cash and cash equivalents	3,460,846	(37,116,936)	(2,744,107)	(2,689,278)	(2,934,473)	(425)	(296,994)	(42,321,367)
<b>Cash and cash equivalents</b>								
Beginning	12,531,721	53,077,169	7,193,094	24,417,904	6,508,939	34,189	3,378,725	107,141,741
Ending	\$ 15,992,567	\$ 15,960,233	\$ 4,448,987	\$ 21,728,626	\$ 3,574,466	\$ 33,764	\$ 3,081,731	\$ 64,820,374
<b>Supplemental disclosure of cash flow information</b>								
Cash payments for interest	\$ -	\$ 15,648,587	\$ 3,224,468	\$ 11,408,307	\$ 3,478,123	\$ -	\$ -	\$ 33,759,485

**South Carolina Student Loan Corporation****Consolidated Schedule of Property and Equipment****For the year ended June 30, 2019**

	<b>Balance as of June 30, 2018</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance as of June 30, 2019</b>
<b>Cost</b>				
Land	\$ 364,900	\$ -	\$ -	\$ 364,900
Total land	364,900	-	-	364,900
Building	4,358,670	-	-	4,358,670
Total buildings	4,358,670	-	-	4,358,670
SCSLC furniture and fixtures	2,822,500	1,694,729	-	4,517,229
SCSLC automobiles	113,046	-	(33,016)	80,030
Cost total	7,659,116	1,694,729	(33,016)	9,320,829
<b>Accumulated depreciation</b>				
Building	731,996	111,761	-	843,757
Total buildings	731,996	111,761	-	843,757
SCSLC furniture and fixtures	2,462,491	469,943	-	2,932,434
SCSLC automobiles	107,096	5,950	(33,016)	80,030
Accumulated depreciation total	3,301,583	587,654	(33,016)	3,856,221
Net book value	\$ 4,357,533	\$ 1,107,075	\$ -	\$ 5,464,608

## South Carolina Student Loan Corporation

### Schedule of Expenses for the Operating Fund

For the year ended June 30, 2019

	Operating/SLC	
	2019	2018
<b>Operating expenses</b>		
Personnel		
Staff salaries	\$ 2,426,618	\$ 2,673,376
Social security	159,827	138,633
Group insurance	179,813	182,207
Retirement	1,265,384	(914,039)
Unemployment	20,310	21,786
Total personnel	<u>4,051,952</u>	<u>2,101,963</u>
Contractual		
Information technology	771,567	1,051,991
Third party servicing fees	3,503,345	4,035,765
Legal and professional	435,399	309,578
Accounting	165,835	162,431
Skip tracing	1,500	3,158
Credit bureau	60,154	24,779
Loan servicing	95,838	-
Total contractual	<u>5,033,638</u>	<u>5,587,702</u>
<b>General operating</b>		
Rent	-	(5,000)
Telephone	81,220	70,634
Printing	12,347	7,273
Postage	25,840	28,872
Supplies	15,398	15,608
Travel	27,945	30,173
Equipment maintenance	42,509	54,619
Subscriptions and fees	102,395	79,838
Meeting and conference expenses	208,511	137,883
Insurance - general and automotive	63,490	61,609
Outreach and awareness	295,345	215,126
Depreciation	587,654	356,652
Third party collections	91,355	95,804
Other operating expense and contingencies	42,882	28,244
Total general operating	<u>1,596,891</u>	<u>1,177,335</u>
Total personnel, contractual services and general operating expenses	<u>\$ 10,682,481</u>	<u>\$ 8,867,000</u>

## South Carolina Student Loan Corporation

### Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education Programs		
Federal Family Education Loan Program		
Special allowances (See Note 2 below)	84.032	See Note 2 Below
Subsidized interest	84.032	<u>\$ 5,733,582</u>
Total U.S. Department of Education Programs (Major program)		<u>\$ 5,733,582</u>

#### Notes to the Schedule of Expenditures of Federal Awards:

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The financial activity shown in this schedule reflects amounts recorded by the Corporation during the fiscal year ended June 30, 2019.
2. Special Allowances: The USDE now requires lenders to pay the USDE when lenders have negative special allowance. The Corporation paid \$7,251,713 for the fiscal year ended June 30, 2019.

**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  
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 South Carolina Student Loan Corporation (the "Corporation"), as of and for the year ended June 30, 2019, and the related notes to the consolidated financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated September 30, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the 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 opinion 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Elliott Davis, LLC*

Columbia, South Carolina  
September 30, 2019

**Independent Auditor's Report on Compliance for Each Major Federal Program  
and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance**

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

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

We were engaged to audit South Carolina Student Loan Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

**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, conducted in accordance with auditing standards generally accepted in the United States of America, of the types of compliance requirements referred to above.

Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on compliance for the Corporation's major federal program.

**Basis for Disclaimer of Opinion on Federal Family Education Loan Program - Lenders**

As permitted in the *OMB Compliance Supplement*, the Corporation elected to use a third-party servicer to administer the requirements governing Special Tests and Provisions one through nine in accordance with the requirements of the Federal Family Education Loan Program - Lenders. Those requirements govern functions performed by National Education Loan Network, Inc. ("Nelnet"). Nelnet obtained a compliance attestation engagement under the January 2011 *Lender Servicer Financial Statement Audit and Compliance Attestation Guide* ("Lender Servicer Audit Guide") for the year ended December 31, 2018. We did not perform any auditing procedures with respect to the Lender Servicer Audit Guide, except for confirming that the audit period of Nelnet's compliance attestation engagement for the year ended December 31, 2018 was completed timely. Since the audit period of Nelnet is different than that of the Corporation, we also obtained a representation from Nelnet that they have engaged (or will engage) an auditor to perform the required audit under the Lender Service Audit Guide for the immediate subsequent audit period.



## **Basis for Disclaimer of Opinion on Federal Family Education Loan Program - Lenders, Continued**

Likewise, we confirmed that Nelnet's compliance attestation engagement for the year ended December 31, 2018, together with its compliance attestation engagement for the year ended December 31, 2019, covers the Corporation's audit engagement for the year ended June 30, 2019. Our report does not include the results of the auditor's examination of Nelnet's compliance with such requirements.

## **Disclaimer of Opinion on Federal Family Education Loan Program - Lenders**

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Corporation's compliance with the requirements of the Federal Family Education Loan Program - Lenders.

## **Other Matter**

The results of our auditing procedures disclosed a matter which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2019-001. As described in the *Basis for Disclaimer of Opinion* paragraphs above, this matter resulted in a disclaimer of opinion on the major federal program.

The Corporation's response to the disclosed matter identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Corporation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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## South Carolina Student Loan Corporation

### *Schedule of Findings and Questioned Costs*

*June 30, 2019*

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#### **Report on Internal Control Over Compliance, Continued**

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

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

*Elliott Davis, LLC*

Columbia, South Carolina  
September 30, 2019

**South Carolina Student Loan Corporation**

*Schedule of Findings and Questioned Costs*

*June 30, 2019*

**Section I. Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued: Unmodified  
Internal control over financial reporting:

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

Noncompliance material to financial statements noted?        Yes   X   No

**Federal Awards**

Internal control over major federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a) of the Uniform Guidance?   X   Yes (See Section III.)  
       No

Identification of major federal programs:

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

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

Auditee qualified as low-risk auditee?   X   Yes        No

**Section II. Financial Statement Findings**

None reported

## South Carolina Student Loan Corporation

### *Schedule of Findings and Questioned Costs*

June 30, 2019

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#### Section III. Federal Award Findings and Questioned Costs

##### **Item 2019-001: United States Department of Education, Federal Family Education Loan Program - Lenders - CFDA No. 84.032, For the Fiscal Year Ended June 30, 2019**

**Condition:** The Corporation elected to use a third-party servicer organization to service its Federal Family Education Loan Program - Lenders ("FFEL Program") loan portfolio and perform the corresponding lender functions. As such, we issued a disclaimer of opinion related to the Corporation's compliance with requirements one through nine of the FFEL Program's Special Tests and Provisions as reflected in the *OMB Compliance Supplement* as a result of the scope limitation.

**Criteria:** The FFEL Program's Special Tests and Provisions are as follows: Individual Record Review; Interest Benefits; Special Allowance Payments, Loan Sales, Purchases, and Transfers; Enrollment Reports; Payment Processing; Due Diligence in Collection of Delinquent Loans; Timely Claim Filings; and Curing Due Diligence and Timely Filing Violations.

**Context:** Part 4-84.032-L of the *OMB Compliance Supplement* allows auditors of lenders to exclude coverage of compliance requirements performed by a third-party servicer, provided that the auditor has determined that the third-party servicer has obtained an audit under the January 2011 *Lender Servicer Financial Statement Audit and Compliance Attestation Guide* ("Lender Servicer Audit Guide") for the entire audit period of the lender. If the third-party servicer has a different audit period, the auditor of the lender must determine that the most recently required audit of the third-party servicer under the Lender Servicer Audit Guide has been completed timely, and must obtain representation from the third-party servicer that it has engaged (or will engage) an auditor to perform the required audit under the Lender Servicer Audit Guide for the immediate subsequent period. The auditor of the lender must confirm that the audit period of the prior third-party servicer audit, covers the entire audit period of the lender's audit. If the auditor excludes coverage of the requirements performed by a third-party servicer, the *Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance* must clearly describe the compliance requirements for which coverage has been excluded, name the third-party servicer that performed those compliance requirements, state that the third-party servicer has obtained an audit performed under the Lender Servicer Audit Guide issued by the United States Department of Education and specify the period of that audit.

**Cause:** The Special Tests and Provisions requirements are performed by a third-party servicer organization.

**Effect:** The Special Tests and Provisions requirements were not tested by the Corporation's external auditor for the fiscal year ended June 30, 2019 since such requirements are performed by the third-party servicer organization.

**Recommendation:** Management should continue to monitor the third-party servicer's audit reports to ensure the Special Tests and Provisions requirements are audited each year and that the audits are performed timely.

**Views of Responsible Officials and Planned Corrective Actions:** Management agrees with this recommendation and will continue to monitor the third-party servicer's audit reports.

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## South Carolina Student Loan Corporation

### *Summary Schedule of Prior Audit Findings*

*June 30, 2019*

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**Item 2018-001: United States Department of Education, Federal Family Education Loan Program - Lenders - CFDA No. 84.032, For the Fiscal Year Ended June 30, 2018**

**Condition:** The Corporation elected to use a third-party servicer organization to service its Federal Family Education Loan Program - Lenders (“FFEL Program”) loan portfolio and perform the corresponding lender functions. As such, we issued a disclaimer of opinion related to the Corporation’s compliance with requirements one through nine of the FFEL Program’s Special Tests and Provisions as reflected in the *OMB Compliance Supplement* as a result of the scope limitation.

**Recommendation:** We recommended that management should continue to monitor the third-party servicer’s audit reports to ensure the Special Tests and Provisions requirements are audited each year and that the audits are performed timely.

**Current Status:** The third-party servicer’s compliance with the Special Tests and Provisions requirements was audited for the year ended December 31, 2018 and completed on February 27, 2019. The third-party servicer confirmed that it has engaged an audit firm to perform the audit under the January 2011 *Lender Servicer Financial Statement Audit and Compliance Attestation Guide* for the year ending December 31, 2019. Management elected to continue to use a third-party servicer to service the Corporation’s FFEL Program loan portfolio and perform the corresponding lender function. See Item 2019-001 within the Schedule of Findings and Questioned Costs.



**Single Audit Submission, Report ID 813692  
For the Fiscal Year Ended June 30, 2019**

**Finding – Federal Award Program Audit  
Department of Education**

**Corrective Action Plan Item 2019-001:**

This Corrective Action Plan is submitted on behalf of South Carolina Student Loan Corporation.

Part 4-84.032-L of the April 2017 *OMB Compliance Supplement* allows auditors of lenders to exclude coverage of compliance requirements performed by a third-party servicer, provided the auditor has determined that the third-party servicer has obtained an audit under the Lender Servicer Audit Guide for the entire audit period of the lender. Management will continue to obtain and monitor the third-party servicer's audit reports to ensure the third-party servicer is obtaining audits in accordance with the Lender Servicer Audit Guide.

Responsible officials – David A. Simon, III and Jane W. Honeycutt

Date Corrective Action Plan will be completed – Ongoing

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "David A. Simon, III", is written over a horizontal line.

David A. Simon, III  
President and CEO

A handwritten date "9/30/2019" in blue ink is written over a horizontal line.

Date