

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

COLUMBIA, SOUTH CAROLINA

FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 1998 AND 1997

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the South Carolina State Education Assistance Authority as of and for the years ended June 30, 1998 and 1997 as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As described in Note 1, the financial statements of the South Carolina State Education Assistance Authority are intended to present the financial position and results of its operations and cash flows of the proprietary fund type of only that portion of the funds of the State of South Carolina attributable to the transactions of the South Carolina State Education Assistance Authority.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina State Education Assistance Authority as of June 30, 1998 and 1997, and the results of its operations and cash flows of its proprietary fund type for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 5, 1998 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

As described in Note 14 to the financial statements, on July 1, 1997 the Authority changed its method of accounting for investments to adopt Governmental Accounting Standards Board (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

To the Members of the Authority
South Carolina State Education Assistance Authority
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Our audits were performed for the purpose of forming an opinion on the financial statements of the South Carolina State Education Assistance Authority taken as a whole. The accompanying supplementary information in Schedules 1 through 5 is presented for the purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

September 5, 1998

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

1. Summary of Significant Accounting Policies:

1.1 Reporting Entity:

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. Accordingly, the financial reporting entity includes both the Authority (a primary entity) and all of its component units. However, based on the application of the following criteria, the Authority has determined it has no component units.

The primary entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determine its budget without another government's having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

In June 1991, the Governmental Accounting Standards Board (GASB) issued Statement No. 14, The Financial Reporting Entity. The Authority implemented the statement in 1994.

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

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITYNOTES TO FINANCIAL STATEMENTSYEARS ENDED JUNE 30, 1998 AND 19971. Summary of Significant Accounting Policies (Continued):1.1 Reporting Entity (Continued):

Ways and Means Committee. The accompanying financial statements conform to generally accepted accounting principles as applicable to governments.

The financial statements of the reporting entity present the financial position, results of operations and cash flows solely of the Authority and do not include any component units, organizations, or other funds of the State of South Carolina.

The Authority is considered to be part of the State of South Carolina (the primary government) because of the common Board and its financial accountability over the Authority. The funds of the Authority are included in the Comprehensive Annual Financial Report of the State of South Carolina.

The Authority has been authorized by the State of South Carolina to issue revenue bonds for the purpose of making student loans. The Authority has approved South Carolina Student Loan Corporation (SCSLC) as an eligible lender under its program and has designated it as the private, non-profit agency to administer these loans. It is the duty of SCSLC to process applications, make student loans and collect principal, interest, fees and penalties on such loans. Loans may or may not be subsidized. Interest is paid on subsidized loans during the enrolled, grace, and deferred periods by the U.S. Department of Education. Upon entering the repayment period, the interest is paid by the borrower. Also, the U.S. Department of Education pays SCSLC a special allowance which is based on a variable percentage of the unpaid principal of the loans. This income is a reimbursement to help offset administrative expenses and payments of bonds. SCSLC remits this income along with the principal and interest collected on loans to the Authority as it is received.

The operations of the Authority are administered by employees of SCSLC. The Authority reimburses SCSLC upon request for the actual operating costs and expenses (personnel, contractual and general operating) plus reasonable capital equipment purchases incurred in the administration of the program in accordance with a previously approved budget. All fixed assets used jointly with SCSLC are owned by SCSLC and are recorded on SCSLC's books. All leases are in the name of SCSLC and the Authority pays its pro rata share based on space occupied, equipment usage, and loan servicing costs.

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

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

1. Summary of Significant Accounting Policies (Continued):

1.2 Fund Accounting:

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operation of each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenses.

Government resources are allocated to and are accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into two categories: governmental and proprietary. Each category is divided into separate fund types.

Governmental Fund Type:

Governmental Funds are those through which most governmental functions of the Authority are financed. The acquisition, use and balances of the Authority's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The Special Revenue Fund is the Authority's only Governmental Fund Type and is used to account for the proceeds of special revenue sources that are legally restricted to expenditures for specified purposes, specifically, the disbursement of teacher scholarships.

Proprietary Fund Type:

The Enterprise Fund is the Authority's only Proprietary Fund Type. The Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Authority's Enterprise Fund reports the activities to fulfill the entity's authorized purpose of issuing revenue bonds to finance student loans which are handled by South Carolina Student Loan Corporation. The Authority's Enterprise Fund is composed of the sinking, debt reserve, loan, and the loan guarantee reserve account. These accounts, except for the loan guarantee reserve account and certain portions of the loan account, constitute pledged income for the liquidation of outstanding bonds after transfers for operations. Retained Earnings is an equity account reflecting accumulated earnings of an enterprise fund and reserves are established

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITYNOTES TO FINANCIAL STATEMENTSYEARS ENDED JUNE 30, 1998 AND 19971. Summary of Significant Accounting Policies (Continued):1.2 Fund Accounting (Continued):Proprietary Fund Type (Continued):

to segregate a portion of that equity in accordance with legal or contractual provisions. The Authority reports retained earnings reserved for current debt service as the accrued interest plus ten months of the outstanding bond principal due as of year end as required by the bond indentures (see Note 7). Under the 1979 Bond Resolution, reserved for bond indentures represents net assets for future debt service and includes ten percent of the original bond principal for any issues that remain outstanding, three percent of the outstanding bond principal balance and principal and interest collected on student loans not yet required to meet current debt service. Under the 1993 Bond Resolution, reserved for bond indentures represents net assets for future debt service and includes six months interest to become due on the principal amount or three percent of the outstanding bond principal as specified under each bond series plus principal and interest collected on student loans not yet required to meet current debt service or used to make student loans. Under both bond resolutions, the reserved for bond indentures also includes one to four months projected operating expenses and any unamortized costs of issuances. The unreserved is the residual equity not legally reserved for bond indentures.

The sinking account is used to deposit the proceeds from the sale of bonds and collections on loans including federal interest and other resources so designated, such as gifts, grants, appropriations and income from SCSLC which, as lender, bills the Department of Education directly. All investment income on investments in the debt reserve part of the sinking fund is recorded in the sinking fund as required by the bond indentures. The sinking account is used to make transfers to the debt reserve and loan accounts. While this account may experience a deficit balance, this is not a violation of the bond indentures. The total Enterprise Fund has a positive balance.

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

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

1. Summary of Significant Accounting Policies (Continued):

1.2 Fund Accounting (Continued):

Proprietary Fund Type (Continued):

The loan account is used to deposit bond proceeds which are transferred from the sinking account for the purpose of making loans and paying the cost of issuance of bonds. Other transfers from the sinking account are deposited into the loan account to reimburse monies which have been transferred to SCSLC for operations and capital equipment purchases. The loan account also includes an amount equal to one-third of the insurance premiums withheld from borrowers on guaranteed loans deposited in the loan account to meet the expenses of the Authority as guarantor and reimburse SCSLC for preclaims assistance and collection expenses incurred on behalf of the Authority. The loan account also is used to deposit Administrative Cost Allowance, Supplemental Preclaims Assistance Income and Retention on Default Collections which are billed by the Authority directly to the Department of Education for services it performs in its role as guarantor and is used to offset administrative expenses. The administrative cost allowance is based on new loans approved during the year. Supplemental preclaims assistance is based on the number of accounts which do not default. The Authority recognizes income related to a specified portion (27% in 1998 and 1997) of collections adjusted for certain items made on behalf of the Federal government on defaulted loans. The remaining balance of collections is remitted to the Federal government. The total cumulative value at June 30, 1998 and 1997 of all defaulted student loans purchased by the Authority is \$ 49,647,028 and \$ 38,004,620, respectively. The Authority records the purchased defaulted loans as assets, but only recognizes its portion of the share of any recoveries in the year of collection. How the reserved for bond indentures and the unreserved is determined is described in the first paragraph of this note.

The loan guarantee reserve account was established through an agreement with the U.S. Secretary of Education under the Higher Education Act of 1965 for coverage of its student loan insurance program. This account is used to account for monies received from income on investments and two-thirds of the insurance premiums withheld from borrowers. Funds are used to make the insurance reimbursements to the lender on defaulted student loans and loans which have been discharged due to the death, disability or bankruptcy of the borrower. Upon payment to lenders, these funds are then reimbursed to the loan guarantee reserve account by the U.S. Department of Education at a percentage determined by the Authority's default rate. Payments to lenders for defaulted loans are recorded as Federal Reinsurance Receivables. Reimbursement by the U.S. Department of Education reduces the Federal Reinsurance Receivable. The Authority has always received the maximum reimbursement allowable under the Supplemental Guarantee Agreement and does not anticipate falling below this level. In accordance with the agreement with the U.S. Department of Education the equity in this account must be used for future loan guarantees.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITYNOTES TO FINANCIAL STATEMENTSYEARS ENDED JUNE 30, 1998 AND 19971. Summary of Significant Accounting Policies (Continued):1.3 Basis of Accounting:

The modified accrual basis of accounting is used by the governmental fund. Under the modified accrual basis of accounting, revenue is recorded when susceptible to accrual, i.e., is both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Federal grants and the earnings on the deposited federal funds are recorded as revenue when the related scholarships are awarded and the balance of federal dollars not yet awarded are reported as deferred revenue. Expenditures are recorded when the liability is incurred.

The accrual basis of accounting is used for the proprietary fund. Under the accrual basis of accounting, revenue is recognized when earned, and expenses are recorded when incurred. Investment income is recorded at stated interest dates with no amortization of premiums or discounts. Net increase (decrease) in the fair value of investments include unrealized and realized gains and losses. Bond payable premiums and discounts are amortized over the life of the bonds and netted against interest expense.

The Authority applies all Government Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, when not in conflict with GASB pronouncements. In accordance with GASB Statement 20, the Authority has elected not to implement FASB Statements 103 and after.

1.4 Budget and Budgetary Accounting:

All revenue and expenditures for the Special Revenue Fund are budgeted in accordance with generally accepted accounting principles. As a result, no changes are necessary in presenting a comparison of budget and actual expenditures in the Statements of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual - All Budgeted Funds. Certain expenses for the Enterprise Fund are budgeted as a management control device. However, the cost of issuing bonds, SCSLC expenses, interest expense, reinsurance and other fees and revenue are not budgeted. Generally accepted accounting principles do not require a comparison of budget to actual expenses for the Enterprise Fund.

These budgets are approved by the SCSLC Board and the State Treasurer and are not adopted by the Legislature or printed in the Appropriations Act. The Authority is subject to State laws and regulations.

Expenditures in excess of the budgeted amounts are not in violation of State laws. However, these are approved by the Board.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITYNOTES TO FINANCIAL STATEMENTSYEARS ENDED JUNE 30, 1998 AND 19971. Summary of Significant Accounting Policies (Continued):1.5 Total Columns on the Combined Statements:

Total columns on the Combined Balance Sheets are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles.

1.6 Compensated Absences:

Depending on length of employment, employees earn annual vacation at the rate of ten (10) to twenty (20) days per year. Employees are encouraged to use all annual vacation earned in a given year and expected to use at least one week (5 consecutive days) each year. An employee may not carry forward more than five (5) vacation days to the next year without the supervisor's permission. Earned, but unused, annual vacation will be paid when an employee terminates employment except when this termination is involuntary or inadequate notice is given. Sick leave is earned at the rate of 7 to 10 days per year depending on length of employment. An employee may not carry forward more than sixty (60) sick days to the next year without the supervisor's approval. Employees are not paid for earned, but unused, sick days upon termination of employment. The Authority calculates the gross compensated absences liability based on recorded balances of unused vacation leave, compensatory holiday, and overtime leave for those specific SCSLC employees who administer Authority operations. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the enterprise fund loan account. The net change in the liability is recorded in the current year in the personnel expenses.

1.7 Use of Estimates:

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

1.8 Cash and Cash Equivalents:

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash, cash on deposit in banks, cash on hand with the State Treasurer, cash invested in various instruments by the State Treasurer as part of the State's cash management pool and specific investments by the State Treasurer and a local bank.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITYNOTES TO FINANCIAL STATEMENTSYEARS ENDED JUNE 30, 1998 AND 19971. Summary of Significant Accounting Policies (Continued):1.8 Cash and Cash Equivalents (Continued):

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

The State's cash management pool consists of a general deposit account and several special deposit accounts. Investments in the pool are recorded at fair value. Interest earned by the agency's special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool.

Although the cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 2.

1.9 Amortization of Deferred Cost of Issuance of Bonds and Bond Premiums and Discounts:

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

1.10 Deferred Amount of Debt Refunding:

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

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITYNOTES TO FINANCIAL STATEMENTSYEARS ENDED JUNE 30, 1998 AND 19971. Summary of Significant Accounting Policies (Continued):1.11 Risk Management:

The Authority pays insurance premiums to certain other State agencies to cover risks that may occur in normal operations. Several State funds accumulate assets and the State itself assumes all risks for claims of State employees for unemployment compensation benefits. In addition, the Authority pays premiums to the State's Insurance Reserve Fund which accumulates assets to cover general tort claims.

Premiums for worker's compensation, health insurance, property insurance, group life and fidelity bonds are paid to private insurance carriers and the Authority's coverage is subject to the limits of these policies. The expense for these items are charged to the enterprise fund.

1.12 Deferred Compensation Agreement:

The Authority offers its employees a voluntary deferred compensation plan structured and operated in accordance with provisions of Internal Revenue Code Section 403(b). The plan is administered by the Teachers Insurance and Annuity Association and the Authority makes no contributions on behalf of the participants. The Authority's liability is limited to remitting amounts deferred and withheld from the employees wages to the plan administrator.

2. Deposits and Investments:

2.1 All deposits and investments of the Authority are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain of the Authority's deposits and investments are deposited with or managed by the Bank of New York with the approval of the State Treasurer's Office.

2.2 Deposits:

The Authority keeps certain monies in a pooled Composite Reservoir account and records each account's equity in the pool. The accounts classified as "Deposits Underinvested (Overinvested)" in the financial statements include such deposits on which income earned is apportioned based on each account of the Enterprise Fund's pro rata equity in the pool. "Deposits Underinvested (Overinvested)" represents a temporary situation in which investments in the various Enterprise Fund accounts exceed cash available for investment. At June 30, 1998 and 1997, the Authority's carrying amount of deposits and the bank balances were \$ 938,579 and \$ 602,572, respectively. The bank balances were covered by federal depository insurance or by collateral held by the Authority's agent in the Authority's name.

State law requires full collateralization of all State Treasurer balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1998 and 1997, all State Treasurer balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

At June 30, 1998 and 1997, Wachovia Bank of South Carolina carried a bank balance at \$ 48,859 and \$ 91,534, respectively, of unspent federal grants for the Authority. These accounts are covered by FDIC insurance. At June 30, 1998 and 1997, all State Treasurer

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

2. Deposits and Investments (Continued):

2.2 Deposits (Continued):

balances were fully insured or collateralized with securities. Except for this bank account and the underinvested monies on deposit with the Bank of New York, all of the Authority's deposits are handled by the State Treasurer. The deposits underinvested (overinvested) are cash on deposit at the Bank of New York being held until invested. For these deposits, the carrying amount and bank balance are the same at fiscal years ended June 30, 1998 and 1997. At June 30, 1998 and 1997, all amounts on deposits with the Bank of New York were fully insured or collateralized with securities held by the State or by its agent in the State's name.

2.3 Investments:

The accounts classified as "Investments" in the financial statements comprise monies held for the Authority which are legally restricted.

Investments are valued at fair value based on quoted market costs when available or otherwise at the amount at which the instrument could be exchanged in a current transaction. The value of the Authority's investment in the State Treasurer's cash management pool is determined based on the fair value of the pool's underlying portfolio. No investments are valued at amortized cost. The cost and fair value of investments for the sinking and debt reserve accounts were separately stated at June 30, 1997. The cost and fair value of investments held for the various accounts of the Authority were as follows at June 30, 1998 and 1997:

	1998		1997	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
<u>Loan Account Investments - Bank of New York:</u>				
U.S. Treasury Notes	\$ 1,290,700	\$ 1,290,700	\$ 50,000	\$ 50,000
Bank Repurchase Agreements	63,304,224	63,304,224	12,339,509	12,339,509
U.S. Agency Bonds	9,197,025	9,369,633		
Total	<u>\$ 73,791,949</u>	<u>\$ 73,964,557</u>	<u>\$ 12,389,509</u>	<u>\$ 12,389,509</u>
<u>Loan Account Investments - State Treasurer:</u>				
State Treasurer Cash Management Pool	<u>\$ 12,799,504</u>	<u>\$ 13,235,385</u>	<u>\$ 10,146,324</u>	<u>\$ 10,146,324</u>
Total Loan Account Investments	<u>\$ 86,591,453</u>	<u>\$ 87,199,942</u>	<u>\$ 22,535,833</u>	<u>\$ 22,535,833</u>
<u>Sinking Account Investments - Bank of New York:</u>				
U.S. Treasury Notes	\$	\$	\$ 2,187,613	\$ 2,187,613
U.S. Agency Notes	5,803	5,803	233,385	233,385
Bank Repurchase Agreements	<u>5,464,847</u>	<u>5,464,847</u>	<u>11,056,140</u>	<u>11,056,140</u>
Total	<u>\$ 5,470,650</u>	<u>\$ 5,470,650</u>	<u>\$ 13,477,138</u>	<u>\$ 13,477,138</u>
<u>Sinking Account Investments - State Treasurer:</u>				
State Treasurer Cash Management Pool	<u>\$ 11,000,191</u>	<u>\$ 11,367,105</u>	<u>\$ 7,856,159</u>	<u>\$ 7,856,159</u>
Total Sinking Account Investments	<u>\$ 16,470,844</u>	<u>\$ 16,837,755</u>	<u>\$ 21,333,297</u>	<u>\$ 21,333,297</u>
<u>Debt Reserve Accounts Investments -</u>				
<u>Bank of New York:</u>				
U.S. Treasury Notes	\$ 9,582,401	\$ 9,727,315	\$ 8,486,655	\$ 8,481,222
U.S. Agency Notes	11,696,799	11,949,636	55,668,763	56,112,758
Bank Repurchase Agreements	<u>12,145,028</u>	<u>12,145,028</u>	<u>13,366,775</u>	<u>13,366,775</u>
Total Debt Reserve Investments	<u>\$ 33,424,228</u>	<u>\$ 33,821,979</u>	<u>\$ 77,522,193</u>	<u>\$ 77,960,755</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

2. Deposits and Investments (Continued):2.3 Investments (Continued):

	1998		1997	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
<u>Loan Guarantee Reserve Account Investments -</u>				
<u>Bank of New York:</u>				
U.S. Treasury Notes	\$ 1,437,863	\$ 1,442,030	\$	\$
Bank Repurchase Agreements	2,671	2,671		
Total	\$ <u>1,440,534</u>	\$ <u>1,444,701</u>	\$ -	\$ -
<u>Loan Guarantee Reserve Account</u>				
<u>Investments - State Treasurer:</u>				
State Treasurer Cash Management Pool	\$ <u>4,150,995</u>	\$ <u>4,284,926</u>	\$ <u>5,209,334</u>	\$ <u>5,209,334</u>
Total Loan Guarantee Investments	\$ <u>5,591,529</u>	\$ <u>5,729,627</u>	\$ <u>5,209,334</u>	\$ <u>5,209,334</u>
 Grand Totals	 \$ <u>142,078,054</u>	 \$ <u>143,589,303</u>	 \$ <u>126,600,657</u>	 \$ <u>127,039,219</u>
Allocated As:				
Cash Equivalents - Investments	\$ 102,037,048	\$ 103,009,474	\$ 46,797,848	\$ 46,874,591
Investments	6,616,779	6,757,851	2,280,615	2,280,615
Restricted:				
Cash Equivalents - Investments	19,680,299	19,650,838	50,379,620	50,302,877
Investments	<u>13,743,928</u>	<u>14,171,140</u>	<u>27,142,574</u>	<u>27,581,136</u>
Total	\$ <u>142,078,054</u>	\$ <u>143,589,303</u>	\$ <u>126,600,657</u>	\$ <u>127,039,219</u>

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

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

The investments at Bank of New York are categorized to give an indication of the level of the custodial credit risk assumed by the Authority at June 30, 1998 and 1997. Custodial credit risk is the risk that the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counter party to the investment transaction fails. Category 1 includes investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Authority's name. All investments at Bank of New York are Category 1 type investments.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

2. Deposits and Investments (Continued):

2.3 Investments (Continued):

Due to higher cash flows at certain times, the Authority's investments in repurchase agreements, U. S. Treasury Bonds and Notes fluctuated. The maximum amounts held in repurchase agreements during the years ending June 30, 1998 and 1997 were \$ 80,916,769 and \$ 55,902,147, respectively. The maximum amounts of U.S. Treasury Bonds held during the years ending June 30, 1998 and 1997 were \$ 56,346,143 and \$ 56,346,143, respectively. The maximum amounts of U. S. Treasury notes held during the years ending June 30, 1998 and 1997 were \$ 19,018,015 and \$ 10,918,835, respectively. The investment types listed above included all investment types in which monies were held throughout the fiscal years ended June 30, 1998 and 1997.

3. Student Loans and Federal Reinsurance of Student Loans:

In 1998 and 1997, these loans bear interest at a fixed rate of 7% to 12% or a variable rate of the annual T-Bill plus 2.5% to 3.5% and are repayable over a period of five (5) to ten (10) years with a minimum payment of \$ 360 or \$ 600 per year. Repayment of principal is scheduled to begin six (6) to ten (10) months after the student graduates or ceases to be enrolled on at least a half-time basis in an eligible institution.

Loans disbursed through the 1977-78 academic year are insured against death, disability and default by the U.S. Department of Education pursuant to Title IV, Part B of the Higher Education Act of 1965 under the Federal Insured Student Loan (FISL) Program. These FISL loans were made by the Authority before the Authority became a guarantor under the Guaranteed Student Loan Program. The Authority is the lender of record on these FISL loans and therefore these loans appear on the Authority's financial statements. No FISL loans have been made since 1978 and none will be made in the future.

Loans disbursed for the 1978-79 Academic year and subsequent years appear on SCSLC's financial statements. These loans are guaranteed by the Authority and reinsured by the U.S. Department of Education. (See Note 11). Loan recipients pay an amount equal to one-half of 1% of the principal amount of the loan as an insurance premium. Two-thirds of these premiums are deposited to the Loan Guarantee Reserve account to remedy defaults on guaranteed student loans. Since the Authority entered into a Supplemental Guarantee Agreement with the U.S. Department of Education in 1978, under which the Federal government reinsures the Authority for amounts paid in connection with defaulted loans, the Authority has received cumulative payments to date of \$ 48,033,530 and \$ 36,970,587 as of June 30, 1998 and 1997, respectively, of federal reinsurance. The percentage of the defaulted claims to be reimbursed by the federal government is dependent upon the Authority's default rate experience, as follows:

<u>Annual default rate</u>	<u>Federal reinsurance rate for loans made prior to October 1, 1993</u>	<u>Federal reinsurance rate for loans made on or after October 1, 1993</u>
0% to 5%	100% of claims	98% of claims
More than 5% to 9%	100% of claims up to 5% and 90% of the remainder	98% of claims up to 5% and 88% of the remainder
Over 9%	100% of claims up to 5%, 90% of claims over 5% and up to 9%, and 80% of the remainder	98% of claims up to 5%, 88% of claims over 5% and up to 9%, and 78% of the remainder

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

3. Student Loans and Federal Reinsurance of Student Loans (Continued):

The calculation of the default rate is based upon the claims paid in a given year as of the Federal government's fiscal year ending September 30 to the total loans in collection on the previous October 1. Based upon data maintained by the Authority, the default rate in the period ended September 30, 1997 and 1996 was approximately .94% and .84%, respectively. The Authority expects the default rate to remain about 1%.

4. Note Receivable Finance Loans:

The September 18, 1979 bond issue requires that all funds advanced to SCSLC by the Authority for the purpose of making student loans be evidenced by a note between the two parties. This note was set up on September 18, 1979 in the amount of the outstanding guaranteed student loans as of that date (\$ 3,970,167). The note is increased by all advances for the purpose of making loans and decreased by all student loan principal payments which are returned to the Authority. At June 30, 1998, the note totaled \$ 327,340,113 compared with \$ 354,738,567 last year.

5. Amounts Due from/to SCSLC:

The \$ 6,128,847 and \$ 6,993,856 at June 30, 1998 and 1997, respectively, amount due from SCSLC represents funds due for income earned, but not yet received, from the U.S. Department of Education and borrowers thus not remitted to the Authority. The Authority also owes the SCSLC for funds collected on their behalf of \$ 5,985,096 and \$ 3,062,248 at June 30, 1998 and 1997, respectively. Funds collected on behalf of the SCSLC are required to be paid to the SCSLC by the tenth of each month.

6. Reserved for Loan Guarantees:

As an incentive for the states to set up state guarantee agencies, the U.S. Department of Education has made certain funds available to the states to assist in establishing a loan guarantee account. Maintenance of the loan guarantee account will depend upon possible further Federal and State advances, investment income, insurance premium on student loans, retention of default collections, administrative cost allowance, supplemental preclaims assistance income and reinsurance payments from the U.S. Department of Education. The U.S. Department of Education reserved the right to request repayment of advances under the Advance Agreement within such period as it deemed appropriate in light of the maturity and solvency of the Authority's loan guarantee account. As of June 30, 1998 and 1997, the Authority has reimbursed all such advances to the U.S. Department of Education that they have requested.

The 1993 Amendments to the Higher Education Act, Section 422 of the Higher Education Act of 1965, as amended, provides that the loan guarantee account of all guaranty agencies under the Act shall be considered the property of the United States to be used in connection with the Federal Family Education Loan Programs and Consolidation Loan Programs under Parts B and C of Title IV of the Act. The Act further provides that the Secretary may direct a guaranty agency to return to the Secretary a portion of its loan guarantee account which the Secretary determines is unnecessary to pay the program expenses and contingent liabilities of the guaranty agency. (See Note 13).

At June 30, 1998 and 1997, the portion of unreserved retained earnings designated for loan guarantees and expenses of the Authority as required by the U. S. Department of Education under the Higher Education Act of 1965 is as follows:

	<u>1998</u>	<u>1997</u>
Loan Guarantees	\$ 20,657,213	\$ 13,524,462
Unreserved	<u>750,503</u>	<u>585,590</u>
	\$ <u>21,407,716</u>	\$ <u>13,910,052</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

7. Bonds Payable and Restricted Assets:

The Authority issues Insured Student Loan Revenue Bonds as needed to finance student loans. These bonds are secured by loans funded by bond proceeds, related revenue from such loans, earnings on investments in related accounts and by a debt service reserve funded from bond proceeds. The bond resolutions permit the Authority to accumulate borrowers' payments during the year to pay principal and interest on bonds as due. The bonds do not constitute a debt, liability or obligation of the State of South Carolina or a pledge of the faith and credit of the State of South Carolina. The current debt service account must contain assets equal to the accrued interest payable plus ten months of the outstanding bond principal due as of year-end as required in the bond indentures. As of June 30, 1998 and 1997, the Authority was required to have assets deposited in the current debt service account of \$ 6,570,062 and \$ 33,656,237. The Authority has more on deposit in investments recorded in the Debt Reserve Account than the current debt service requirement in 1998 and 1997. The balance of restricted investments in the debt reserve account (\$ 33,821,578 in 1998 and \$ 77,538,890 in 1997) will be used to pay future debt service.

The insured Student Loan Revenue bonds as of June 30, 1998 and 1997 follow:

<u>Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Outstanding 6/30/96</u>	<u>Issued (Retired) During FY 97</u>	<u>Balance Outstanding 6/30/97</u>	<u>Issued (Retired) During FY 98</u>	<u>Balance Outstanding 6/30/98</u>
11/01/88	70,855,000	6.00-7.40%	9/1/89-2003	\$ 13,425,000	\$(4,775,000)	\$ 8,650,000	\$(8,650,000)	\$
06/01/89	47,220,000	6.60-7.10%	9/1/90-2003	23,500,000	(6,400,000)	17,100,000	(17,100,000)	
12/01/90	48,400,000	6.60-7.13%	9/1/93-2005	41,085,000	(4,700,000)	36,385,000	(14,850,000)	21,535,000
09/01/91	46,990,000	5.50-6.50%	9/1/94-2004	41,000,000	(4,000,000)	37,000,000	(10,500,000)	26,500,000
05/01/92	62,280,000	4.75-6.63%	9/1/94-2006	57,600,000	(4,195,000)	53,405,000	(11,110,000)	42,295,000
08/15/93	99,495,000	3.5-5.55%	9/1/97-2008	99,495,000	(940,000)	98,555,000	(14,430,000)	84,125,000
08/15/94	86,845,000	4.75-6.3%	9/1/96-2008	86,845,000	(4,385,000)	82,460,000	(1,525,000)	80,935,000
08/15/95	62,055,000	5.00-6.00%	9/1/96-2015	62,055,000		62,055,000		62,055,000
06/16/98	49,850,000	3.69%	3/1/06-2033				<u>49,850,000</u>	<u>49,850,000</u>
				\$ <u>425,005,000</u>	\$(<u>29,395,000</u>)	\$ <u>395,610,000</u>	\$(<u>28,315,000</u>)	\$ <u>367,295,000</u>

The 1994, 1995 and 1998 bond issues include auction rate bonds totaling \$ 131,800,000. The interest rate on these bonds varies every thirty-five days depending on auction rate bond investors. The effective interest rates for both 1998 and 1997 fiscal years has been approximately 4%. The maximum interest rate is 12%.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

7. Bonds Payable and Restricted Assets (Continued):

The annual requirements to retire these bonds as of June 30, 1998 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
1999	\$ 1,270,000	\$ 15,525,514	\$ 16,795,514
2000	39,570,000	16,790,841	56,360,841
2001	30,200,000	15,000,686	45,200,686
2002	27,030,000	13,437,742	40,467,742
2003	26,935,000	11,937,295	38,872,295
2004	19,005,000	10,816,200	29,821,200
2005	19,995,000	9,704,067	29,699,067
2006	50,335,000	7,627,314	57,962,314
2007	16,920,000	6,051,660	22,971,660
2008	15,915,000	5,236,042	21,151,042
2009	26,570,000	4,082,709	30,652,709
2010	8,050,000	3,634,667	11,684,667
2011		3,420,000	3,420,000
2012		3,420,000	3,420,000
2013		3,420,000	3,420,000
2014		3,420,000	3,420,000
2015	52,050,000	1,685,000	53,735,000
2016	29,900,000	341,333	30,241,333
2017		142,000	142,000
2018		142,000	142,000
2019		142,000	142,000
2020		142,000	142,000
2021		142,000	142,000
2022		142,000	142,000
2023		142,000	142,000
2024		142,000	142,000
2025		142,000	142,000
2026		142,000	142,000
2027		142,000	142,000
2028		142,000	142,000
2029		142,000	142,000
2030		142,000	142,000
2031		142,000	142,000
2032		142,000	142,000
2033	<u>3,550,000</u>	<u>94,667</u>	<u>3,644,667</u>
Total	\$ <u>367,295,000</u>	\$ <u>137,917,737</u>	\$ <u>505,212,737</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1998 AND 1997

7. Bonds Payable and Restricted Assets (Continued):

On June 16, 1998, the Authority issued \$ 49,850,000 in Guaranteed Student Loan Revenue and Refunding Bonds with an auction interest rate varying up to 12.0 percent to advance refund \$ 46,300,000 of outstanding 1998, 1989, 1990, 1991, 1992 and 1993 Bonds with an average interest rate of 6.0 percent and to provide financing for student loans. The net proceeds of \$ 46,300,000 after payment of \$ 3,500,000 for a bond premium, underwriting fees, insurance and other issuance costs were used to purchase U.S. Government securities and they were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments. As a result, these bonds are considered to be defeased and the liability for these bonds has been removed from bonds payable. On June 30, 1998, \$ 46,300,000 of bonds outstanding are considered defeased. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$ 512,059. This difference is composed of the call premium of \$ 268,000 and the amount of unamortized issue costs of \$ 244,059 and is reported in the accompanying financial statements as a deduction from bonds payable and is being charged to interest expense through the year 2002 amortized using the straight line basis over the remaining life of the old debt. The Authority completed the advance refunding to have bonds under the 1993 bond resolution instead of 1979 bond resolution. The refunding increases its total debt payments by \$ 11,351,925 over the next nineteen years and obtains an economic gain (difference between the present values of the old and new debt service payments) of \$ 779,415. The deferred amount of debt refunding at June 30, 1998 and 1997 is \$ 599,652 and \$ 162,673, respectively. The amount of the unamortized bond premium and discounts at June 30, 1998 and 1997 is \$ 3,454,658 and \$ 3,532,070, respectively.

8. Special Revenue Fund:

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

For the fiscal year ended June 30, 1995 and prior years, the SCSLC reimbursed the Authority for all administrative costs of the program. No expenditures were reported for fiscal year ended June 30, 1997. During the fiscal years ended June 30, 1998 and 1997, the funds' deposits increased by \$ 46,027 and \$ 33,647, respectively, from repayments by participants and for \$ 600 and \$ 550, respectively, for interest receipts. The Authority expended \$ 137,562 for repayment to the Federal Government during the year ended June 30, 1998 due to suspension of the program.

9. Related Party Transactions:

The Authority has significant transactions with the State of South Carolina and SCSLC.

Services received at no cost from State Agencies include maintenance of certain accounting records from the Comptroller General, investment and banking functions from the State Treasurer, legal services from the Attorney General, and grants services from the Governor's office.

The Authority paid the University of South Carolina \$ 128,447 and \$ 92,554 for the years ended June 30, 1998 and 1997, respectively, for data processing services and the expense is recorded as contractual expenses.

See Note 1.1 re transactions with SCSLC.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

10. Employee Benefit Plans:

- 10.1 The Authority provides retirement benefits through the South Carolina Student Loan Corporation Money Purchase Pension Plan for all employees who have completed one year of service and attained age 21. SCSLC has adopted the Wachovia Bank of South Carolina Money Purchase Pension Plan. Wachovia Bank of South Carolina is the Trustee of the Plan. This is a defined contribution plan in which the employer is required to contribute 5.6% of the participant's total annual compensation plus 5.6% of compensation exceeding \$ 13,080. Contributions are paid monthly. A participant is 20% vested after three years service and 100% vested after seven years. A participant receives normal retirement at age sixty-five. At termination of employment or reaching normal retirement age, the participant has the right to elect to receive all or any portion of his vested benefit derived from employer contributions. Voluntary contributions are not permitted. Under the plan, the portion of an employee's account that has not vested when an employee terminates, called forfeitures, reduces the employer's contribution in the year following the Plan year in which the forfeiture occurs. The total pension expense is fully funded and is included in personnel expenses under the retirement category. The only change made in the plan during the years ended June 30, 1998 and 1997 was to raise the contribution threshold from \$ 12,540 to \$ 13,080. Pension expense, total salary and covered salary is as follows:

	<u>1998</u>	<u>1997</u>
Total Salary	\$ 864,587	\$ 817,513
Total Covered Salary	618,264	651,473
Pension Expense (Actual and Required)	55,109	47,507
Percent Pension Expense to Covered Salary	8.91%	7.29%

- 10.2 In 1988, SCSLC adopted a proposal to provide a supplemental retirement plan for its Vice Presidents, the President and the Executive Vice President. Life insurance policies were bought by the Corporation on each of the participants. The Corporation is still in the process of working with their attorneys to adopt a formal retirement plan. A portion of the net cost of the premiums on the life insurance policies is charged to the Authority each year. The expense is decreased by the increase in cash surrender value of life insurance. Total covered salaries of the participants were \$ 162,275 and \$ 150,787 and no expenses for the Authority were paid for 1998 and 1997. The expense, if any, is included under the personnel expense category. Amounts for employer contributions are presently estimated by the Plan Administrators because the Plan has not been finalized. Contributions will be refunded to the Authority if the Plan is not formally adopted.
- 10.3 Certain health care, dental, long-term disability and life insurance benefits are provided to active employees by various private insurers. All full-time and part-time employees who worked at least 32 hours per week are eligible to receive these benefits. Employer contributions applicable to those benefits were \$ 187,801 and \$ 142,616 in 1998 and 1997, respectively, and are recorded as expenses under the personnel expense category, and are paid monthly as billed by insurers.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

11. Student Loan Guarantees:

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

	<u>1998</u>	<u>1997</u>
Approved Amount for Loans	\$ 1,754,741,671	\$ 1,486,145,923
Outstanding Balance	1,081,160,173	930,756,520

12. Arbitrage:

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

The South Carolina State Treasurer had computations made to determine the liability at June 30, 1998 and 1997. Based on those results, the Authority incurred expense of \$ 153,377 for 1998 and no expense for 1997. This expense is determined using the "Future Value" method of determining cumulative arbitrage liability, as set forth in the U.S. Treasury Regulations and is based on cash flows created by investment, sale, maturity of and earnings on gross bond proceeds. As of June 30, 1998 and 1997, the Authority reports \$ 453,377 and \$ 300,000, respectively, arbitrage rebate liability.

13. Recall of FFELP (Loan Guarantee) Reserve Funds:

The amount designated for loan guarantees is the accumulated portion of retained earnings derived from the Federal Family Education Loan Program (FFLEP) guarantee operations of the Authority and may only be used in support of FFELP. On August 5, 1997, the Higher Education Act was amended by the Balanced Budget Act of 1997. Under this amendment, the Secretary of Education (the Secretary) is required to recall \$ 1 billion on September 1, 2002 of FFELP reserve funds. The amount owed by each guarantor is based on the agency's reserves and reserve ratio as of September 30, 1996. For purposes of calculation, the reserves include any Federal reserve funds in cash or liquid assets held by the agency. The reserve ratio is defined as the amount of the agency's Federal reserve fund as of September 30, 1996 divided by the original principal amount of all outstanding insured loans on that date. Each agency must transfer its required share to a separate account in five equal annual installments for the federal fiscal years 1998 through 2002. The Authority's estimated amount of prorated share of the \$ 1 billion is approximately \$ 6.8 million, subject to final determination by the Secretary.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1998 AND 1997

13. Recall of FFELP (Loan Guarantee) Reserve Funds (Continued):

In January 1998, the Authority deposited into a separate account its first installment of \$ 1,366,028 and may not use the funds for any purpose without the express written permission of the Secretary, except for performing certain default reduction activities as outlined in the Balanced Budget Act of 1997. At the end of the five year period, the reserve funds in the separate account will be transferred to the U.S. Department of Education with a corresponding reduction in retained earnings.

14. Accounting Change:

Effective July 1, 1997, GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, was implemented. The statement requires investments to be reported at fair value rather than at cost, that prior period financial statements be restated, investment income be recorded at stated interest rates, no amortization of premiums or discounts on investments, record the net increase (decrease) in fair value of investments, and unrealized/realized gains/losses to be included in investment income. As of June 30, 1996, retained earnings were restated as follows:

Retained Earnings, June 30, 1996, as Previously Reported	\$ 75,488,328
Adjustment of Investments to Fair Value	<u>799,291</u>
Retained Earnings, June 30, 1996, as Restated	\$ <u>76,287,619</u>

The 1997 financial statements were restated to reflect a decrease in retained earnings of \$ 360,729 due to the decrease in investments to fair value. The investments in the debt reserve account changed by (\$ 360,729) at June 30, 1997 and \$ 799,291 at June 30, 1996.

<u>SOUTH CAROLINA STATE EDUCATION ASSISTANCE</u>							
<u>AUTHORITY</u>							
<u>ENTERPRISE FUND</u>							
<u>BALANCE SHEET BY ACCOUNTS</u>							
<u>JUNE 30, 1998</u>							
	Required by Bond Indentures						
	Sinking		Debt		Loan		
			Reserve				
<u>ASSETS</u>	Account		Account		Account		
<u>Current Assets:</u>							
Cash and Cash Equivalents:							
Deposits Underinvested (Overinvested)	\$ 937,893	\$		\$ 1,086	\$		
Investments	16,837,755			81,884,121			
Cash and Cash Equivalents - Restricted:							
Deposits Underinvested (Overinvested)			(400)				
Investments			19,650,838				
Prepaid Expense				205,187			
Receivables:							
Current Portion of Finance Loans				63,000,000			
Current Portion of Student Loans - FISL	4,334						
Due from South Carolina Student Loan Corporation	6,128,847						
Accrued Interest Receivable	795,137			132,282			
Federal Reinsurance Receivable							
Administrative Cost Allowance				832,856			
Total Current Assets	\$ 24,703,966	\$	19,650,438	\$ 146,055,532	\$		
<u>Long-Term and Other Assets:</u>							
Receivables:							
Finance Loans, Less Current Portion	\$	\$		\$ 264,340,113	\$		
Student Loans - FISL, Less Current Portion	12,186						
Deferred Cost of Issuance of Bonds				1,265,242			
Investments				5,315,821			
Restricted Assets:							
Investments			14,171,140				
Total Long-Term and Other Assets	\$ 12,186	\$	14,171,140	\$ 270,921,176	\$		
Total Assets	\$ 24,716,152	\$	33,821,578	\$ 416,976,708	\$		

<u>SOUTH CAROLINA STATE EDUCATION ASSISTANCE</u>						
<u>AUTHORITY</u>						
<u>ENTERPRISE FUND</u>						
<u>BALANCE SHEET BY ACCOUNTS</u>						
<u>JUNE 30, 1998</u>						
	Required by Bond Indentures					
	Sinking		Debt		Loan	
			Reserve			
<u>LIABILITIES AND FUND EQUITY</u>	Account		Account		Account	
<u>Current Liabilities:</u>						
Accounts Payable	\$ 6,924	\$		\$ 174,545	\$	
Arbitrage Rebate Payable to Federal Government			453,377			
Compensated Absences				60,151		
Due to South Carolina Student Loan Corporation	5,985,096					
Payable from Restricted Assets:						
Current Maturities of Bonds Payable			1,270,000			
Accrued Bond Interest Payable			5,582,216			
Total Current Liabilities	\$ 5,992,020	\$	7,305,593	\$ 234,696	\$	
<u>Bonds Payable, Less, Current Maturities, Deferred</u>						
<u>Amount of Debt Refunding and Bond Premiums and</u>	\$ 361,970,689	\$		\$		\$
<u>Discounts</u>			-			-
Total Liabilities	\$ 367,962,709	\$	7,305,593	\$ 234,696	\$	
<u>Fund Equity:</u>						
Retained Earnings:						
Reserved for Bond Indentures - Current Debt Service						
-						
1979 Resolution	\$	\$ 1,945,632	\$		\$	
Reserved for Bond Indentures - Current Debt Service						
-						
1993 Resolution			4,624,430			
Reserved for Bond Indentures - 1979 Resolution	(83,594,653)		16,376,224		86,714,420	
Reserved for Bond Indentures - 1993 Resolution	(259,651,905)		3,569,699		316,050,861	
Unreserved					13,976,732	
Total Fund Equity (Deficit)	\$ (343,246,558)	\$	26,515,985	\$ 416,742,013	\$	
Total Liabilities and Fund Equity	\$ 24,716,151	\$	33,821,578	\$ 416,976,709	\$	

<u>SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY</u>					
<u>ENTERPRISE FUND</u>					
<u>STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS BY ACCOUNTS</u>					
<u>YEAR ENDED JUNE 30, 1998</u>					
		Required by Bond Indentures			
		Sinking		Debt Reserve	
		Account		Account	Loan
					Account
<u>Operating Revenue:</u>					
United States Department of Education:					
Administrative Cost Allowance	\$		\$		\$ 1,954,50
Supplemental Preclaims Assistance Income					520,00
Retention on Default Collections					923,10
Insurance Premiums					348,73
Income from South Carolina Student Loan Corporation:					
Subsidized Interest		4,428,335			
Special Allowance		3,113,734			
Non-Subsidized Interest		23,401,183			
Late Charges		375,808			
Miscellaneous Payments of Student Loans		1,070			
Investment Income		6,808,843			721,73
Net Increase (Decrease) in the Fair Value of Investments		366,912		(40,811)	608,48
Total Operating Revenue	\$	38,495,885	\$	(40,811)	\$ 5,076,56
<u>Operating Expenses:</u>					
Personnel	\$		\$		\$ 1,182,65
Contractual Services					277,43
General Operating					391,71
South Carolina Student Loan Corporation for Operations					
and Capital Equipment Purchases					5,469,09
Bond Interest Expense		439,627		19,835,237	
Amortization - Deferred Cost of Bond Issuance					139,64
Reinsurance and Other Fees		575,007			309,43
Total Operating Expenses	\$	1,014,634	\$	19,835,237	\$ 7,769,97
<u>Operating Income (Loss)</u>	\$	37,481,251	\$	(19,876,048)	\$ (2,693,408)

<u>SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY</u>					
<u>ENTERPRISE FUND</u>					
<u>STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS BY ACCOUNTS</u>					
<u>YEAR ENDED JUNE 30, 1998</u>					
		Required by Bond Indentures			
		Sinking		Debt Reserve	Loan
		Account		Account	Account
<u>Non-Operating Expenses:</u>					
Arbitrage Expense	\$	-	\$	(153,377)	\$
<u>Income (Loss) Before Transfers Between Accounts</u>	\$	37,481,251	\$	(20,029,425)	\$ (2,693,408)
<u>Transfers Between Accounts:</u>					
Transfer In	\$	96,936,189	\$	61,378,417	\$ 83,507,86
Transfer (Out)		(144,662,289)		(53,537,735)	(43,622,446
Total Transfers Between Accounts	\$	(47,726,100)	\$	7,840,682	\$ 39,885,41
<u>Net Income (Loss)</u>	\$	(10,244,849)	\$	(12,188,743)	\$ 37,192,01
<u>Retained Earnings (Deficit), Beginning</u>	\$	(333,001,709)	\$	38,266,166	\$ 379,550,00
<u>Prior Period Adjustment</u>				438,562	
<u>Retained Earnings, Beginning - As Restated</u>	\$	(333,001,709)	\$	38,704,728	\$ 379,550,00
<u>Retained Earnings (Deficit), Ending</u>	\$	(343,246,558)	\$	26,515,985	\$ 416,742,01

<u>SOUTH CAROLINA STATE EDUCATION</u>					
<u>ASSISTANCE AUTHORITY</u>					
<u>ENTERPRISE FUND</u>					
<u>STATEMENT OF CASH FLOWS BY ACCOUNTS</u>					
<u>YEAR ENDED JUNE 30, 1998</u>					
		Required by Bond Indentures			
		Sinking	Debt Reserve		Loan
		Account	Account		Account
<u>Cash Flows from Operating Activities:</u>					
Operating Income (Loss)	\$	37,481,252	\$ (19,876,048)	\$	(2,693,400)
Adjustments to Reconcile Operating Income					
(Loss) to Net Cash Provided By (Used in) Operating					
Activities:					
Finance Loan Advances to South Carolina Student Loan					
Corporation					
for Student Loans					(34,774,125)
Finance Loan Payments Received from South Carolina					
Student Loan					
Corporation					62,172,500
Payments Received on FISL Loans		3,879			
Purchase of Student Loans Under Loan Guarantees					
Payments Received from U.S. Department of Education					
Under					
Federal Reinsurance Program					
Amortization of Cost of Bond Issuance					139,600
Amortization of Deferred Amount of Refunding -					
Interest Expense		75,080			
Amortization of Premiums and Discounts on Bonds					
Payable -					
Interest Expense		364,547			
Investment Income (Investing Activities Category)		(6,808,843)			(721,700)
Net (Increase) Decrease in Fair Value of Invesmtents					
(Investing					
Activities Category)		(366,912)	40,811		(608,400)
Bond Interest Expense (Noncapital Financing Activities					

Category)				19,835,237		
Changes in Assets and Liabilities:						
Increase in Prepaid Expense						(205,18
Decrease in Due from South Carolina Student Loan Corporation		865,009				
Decrease in Administrative Cost Allowance Receivable						(140,84
Increase (Decrease) in Accounts Payable		(270)				173,84
Increase in Compensated Absences Liability						18,44
Increase in Due to South Carolina Student Loan Corporation		2,922,848				
Net Cash Provided by Operating Activities	\$	34,536,590	\$	-	\$	23,360,7
			-			

<u>SOUTH CAROLINA STATE EDUCATION</u>					
<u>ASSISTANCE AUTHORITY</u>					
<u>ENTERPRISE FUND</u>					
<u>STATEMENT OF CASH FLOWS BY ACCOUNTS</u>					
<u>YEAR ENDED JUNE 30, 1998</u>					
		Required by Bond Indentures			
		Sinking		Debt Reserve	Loan
		Account		Account	Account
<u>Cash Flows from Noncapital Financing Activities:</u>					
Proceeds from Issuing Revenue Bonds For Student Loans	\$	49,850,000	\$		\$
Transfer of Bonds Payable to Debt Service Accounts		(47,570,000)			
Transfer of Cost of Issuance to Deferred Amount of Refunding		(244,059)			244,059
Payment of Bond Premium		(287,137)			
Payment of Bond Call Premium		(268,000)			
Repayment of Revenue Bonds				(78,165,000)	
Transfer to Current Bonds Payable from Sinking Account				47,570,000	
Cost of Bond Issuance					(152,000)
<u>Operating Transfers:</u>					
In from Other Accounts		96,936,189		61,378,417	83,507,417
Out to Other Accounts		(144,662,289)		(53,537,735)	(43,622,417)
Interest Paid on Revenue Bonds				(21,360,745)	
Net Cash Provided by (Used in) Noncapital Financing Activities	\$((46,245,296)	\$	(44,115,063)	\$ 39,977,417
<u>Cash Flows from Investing Activities:</u>					
Interest Received on Investment Securities	\$	7,195,830	\$		\$ 720,000
Proceeds from Sale and Maturities of Investments		2,280,615		13,012,245	
Purchase of Investments					(4,707,300)
Net Increase (Decrease) in Fair Value of Investments		366,912		356,940	

Net Cash Provided by Investing Activities	\$	9,843,357	\$	13,369,185	\$	(3,986,3
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	\$	(1,865,349)	\$	(30,745,878)	\$	59,351,
<u>Cash and Cash Equivalents:</u>						
Beginning		19,640,997		50,396,316		22,533,
Ending	\$	17,775,648	\$	19,650,438	\$	81,885,
<u>Supplemental Disclosures of Cash Flow Information:</u>						
Interest Collected on Finance and FISL Loans - Operating Activities	\$	28,694,527	\$	-	\$	

					<u>SCHEDULE</u>
					<u>4</u>
<u>SOUTH CAROLINA STATE EDUCATION ASSISTANCE</u>					
<u>AUTHORITY</u>					
<u>ENTERPRISE FUND</u>					
<u>SCHEDULE OF EXPENSES COMPARED TO</u>					
<u>BUDGET</u>					
<u>YEAR ENDED JUNE 30, 1998</u>					
					Variance
					Favorable
<u>Operating Expenses:</u>		<u>Budget</u>		<u>Actual</u>	<u>(Unfavorable</u>
					<u>)</u>
Personnel:					
Staff Salaries	\$	949,600	\$	864,587	\$ 85,013
Social Security		71,125		62,610	8,515
Group Insurance		157,250		187,801	(30,551)
Retirement		75,800		65,926	9,874
Unemployment		4,000		1,727	2,273
Total Personnel	\$	1,257,775	\$	1,182,651	\$ 75,124
Contractual:					
Loan Servicing	\$	235,000	\$	223,219	\$ 11,781
Credit Bureau Fees		10,200		11,299	(1,099)
Legal		8,700		12,474	(3,774)
Enrollment Verification		30,000		28,096	1,904
Accounting		2,300		2,349	(49)
Total Contractual	\$	286,200	\$	277,437	\$ 8,763
General Operating:					
Equipment Lease	\$	375	\$	176	\$ 199
Rent		66,100		63,269	2,831
Telephone and Telegraph		59,200		67,805	(8,605)
Equipment Maintenance		12,650		9,933	2,717

Supplies		26,800		26,709		91
Printing		50,000		55,460		(5,460)
Postage		125,800		131,483		(5,683)
Insurance		17,000		8,859		8,141
Travel		35,000		19,637		15,363
Contingencies		15,000		1,062		13,938
Subscriptions & Fees		6,100		6,273		(173)
Conference Cost		1,000		1,053		(53)
Total General Operating	\$	415,025	\$	391,719	\$	23,306
Total Operating Expenses	\$	1,959,000	\$	1,851,807	\$	107,193
South Carolina Student Loan Corporation Operating Costs			\$	5,469,093		
Other Expenses:						
Interest on Bonds			\$	20,274,864		
Amortization - Deferred Cost of Bond Issuance				139,640		
Reinsurance and Other Fees				931,573		
Total Other Expenses			\$	21,346,077		
Total Expenses			\$	28,666,977		

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF ORGANIZATIONAL DATA

YEAR ENDED JUNE 30, 1998

CREATION

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

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

MEMBERS OF THE AUTHORITY

<u>Name</u>	<u>Office Held</u>
David M. Beasley	Governor of South Carolina
Richard A. Eckstrom	State Treasurer of South Carolina
Earle E. Morris, Jr.	Comptroller General of South Carolina
John Drummond	Chairman, South Carolina Senate Finance Committee
Henry E. Brown	Chairman, South Carolina House of Representatives Ways and Means Committee

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 1998

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Amount of Grant</u>	<u>Expenses</u>
<u>U.S. Department of Education Programs:</u>			
<u>Federal Family Education Loan Program:</u>			
<u>Direct:</u>			
Administrative Cost Allowance	84.032	\$	\$ 1,954,507
Supplemental Preclaims Assistance Income	84.032		520,005
Retention on Default Collections	84.032		923,102
<u>Passed Through South Carolina Student Loan Corporation:</u>			
Special Allowances	84.032		3,113,734
Subsidized Interest	84.032		<u>4,428,335</u>
Total Federal Family Education Loan Program (Major Program)			\$ 10,939,683
Paul Douglas Teacher's Scholarship Program (Note 4)	84.176		_____
Total Department of Education			\$ <u>10,939,683</u>

Notes - CFDA #84.032:

1. The total approved amount at June 30, 1998, of all student loans under guarantee by the South Carolina State Education Assistance Authority was \$ 1,754,741,671. The total outstanding balance of these loans was \$ 1,081,160,173. Administrative Cost Allowance is paid for new loans approved during the fiscal year. Special Allowances and Subsidized Interest are earned based on outstanding balance. Supplemental Preclaims Assistance Income is also earned based on the number of loans that do not subsequently default for which Supplemental Preclaims activity is applicable (performed).
2. The South Carolina State Education Assistance Authority received \$ 9,638,781 during the year ended June 30, 1998, under Federal Reinsurance Agreements pursuant to Sections 428A and 428(c) of the Higher Education Act of 1965, as amended.
3. The total value at June 30, 1998, since inception, of all defaulted student loans which the South Carolina State Education Assistance Authority has purchased under Federal reinsurance agreements was \$ 48,033,350. Retention of Default Collections is generated when the Authority retains a portion of the amount it collects on these loans on behalf of the Federal Government.

Notes - CFDA #84.176:

4. Program participants repaid \$ 45,428 to the program. The Program also earned interest income of \$ 600. The Authority paid \$ 88,703 to the Federal Government and owes \$ 48,859 at June 30, 1998.

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

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

Compliance

We have audited the compliance of the South Carolina State Education Assistance Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 1998. The South Carolina State Education Assistance Authority's major federal program is identified in the summary of auditors result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the South Carolina State Education Assistance Authority's management. Our responsibility is to express an opinion on the South Carolina State Education Assistance Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the South Carolina State Education Assistance Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the South Carolina State Education Assistance Authority's compliance with those requirements.

In our opinion, the South Carolina State Education Assistance Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1998.

Internal Control Over Compliance

The management of the South Carolina State Education Assistance Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws,

regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the South Carolina State Education Assistance Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

This report is intended for the information of the management and the U. S. Department of Education. However, this report is a matter of public record and its distribution is not limited.

September 5, 1998

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

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

We have audited the financial statements of the South Carolina State Education Assistance Authority as of and for the year ended June 30, 1998, and have issued our report thereon dated September 5, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the South Carolina State Education Assistance Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the management and the U.S. Department of Education. However, this report is a matter of public record and its distribution is not limited.

September 5, 1998

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 1998

1. Summary of Auditor's Results:

(i)	Type of report issued on financial statements	Unqualified
(ii)	Reportable material weaknesses in internal control conditions	None
(iii)	Material noncompliance to the financial statements	None
(iv)	Material weaknesses in reportable conditions in internal control over major programs	None
(v)	Type of report issued on compliance for major programs	Unqualified
(vi)	Audit findings required to be reported under paragraph .510(a) OMB 133	None
(vii)	Identification of major programs:	
	<u>U.S. Department of Education:</u>	
	<u>Federal Family Education Loan Program:</u>	<u>CFDA# Expenditure</u>
	Administrative Cost Allowance	84.032 \$ 1,954,507
	Supplemental Preclaims Assistance Income	84.032 520,005
	Retention on Default Collections	84.032 923,102
	<u>Passed Through South Carolina Student Loan Corporation:</u>	
	Special Allowances	84.032 3,113,734
	Subsidized Interest	84.032 <u>4,428,335</u>
	Total Federal Family Education Loan Program (Major Program)	\$ <u>10,939,683</u>
(viii)	Dollar threshold used to distinguish between Type A and Type B programs	\$ 328,190
(ix)	South Carolina State Education Assistance Authority qualifies as a low risk auditee under paragraph .530 OMB 133	Yes

2. Findings related to the financial statements which are required to be reported in accordance with GAGAS

None

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

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

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF SUMMARY OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 1998

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

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF CORRECTIVE ACTION PLAN

JUNE 30, 1998

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