

**South Carolina Student  
Loan Corporation**

*Report on Consolidated Financial Statements*

*For the year ended June 30, 2016*

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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 and its related subsidiaries (the "Corporation") which comprise the consolidated statement of financial position as of June 30, 2016, the related consolidated statement of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the South Carolina Student Loan Corporation's consolidated financial statements. The schedules, listed in the table of contents as supplementary information, and the schedule of expenditures of federal awards, as required by Title 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 consolidated financial statements.

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

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2016, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.



Columbia, South Carolina  
September 27, 2016

South Carolina Student Loan Corporation  
Consolidated Statement of Financial Position  
As of June 30, 2016 (with comparative amounts for 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Totals Memorandum Only
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 52,600,599	\$ 149,394,976	\$ 201,995,575	\$ 286,470,121
Investments	181,703,654	-	181,703,654	169,048,474
Current portion of student loan receivables	4,902,535	232,393,368	237,295,903	263,954,936
Interest due from borrowers	446,268	35,328,495	35,774,763	38,787,019
Accounts receivable	69,462	-	69,462	996,812
Due from SC State Education Assistance Authority	1,563,504	4,344,672	5,908,176	5,254,729
Accrued investment income	97,281	20,279	117,560	235,510
Prepaid expenses	253,948	78,755	332,703	281,654
Due from (to) other funds	653,357	(653,357)	-	-
Total current assets	242,290,608	420,907,188	663,197,796	765,029,255
<b>Long-term receivables and other assets</b>				
Other student loan receivables, less current portion and net of allowance for loan loss of \$44,284,088	64,646,301	1,697,005,429	1,761,651,730	1,971,887,368
Teacher loans receivable, less allowance for teacher loan cancellations of \$11,136,851 and current portion	-	26,859,474	26,859,474	27,044,864
Overfunded defined benefit plan	-	-	-	451,892
Due from (to) other funds	20,942,464	(20,942,464)	-	-
Total long-term receivables and other assets	85,588,765	1,702,922,439	1,788,511,204	1,999,384,124
<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	2,599,320	-	2,599,320	2,526,290
Automobiles	113,046	-	113,046	70,215
Less accumulated depreciation	(2,581,250)	-	(2,581,250)	(2,344,441)
Net property and equipment	4,854,686	-	4,854,686	4,975,634
Total assets	\$ 332,734,059	\$ 2,123,829,627	\$ 2,456,563,686	\$ 2,769,389,013

See Notes to Consolidated Financial Statements

South Carolina Student Loan Corporation  
Consolidated Statement of Financial Position  
As of June 30, 2016 (with comparative amounts for 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Totals Memorandum Only
<b>Liabilities and Net Assets</b>				
<b>Current liabilities</b>				
Current portion of notes payable - finance loans	\$ -	\$ 6,188,245	\$ 6,188,245	\$ 4,348,373
Current maturities of bonds payable	-	284,760,436	284,760,436	321,140,754
Interest payable	-	2,531,305	2,531,305	2,397,684
Accounts payable	1,641,788	-	1,641,788	2,030,366
Deferred revenue	386,499	826,144	1,212,643	2,687,161
Teacher loan liability	-	1,002,943	1,002,943	958,240
Defined contribution plan obligation	290,699	-	290,699	287,656
Compensated absences	1,979,512	-	1,979,512	1,794,949
Due to United States Department of Education	(5,497)	8,187,976	8,182,479	10,245,147
Total current liabilities	4,293,001	303,497,049	307,790,050	345,890,330
<b>Noncurrent liabilities</b>				
Bonds payable less current maturities	-	1,481,237,320	1,481,237,320	1,794,628,793
Due to SC State Education Assistance Authority	-	39,835,008	39,835,008	39,835,008
Notes payable - finance loans, less current maturities	-	42,290,405	42,290,405	49,872,581
Defined benefit plan obligation	2,528,939	-	2,528,939	-
Total noncurrent liabilities	2,528,939	1,563,362,733	1,565,891,672	1,884,336,382
Total liabilities	6,821,940	1,866,859,782	1,873,681,722	2,230,226,712
<b>Net Assets</b>				
<b>Temporarily restricted</b>				
For bond indentures - current debt service	-	9,395,110	9,395,110	11,389,880
For bond indentures	-	193,993,793	193,993,793	122,198,997
For teacher loans	-	53,580,942	53,580,942	52,294,824
Total temporarily restricted	-	256,969,845	256,969,845	185,883,701
<b>Unrestricted</b>				
Board designated for scholarships	100,000	-	100,000	100,000
Undesignated	325,812,119	-	325,812,119	353,178,600
Total unrestricted	325,912,119	-	325,912,119	353,278,600
Total net assets	325,912,119	256,969,845	582,881,964	539,162,301
Total liabilities and net assets	\$ 332,734,059	\$ 2,123,829,627	\$ 2,456,563,686	\$ 2,769,389,013

See Notes to Consolidated Financial Statements

## South Carolina Student Loan Corporation

### Consolidated Statement of Activities

For the year ended June 30, 2016 (with comparative amounts for 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Totals Memorandum Only
<b>Revenue</b>				
Income from United States Department of Education				
Student loan interest - subsidized	\$ 68,720	\$ 8,473,830	\$ 8,542,550	\$ 10,393,347
Special allowances	(319,381)	(41,921,405)	(42,240,786)	(50,757,154)
Student loan interest - non-subsidized	6,269,629	101,369,179	107,638,808	118,475,221
Investment income	1,205,117	543,287	1,748,404	2,988,928
Unrealized gain (loss) on investments	38,859	-	38,859	(1,588,774)
Late charges	74,323	2,019,057	2,093,380	2,227,935
Gain on bonds payable tender offer discount	-	32,419,500	32,419,500	-
Miscellaneous payments of student loans	(7,094)	(4,999)	(12,093)	(12,911)
State appropriations - U.S. Department of Education	-	5,901,721	5,901,721	6,020,205
Remittance from SC State Education Assistance Authority				
for operating cost	526,162	-	526,162	578,882
Servicing fees	-	-	-	7,377,829
Other	5,317,438	(180,103)	5,137,335	2,722,000
Net assets released from restrictions	37,533,923	(37,533,923)	-	-
Total revenue	<u>50,707,696</u>	<u>71,086,144</u>	<u>121,793,840</u>	<u>98,425,508</u>
<b>Expenses</b>				
Personnel	10,740,120	-	10,740,120	11,348,103
Contractual services	1,558,762	-	1,558,762	1,454,238
General operating	5,947,871	-	5,947,871	7,143,480
Interest on debt	30,609,861	-	30,609,861	28,777,775
TLP cancellations	5,766,785	-	5,766,785	4,079,611
Payments to SC State Education Assistance Authority				
for student loan income	2,911,633	-	2,911,633	3,234,864
Loan fees	8,109,998	-	8,109,998	8,925,139
Reinsurance expense	996,354	-	996,354	1,061,652
Borrower incentives	5,559,353	-	5,559,353	5,957,897
Broker dealer fees	337,841	-	337,841	417,146
Building expenses	275,584	-	275,584	387,437
Loan loss expense	3,779,330	-	3,779,330	3,468,335
Recall - Governor's Teaching School Loan Program	1,339,512	-	1,339,512	-
Other	141,173	-	141,173	408,848
Total expenses	<u>78,074,177</u>	<u>-</u>	<u>78,074,177</u>	<u>76,664,525</u>
<b>Change in net assets</b>	(27,366,481)	71,086,144	43,719,663	21,760,983
<b>Net assets</b>				
Beginning	353,278,600	185,883,701	539,162,301	517,401,318
Ending	<u>\$ 325,912,119</u>	<u>\$ 256,969,845</u>	<u>\$ 582,881,964</u>	<u>\$ 539,162,301</u>

See Notes to Consolidated Financial Statements

**South Carolina Student Loan Corporation**  
**Consolidated Statement of Cash Flows**  
**For the year ended June 30, 2016 (with comparative amounts for 2015)**

	2016			2015 Totals Memorandum Only
	Unrestricted	Temporarily Restricted	Total	
<b>Cash flows from operating activities</b>				
Change in net assets	\$ (27,366,481)	\$ 71,086,144	\$ 43,719,663	\$ 21,760,983
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities				
Depreciation	422,990	-	422,990	370,611
Unrealized (gain) loss on investments	(38,859)	-	(38,859)	1,588,774
Amortization of bond discounts	-	2,494,629	2,494,629	2,265,344
Amortization of cost for debt issuance	-	-	-	1,394,372
Loan loss expense	(54,117)	3,833,447	3,779,330	3,468,335
Teacher loan cancellations	-	5,766,785	5,766,785	4,079,611
Gain on bonds payable tender offer discount	-	(32,419,500)	(32,419,500)	-
Changes in operating assets and liabilities				
(Increase) decrease in due from SC State Education Assistance Authority	364,247	(1,017,694)	(653,447)	8,795,257
Decrease in interest due from borrowers	86,141	2,926,115	3,012,256	4,232,852
Decrease in accounts receivable	927,350	-	927,350	11,772,696
Decrease in accrued investment income	107,381	12,725	120,106	1,243,621
Increase in prepaid expenses	(44,788)	(8,417)	(53,205)	(53,166)
Decrease in overfunded defined benefit plan	451,892	-	451,892	319,050
Increase (decrease) in due to (from) other funds	(56,190)	56,190	-	-
Increase (decrease) in interest payable	-	133,621	133,621	(1,086,224)
Decrease in accounts payable	(388,578)	-	(388,578)	(837,757)
Decrease in deferred revenue	(1,344,334)	(130,184)	(1,474,518)	(1,276,558)
Increase (decrease) in defined contribution plan obligation	3,043	-	3,043	(22,687)
Increase in defined benefit plan obligation	2,528,939	-	2,528,939	-
Increase (decrease) in compensated absences	184,563	-	184,563	(68,784)
Increase (decrease) in teacher loan liability	-	44,703	44,703	(25,094)
Decrease in due to US Department of Education	(100,768)	(1,961,900)	(2,062,668)	(573,346)
Net cash provided by (used in) operating activities	(24,317,569)	50,816,664	26,499,095	57,347,890
<b>Cash flows from investing activities</b>				
Purchases of property and equipment	(302,042)	-	(302,042)	(227,071)
Change in student loan receivables, net	3,575,502	229,577,114	233,152,616	233,776,291
Change in teacher loan receivables, net	-	(5,618,670)	(5,618,670)	(5,509,916)
Net purchases on investments	(12,616,321)	-	(12,616,321)	(112,785,629)
Net cash provided by (used in) investing activities	(9,342,861)	223,958,444	214,615,583	115,253,675
<b>Cash flows from financing activities</b>				
Change in notes payable - finance loans, net	-	(5,742,304)	(5,742,304)	(17,155,810)
Issuance of bonds payable	-	198,400,000	198,400,000	-
Refunds of bonds payable	-	(176,130,500)	(176,130,500)	-
Payments of bonds payable, net	-	(342,116,420)	(342,116,420)	(25,364,914)
Net cash used in financing activities	-	(325,589,224)	(325,589,224)	(42,520,724)
<b>Net increase (decrease) in cash and cash equivalents</b>	(33,660,430)	(50,814,116)	(84,474,546)	130,080,841
<b>Cash and cash equivalents</b>				
Beginning	86,261,029	200,209,092	286,470,121	156,389,280
Ending	\$ 52,600,599	\$ 149,394,976	\$ 201,995,575	\$ 286,470,121
<b>Supplemental disclosures of cash flow information</b>				
Cash payments for interest	\$ -	\$ 22,660,649	\$ 22,660,649	\$ 24,822,675
Disposal of fully depreciated property and equipment	\$ 16,800	\$ -	\$ 16,800	\$ 20,333

See Notes to Consolidated Financial Statements

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2016

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### Note 1. Summary of Significant Accounting Policies

#### Reporting entity:

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

Effective September 10, 2015, Palmetto Investment Holdings, Inc. ("PIHI"), a South Carolina corporation (C-Corp) was organized as a wholly-owned subsidiary of SCSLC. PIHI functions as the holding company for for-profit ventures within the consolidated SCSLC 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. SC3 operates as a call and customer contact center.

On January 1, 2011, SCSLC signed an agreement with Performant Financial Services ("PFC") to provide debt collection services as a subcontractor for loans held by the United States Department of Education ("USDE") for which PFC is collecting under a Master Servicing Agreement with the USDE. On April 1, 2011, SCSLC formed EdVantage Corporation ("EdVantage"), which is a controlled affiliate of SCSLC for the purpose of providing this subcontractor service. EdVantage ceased providing subcontractor services for PFC as of April 1, 2014. However, EdVantage maintained required licensing and on April 1, 2014 began providing collection services for the South Carolina State Education Assistance Authority (the "Authority") which continued through February 16, 2016. At that time the collection services on these accounts reverted to the Authority. EdVantage is not actively serving as a debt collector at this time.

The Corporation is the sole owner of Educational Loan Services, LLC, d/b/a Campus Partners, a provider of servicing of student educational loans for universities, colleges and other educational institutions nationwide (see Note 4).

The Corporation administers the operations of the Authority. The Authority is a body politic and corporate and a public instrumentality of the State of South Carolina. The Authority is part of the State of South Carolina created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the Code of Laws of South Carolina, 1976 as amended. Through June 30, 2015 the Authority was governed by its members who were the members of the State Budget and Control Board (the "Board"). The South Carolina Restructuring Act of 2014 (Act 121) eliminated the Board on June 30, 2015 and created the State Fiscal Accountability Authority ("SFAA"). As with the Board, SFAA consists of five (5) members by virtue of their position in state government including the Governor, State Treasurer, Comptroller General, Chairman of Senate Finance Committee and Chairman of South Carolina House of Representatives Ways and Means Committee. Effective July 1, 2015, the governance of the Authority was transferred to the SFAA.

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 subsidiary.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2016

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

#### 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 and servicer of the previously originated FFEL loans. SCSLC also continues to originate private student loans.

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

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

During fiscal 1984-85, the Corporation began administering the Teacher Loan Program ("TLP"). The TLP is a part of the Education Improvement Act of 1984 (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 canceled at the greater of a specified dollar amount or 20% to 33 1/3% per year for each year of teaching in a critical subject and/or location. These loans are repaid by the borrower if the borrower does not teach. TLP loans made for academic years before 1994-95 are guaranteed by the Authority. Loans made for academic years 1994-95 or after are non-guaranteed.

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

During the 2009-10 year, the Corporation restructured PAL and began marketing the restructured program. The new PAL restricts the offering of loans only to students. The student must be enrolled on at least a half-time basis in a certificate or degree granting program and attending an eligible school in the State of South Carolina, or be a resident of South Carolina and attending an eligible college or university within the United States. These loans are funded by an \$85,000,000 bond offering issued by the Authority dated October 2, 2009.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2016

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

#### Overall operating arrangement (continued):

The Corporation began disbursing PAL in-school loans out of the Corporation's unrestricted net assets in 2012 for students attending schools in South Carolina or for South Carolina residents attending an eligible school within the United States.

During May 2013, the Corporation began offering PAL Consolidation Loans. This PAL 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 Title IV eligible schools located in the United States, be a South Carolina resident or a nonresident with eligible loans made for attendance at eligible in-state schools, and not be incarcerated. These consolidation loans were funded from available funds of the Corporation. In August 2014, this program was terminated due to lower volume attributed to a new Federal consolidation loan program allowing both FFEL and Direct Loan Program loans to be consolidated into one Federal consolidation loan.

In mid-2015 the Corporation began offering the Palmetto Assistance Loan Refinancing Loan Program ("PAL ReFi") through an initial targeted direct mailing to eligible South Carolina residents who obtained Federal PLUS loans on or after July 1, 2010. A minimum FICO score of 700 is required as part of the determination of the creditworthiness of each applicant. These loans are funded from available unrestricted funds of the Corporation.

#### Basis of accounting:

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

#### Consolidation policy:

The consolidated financial statements include the accounts of the Corporation and its controlled affiliate, EdVantage and subsidiaries including Campus Partners, PIHI, and SC3. All material inter-corporation accounts and transactions of the consolidated subsidiary have been eliminated in the consolidation.

#### Display of net assets by class:

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

#### Unrestricted net assets:

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

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2016

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

#### Temporarily restricted net assets:

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

#### Permanently restricted net assets:

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

#### Use of estimates:

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

#### Cash and cash equivalents:

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

#### Concentration risk:

The Corporation maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. At June 30, 2016, all of the Corporation's cash was held in institutions that are covered by federal depository insurance; however, all 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, 2016, 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.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2016

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

#### 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 \$11,136,851 at June 30, 2016. The Corporation maintains \$1,002,943 as a liability at June 30, 2016, for the undisbursed funds from the Teacher Loan Program. The Corporation matches the receipt of the funds from the State of South Carolina with the disbursement of the funds to the teachers who are expected for cancellation.

#### 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 loans and losses related to servicing all guaranteed loans by the Corporation that are not covered by its financings (See Note 6). The Corporation makes no provision of losses on student loans securing any of its financings as all of the borrowings disclosed in Note 7 are nonrecourse to the Corporation. The holders of the Bonds have all the credit risk for student loan losses that occur in each "trust estate". The provision also includes an estimate for non-guaranteed loans. In making the estimate, the Corporation considers the trend in default rates in the loan guarantee portfolio, past and anticipated loss experience, current operating information, and changes in economic conditions. The evaluation is inherently subjective and the provisions may significantly change in the future. Additionally, the Corporation maintains a 100% allowance for all PAL loans past due 180 days or greater. The allowance for loan losses was \$44,284,088 at June 30, 2016 (see Note 6 on Federal Reinsurance of FFEL loans).

#### Property and equipment:

Property and equipment costing over \$10,000, for SCSLC and \$3,500 for its Campus Partners subsidiary is capitalized at cost when purchased. Depreciation has been provided using the straight-line method over useful lives of three to ten years for furniture and equipment, three years for automobiles and 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 12 to 25 days per year depending on length of employment. Employees are expected to use at least one week (5 consecutive days) each year. Earned, but unused, annual leave will be paid when an employee terminates his/her employment. Sick leave is earned at the rate of 10 days per year. Employees are not paid for earned, but unused, sick days upon termination of employment.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2016

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

#### 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 2013. 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.

#### Recently issued accounting pronouncements:

In April 2015, the FASB issued guidance that will require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This update affects disclosures related to debt issuance costs but does not affect existing recognition and measurement guidance for these items. The amendment is effective for fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2016, with early adoption permitted. The Corporation adopted this amendment for the fiscal year ended June 30, 2015 and applied it retrospectively. This amendment did not have a material effect on the 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 financial statements for the year ended June 30, 2015, from which the summarized information was derived.

#### Subsequent events:

These financial statements have not been updated for subsequent events after September 27, 2016, the date these financial statements were available to be issued.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2016

#### Note 2. Cash and Cash Equivalents

As of June 30, 2016, cash and cash equivalents include demand deposits and short-term investments with a maturity of three months or less as follows:

	<u>Cost</u>	<u>Market Value</u>
Unrestricted		
South Carolina State Treasurer pool	\$ 453,520	\$ 453,520
Collateralized demand deposits	7,816,473	7,816,473
Money market	<u>44,330,606</u>	<u>44,330,606</u>
Total unrestricted	<u>\$ 52,600,599</u>	<u>\$ 52,600,599</u>
Temporarily restricted		
Collateralized demand deposits	\$ 34,627	\$ 34,627
Money market	93,592,803	93,592,803
South Carolina State Treasurer pool	22,410,698	22,410,698
Guaranteed investment contracts	<u>33,356,848</u>	<u>33,356,848</u>
Total temporarily restricted	<u>\$ 149,394,976</u>	<u>\$ 149,394,976</u>

Cash and cash equivalents included in the Teacher Loan Program include the South Carolina State Treasurer Pool totaling \$22,410,698.

#### Note 3. Investments

The market value of investments is determined by quoted market values and consists of the following as of June 30, 2016:

	<u>Cost</u>	<u>Market Value</u>
Mutual funds	\$ 7,360,994	\$ 7,360,865
Corporate bonds	95,870,782	95,820,412
Uninsured deposits/money market	76,893,847	77,022,377
Private investment	<u>1,500,000</u>	<u>1,500,000</u>
Total	<u>\$ 181,625,623</u>	<u>\$ 181,703,654</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, 2016**

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

On November 23, 2011, SCSLC signed a contract with Educational Loan Servicing, LLC ("ELS") d/b/a Campus Partners ("CP") as a vendor to provide a platform and servicing functionality sufficient to meet the requirements for servicing USDE direct loans. Subsequently, on February 1, 2012 SCSLC purchased 27.67% ownership of ELS for \$4,000,000 from JPT Partners ("JPT"), which was the sole owner of all equity of ELS, with an option to purchase from JPT an additional 23.37% at a later date for \$3,500,000 for a total ownership of 50.00%. As a result of several delays by CP in providing the contracted servicing platform for Direct Loans, SCSLC evaluated its current investment in ELS and declined to make the additional \$3,500,000 investment. On June 20, 2012, SCSLC made an offer under certain conditions to CP to provide a revocable line of credit for \$6,000,000 for a term of three years at a rate of prime plus 1.50% 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 SCSLC, as SCSLC believed that the equity value had declined as a result of the delays in the delivery of the servicing platform. Also, the Board of Directors of ELS would be restructured from three members to five members with three members appointed by SCSLC and two members appointed by JPT. All decisions would be approved by a majority vote. The amended offer term sheet also included several less significant provisions that would need to be met in order for SCSLC to provide the line of credit. On July 30, 2012, SCSLC extended the revocable \$6,000,000 to CP and as a result of the conditions to provide the note, SCSLC obtained an additional 23.33% of ELS for a total ownership of 51.00%. On February 26, 2013, SCSLC 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 the 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 SCSLC 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.

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

As of June 30, 2016, the Authority owes the Corporation funds collected on their behalf of \$5,908,176, which are required to be paid by the tenth of each month. The Corporation owes the Authority funds it contributed to the 2010-1 General Resolution \$39,835,008 (see Note 7) and \$555,205 for deferred costs of issuance on the 2009 PAL bond.

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

In 2016, these loans were bearing interest at fixed rates ranging from 2.875% to 10.0% or an annual variable rate of 1.72% to 3.54%. The annual variable rate is reset each July 1 using the bond equivalent rate of the 91-day or 52-week Treasury Bill, determined at the final auction held prior to the immediately preceding June 1, plus 1.70% to 3.25% with a cap on the rate of 8.25% to 12.0%. The repayment period for these loans is five (5) to thirty (30) years with a minimum payment of \$360 or \$600 per year, except in the case of income-based repayment plans. Repayment of principal may be scheduled to begin within sixty (60) days of final disbursement or six (6) to ten (10) months after the student graduates or ceases to be enrolled on at least a half-time basis in an eligible institution.

## **South Carolina Student Loan Corporation**

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

***June 30, 2016***

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

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

Loans are insured against death, disability and default by the Authority at 97% to 100% and are reinsured by the USDE up to 100% for loans made prior to October 1, 1993; up to 98% for loans made on or after October 1, 1993, but on or before June 30, 2006; and 97% for loans made on or after July 1, 2006. Total loans insured by the Authority at June 30, 2016, are \$1,733,613,091.

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 SCSLC no longer originating FFEL loans.

The Health Care and Education Reconciliation Act of 2010 ("HCRA") was signed into law on March 30, 2010, requiring all new federal student loans to be originated through the Federal Direct Loan Program as of July 1, 2010. The Corporation's ability to originate FFEL loans terminated on June 30, 2010. As a result, the Corporation's servicing revenues were reduced during the year as the aggregate loan portfolio being serviced by the Corporation began to decline. This trend has continued and is reflected in reductions in the FFEL portfolio primarily due to consolidation of these loans to the Direct Loan Consolidation Program offered by the USDE and receipt of normal borrower payments. Additionally, since the FFEL loan program was the major component of the Corporation's lending activity, it is expected that the future asset growth and related earnings on that portion of the asset growth will continue to be impacted. The Corporation is currently evaluating the potential impact to its future revenue stream and is also currently exploring alternative revenue sources to offset the impact of the declining FFEL portfolio. The potential impact cannot be reasonably predicted (see Note 16).

#### **Note 7. 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.

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, 2016, the Corporation held funds on deposit as restricted cash in the debt service funds of \$9,395,110.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2016

#### Note 7. Bonds Payable, Continued

The bonds outstanding as of June 30, 2016, are as follows:

Issued	Original Amount	Maturity Date	Balance Outstanding June 30, 2015	Issued (Retired) During FY 2016	Balance Outstanding June 30, 2016
November 10, 2004	\$ 180,000,000	6/1/2034	\$ 119,500,000	\$ (119,500,000)	\$ -
July 19, 2005	700,000,000	12/3/2018 - 12/1/2023	265,744,000	(79,462,000)	186,282,000
July 11, 2006	500,000,000	12/2/2019 - 12/1/2022	137,031,000	(68,691,000)	68,340,000
October 25, 2006	182,000,000	9/2/2046	110,600,000	(110,600,000)	-
June 25, 2008	600,000,000	9/2/2014 - 9/3/2024	220,122,882	(40,534,980)	179,587,902
November 30, 2010	920,000,000	1/25/2021 - 10/27/2036	550,323,506	(68,188,010)	482,135,496
February 20, 2013	323,620,000	1/25/2041	230,486,631	(34,641,787)	195,844,844
August 20, 2014	501,500,000	4/1/2030 - 8/1/2035	501,500,000	-	501,500,000
November 25, 2015	198,400,000	1/25/2036	-	184,176,061	184,176,061
			<u>2,135,308,019</u>	<u>\$ (337,441,716)</u>	<u>1,797,866,303</u>
Less costs of issuance			<u>(19,538,472)</u>		<u>(31,868,547)</u>
			<u>\$ 2,115,769,547</u>		<u>\$ 1,765,997,756</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 \$756,122,000 as of June 30, 2016, 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 year ended June 30, 2016, none of the rates exceeded 1.684%. Future interest payment projections are based upon the ten-year weighted average rate at June 30, 2016, which was 1.350%.

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).

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. A portion of the Supplemental Reserve Fund has been used to meet the targeted amortization payments as scheduled during the current fiscal year for the 2005 and 2006 Series bonds.

The interest payments for the 2014 Series bonds are paid on the Distribution Dates (the first business day of each month). No principal payments for the 2014 Series bonds will be paid until the 2005 and 2006 Series bonds are paid in full.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2016

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#### Note 7. Bonds Payable, Continued

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

On September 30, 2015, the Corporation issued a Cash Tender Offer to holders of existing auction rate notes to tender their existing auction rate notes and accept cash for 91% of par, plus accrued but unpaid interest as defined in the tender offer document. The Cash Tender Offer referenced the 2004-A and 2006-A series of the 2004 General Resolution with outstanding principal balances as of September 15, 2015 of: Series 2004-A-1 of \$53,800,000, Series 2004-A-2 of \$60,750,000, Series 2006-A-1 of \$60,800,000 and Series 2006-A-2 of \$49,800,000. The Cash Tender Offer expired at 5:00 p.m., Eastern Time on October 30, 2015. Any notes not tendered could be duly called for redemption. Upon closing of the Cash Tender Offer and redemption at par of the remaining notes outstanding, the assets pledged under the 2004 Ambac Insured General Resolution and considered in value would be released from the lien created in the 2004 Resolution and be pledged under a new resolution, the 2015-A Series Resolution while such assets not considered in value would be released and transferred to the Corporation. Closing for the Cash Tender Offer occurred on November 25, 2015 with redemption of all remaining notes at par completed by December 18, 2015. The accrued interest and tender price on the 2004/2006 SCSLC Ambac Insured Notes of noteholders secured under the 2004 Ambac Insured General Resolution that tendered their notes for cash under the terms of the Cash Tender Offer totaled \$176,130,500. The accrued interest and redemption price on the 2004/2006 SCSLC Ambac Insured Notes of noteholders secured under the 2004 Ambac Insured General Resolution that were called for redemption totaled \$396,621. The recognized gain on the Cash Tender Offer of \$32,419,500 consisted of the impact of the 9% discount for the tendered notes and a contribution by the Ambac, the insurer of the issuance.

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

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

Principal and interest on the LIBOR Notes are to be paid on each Distribution Date (the first business day of each March, June, September, and December beginning September 2008). Principal will be paid first on the A-1 Notes until paid in full, second on the A-2 Notes until paid in full, third on the A-3 Notes until paid in full and fourth on the A-4 Notes until paid in full. The A-1 notes have been paid in full. The LIBOR Notes issued under the 2008-1 General Resolution are subject to optional redemption on the Distribution Date immediately following the date when the Pool Balance is 10% or less of the Initial Pool Balance. The LIBOR Notes Secured by 2008-1 General Resolution balance as of June 30, 2016 was \$179,587,902.

##### 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.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2016

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#### Note 7. Bonds Payable, Continued

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

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

Principal and interest on the LIBOR notes is to be paid on each Distribution Date (the twenty-fifth day of each January, April, July, and October, or the next business day if such day is not a business day). Principal will be paid first on the A-1 Notes until paid in full, second on the A-2 Notes until paid in full, and third on the A-3 Notes until paid in full. The Notes are subject to optional redemption on the next Distribution Date occurring when the Pool Balance is 10% or less of the Initial Pool Balance. The balance of the Notes as of June 30, 2016 was \$482,135,496.

##### 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 student 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 Notes are subject to optional redemption on the next Distribution Date occurring when the Pool Balance is 10% or less of the Initial Pool Balance. The balance of the notes as of June 30, 2016 was \$195,844,844.

##### LIBOR Notes Secured by 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 2015-A Series bonds 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 Notes are subject to optional redemption on the next Distribution Date occurring when the Pool Balance is 10% or less of the Initial Pool Balance. The balance of the notes as of June 30, 2016 was \$184,176,061.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2016

#### Note 7. Bonds Payable, Continued

##### Projected debt service:

As of June 30, 2016, 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>
2017	\$ 120,491,000	\$ 34,473,609	\$ 154,964,609
2018	104,477,000	32,899,955	137,376,955
2019	29,654,000	31,753,847	61,407,847
2020	61,587,903	31,404,235	92,992,138
2021	-	30,770,205	30,770,205
2022	-	30,770,205	30,770,205
2023	-	30,770,205	30,770,205
2024	-	30,770,205	30,770,205
2025	118,000,000	29,566,492	147,566,492
2026	257,135,496	26,503,365	283,638,861
2027	-	25,620,986	25,620,986
2028	-	25,620,986	25,620,986
2029	-	25,620,986	25,620,986
2030	328,000,000	25,620,986	353,620,986
2031	-	21,118,762	21,118,762
2032	-	21,118,762	21,118,762
2033	100,500,000	20,773,889	121,273,889
2034	-	19,739,269	19,739,269
2035	-	19,739,269	19,739,269
2036	257,176,060	16,376,199	273,552,259
2037	225,000,000	9,309,319	234,309,319
2038	-	8,064,671	8,064,671
2039	-	8,064,671	8,064,671
2040	-	8,064,671	8,064,671
2041	<u>195,844,844</u>	<u>4,880,668</u>	<u>200,725,512</u>
	<u>\$ 1,797,866,303</u>	<u>\$ 569,416,417</u>	<u>\$ 2,367,282,720</u>

The weighted average interest rate used for future interest payment projections was 1.503%. An additional 0.15% was added to this rate when calculating the 2004 Resolution in order to account for Broker Dealer Fees. This estimate is inherently subjective and the rate may change significantly in the future.

As outlined in the 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 loan receivables. At June 30, 2016, the Corporation estimated they would make optional redemption or principal distribution payments for the next year in the amount of \$167,000,000.

## **South Carolina Student Loan Corporation**

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

***June 30, 2016***

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#### **Note 8. Notes Payable - Finance Loans**

Each bond resolution of the Authority requires that all funds advanced to SCSLC by the Authority for the purpose of making student loans be evidenced by a loan agreement, assignment of collateral and assignment of revenues between the two parties, with the student loans providing security to the bond trustee. Advances to the Corporation from the Authority's 2009 PAL General Resolution are made pursuant to a loan agreement dated October 29, 2009. Since the bonds for the 2009 PAL were issued after the peak Student Loan Funding period, the Corporation was only able to finance new student loans of approximately \$40,000,000, while the bonds outstanding were \$85,000,000. Due to market conditions during the 2009-2010 fiscal year and restrictions on types of investment instruments available to the Authority, interest earned on its investments from the excess funds received from the bond issuance was less than the interest expense of the bonds. In October 2013 the Corporation contributed \$6,717,492 of PAL loans from its unrestricted portfolio to the 2009 PAL Resolution. The Net asset balance was (\$82,180) at June 30, 2016. The finance loan balance as of June 30, 2016 was \$48,478,650.

#### **Note 9. Special Allowance Income or Expense**

Special allowance was instituted to assure the interest rate and other limitations of the Higher Education Act, in the context of the market conditions, would not adversely affect access to student loans or cause the rate of return on student loans to be less than equitable.

For loans disbursed prior to April 1, 2006, lenders are entitled to retain interest income in excess of the special allowance support level in instances when the loan rate exceeds the special allowance support level. However, lenders are not allowed to retain interest income in excess of the special allowance support level on loans disbursed on or after April 1, 2006, and are required to rebate any such excess interest to the federal government on a quarterly basis. This modification effectively limits lenders' returns to the special allowance support level. For the year ended June 30, 2016, the Corporation remitted \$42,240,786 of interest income in excess of the special allowance support level to the USDE.

#### **Note 10. Employee Benefit Plans**

Effective August 1, 2015, SCSLC 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 TDA ("Tax Deferred Annuity") GSRA ("Group Supplemental Retirement Annuity") 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, 2016

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#### Note 10. 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 21. 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 monthly. 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 in the year following the plan year in which the forfeiture occurs. Contributions within the plan are employee self-directed. The total retirement expense for 2016 was \$365,296 of which the Authority reimbursed \$57,818, and is fully funded.

##### 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 Tax Deferred Annuity ("TDA") Group Supplemental Retirement Annuity ("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 continues to provide for a 5% contribution based on the participant's total annual compensation. The total amount contributed under the plan was \$290,699 in 2016 of which the Authority reimbursed \$63,539 for its employees. All employees who have completed one year of service and attainment of age 21 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.

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

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

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2016

### Note 10. Employee Benefit Plans, Continued

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

As a result of the June 11, 2015 Agreement with HPS, Inc. (Note 4), all CP employees were terminated. This 401(k) profit sharing plan was terminated on June 24, 2015. Participants were given sixty days to request a distribution. Participants would receive a "Force-out Distribution" if requests were not received within the sixty day window.

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

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

#### Defined Benefit Pension Plan:

The Corporation established the South Carolina Student Loan Defined Benefit Plan ("DBP") on July 1, 1998. The defined benefit pension plan covers substantially all employees with a minimum one year of service and 21 years of age. The DBP provides benefits based on the average of a participant's highest five consecutive years of pay. The benefit formula uses one percent of this average pay times years of service not to exceed thirty (30) years. The Corporation pension funding policy is to make at least the minimum annual contribution that is actuarially computed by the projected unit credit method required by this plan. The following sets forth the benefit obligation, the fair value of plan assets, and the funded status of the Corporation's plan, as well as the amounts recognized in the Corporation's financial statements at June 30, 2016:

Change in projected benefit obligation:	
Projected benefit obligation at June 30, 2015	\$ 15,389,544
Service cost	457,942
Interest cost	656,275
Actuarial (gain) loss	1,989,401
Benefits paid	<u>(448,746)</u>
Projected benefit obligation at June 30, 2016	<u>\$ 18,044,416</u>
Change in fair value of plan assets:	
Fair value of Plan assets at June 30, 2015	\$ 15,841,436
Actual return on assets	(477,213)
Employer contributions	600,000
Benefits paid	<u>(448,746)</u>
Fair value of Plan assets at June 30, 2016	<u>\$ 15,515,477</u>

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2016

### Note 10. Employee Benefit Plans, Continued

#### Defined Benefit Pension Plan (continued):

Funded status	\$ <u>(2,528,939)</u>
Amounts recognized in the Consolidated Statement of Financial Position:	
Noncurrent liabilities	\$ <u>(2,528,939)</u>
Amounts recognized in the Consolidated Statement of Activities:	
Net (gain) loss	\$ <u>6,544,643</u>

The following are weighted average assumptions used to determine benefits, obligations and net periodic benefit cost as of June 30, 2016 and 2015. The measurement date of the projected benefits obligation and Plan assets was June 30, 2016.

	<u>2016</u>	<u>2015</u>
Assumptions used		
Weighted-average assumptions used to determine benefit obligations		
Discount rate	3.58%	4.35%
Rate of compensation increase	4.00%	4.00%
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate	4.35%	4.24%
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 plans' asset allocation and liability structure over a long-term period. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (1) historical real returns, net of inflation, for the asset classes covered by the investment policy and (2) projections in inflation over the long-term period during which benefits are payable to plan participants.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2016

#### Note 10. Employee Benefit Plans, Continued

##### Defined Benefit Pension Plan (continued):

Components of net periodic benefit cost and employee benefit-related changes other than net periodic pension cost for the year ended June 30, 2016 are as follows:

Net periodic benefit cost	
Service cost	\$ 457,942
Interest cost	656,275
Expected return on plan assets	(1,108,708)
Amortization of prior service cost	(16,685)
Amortization of accumulated gain (loss)	276,483
Net periodic benefit cost	<u>265,307</u>
Administrative expenses	<u>119,862</u>
Net periodic benefit cost	<u>\$ 385,169</u>
Corporation's share	\$ 331,245
Authority's share	53,924
	<u>\$ 385,169</u>
Employee benefit - related changes other than net periodic pension cost	
Net gain (loss)	\$ 3,575,322
Prior service cost	-
Amortization of prior service cost	16,685
Amortization of loss	(276,483)
Employee benefit - related changes other than net periodic benefit cost	<u>\$ 3,315,524</u>
Corporation's share	\$ 2,851,351
Authority's share	464,173
	<u>\$ 3,315,524</u>
Total net periodic benefit cost and employee benefit - related changes other than net periodic benefit cost	<u>\$ 3,700,693</u>

The net pension (gain) expense for this Defined Benefit Pension Plan totaled \$3,580,831 plus \$119,862 of administrative expenses, totaling \$3,700,693 for the year ended June 30, 2016. The Corporation recorded an expense of \$98,503 and the Authority recorded an expense of \$21,359 for this Plan for its employees for the year ended June 30, 2016. No participant contributions are permitted by the pension plan.

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$831,614 and \$0, respectively. The accumulated benefit obligation for the defined benefit pension plan was \$16,637,086 at June 30, 2016.

# South Carolina Student Loan Corporation

## Notes to Consolidated Financial Statements

June 30, 2016

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### Note 10. Employee Benefit Plans, Continued

#### Defined Benefit Pension Plan (continued):

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

The Corporation's target asset allocation as of June 30, 2016, by asset category, is as follows:

Money market	2.03%
Debt securities	35.71%
Equity securities	<u>62.26%</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 allocation ranges (shown above) by major asset categories.

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

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

The Corporation expects to contribute \$600,000 to its Defined Benefit Plan during 2015-2016.

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

2017	\$	644,703
2018		692,437
2019		726,512
2020		772,962
2021		803,583
2022 - 2026		4,794,943

### Note 11. Rental Property, Operating Leases and Commitments

The Corporation owns and conducts its business from an office building in the northeast area of Columbia, South Carolina. The entire building is utilized by SCSLC and its controlled affiliate. Certain lease expense is charged to the Authority and EdVantage Corporation based on space occupied in the building. In addition, the Corporation leases computer software and mail room equipment for terms of 36 to 60 month periods. Future minimum lease payments are as follows:

2017	\$	21,628
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## South Carolina Student Loan Corporation

### *Notes to Consolidated Financial Statements*

*June 30, 2016*

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#### **Note 11. Rental Property, Operating Leases and Commitments, Continued**

In conjunction with the June 11, 2015 HPS, Inc. agreement with ELS and the expiration of the lease agreement for office space in Winston Salem, North Carolina, the Corporation's CP subsidiary moved its physical presence to the Corporation's headquarters in Columbia, South Carolina in the fall of 2015. Therefore, there are no future minimum lease payments for CP related to office space. Also, there are no operating lease arrangements as of June 30, 2016.

CP has also entered into various software licenses as detailed below:

Sirius Computer Solutions Services Agreement - CP entered into a managed services agreement in October 2011 with Sirius Computer Solutions, Inc. to host CP's loan servicing system. The term of the agreement is for sixty (60) months, with a monthly base payment of \$89,500 in the first twelve (12) months of the agreement, and a monthly base payment of \$129,700 due thereafter. This agreement has a three (3) month extension at the end of the term to negotiate the terms and length of a renewal agreement. This agreement has a three (3) year renewal term option.

CA Technologies License Agreement - CP entered into a license agreement in September 2011 with CA Technologies. The term of the agreement is sixty (60) months. Quarterly payments under this agreement are approximately \$120,000 per quarter for the first three (3) years and \$90,000 per quarter thereafter. This agreement has a three (3) year renewal term option.

Under the terms of the June 11, 2015 HPS, Inc. agreement with ELS, HPS, Inc. and ELS will share the expenses for both the Sirius and CA Technology agreements throughout the transition period with HPS, Inc. responsible for 60% and ELS responsible for 40%. The transition period is defined as the earlier of the date all purchased contracts are converted to HPS, Inc.'s system or fifteen months after the June 11, 2015 closing date of the HPS, Inc. agreement with ELS (Notes 4 and 16).

Non-Recourse Sale Agreements - CP entered into three (3) non-recourse sale agreements in 2008. The sale agreements were consummated to transfer all rights, title and interest in private student loans retained on CP's balance sheet in early 2008, and contained customary representations and warranties with respect to the condition of the private student loans as of the sale dates. As of June 30, 2016, CP does not have any repurchase obligations with respect to breaches of the customary representations and warranties contained in these sale agreements, and views the probability of any future repurchase obligations as remote.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2016

#### Note 12. Assets Released from Restrictions

Net assets during the year ended June 30, 2016, were released from restrictions by incurring expenses satisfying the restricted purposes and by occurrence of other events specified as follows:

Personnel	\$	232,695
Contractual services		37,665
General operating		49,090
Interest on debt		30,609,860
TLP cancellations		5,766,785
Payments to SC State Education Assistance Authority for student loan income		2,911,633
Loan fees		8,058,870
Reinsurance expense		986,093
Borrowers incentives		5,533,289
Broker dealer fees		337,841
Loan loss expense		3,833,446
Recall of Governor's Teaching School Program		1,339,512
Other		<u>141,173</u>
Total expenses		<u>59,837,952</u>
Transfer from taxable bond financings for loan servicing		12,242,862
Contributed loans to 2015 resolution		<u>(34,546,891)</u>
Total	\$	<u>37,533,923</u>

#### Note 13. 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.

## South Carolina Student Loan Corporation

### Notes to Consolidated Financial Statements

June 30, 2016

#### Note 13. Disclosures About Fair Value of Financial Instruments, Continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

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 student loan receivables' carrying value approximates fair value based on like sale of student loans within the industry. In 2011, the Corporation sold a portion of its loans from the FFEL program at par value. 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	\$ 201,995,575	\$ 201,995,575
Investments	181,703,654	181,703,654
Student loan receivables	1,998,947,633	1,998,947,633
Teacher loan receivables	26,859,474	26,859,474
Financial liabilities		
Notes payable	\$ 48,478,650	\$ 48,478,650
Bonds payable	1,765,997,756	1,765,997,756

  

	<u>June 30, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets				
Cash and cash equivalents	\$ 201,995,575	\$ 201,995,575	\$ -	\$ -
Money market / uninsured deposits	77,022,377	77,022,377	-	-
Private investment	1,500,000	1,500,000	-	-
Mutual funds	7,360,865	7,360,865	-	-
Corporate bonds	95,820,412	-	95,820,412	-
Student loan receivables	1,998,947,633	-	1,998,947,633	-
Teacher loan receivables	26,859,474	-	26,859,474	-
Total financial assets	<u>\$ 2,409,506,336</u>	<u>\$ 287,878,817</u>	<u>\$ 2,121,627,519</u>	<u>\$ -</u>
Financial liabilities				
Notes payable	\$ 48,478,650	\$ -	\$ 48,478,650	\$ -
Bonds payable	1,765,997,756	-	1,765,997,756	-
Total financial liabilities	<u>\$ 1,814,476,406</u>	<u>\$ -</u>	<u>\$ 1,814,476,406</u>	<u>\$ -</u>

#### Note 14. Reclassifications

Certain reclassifications of fiscal year 2015 amounts were made on the Consolidated Statement of Financial Position and the Consolidated Statement of Activities for comparability to fiscal year 2016 with no effect on the change in net assets or total net assets.

## **South Carolina Student Loan Corporation**

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

***June 30, 2016***

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#### **Note 15. Board Designated Net Assets**

During fiscal year 2006, the Board designated funds to establish the Mackie Scholarship Fund to award scholarships to employees or family members of employees. As of June 30, 2016, \$100,000 is available for future scholarships.

#### **Note 16. Subsequent Events**

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

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 has steadily decreased and reached a level which is 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 SCSLC'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. Transition of remaining private loans is expected to be completed within the fiscal year ended June 30, 2017.

On June 22, 2016 SFAA delegated to SCSLC the authority to communicate with the USDE at the appropriate time to terminate the guaranty agreements between the Authority and USDE, cease operating as a guaranty agency under the Higher Education Act of 1965 and to present to the South Carolina State Treasurer all necessary documents required to effect such termination. SCSLC notified the USDE on June 22, 2016 of the intention to terminate the guaranty agreement. On July 21, 2016 SCSLC received 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 is scheduled for December 1, 2016.

A portion of the workforce for SCSLC was associated with the servicing function and supporting processes for both the Corporation's loan portfolio and the Authority's process requirements. Thus the movement of these functions to external entities will result in downsizing of SCSLC's personnel. The MPPP and DBP experienced a partial termination on August 18, 2016 due to the reduction in workforce at SCSLC. Therefore all contributions to the MPPP and DBP were immediately 100% vested for affected employees.

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## South Carolina Student Loan Corporation

### *Notes to Consolidated Financial Statements*

*June 30, 2016*

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#### **Note 16. Subsequent Events, Continued**

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 discussed in Note 4. Under this agreement, HPS, LLC's assumption of responsibility for the contracts with vendors was to be completed through either an assignment of the contract from CP/ELS 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 CP/ELS had with the vendor. At this time, liability with all major vendors has been shifted from CP/ELS to HPS, LLC either through assignment or a new separate HPS, LLC contract as outlined above. Follow up continues on the remaining contracts; however, any potential liability is considered insignificant. 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.

## South Carolina Student Loan Corporation

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

June 30, 2016

	Operating/SLC	Campus Partners	PIHI	SC3	Eliminations	Total
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ 52,201,570	\$ 330,124	\$ -	\$ 68,905	\$ -	\$ 52,600,599
Investments	182,503,654	-	(500,000)	(300,000)	-	181,703,654
Current portion of student loan receivables	4,902,535	-	-	-	-	4,902,535
Interest due from borrowers	446,268	-	-	-	-	446,268
Accounts receivable	976,329	41,462	(56,329)	28,000	(920,000)	69,462
Due from SC State Education Assistance Authority	1,563,504	-	-	-	-	1,563,504
Accrued investment income	97,281	-	-	-	-	97,281
Prepaid expenses	229,449	24,499	-	-	-	253,948
Due from (to) other funds	653,357	-	-	-	-	653,357
Total current assets	<u>243,573,947</u>	<u>396,085</u>	<u>(556,329)</u>	<u>(203,095)</u>	<u>(920,000)</u>	<u>242,290,608</u>
<b>Long-term receivables and other assets</b>						
Other student loan receivables, less current portion and net of allowance for loan loss	64,646,301	-	-	-	-	64,646,301
Overfunded defined benefit plan	-	-	-	-	-	-
Due from (to) other funds	20,942,464	-	-	-	-	20,942,464
Total long-term receivables and other assets	<u>85,588,765</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>85,588,765</u>
<b>Property and equipment</b>						
Land	364,900	-	-	-	-	364,900
Building	4,358,670	-	-	-	-	4,358,670
Furniture and equipment	2,548,900	50,420	-	-	-	2,599,320
Automobiles	113,046	-	-	-	-	113,046
Less accumulated depreciation	(2,530,830)	(50,420)	-	-	-	(2,581,250)
Net property and equipment	4,854,686	-	-	-	-	4,854,686
Total assets	<u>\$ 334,017,398</u>	<u>\$ 396,085</u>	<u>\$ (556,329)</u>	<u>\$ (203,095)</u>	<u>\$ (920,000)</u>	<u>\$ 332,734,059</u>
<b>Liabilities and Net Assets</b>						
<b>Current liabilities</b>						
Current portion of notes payable - finance loans	\$ -	\$ 920,000	\$ -	\$ -	\$ (920,000)	\$ -
Accounts payable	1,607,096	34,692	-	-	-	1,641,788
Deferred revenue	386,499	-	-	-	-	386,499
Defined contribution plan obligation	290,699	-	-	-	-	290,699
Compensated absences	1,979,512	-	-	-	-	1,979,512
Due to United States Department of Education	(5,497)	-	(56,329)	56,329	-	(5,497)
Total current liabilities	<u>4,258,309</u>	<u>954,692</u>	<u>(56,329)</u>	<u>56,329</u>	<u>(920,000)</u>	<u>4,293,001</u>
<b>Noncurrent liabilities</b>						
Defined benefit plan obligation	2,528,939	-	-	-	-	2,528,939
Total noncurrent liabilities	<u>2,528,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,528,939</u>
Total liabilities	<u>6,787,248</u>	<u>954,692</u>	<u>(56,329)</u>	<u>56,329</u>	<u>(920,000)</u>	<u>6,821,940</u>
<b>Net assets</b>						
Board designated for scholarships	100,000	-	-	-	-	100,000
Unrestricted	327,130,150	(58,607)	(500,000)	(259,424)	-	325,812,119
Total net assets	<u>327,230,150</u>	<u>(58,607)</u>	<u>(500,000)</u>	<u>(259,424)</u>	<u>-</u>	<u>325,912,119</u>
Total liabilities and net assets	<u>\$ 334,017,398</u>	<u>\$ 396,085</u>	<u>\$ (556,329)</u>	<u>\$ (203,095)</u>	<u>\$ (920,000)</u>	<u>\$ 332,734,059</u>

**South Carolina Student Loan Corporation**  
**Consolidated Schedule of Financial Position by Fund - Temporarily Restricted**  
**June 30, 2016**

	Teacher Loans	96 Resolution	04 Resolution	08 Resolution	2010-1 Resolution	2013-1 Resolution	Tax Exempt 09 PAL Resolution	2015 Resolution	Total Temporarily Restricted
<b>Assets</b>									
<b>Current assets</b>									
Cash and cash equivalents	\$ 22,410,698	\$ 79,251,877	\$ -	\$ 9,200,754	\$ 28,328,858	\$ 6,657,966	\$ 34,627	\$ 3,510,196	\$ 149,394,976
Current portion of student loan receivables	2,300,143	85,074,721	-	33,720,312	60,214,545	28,077,973	6,188,245	16,817,429	232,393,368
Interest due from borrowers	2,819,486	10,507,830	-	3,797,224	10,248,546	5,448,446	383,487	2,123,476	35,328,495
Due from SC State Education Assistance Authority	194,077	1,143,589	-	615,546	1,035,227	624,049	575,604	156,580	4,344,672
Accrued investment income	-	9,498	-	3,664	5,877	1,240	-	-	20,279
Prepaid expenses	-	9,385	-	7,500	25,630	24,778	-	11,462	78,755
Due from (to) other funds	-	6,000	-	(84,138)	(269,034)	(110,605)	31	(195,611)	(653,357)
Total current assets	27,724,404	176,002,900	-	47,260,862	99,589,649	40,723,847	7,181,994	22,423,532	420,907,188
<b>Long-term receivables and other assets</b>									
Other student loan receivables less, current portion and net of allowance for loan loss	-	639,079,069	-	190,646,761	437,848,453	173,223,577	42,040,620	214,166,949	1,697,005,429
Teacher loans receivable, less allowance for teacher loan cancellations and current portion	26,859,474	-	-	-	-	-	-	-	26,859,474
Due from (to) other funds	-	-	-	-	(20,942,464)	-	-	-	(20,942,464)
Total investments and long-term receivables	26,859,474	639,079,069	-	190,646,761	416,905,989	173,223,577	42,040,620	214,166,949	1,702,922,439
Total assets	\$ 54,583,878	\$ 815,081,969	\$ -	\$ 237,907,623	\$ 516,495,638	\$ 213,947,424	\$ 49,222,614	\$ 236,590,481	\$ 2,123,829,627
<b>Liabilities and Net Assets</b>									
<b>Current liabilities</b>									
Current portion of notes payable - finance loans	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,188,245	\$ -	\$ 6,188,245
Current maturities of bonds payable	-	120,491,000	-	40,534,980	68,188,010	33,290,299	-	22,256,147	284,760,436
Interest payable	-	742,220	-	237,552	1,490,817	20,744	-	39,972	2,531,305
Deferred revenue	-	-	-	-	-	-	826,144	-	826,144
Teacher loan liability	1,002,943	-	-	-	-	-	-	-	1,002,943
Due to (from) United States Department of Education	(7)	1,989,283	-	907,002	3,300,716	1,829,292	-	161,690	8,187,976
Total current liabilities	1,002,936	123,222,503	-	41,679,534	72,979,543	35,140,335	7,014,389	22,457,809	303,497,049
<b>Noncurrent liabilities</b>									
Bonds payable less current maturities	-	627,718,872	-	139,052,922	408,342,229	161,031,206	-	145,092,091	1,481,237,320
Due to SC State Education Assistance Authority	-	-	-	-	39,835,008	-	-	-	39,835,008
Notes payable - finance loans, less current maturities	-	-	-	-	-	-	42,290,405	-	42,290,405
Total noncurrent liabilities	-	627,718,872	-	139,052,922	448,177,237	161,031,206	42,290,405	145,092,091	1,563,362,733
Total liabilities	1,002,936	750,941,375	-	180,732,456	521,156,780	196,171,541	49,304,794	167,549,900	1,866,859,782
<b>Net assets</b>									
Temporarily restricted for bond indentures current debt service	-	9,395,110	-	-	-	-	-	-	9,395,110
Temporarily restricted for bond indentures	-	54,745,484	-	57,175,167	(4,661,142)	17,775,883	(82,180)	69,040,581	193,993,793
Temporarily restricted for teacher loans	53,580,942	-	-	-	-	-	-	-	53,580,942
Total net assets	53,580,942	64,140,594	-	57,175,167	(4,661,142)	17,775,883	(82,180)	69,040,581	256,969,845
Total liabilities and net assets	\$ 54,583,878	\$ 815,081,969	\$ -	\$ 237,907,623	\$ 516,495,638	\$ 213,947,424	\$ 49,222,614	\$ 236,590,481	\$ 2,123,829,627

**South Carolina Student Loan Corporation**  
**Consolidated Schedule of Activities By Fund - Unrestricted**  
**For the year ended June 30, 2016**

	<u>Operating/SLC</u>	<u>Campus Partners</u>	<u>PIHI</u>	<u>SC3</u>	<u>Eliminations</u>	<u>Total</u>
<b>Revenue</b>						
Income from United States Department of Education student loan interest - subsidized	\$ 68,720	\$ -	\$ -	\$ -	\$ -	\$ 68,720
Special allowances	(319,381)	-	-	-	-	(319,381)
Student loan interest - non-subsidized	6,269,629	-	-	-	-	6,269,629
Investment income	1,205,117	-	-	-	-	1,205,117
Unrealized gain (loss) on investments	38,859	-	-	-	-	38,859
Late charges	74,323	-	-	-	-	74,323
Miscellaneous payments of student loans	(7,094)	-	-	-	-	(7,094)
Remittance from SC State Education Assistance Authority for operating cost	526,162	-	-	-	-	526,162
Servicing fees	-	-	-	-	-	-
Other	2,141,969	2,965,469	-	210,000	-	5,317,438
Total revenue	<u>9,998,304</u>	<u>2,965,469</u>	<u>-</u>	<u>210,000</u>	<u>-</u>	<u>13,173,773</u>
<b>Expenses</b>						
Personnel	10,102,172	450	-	404,803	-	10,507,425
Contractual services	1,396,816	100,087	-	24,194	-	1,521,097
General operating	1,910,040	3,448,314	500,000	40,427	-	5,898,781
Loan fees	51,128	-	-	-	-	51,128
Reinsurance expense	10,261	-	-	-	-	10,261
Borrower incentives	26,064	-	-	-	-	26,064
Building rental expenses	264,132	11,452	-	-	-	275,584
Loan loss expense	(54,117)	-	-	-	-	(54,117)
Total expenses	<u>13,706,496</u>	<u>3,560,303</u>	<u>500,000</u>	<u>469,424</u>	<u>-</u>	<u>18,236,223</u>
<b>Transfer between accounts</b>						
Transfers in	55,490,429	-	-	-	-	55,490,429
Transfers out	(77,794,460)	-	-	-	-	(77,794,460)
Total transfers between accounts	<u>(22,304,031)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,304,031)</u>
<b>Change in net assets</b>	(26,012,223)	(594,834)	(500,000)	(259,424)	-	(27,366,481)
<b>Net assets (deficits)</b>						
Beginning	353,242,373	36,227	-	-	-	353,278,600
Ending	<u>\$ 327,230,150</u>	<u>\$ (558,607)</u>	<u>\$ (500,000)</u>	<u>\$ (259,424)</u>	<u>\$ -</u>	<u>\$ 325,912,119</u>

**South Carolina Student Loan Corporation**  
**Consolidated Schedule of Activities by Fund - Temporarily Restricted**  
**For the year ended June 30, 2016**

	Teacher Loans	96 Resolution	04 Resolution	08 Resolution	2010-1 Resolution	2013-1 Resolution	Tax Exempt 09 PAL Resolution	2015 Resolution	Total
<b>Revenue</b>									
Income from United States Department of Education									
student loan interest - subsidized	\$ 84	\$ 2,678,296	\$ 9,655	\$ 1,172,289	\$ 3,147,027	\$ 1,261,862	\$ 52,451	\$ 152,166	8,473,830
Special allowances	-	(9,662,156)	(56,934)	(5,309,743)	(16,898,921)	(9,223,436)	(218,678)	(551,537)	(41,921,405)
Student loan interest - non-subsidized	2,753,079	34,578,023	3,467,700	10,288,369	28,423,774	12,838,022	3,389,697	5,630,515	101,369,179
Investment income	204,089	246,493	2,863	42,105	34,501	8,195	-	5,041	543,287
Late charges	52,662	708,219	57,575	328,144	506,278	218,029	51,061	97,089	2,019,057
Gain on tender offer discount	-	-	32,419,500	-	-	-	-	-	32,419,500
Miscellaneous payments of student loans	(150)	(1,354)	(101)	(1,048)	(1,137)	(837)	(225)	(147)	(4,999)
State appropriations - Department of Education	5,901,721	-	-	-	-	-	-	-	5,901,721
Other	(180,103)	-	-	-	-	-	-	-	(180,103)
Total revenue	<u>8,731,382</u>	<u>28,547,521</u>	<u>35,900,258</u>	<u>6,520,116</u>	<u>15,211,522</u>	<u>5,101,835</u>	<u>3,274,306</u>	<u>5,333,127</u>	<u>108,620,067</u>
<b>Expenses</b>									
Personnel	232,695	-	-	-	-	-	-	-	232,695
Contractual services	37,665	-	-	-	-	-	-	-	37,665
General operating	49,090	-	-	-	-	-	-	-	49,090
Interest on debt	-	9,952,181	3,335,072	2,728,284	9,376,118	1,860,391	-	3,357,815	30,609,861
TLP cancellations	5,766,785	-	-	-	-	-	-	-	5,766,785
Payments to SC State Education Assistance									
Authority for student loan income	-	-	-	-	-	-	2,911,633	-	2,911,633
Loan fees	-	5,677,662	37,752	-	2,116,377	76,697	-	150,382	8,058,870
Reinsurance expense	-	369,001	955	105,364	221,503	257,773	6,495	25,002	986,093
Borrower incentives	19,517	2,952,551	100,654	427,947	1,763,805	1,213	131,958	135,644	5,533,289
Broker dealer fees	-	121,664	55,888	17,293	60,879	57,159	-	24,958	337,841
Loan loss expense	-	-	946,906	-	-	-	842,970	2,043,571	3,833,447
Recall of funds	1,339,512	-	-	-	-	-	-	-	1,339,512
Other	-	-	141,173	-	-	-	-	-	141,173
Total expenses	<u>7,445,264</u>	<u>19,073,059</u>	<u>4,618,400</u>	<u>3,278,888</u>	<u>13,538,682</u>	<u>2,253,233</u>	<u>3,893,056</u>	<u>5,737,372</u>	<u>59,837,954</u>
<b>Transfer between accounts</b>									
Transfers in	-	32,504	-	385	7,908	-	-	70,911,994	70,952,791
Transfers out	-	(4,265,389)	(36,972,394)	(1,084,107)	(3,439,970)	(1,419,732)	-	(1,467,168)	(48,648,760)
Total transfers between accounts	<u>-</u>	<u>(4,232,885)</u>	<u>(36,972,394)</u>	<u>(1,083,722)</u>	<u>(3,432,062)</u>	<u>(1,419,732)</u>	<u>-</u>	<u>69,444,826</u>	<u>22,304,031</u>
<b>Change in net assets</b>	1,286,118	5,241,577	(5,690,536)	2,157,506	(1,759,222)	1,428,870	(618,750)	69,040,581	71,086,144
<b>Net assets</b>									
Beginning	52,294,824	58,899,017	5,690,536	55,017,661	(2,901,920)	16,347,013	536,570	-	185,883,701
Ending	<u>\$ 53,580,942</u>	<u>\$ 64,140,594</u>	<u>\$ -</u>	<u>\$ 57,175,167</u>	<u>\$ (4,661,142)</u>	<u>\$ 17,775,883</u>	<u>\$ (82,180)</u>	<u>\$ 69,040,581</u>	<u>\$ 256,969,845</u>

**South Carolina Student Loan Corporation**  
**Consolidated Schedule of Cash Flows By Fund - Unrestricted**  
**For the year ended June 30, 2016**

	Operating/SLC	Campus Partners	PIHI	SC3	Total
Cash Flows from Operating Activities					
Change in net assets	\$ (26,012,223)	\$ (594,834)	\$ (500,000)	\$ (259,424)	\$ (27,366,481)
Adjustments to reconcile change in net assets to net cash used in operating activities					
Depreciation	422,990	-	-	-	422,990
Unrealized gain on investments	(38,859)	-	-	-	(38,859)
Loan loss expense	(54,117)	-	-	-	(54,117)
Changes in operating assets and liabilities					
Decrease in due from SC State Education					
Assistance Authority	364,247	-	-	-	364,247
Decrease in interest due from borrowers	86,141	-	-	-	86,141
(Increase) decrease in accounts receivable	132,800	766,221	56,329	(28,000)	927,350
Decrease in accrued investment income	105,225	2,156	-	-	107,381
Increase in prepaid expenses	(44,788)	-	-	-	(44,788)
Decrease in overfunded defined benefit plan	451,892	-	-	-	451,892
Increase in due to (from) other funds	(56,190)	-	-	-	(56,190)
Decrease in accounts payable	(43,371)	(345,207)	-	-	(388,578)
Decrease in deferred revenue	(1,344,334)	-	-	-	(1,344,334)
Increase in defined contribution plan obligation	3,043	-	-	-	3,043
Increase in defined benefit plan obligation	2,528,939	-	-	-	2,528,939
Increase in compensated absences	184,563	-	-	-	184,563
Decrease in due to US Department of Education	(100,768)	-	(56,329)	56,329	(100,768)
<b>Net cash used in operating activities</b>	<u>(23,414,810)</u>	<u>(171,664)</u>	<u>(500,000)</u>	<u>(231,095)</u>	<u>(24,317,569)</u>
Cash Flows from Investing Activities					
Purchases of property and equipment	(302,042)	-	-	-	(302,042)
Change in student loan receivables, net	3,575,502	-	-	-	3,575,502
Net proceeds (purchases) on investments	(13,416,321)	-	500,000	300,000	(12,616,321)
<b>Net cash provided by (used in) investing activities</b>	<u>(10,142,861)</u>	<u>-</u>	<u>500,000</u>	<u>300,000</u>	<u>(9,342,861)</u>
Cash Flows from Financing Activities					
Change in notes payable - finance loans, net	-	-	-	-	-
<b>Net cash provided by (used in) financing activities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>(33,557,671)</u>	<u>(171,664)</u>	<u>-</u>	<u>68,905</u>	<u>(33,660,430)</u>
Cash and Cash Equivalents					
<b>Beginning</b>	<u>85,759,241</u>	<u>501,788</u>	<u>-</u>	<u>-</u>	<u>86,261,029</u>
<b>Ending</b>	<u>\$ 52,201,570</u>	<u>\$ 330,124</u>	<u>\$ -</u>	<u>\$ 68,905</u>	<u>\$ 52,600,599</u>
Supplemental Disclosure of Cash Flow Information					
Cash payments for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Disposal of fully depreciated property and equipment	<u>\$ 16,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,800</u>

**South Carolina Student Loan Corporation**  
**Consolidated Schedule of Cash Flows By Fund - Temporarily Restricted**  
**For the year ended June 30, 2016**

	Teacher Loans	96 Resolution	04 Resolution	08 Resolution	2010-1 Resolution	2013-1 Resolution	Tax Exempt 09 PAL Resolution	2015 Resolution	Total
<b>Cash Flows from Operating Activities</b>									
Change in net assets	\$ 1,286,118	\$ 5,241,577	\$ (5,690,536)	\$ 2,157,506	\$ (1,759,222)	\$ 1,428,870	\$ (618,750)	\$ 69,040,581	\$ 71,086,144
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities									
Amortization of bond discounts	-	1,392,669	-	-	1,101,960	-	-	-	2,494,629
Amortization of cost for debt issuance	-	-	-	-	-	-	-	-	-
Loan loss expense	-	-	946,906	-	-	-	842,970	2,043,571	3,833,447
Teacher loan cancellations	5,766,785	-	-	-	-	-	-	-	5,766,785
Gain on bonds payable tender offer discount	-	-	(32,419,500)	-	-	-	-	-	(32,419,500)
Changes in operating assets and liabilities									
(Increase) decrease in due from SC State Education Assistance Authority	13,482	(186,143)	186,565	(222,114)	(426,870)	(270,490)	44,456	(156,580)	(1,017,694)
(Increase) decrease in interest due from borrowers	38,256	615,986	2,144,050	512,480	707,406	1,025,088	6,325	(2,123,476)	2,926,115
(Increase) decrease in accrued investment income	26,604	(5,320)	326	(2,161)	(5,749)	(975)	-	-	12,725
Increase in prepaid expenses	-	(5,935)	9,681	(7,500)	6,757	42	-	(11,462)	(8,417)
Increase (decrease) in due to (from) other funds	31,364	(4,500)	(99,913)	(13,929)	(37,351)	(17,376)	2,284	195,611	56,190
Increase (decrease) in interest payable	-	146,375	(272,231)	23,525	201,627	(5,647)	-	39,972	133,621
Increase (decrease) in deferred revenue	-	-	-	-	-	-	(130,184)	-	(130,184)
Increase (decrease) in teacher loan liability	44,703	-	-	-	-	-	-	-	44,703
(Increase) decrease in due to US Department of Education	18	(576,038)	(59,003)	(322,703)	(748,199)	(417,665)	-	161,690	(1,961,900)
Net cash provided by (used in) operating activities	<u>7,207,330</u>	<u>6,618,671</u>	<u>(35,253,655)</u>	<u>2,125,104</u>	<u>(959,641)</u>	<u>1,741,847</u>	<u>147,101</u>	<u>69,189,907</u>	<u>50,816,664</u>
<b>Cash Flows from Investing Activities</b>									
Change in student loan receivables, net	-	96,248,430	223,975,363	37,144,509	67,570,671	32,068,603	5,597,487	(233,027,949)	229,577,114
Change in teacher loan receivables, net	(5,618,670)	-	-	-	-	-	-	-	(5,618,670)
Net cash provided by (used in) investing activities	<u>(5,618,670)</u>	<u>96,248,430</u>	<u>223,975,363</u>	<u>37,144,509</u>	<u>67,570,671</u>	<u>32,068,603</u>	<u>5,597,487</u>	<u>(233,027,949)</u>	<u>223,958,444</u>
<b>Cash Flows from Financing Activities</b>									
Change in notes payable - finance loans, net	-	-	-	-	-	-	(5,742,304)	-	(5,742,304)
Issuance of bonds payable	-	-	-	-	-	-	-	198,400,000	198,400,000
Refunds of bonds payable	-	-	(176,130,500)	-	-	-	-	-	(176,130,500)
Net proceeds (payments) of bonds payable	-	(147,736,862)	(20,725,938)	(40,534,979)	(67,519,890)	(34,546,989)	-	(31,051,762)	(342,116,420)
Net cash provided by (used in) financing activities	<u>-</u>	<u>(147,736,862)</u>	<u>(196,856,438)</u>	<u>(40,534,979)</u>	<u>(67,519,890)</u>	<u>(34,546,989)</u>	<u>(5,742,304)</u>	<u>167,348,238</u>	<u>(325,589,224)</u>
Net increase (decrease) in cash and cash equivalents	1,588,660	(44,869,761)	(8,134,730)	(1,265,366)	(908,860)	(736,539)	2,284	3,510,196	(50,814,116)
<b>Cash and Cash Equivalents</b>									
Beginning	20,822,038	124,121,638	8,134,730	10,466,120	29,237,718	7,394,505	32,343	-	200,209,092
Ending	<u>\$ 22,410,698</u>	<u>\$ 79,251,877</u>	<u>\$ -</u>	<u>\$ 9,200,754</u>	<u>\$ 28,328,858</u>	<u>\$ 6,657,966</u>	<u>\$ 34,627</u>	<u>\$ 3,510,196</u>	<u>\$ 149,394,976</u>
<b>Supplemental disclosure of cash flow information</b>									
Cash payments for interest	\$ -	\$ 7,997,001	\$ 2,783,240	\$ 2,704,758	\$ 7,404,410	\$ 1,771,240	\$ -	\$ -	\$ 22,660,649
Disposal of fully depreciated property and equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**South Carolina Student Loan Corporation**  
**Consolidated Schedule of Property and Equipment**  
**For the year ended June 30, 2016**

	Balance as of <u>June 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	Balance as of <u>June 30, 2016</u>
<b>Cost</b>				
Land	\$ 364,900	\$ -	\$ -	\$ 364,900
Total land	<u>364,900</u>	<u>-</u>	<u>-</u>	<u>364,900</u>
Building	4,358,670	-	-	4,358,670
Total buildings	<u>4,358,670</u>	<u>-</u>	<u>-</u>	<u>4,358,670</u>
Campus Partners furniture and fixtures	50,420	-	-	50,420
SCSLC furniture and fixtures	2,475,870	259,211	(186,181)	2,548,900
SCSLC automobiles	70,215	42,831	-	113,046
Cost total	<u>7,320,075</u>	<u>302,042</u>	<u>(186,181)</u>	<u>7,435,936</u>
<b>Accumulated depreciation</b>				
Building	396,713	111,761	-	508,474
Total buildings	<u>396,713</u>	<u>111,761</u>	<u>-</u>	<u>508,474</u>
Campus Partners furniture and fixtures	50,420	-	-	50,420
SCSLC furniture and fixtures	1,854,993	290,502	(186,181)	1,959,314
SCSLC automobiles	42,315	20,727	-	63,042
Accumulated depreciation total	<u>2,344,441</u>	<u>422,990</u>	<u>(186,181)</u>	<u>2,581,250</u>
Net book value	<u>\$ 4,975,634</u>	<u>\$ (120,948)</u>	<u>\$ -</u>	<u>\$ 4,854,686</u>

## South Carolina Student Loan Corporation

### Consolidated Schedule of Expenses

For the year ended June 30, 2016

	Operating/SLC		Teacher Loan	
	2016	2015	2016	2015
<b>Operating expenses</b>				
Personnel				
Staff salaries	\$ 5,459,626	\$ 5,492,088	\$ 165,187	\$ 153,767
Social security	348,912	360,142	11,172	10,141
Group insurance	615,162	610,940	14,485	14,660
Retirement	3,663,867	1,332,306	41,388	35,662
Unemployment	14,605	22,199	463	630
Total personnel	<u>10,102,172</u>	<u>7,817,675</u>	<u>232,695</u>	<u>214,860</u>
Contractual				
Loan servicing	681,901	558,602	34,372	24,015
Information technology	36,544	98,527	-	-
Legal	453,650	273,092	-	-
Accounting	176,903	178,602	3,293	3,237
Skip tracing	15,058	40,375	-	-
Credit bureau	32,760	33,376	-	-
Total contractual	<u>1,396,816</u>	<u>1,182,574</u>	<u>37,665</u>	<u>27,252</u>
<b>General operating</b>				
Rent	(94,121)	(79,282)	8,760	8,760
Telephone	130,668	131,680	4,461	4,158
Printing	116,022	116,386	1,801	2,386
Postage	662,203	721,982	25,446	19,753
Supplies	52,722	66,827	1,849	1,807
Travel	47,284	40,383	-	-
Equipment maintenance	126,612	134,152	5,093	5,304
Subscriptions and fees	60,421	59,445	-	-
Meeting and conference expenses	102,257	111,500	-	-
Insurance - general and automotive	82,000	90,609	1,680	1,500
Outreach and awareness	13,065	10,871	-	-
Contingencies	7,879	8,733	-	-
Depreciation	422,989	366,409	-	-
Third party collections	130,727	157,090	-	-
Other operating expenses	49,312	102,753	-	-
Total general operating	<u>1,910,040</u>	<u>2,039,538</u>	<u>49,090</u>	<u>43,668</u>
Total operating expenses	<u>13,409,028</u>	<u>11,039,787</u>	<u>319,450</u>	<u>285,780</u>
<b>Capital additions</b>				
Property, equipment, furniture and fixtures	<u>302,042</u>	<u>227,071</u>	<u>-</u>	<u>-</u>
Total operating expenses, employee benefits - related changes and capital additions	<u>\$ 13,711,070</u>	<u>\$ 11,266,858</u>	<u>\$ 319,450</u>	<u>\$ 285,780</u>

# South Carolina Student Loan Corporation

## Schedule of Expenditures of Federal Awards

Year Ended June 30, 2016

<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>\$ 8,542,550</u>
Total U.S. Department of Education Programs (Major program)		<u>\$ 8,542,550</u>

### Notes - CFDA #84.032:

1. Summary of Significant Accounting Policies: This schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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 its fiscal year July 1, 2015, through June 30, 2016.
2. Special Allowances: The USDE now requires lenders to pay the USDE when lenders have negative special allowance. The Corporation paid \$42,240,786 for the year ended June 30, 2016.



**Independent Auditor's Report On Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed In Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the South Carolina Student Loan Corporation (the "Corporation"), as of and for the year ended June 30, 2016, 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 27, 2016.

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive style with a large, sweeping initial 'E'.

Columbia, South Carolina  
September 27, 2016



## **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance**

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

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

We have audited South Carolina Student Loan Corporation's (the "Corporation") compliance with the types of compliance requirement 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, 2016. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

### **Opinion on Each Major Federal Program**

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## 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.

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.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive style with a large, sweeping initial "E".

Columbia, South Carolina  
September 27, 2016

# South Carolina Student Loan Corporation

## Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

### 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  No
- Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over major federal programs:

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

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

Unmodified

Any audit findings disclosed that are required to be

Reported in accordance with Section 2 CFR 200.516(a)?  Yes  No

Identification of major federal programs:

CFDA #

Program / Cluster Name

84.032

Federal Family Education Loan Program

Dollar threshold used to distinguish between  
Type A and Type B programs

\$ 750,000

Auditee qualified as low-risk auditee?  Yes  No

### Section II. Financial Statement Findings

Yes  None reported

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

Yes  None reported