

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

COLUMBIA, SOUTH CAROLINA

FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 1999 AND 1998

## 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, 1999 and 1998 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, 1999 and 1998, 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 3, 1999 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.

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.

The required supplementary information - Y2K Issue in Section III is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Authority is or will become Year 2000 compliant, that the Authority's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business are or will become Year 2000 compliant.

September 3, 1999

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
COMBINED BALANCE SHEETS - ALL FUND TYPES  
JUNE 30, 1999 AND 1998

<u>ASSETS</u>	1999			1998		
	<u>Governmental Fund Type Special Revenue Fund</u>	<u>Proprietary Fund Type Enterprise Fund</u>	<u>Totals (Memorandum Only)</u>	<u>Governmental Fund Type Special Revenue Fund</u>	<u>Proprietary Fund Type Enterprise Fund</u>	<u>Totals (Memorandum Only)</u>
<u>Current Assets:</u>						
Cash and Cash Equivalents:						
Demand Deposit	\$ 74,996		\$ 74,996	\$ 48,859		\$ 48,859
Deposits Underinvested (Overinvested)		127,468	127,468		979,479	979,479
Investments		106,862,315	106,862,315		103,009,474	103,009,474
Cash and Cash Equivalents - Restricted:						
Deposits Underinvested (Overinvested)		3,190,000	3,190,000		(400)	(400)
Investments		19,901,843	19,901,843		19,650,838	19,650,838
Prepaid Expense		255,367	255,367		205,187	205,187
Receivables:						
Current Portion of Finance Loans		69,543,309	69,543,309		63,000,000	63,000,000
Current Portion of Student Loans - FISL		3,525	3,525		4,334	4,334
Due from South Carolina Student Loan Corporation		6,469,818	6,469,818		6,128,847	6,128,847
Accrued Interest Receivable		931,159	931,159		975,667	975,667
Federal Reinsurance Receivable		3,376,848	3,376,848		1,613,498	1,613,498
Loan Processing and Issuance Fee Receivable		150,040	150,040			
Default Aversion Fee Receivable		1,479,043	1,479,043			
Miscellaneous		90,143	90,143			
Administrative Cost Allowance					832,856	832,856
Total Current Assets	\$ 74,996	\$ 212,380,878	\$ 212,455,874	\$ 48,859	\$ 196,399,780	\$ 196,448,639
<u>Long-Term and Other Assets:</u>						
Receivables:						
Finance Loans, Less Current Portion		\$ 291,995,886	\$ 291,995,886		\$ 264,340,113	\$ 264,340,113
Student Loans - FISL, Less Current Portion		9,911	9,911		12,186	12,186
Deferred Cost of Issuance of Bonds		1,058,976	1,058,976		1,265,242	1,265,242
Investments		2,732,086	2,732,086		6,757,851	6,757,851
Restricted Assets:						
Investments		16,652,949	16,652,949		14,171,140	14,171,140
Total Long-Term and Other Assets	\$	\$ 312,449,808	\$ 312,449,808	\$	\$ 286,546,532	\$ 286,546,532
<u>Property, Plant &amp; Equipment:</u>						
Furniture and Equipment		\$ 262,945	\$ 262,945			
Automobile		13,100	13,100			
Less: Accumulated Depreciation		(45,327)	(45,327)			
Total Property, Plant & Equipment	\$ -	\$ 230,718	\$ 230,718	\$	\$	\$
Total Assets	\$ 74,996	\$ 525,061,404	\$ 525,136,400	\$ 48,859	\$ 482,946,312	\$ 482,995,171

See Notes to Financial Statements.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY**  
**COMBINED BALANCE SHEETS - ALL FUND TYPES**  
**JUNE 30, 1999 AND 1998**

	1999			1998		
	Governmental Fund Type Special Revenue Fund	Proprietary Fund Type Enterprise Fund	Totals (Memorandum Only)	Governmental Fund Type Special Revenue Fund	Proprietary Fund Type Enterprise Fund	Totals (Memorandum Only)
<b><u>LIABILITIES AND FUND EQUITY</u></b>						
<b><u>Current Liabilities:</u></b>						
Accounts Payable	\$	\$ 136,223	\$ 136,223	\$	\$ 182,359	\$ 182,359
Arbitrage Rebate Payable to Federal Government		946,500	946,500		453,377	453,377
Compensated Absences		74,955	74,955		60,151	60,151
Due to Federal Government	74,996		74,996	48,859		48,859
Due to South Carolina Student Loan Corporation		8,705,491	8,705,491		5,985,096	5,985,096
Default Aversion Fees Payable		1,479,043	1,479,043			
Payable from Restricted Assets:						
Current Maturities of Bonds Payable		9,770,000	9,770,000		1,270,000	1,270,000
Accrued Bond Interest Payable		5,130,246	5,130,246		5,582,216	5,582,216
7 Total Current Liabilities	\$ 74,996	\$ 26,242,458	\$ 26,317,454	\$ 48,859	\$ 13,533,199	\$ 13,582,058
<b><u>Bond Payable, Less Current Maturities, Deferred Amount of Debt Refunding of \$ 445,080 in 1999 and \$ 599,652 in 1998 and Bond Premium and Discounts of \$ 3,416,351 in 1999 and \$ 3,454,658 in 1998</u></b>						
	\$ -	\$ 375,677,680	\$ 375,677,680	\$ -	\$ 361,970,689	\$ 361,970,689
Total Liabilities	\$ 74,996	\$ 401,920,138	\$ 401,995,134	\$ 48,859	\$ 375,503,888	\$ 375,552,747
<b><u>Fund Equity:</u></b>						
<b><u>Retained Earnings:</u></b>						
Reserved for Bond Indentures - Current Debt Service - 1979 Resolution	\$	\$ 1,230,297	\$ ,230,297	\$	\$ 1,945,632	\$ ,945,632
Reserved for Bond Indentures - Current Debt Service - 1993 Resolution		11,942,806	11,942,806		4,624,430	4,624,430
Reserved for Bond Indentures - 1979 Resolution		8,008,026	8,008,026		19,495,991	19,495,991
Reserved for Bond Indentures - 1993 Resolution		77,051,567	77,051,567		59,968,655	59,968,655
Unreserved		24,908,570	24,908,570		21,407,716	21,407,716
Total Fund Equity	\$ -	\$ 123,141,266	\$ 123,141,266	\$ -	\$ 107,442,424	\$ 107,442,424
Total Liabilities and Fund Equity	\$ 74,996	\$ 525,061,404	\$ 525,136,400	\$ 48,859	\$ 482,946,312	\$ 482,995,171

## SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

## STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

## GOVERNMENTAL FUND TYPE

YEARS ENDED JUNE 30, 1999 AND 1998

	Special Revenue Fund	
	1999	1998
Revenue.		
Loan Principal and Interest Collected	\$	\$
Expenditures.		
R funded to Federal Government	6 13	13 ,562
Excess of Revenue Over Expenditures	\$	\$
Fund Balance, Beginning		
Fund Balance, Ending	\$	\$

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY**  
**STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**PROPRIETARY FUND TYPE**  
**YEARS ENDED JUNE 30, 1999 AND 1998**

	Enterprise Fund	
	1999	1998
<u>Operating Revenue:</u>		
United States Department of Education:		
Administrative Cost Allowance	\$ 862,335	\$ ,954,507
Loan Processing and Issuance Fee	377,279	
Account Maintenance Fee	1,177,090	
Supplemental Preclaims Assistance Income	301,266	520,005
Default Aversion Fee Income	1,479,043	
Retention on Default Collections (Net of Payments to Federal Government of \$ 2,422,558 in 1999 and \$ 2,169,682 in 1998)	,169,193	923,102
Insurance Premiums	974,225	1,046,194
Income From South Carolina Student Loan Corporation:		
Subsidized Interest	3,517,765	4,428,335
Special Allowance	4,097,885	3,113,734
Non-Subsidized Interest	23,725,825	23,401,183
Late Charges	356,242	375,808
Miscellaneous Payments of Student Loans	190	1,070
Investment Income	7,787,068	7,871,003
Net Increase (Decrease) in the Fair Value of Investments	(665,822)	1,072,689
Total Operating Revenue	\$ <u>45,159,584</u>	\$ <u>44,707,630</u>
<u>Operating Expenses:</u>		
Personnel	\$ 1,509,361	\$ 1,182,651
Contractual	229,652	277,437
General Operating	477,059	391,719
South Carolina Student Loan Corporation for Operating Costs	5,182,592	5,469,093
Bond Interest Expense	18,349,448	20,274,864
Amortization - Deferred Cost of Bond Issuance	118,732	139,640
Default Aversion Fee Expense	1,479,044	
Other Fees	1,621,731	931,573
Total Operating Expenses	\$ <u>28,967,619</u>	\$ <u>28,666,977</u>
<u>Operating Income</u>	\$ <u>16,191,965</u>	\$ <u>16,040,653</u>
<u>Non-Operating Revenues (Expenses):</u>		
Arbitrage Expense	\$ <u>(493,123)</u>	\$ <u>(153,377)</u>
<u>Net Income</u>	\$ 15,698,842	\$ 15,887,276
<u>Retained Earnings, Beginning</u>	<u>107,442,424</u>	<u>91,555,148</u>
<u>Retained Earnings, Ending</u>	\$ <u><u>123,141,266</u></u>	\$ <u><u>107,442,424</u></u>

See Notes to Financial Statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITYSTATEMENTS OF CASH FLOWSPROPRIETARY FUND TYPEYEARS ENDED JUNE 30, 1999 AND 1998

	<u>Enterprise Fund</u>	
	<u>1999</u>	<u>1998</u>
<u>Cash Flows from Operating Activities:</u>		
Operating Income	\$ 16,191,965	\$ 16,040,653
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used in) Operating Activities:		
Finance Loan Advances to South Carolina Student Loan Corporation for Student Loans	(110,856,367)	(34,774,122)
Finance Loan Payments Received from South Carolina Student Loan Corporation	76,657,285	62,172,576
Payments Received on FISL Loans	3,084	3,879
Purchase of Student Loans Due to Loan Guarantees	(14,345,137)	(11,642,408)
Payments Received from U.S. Department of Education Under Federal Reinsurance Program	12,581,787	11,062,943
Amortization of Cost of Bond Issuance	118,732	139,641
Amortization of Deferred Amount on Refunding - Interest Expense	154,572	75,080
Amortization of Premiums and Discounts on Bonds Payable - Interest Expense	378,172	364,547
Investment Income (Investing Activities Category)	(7,787,069)	(7,871,003)
Depreciation Expense	45,327	
Net (Increase) Decrease in Fair Value of Investments Reported as Cash Equivalents (Investing Activities Category)	665,822	(1,072,689)
Bond Interest Expense (Noncapital Financing Activities Category)	17,816,705	19,835,237
Changes in Assets and Liabilities:		
(Increase) Decrease in Prepaid Expense	(50,180)	(205,187)
(Increase) Decrease in Due from South Carolina Student Loan Corporation	(340,971)	865,009
(Increase) Decrease in Administrative Cost Allowance Receivable	832,856	(140,844)
(Increase) Decrease in Loan Processing and Issuance Fee Receivable	(150,040)	
(Increase) Decrease in Default Aversion Fee Receivable	(1,479,043)	
(Increase) in Miscellaneous Receivables	(90,143)	
Increase (Decrease) in Accounts Payable	(46,136)	172,972
Increase (Decrease) in Default Aversion Fees Payable	1,479,043	
Increase (Decrease) in Compensated Absences Liability	14,804	18,465
Increase (Decrease) in Due to South Carolina Student Loan Corporation	2,720,395	2,922,848
Net Cash Provided by (Used in) Operating Activities	<u>\$ (5,484,537)</u>	<u>\$ 57,967,597</u>
<u>Cash Flows from Noncapital Financing Activities:</u>		
Proceeds from Issuing Revenue Bonds for Student Loans	\$ 67,300,000	\$ 49,850,000
Transfer of Current Bonds Payable to Debt Service Accounts	(53,340,000)	(47,570,000)
Repayment of Revenue Bonds	(44,840,000)	(78,165,000)
Transfer to Current Bonds Payable from Sinking Account	53,340,000	47,570,000
Cost of Bond Issuance	(82,954)	(152,045)
Payments of Bond Premium	(339,865)	(287,137)
Payment of Bond Call Premium	(275,400)	(268,000)

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**PROPRIETARY FUND TYPE**  
**YEARS ENDED JUNE 30, 1999 AND 1998**

	<u>Enterprise Fund</u>	
	<u>1999</u>	<u>1998</u>
<b><u>Cash Flows from Noncapital Financing Activities (Continued):</u></b>		
<b>Operating Transfers:</b>		
In from Other Accounts	\$ 260,964,424	\$ 241,822,470
Out to Other Accounts	(260,964,424)	(241,822,470)
Interest Paid on Revenue Bonds	(18,268,675)	(21,360,745)
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>\$ 3,493,106</u>	<u>\$ (50,382,927)</u>
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>		
Purchase of Fixed Assets	\$ (276,045)	\$ _____
Net Cash (Used in) Capital and Related Financing Activities	<u>\$ (276,045)</u>	<u>\$ _____</u>
<b><u>Cash Flows from Investing Activities:</u></b>		
Interest Received on Investment Securities	\$ 7,831,578	\$ 8,269,232
Purchase of Investments	(8,415,794)	(6,011,263)
Proceeds from Sale and Maturities of Investments	9,959,750	15,292,860
Net Increase (Decrease) in Fair Value of Investments Reported as Cash Equivalents	(665,823)	723,852
Net Cash Provided by Investing Activities	<u>\$ 8,709,711</u>	<u>\$ 17,550,829</u>
<b><u>Net Increase in Cash and Cash Equivalents</u></b>	<b>\$ 6,442,235</b>	<b>\$ 25,135,499</b>
<b><u>Cash and Cash Equivalents:</u></b>		
Beginning	123,639,391	97,780,040
Ending	<u>\$ 130,081,626</u>	<u>\$ 122,915,539</u>
<b><u>Supplemental Disclosures of Cash Flow Information:</u></b>		
Interest Collected on Finance and FISL Loans - Operating Activities	<u>\$ 26,902,619</u>	<u>\$ 28,694,527</u>
<b><u>Supplemental Disclosures of Noncash Transactions:</u></b>		
Rebate Liability Related to Nonoperating Arbitrage Rebate Expense - Non-Capital Financing Activities	<u>\$ 493,123</u>	<u>\$ _____</u>
Amortization of Deferred Cost of Issuance of Bonds - Operating Activity	<u>\$ 170,488</u>	<u>\$ 244,059</u>
Amortization of Deferred Amount on Debt Refunding - Operating Activity	<u>\$ 445,888</u>	<u>\$ 512,059</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

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 AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

1. 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) incurred in the administration of the program in accordance with a previously approved budget. 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, 1999 AND 1998

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, agency operating, and the federal student loan reserve account. These accounts, except for the federal student loan reserve account and agency operating, 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 to segregate a portion of that entity in accordance with legal or contractual provisions. The Authority reports retained earnings reserved for current debt service as

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

1. Summary of Significant Accounting Policies (Continued):

1.2 Fund Accounting (Continued):

Proprietary Fund Type (Continued):

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, 1999 AND 1998

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.

The Federal Student Loan Reserve Account is used for all funds required to be accounted for in this account by the 1998 reauthorization of the Higher Education Act. This account is used to account for investment income and insurance premiums withheld from borrower's loans. The Authority has not charged insurance premiums for loans guaranteed since March 1, 1999; however, the Authority reserves the right to reinstate such charges at such times and in such lawful amounts as it deems appropriate. Amounts in the Federal Student Loan Reserve Account can only be used to pay lender claims on defaulted loans and to disburse default aversion fees to the Agency Operating Account for default aversion activities. Upon payment to lenders for defaulted loans, these funds are then reimbursed to the Federal Student Loan 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 (See Note 3).

The Guarantee Agency Operating Account is used to account for all loan processing and issuance fees, account maintenance fees, default aversion fees, and the retention on default collections. The U. S. Department of Education pays all of the fees except the default aversion fees reimbursed by the Federal Student Loan Reserve Account. The loan processing issuance fee is equal to 0.65% of the total principal amount of loans originated during the fiscal year. The account maintenance fee is equal to 0.12% of the average original principal balance of loans outstanding for the fiscal year. The default aversion fee is equal to one percent of the principal and interest of a loan upon which default aversion activity was performed. This is reimbursed from the Federal Student Loan Reserve Account. Should this loan subsequently default, the default aversion fee is refunded back to the Federal Student Loan Reserve Account. Retention on Default Collections are reported by the Authority directly to the Department of Education for services it performs in its role as guarantor. The Authority recognizes income related to a specified portion (24% in 1999 and 27% in 1998) 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, 1999 and 1998 of all defaulted student loans purchased by the Authority is \$ 63,992,165 and

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITYNOTES TO FINANCIAL STATEMENTSYEARS ENDED JUNE 30, 1999 AND 19981. Summary of Significant Accounting Policies (Continued):1.2 Fund Accounting (Continued):Proprietary Fund Type (Continued):

\$ 49,647,028, respectively (See Note 3). 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. Funds in the Operating Account can only be used for application processing, loan disbursement, enrollment and repayment status management, permitted default prevention activities, default collection activities, school and lender training, compliance monitoring and other student financial aid related activities as determined by the Secretary and for voluntary irrevocable transfers to the Federal Student Loan Reserve Account. Except for funds transferred from the Federal Student Loan Reserve Account, the Guarantee Agency Operating Account is considered to be the property of the guarantee agency.

See Note 14 for changes in classifications in 1999 from 1998. The Authority established the accounts required under the 1998 Reauthorization of the Higher Education Act, changed the use of the loan account, and reclassified the balance in the Loan Guarantee Reserve Account to the Federal Student Loan Reserve Account effective July 1, 1998. However, to facilitate comparisons of fiscal year 1999 and fiscal year 1998 activity balances, the fiscal year 1998 amounts as presented in the Authority's previously issued fiscal year 1998/fiscal year 1997 report have been restated to the new Enterprise Fund Account structure.

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.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

1. Summary of Significant Accounting Policies (Continued):

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.

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.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITYNOTES TO FINANCIAL STATEMENTSYEARS ENDED JUNE 30, 1999 AND 19981. Summary of Significant Accounting Policies (Continued):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 cash on deposit in banks, cash on hand with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Because the State's internal 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 restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities including those that are classified as restricted having a maturity at the time of purchase of three months or less.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Authority records and reports its deposits in the general deposit account at cost. The Authority reports its deposits in the special deposit accounts at fair value. Investments held by 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. Reported interest income includes interest earnings, realized gains/losses, and unrealized gains/losses arising from changes in fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the Authority's percentage ownership in the pool.

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

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITYNOTES TO FINANCIAL STATEMENTSYEARS ENDED JUNE 30, 1999 AND 19981. Summary of Significant Accounting Policies (Continued):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 shorter of the remaining life of the old debt or the life of the new debt. It is being charged to operations using the effective - interest method. This treatment applies to debt refundings after July 1, 1994.

1.11 Risk Management:

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 including fixed assets, 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. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

1. Summary of Significant Accounting Policies (Continued):

1.13 Property and Equipment:

Furniture, equipment and automobiles costing over \$ 1,000 are capitalized at cost when purchased. Depreciation has been provided using the straight-line method over useful lives of five to ten years for furniture and equipment and three years for automobiles.

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 or Wachovia Bank, N.A. 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, 1999 and 1998, the Authority's carrying amount of deposits and the bank balances were \$ 3,317,468 and \$ 979,479, respectively

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, 1999 and 1998, no deposits were on hand. If present, all State Treasurer balances would be fully insured or collateralized with securities held by the State or by its agents in the State's name.

At June 30, 1999 and 1998, Wachovia Bank, N.A. carried a bank balance at \$ 74,996 and \$ 48,859, respectively, of unspent federal grants for the Authority. These accounts are covered by FDIC insurance. 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, 1999 and 1998. At June 30, 1999 and 1998, 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's internal cash management pool is determined based on the fair value of the pool's underlying portfolio.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 1999 AND 1998

2. Deposits and Investments:

2.3 Investments (Continued):

No investments are valued at amortized cost. The cost and fair value of investments held for the various accounts of the Authority were as follows at June 30, 1999 and 1998:

	<u>1999</u>		<u>1998</u>	
	<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	\$ 5,198,657	\$ 5,199,158	\$ 1,290,700	\$ 1,290,700
Bank Repurchase Agreements	52,730,843	52,730,843	63,304,224	63,304,224
U.S. Agency Bonds	<u>9,813,343</u>	<u>9,813,995</u>	<u>9,197,025</u>	<u>9,369,633</u>
Total	\$ <u>67,742,843</u>	\$ <u>67,743,996</u>	\$ <u>73,791,949</u>	\$ <u>73,964,557</u>
<u>Loan Account Investments - State Treasurer:</u>				
State Treasurer Internal Cash Management Pool	\$ <u>784,144</u>	\$ <u>798,934</u>	\$ <u>12,799,504</u>	\$ <u>13,235,385</u>
Total Loan Account Investments	\$ <u>68,526,987</u>	\$ <u>68,542,930</u>	\$ <u>86,591,453</u>	\$ <u>87,199,942</u>
<u>Guarantee Agency Operating Account Investments - State Treasurer:</u>				
State Treasurer Internal Cash Management Pool	\$ <u>1,620,488</u>	\$ <u>1,641,289</u>	\$ -	\$ -
<u>Sinking Account Investments - Bank of New York:</u>				
U.S. Treasury Notes	\$ 307,982	\$ 307,982	\$ 5,803	\$ 5,803
Bank Repurchase Agreements	<u>4,859,143</u>	<u>4,859,143</u>	<u>5,464,847</u>	<u>5,464,847</u>
Total	\$ <u>5,167,125</u>	\$ <u>5,167,125</u>	\$ <u>5,470,650</u>	\$ <u>5,470,650</u>
<u>Sinking Account Investments - State Treasurer:</u>				
State Treasurer Internal Cash Management Pool	\$ <u>15,505,287</u>	\$ <u>15,778,601</u>	\$ <u>11,000,191</u>	\$ <u>11,367,105</u>
Total Sinking Account Investments	\$ <u>20,672,412</u>	\$ <u>20,945,726</u>	\$ <u>16,470,841</u>	\$ <u>16,837,755</u>
<u>Debt Reserve Accounts Investments - Bank of New York:</u>				
U.S. Treasury Notes	\$ 9,589,544	\$ 9,725,271	\$ 9,582,401	\$ 9,727,315
U.S. Agency Bonds	4,125,600	4,240,881	11,696,799	11,949,636
Bank Repurchase Agreements	<u>22,588,641</u>	<u>22,588,640</u>	<u>12,145,028</u>	<u>12,145,028</u>
Total Debt Reserve Investments	\$ <u>36,303,785</u>	\$ <u>36,554,792</u>	\$ <u>33,424,228</u>	\$ <u>33,821,979</u>
<u>Federal Student Loan Reserve Account Investments - Bank of New York:</u>				
U.S. Treasury Notes	\$ 2,701,197	\$ 2,695,297	\$ 1,437,863	\$ 1,442,030
Bank Repurchase Agreements	<u>2,671</u>	<u>2,671</u>	<u>2,671</u>	<u>2,671</u>
Total	\$ <u>2,701,197</u>	\$ <u>2,695,297</u>	\$ <u>1,440,534</u>	\$ <u>1,444,701</u>
<u>Federal Student Loan Reserve Account Investments - State Treasurer:</u>				
State Treasurer Internal Cash Management Pool	\$ <u>15,478,902</u>	\$ <u>15,769,159</u>	\$ <u>4,150,995</u>	\$ <u>4,284,926</u>
Total Loan Reserve Investments	\$ <u>18,180,099</u>	\$ <u>18,464,456</u>	\$ <u>5,591,529</u>	\$ <u>5,729,627</u>
Grand Totals	\$ <u>145,303,771</u>	\$ <u>146,149,193</u>	\$ <u>142,078,051</u>	\$ <u>143,589,303</u>
Allocated As:				
Cash Equivalents - Investments	\$ 106,069,118	\$ 106,862,315	\$ 102,037,048	\$ 103,009,474
Investments	2,737,986	2,732,086	6,616,776	6,757,851
Restricted:				
Cash Equivalents - Investments	19,901,843	19,901,843	19,680,299	19,650,838
Investments	<u>16,594,824</u>	<u>16,652,949</u>	<u>13,743,928</u>	<u>14,171,140</u>
Total	\$ <u>145,303,771</u>	\$ <u>146,149,193</u>	\$ <u>142,078,051</u>	\$ <u>143,589,303</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITYNOTES TO FINANCIAL STATEMENTSYEARS ENDED JUNE 30, 1999 AND 19982. Deposits and Investments (Continued):2.3 Investments (Continued):

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 internal 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 reported amounts, fair 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, 1999 and 1998. 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.

Due to higher cash flows at certain times, the Authority's investments in repurchase agreements, U. S. Agency Bonds and Notes fluctuated. The maximum amounts held in repurchase agreements during the years ending June 30, 1999 and 1998 were \$ 80,178,626 and \$ 80,916,769, respectively. The maximum amounts of U.S. Agency Bonds held during the years ending June 30, 1999 and 1998 were \$ 48,042,859 and \$ 56,346,143, respectively. The maximum amounts of U. S. Treasury notes held during the years ending June 30, 1999 and 1998 were \$ 17,927,708 and \$ 19,018,015, respectively. The investment types listed above included all investment types in which monies were held throughout the fiscal years ended June 30, 1999 and 1998.

3. Student Loans and Federal Reinsurance of Student Loans:

In 1999 and 1998, these loans bear interest at a fixed rate of 7% to 12% or an annual variable rate which is reset each July 1 and which is equal to the bond equivalent rate of the 91-day Treasury Bill, determined at the final auction held prior to the immediately preceding June 1, plus 1.7 to 3.5 percent with a cap on the rate of 8.25 to 9.00 percent. These loans 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

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

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

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). Up until March 1, 1999, the Authority charged loan recipients an amount equal to one-half to 1% of the principal amount as an insurance premium to remedy defaults on guaranteed student loans. The Authority can start charging an insurance premium at any time, but current funds are deemed sufficient to pay defaults. 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 \$ 60,615,317 and \$ 48,033,530 as of June 30, 1999 and 1998, 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>Claims Rate</u>	<u>Federal Payment for Loans made prior to October 1, 1993</u>	<u>Federal Payment for Loans made on or after October 1, 1993</u>	<u>Federal Payment for Loans made on or after October 1, 1998</u>
0% up to 5%	100% of claims	98% of claims	95% of claims
5% up to 9%	100% of all claims up to 5%; and 90% of claims 5% and over	98% of all claims up to 5%; and 88% of claims 5% and over	95% of claims up to 5%; and 85% of claims 5% and over
9% and over	100% of claims up to 5%; 90% of claims 5% and over up to 9%; and 80% of claims 9% and over	98% of claims up to 5%; 88% of claims 5% and over up to 9%; and 78% of claims 9% and over	95% of claims up to 5%; 85% of claims 5% and over up to 9%; and 75% of claims 9% and over

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, 1998 and 1997 was approximately .98% and .94%, 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, 1999, the 1979 bond resolution totaled \$ 49,709,425 compared with \$ 84,040,571 last year; the 1993 bond resolution totaled \$ 311,829,770 compared with \$ 243,299,542 last year.

5. Amounts Due from/to SCSLC:

The \$ 6,469,818 and \$ 6,128,847 at June 30, 1999 and 1998, 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 \$ 8,705,941 and \$ 5,985,096 at June 30, 1999 and 1998, respectively. Funds collected on behalf of the SCSLC are required to be paid to the SCSLC by the tenth of each month.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

6. Designated for Loan Guarantees and Other Activities:

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 federal student loan reserve account which replaced the loan guarantee account by the 1998 Reauthorization of the Higher Education Act (Act) on July 1, 1998. Maintenance of the federal student loan reserve account will depend upon possible further Federal and State advances, investment income, insurance premium on student loans if collected, and reinsurance payments from the U.S. Department of Education. Prior to July 1, 1998, the account accumulated retention of default collections, administrative cost allowance and supplemental preclaims assistance. The Act stopped this (See Note 14). 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 federal student loan reserve account. As of June 30, 1999 and 1998, 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 federal student loan reserve 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 federal student loan reserve account which the Secretary determines is unnecessary to pay the program expenses and contingent liabilities of the guaranty agency. (See Note 13).

Effective July 1, 1998, the Act allowed a new account called the Guarantee Agency Operating Account to be established. As described in Note 1.2, this account accumulates funds to operate the guarantee agency.

At June 30, 1999 and 1998, 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>1999</u>	<u>1998</u>
Loan Guarantees Designated for Federal Government (See Note 13)	\$ 21,267,074	\$ 20,657,213
Designated for Guarantee Agency Operating Account	2,834,554	
Unreserved, Undesignated	<u>806,942</u>	<u>750,503</u>
	\$ <u>24,908,570</u>	\$ <u>21,407,716</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

7. Bonds Payable and Restricted Assets:

The Authority issues Guaranteed 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. As of year end, the current debt service account must contain assets equal to the accrued interest payable plus ten months of the outstanding bond principal due the following September 1 as required in the bond indentures. As of June 30, 1999 and 1998, the Authority was required to have assets deposited in the current debt service account of \$ 13,173,103 and \$ 6,570,062. The Authority has more on deposit in investments recorded in the Debt Reserve Account than the current debt service requirement in 1999 and 1998. The balance of restricted assets in the debt reserve account (\$ 39,744,792 in 1999 and \$ 33,821,578 in 1998) will be used to pay future debt service.

The insured Student Loan Revenue bonds as of June 30, 1999 and 1998 follow:

<u>Issued</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Outstanding 6/30/97</u>	<u>Issued (Retired) During FY 98</u>	<u>Balance Outstanding 6/30/98</u>	<u>Issued (Retired) During FY 99</u>	<u>Balance Outstanding 6/30/99</u>
11/01/88	\$ 70,855,000	6.00-7.40%	9/1/89-2003	\$ 8,650,000	\$( 8,650,000)	\$	\$	\$
06/01/89	47,220,000	6.60-7.10%	9/1/90-2003	17,100,000	( 17,100,000)			
12/01/90	48,400,000	6.60-7.13%	9/1/93-2005	36,385,000	( 14,850,000)	21,535,000	( 21,535,000)	
09/01/91	46,990,000	5.50-6.50%	9/1/94-2004	37,000,000	( 10,500,000)	26,500,000	( 6,500,000)	20,000,000
05/01/92	62,280,000	4.75-6.63%	9/1/94-2006	53,405,000	( 11,110,000)	42,295,000	( 5,775,000)	36,520,000
08/15/93	99,495,000	3.5-5.55%	9/1/97-2008	98,555,000	( 14,430,000)	84,125,000	( 11,030,000)	73,095,000
08/31/94	86,845,000	4.75-6.3%	9/1/96-2008	82,460,000	( 1,525,000)	80,935,000		80,935,000
08/30/95	62,055,000	5.00-6.00%	9/1/96-2015	62,055,000		62,055,000		62,055,000
06/17/98	49,850,000	Auction	3/1/06-2033		49,850,000	49,850,000		49,850,000
06/16/99	67,300,000	Auction	9/1/07-2019				67,300,000	67,300,000
				\$ <u>395,610,000</u>	\$ <u>(28,315,000)</u>	\$ <u>367,295,000</u>	\$ <u>67,300,000</u>	\$ <u>389,755,000</u>

The 1994, 1995, 1998 and 1999 bond issues include auction rate bonds totaling \$ 199,100,000. The interest rate on these bonds varies every twenty-eight or thirty-five days depending on auction rate bond investors. The effective interest rates for both 1999 and 1998 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, 1999 AND 1998

7. Bonds Payable and Restricted Assets (Continued):

The annual requirements to retire these bonds as of June 30, 1999 are as follows:

<u>Year Ended June 30.</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2000	\$ 9,770,000	\$ 15,150,722	\$ 24,920,722
2001	25,050,000	17,041,916	42,091,916
2002	23,210,000	15,745,722	38,955,722
2003	26,935,000	14,287,295	41,222,295
2004	19,005,000	13,166,200	32,171,200
2005	19,995,000	12,054,067	32,049,067
2006	45,535,000	10,262,314	55,797,314
2007	16,920,000	8,743,660	25,663,660
2008	37,465,000	7,209,709	44,674,709
2009	38,870,000	5,618,709	44,488,709
2010	17,800,000	4,842,667	22,642,667
2011		4,368,000	4,368,000
2012		4,368,000	4,368,000
2013		4,368,000	4,368,000
2014		4,368,000	4,368,000
2015	52,050,000	2,633,000	54,683,000
2016	29,900,000	1,289,333	31,189,333
2017		1,090,000	1,090,000
2018		1,090,000	1,090,000
2019	23,700,000	774,000	24,474,000
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>389,755,000</u>	\$ <u>150,411,981</u>	\$ <u>540,166,981</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

7. Bonds Payable and Restricted Assets (Continued):

On June 17, 1998, the Authority issued \$ 49,850,000 in Guaranteed Student Loan Revenue and Refunding Bonds with a variable auction interest rate which is capped at 12.0 percent to refund \$ 46,300,000 of outstanding 1988, 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 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 were considered defeased. The 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 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. As of June 30, 1999, all funds in the irrevocable trust have been disbursed to pay debt service payments

On June 16, 1999, the Authority issued \$ 67,300,000 in Guaranteed Student Loan Revenue and Refunding Bonds with a variable auction interest rate which is capped at 12.0 percent to refund \$ 43,570,000 of outstanding 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 \$ 43,570,000 after payment of \$ 23,730,000 for a bond premium (\$ 275,400), underwriting fees (\$ 339,865), other issuance costs (\$ 82,954) and purchase of new student loans (\$ 23,031,781) 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. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$ 445,888. This difference is composed of the call premium of \$ 275,400 and the amount of unamortized issue costs of \$ 170,488 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 refunding to have bonds under the 1993 bond resolution which has lower reserve requirements instead of 1979 bond resolution. The refunding increases its total debt payments by \$ 10,793,436 over the next nineteen years and obtains an economic gain (difference between the present values of the old and new debt service payments) of \$ 685,468. As of June 30, 1999, \$ 43,570,000 of bonds outstanding are considered defeased.

The deferred amount of debt refunding at June 30, 1999 and 1998 is \$ 445,080 and \$ 599,652, respectively. The amount of the unamortized bond premium and discounts at June 30, 1999 and 1998 is \$ 3,416,351 and \$ 3,454,658, 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.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

8. Special Revenue Fund (Continued):

For the fiscal year ended June 30, 1995 and prior years, the SCSLC reimbursed the Authority for all administrative costs of the program. During the fiscal years ended June 30, 1999 and 1998, the funds' deposits increased by \$ 25,798 and \$ 46,027, respectively, from repayments by participants and for \$ 339 and \$ 600, respectively, for interest receipts. The Authority expended \$ 26,137 and \$ 137,562 for repayment to the Federal Government during the year ended June 30, 1999 and 1998, respectively, 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 State Budget and Control Board.

The Authority paid the University of South Carolina \$ 30,293 and \$ 128,447 for the years ended June 30, 1999 and 1998, respectively, for data processing services and the expense is recorded as contractual expenses.

See Note 1.1 regarding transactions with SCSLC.

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, N.A. Money Purchase Pension Plan, a single employer plan. Wachovia Bank, N.A. is the Trustee of the Plan. The authority under which benefits provisions are established or amended, is provided in the Plan document as administered by the Plan Trustee. The Plan issues a stand-alone report annually and may be obtained by writing to the South Carolina Student Loan Corporation, Post Office Box 21487, Columbia, S.C. 29221 or by calling (803) 772-9480. 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 \$ 14,520. 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, 1999 and 1998 was to raise the contribution threshold from \$ 13,080 in 1998 to \$ 14,520 in 1999. Pension expense, total salary and covered salary is as follows:

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

10. Employee Benefit Plans (Continued):

10.1 (Continued):

	<u>1999</u>	<u>1998</u>
Total Salary	\$ 949,712	\$ 864,587
Total Covered Salary	800,391	618,264
Pension Expense (Actual and Required)	63,347	55,109
Percent Pension Expense to Covered Salary	7.91%	8.91%

- 10.2 In 1998, the 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. 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 no expenses for the Authority were paid for 1998. 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.

The Plan was finalized on July 1, 1998 and the Authority will participate in it. The finalized Plan covers all employees and previously contributed assets were used to fund the new Plan. The Plan is called the South Carolina Student Loan Corporation Defined Benefit Plan, a single employer plan. The authority under which benefit provision as established or amended is provided, in the Plan document as administered by Plan Trustees. The Plan is a defined benefit pension plan covering substantially all employees with one year of service and over 21 years of age. The Plan provides benefits based on participant earnings. The benefit formula uses one percent (1%) of average five highest years pay of each eligible employee multiplied by the number of years of service not to exceed 30 years. The Corporation's funding policy is to make the minimum annual contribution that is actuarially computed by the projected unit credit method required by the Plan. The Authority will contribute the amount billed to them by the Corporation. The Corporation issues a publicly available financial report that includes financial statements and required supplementary information for the South Carolina Student Loan Corporation Defined Benefit Plan. That report may be obtained by writing to South Carolina Student Loan Corporation, Post Office Box 21487, Columbia, South Carolina 29221 or by calling (803) 772-9480.

The total required and paid contributions for the year ended June 30, 1999 were \$ 225,392 representing 28.16% of covered salary of \$ 800,391. Total salary was \$ 949,712. Contributions are included in the personal expense category.

- 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 and are fully funded by the Authority. Employer contributions applicable to those benefits were \$ 194,778 and \$ 187,801 in 1999 and 1998, respectively, and are recorded as expenses under the personnel expense category, and are paid monthly as billed by insurers.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

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>1999</u>		<u>1998</u>
Approved Amount for Loans	\$	1,912,521,625	\$	1,642,790,757
Outstanding Balance		1,187,149,817		1,057,450,079

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, 1999 and 1998. Based on those results, the Authority incurred expense of \$ 493,123 for 1999 and \$ 153,377 for 1998. 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, 1999 and 1998, the Authority reports \$ 946,500 and \$ 453,377, respectively, arbitrage rebate liability.

13. Recall of FFELP (Federal Student Loan) Reserve Funds:

The amount designated for federal student loan reserves is the accumulated portion of retained earnings derived from the Federal Family Education Loan Program (FFELP) guarantee operations of the Authority and may only be used in support of FFELP (See Note 6). 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 Student Loan Reserve Account funds in cash or liquid assets held by the agency. The reserve ratio is defined as the amount of the agency's Federal Student Loan Reserve Account 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.

In December 1997, the Authority deposited into a separate account its first installment of \$ 1,366,028 and in December 1998 deposited the second installment of \$ 1,366,028 and may not use the funds totaling \$ 2,732,056 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. The funds are reflected in the long-term investments of the Federal Student Loan Reserve Account. 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.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999 AND 1998

14. 1998 Reauthorization of the Higher Education Act:

Effective July 1, 1998, the Act added and deleted certain federal revenues. The Act also required a new account called the Guarantee Agency Operating Account and replaced the Loan Guarantee Reserve Account with the Federal Student Loan Reserve Account. Both accounts are described in Note 1.2.

Prior to the 1998 Reauthorization of the Higher Education Act, the loan account included an amount equal to one-third of the insurance premiums withheld from borrowers on guaranteed loans 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 was also used to deposit Administrative Cost Allowance, Supplemental Preclaims Assistance Income and Retention on Default Collections which were 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 was based on new loans approved during the year. Supplemental preclaims assistance was based on the number of accounts which did not default. The Act required all funds collected prior to September 30, 1998 to be used in the Federal Student Loan Reserve Account. The Loan Account now has no loan guarantees reserved for the federal government.

The Act also eliminated the Administrative Cost Allowance and Supplemental Preclaims Assistance effective October 1, 1998. The Act required that 100% of Supplemental Preclaims Assistance, 70% of Administrative Cost Allowance and 100% of the Retention on Default Collection be recorded in the Federal Student Loan Reserve Account for the quarter ending September 30, 1998. The Guarantee Agency Operating Account recorded remaining 30% of the Administrative Cost Allowance for the same quarter.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION - Y2K ISSUE

YEAR ENDED JUNE 30, 1999

Year 2000 Issue (Unaudited)

The Year 2000 ("Y2K") Issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without programming, such programs will interpret, for the example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The Year 2000 Issue may affect electronic equipment containing computer chips that have date recognition features - such as environmental systems, elevators, and vehicles - as well as computer software programs. In addition, the Year 2000 Issue affects not only computer applications and equipment under the Authority's direct control, but also the system of other entities with which the Authority transacts business. Some of the Authority's systems/equipment affected by the Year 2000 Issue are critical to the continued and uninterrupted operations of the Authority. The Authority uses computers for its accounting, default aversion activities, loan processing, default collections, bond monitoring and payroll and considers these to be mission critical.

Because of the unprecedented nature of the Y2K Issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 or thereafter. Management cannot assure that the Authority is or will be Y2K ready, the Authority's remediation efforts will be successful in whole or in part, or that parties with whom the Authority does business will be year 2000 ready.

The Authority has adopted a plan to be handled by Authority employees to conduct various assessments of Y2K issues. A project plan for remediation of Authority systems, including timeliness, has been developed, costs determined and resources allocated. The Authority's Y2K plan includes multiple review steps to achieve compliance in all critical areas. Testing of all remediated systems is part of the remediation project plan. No additional funding in fiscal year 2000 to support the involvement of Authority employees or to provide the replacement or upgrade of Authority equipment, computer hardware and computer applications is anticipated. The Authority's management view is that Y2K funding is appropriate for the balance of the initiative.

Work to address the Year 2000 Issue with respect to each system critical to conducting operations falls predominantly within one of the following stages of work:

1. Awareness stage - Establishing a budget and project plan for dealing with the Year 2000 Issue.
2. Assessment stage - Identifying the systems and components for which Year 2000 work is needed.
3. Remediation stage - Making changes to systems/equipment.
4. Validation/testing stage - Validating and testing changes that were made during the remediation stage.

At June 30, 1999, the Authority has completed the awareness and assessment stages with respect to mission-critical systems and related equipment. The Authority is 95% complete in both its remediation and validation/testing stages of all mission critical systems listed above and related equipment.

The Authority is also working with outside vendors including the Bank of New York and the U. S. Department of Education to assist in their compliance efforts so that no outside interruptions will occur.

The Authority is making contingency plans for the possible failure of computer systems and embedded devices and also for possible interruptions to the Authority's business.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY**  
**ENTERPRISE FUND**  
**BALANCE SHEET BY ACCOUNTS**  
**JUNE 30, 1999**

<b>ASSETS</b>	Required by Bond Indentures			Guarantee	Federal Student	Inter-	Total
	Sinking Account	Debt Reserve Account	Loan Account	Agency Operating Account	Loan Reserve Account	Account Eliminations	
<b>Current Assets:</b>							
Cash and Cash Equivalents:							
Deposits Underinvested (Overinvested)	(279,296)	\$	(95,898)	\$	502,662	\$	127,468
Investments	20,945,726		68,542,930	,641,289	15,732,370		106,862,315
Cash and Cash Equivalents - Restricted:							
Deposits Underinvested (Overinvested)			3,190,000				3,190,000
Investments			19,901,843				19,901,843
Prepaid Expense			255,367				255,367
Receivables:							
Current Portion of Finance Loans			69,543,309				69,543,309
Current Portion of Student Loans - FISL	3,525						3,525
Due from South Carolina Student Loan Corporation	6,469,818						6,469,818
Accrued Interest Receivable	716,044		8,008	11,262	195,845		931,159
Federal Reinsurance Receivable					3,376,848		3,376,848
Loan Processing and Issuance Fee Receivable				150,040			150,040
Default Aversion Fee Receivable				1,479,043			1,479,043
Due from Other Funds	39,954		347,352			(387,306)	
Miscellaneous	6,265		83,878				90,143
Total Current Assets	\$ 27,902,036	\$ 23,091,843	\$ 138,684,946	\$ 3,281,634	\$ 19,807,725	\$ (387,306)	\$ 212,380,878
<b>Long-Term and Other Assets:</b>							
Receivables:							
Finance Loans, Less Current Portion	\$	\$	\$ 291,995,886	\$	\$	\$	\$ 291,995,886
Student Loans - FISL, Less Current Portion	9,911						9,911
Deferred Cost of Issuance of Bonds			1,058,976				1,058,976
Investments					2,732,086		2,732,086
Restricted Assets:							
Investments		16,652,949					16,652,949
Total Long-Term and Other Assets	\$ 9,911	\$ 16,652,949	\$ 293,054,862	\$ -	\$ 2,732,086	\$ -	\$ 312,449,808
<b>Property, Plant &amp; Equipment:</b>							
Furniture and Equipment	\$	\$	\$	\$ 24,105	\$ 238,840	\$	\$ 262,945
Automobile					13,100		13,100
Less: Accumulated Depreciation					(45,327)		(45,327)
Total Property, Plant & Equipment	\$	\$ -	\$ -	\$ 24,105	\$ 206,613	\$ -	\$ 230,718
Total Assets	\$ 27,911,947	\$ 39,744,792	\$ 431,739,808	\$ 3,305,739	\$ 22,746,424	\$ (387,306)	\$ 525,061,404

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SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
ENTERPRISE FUND  
BALANCE SHEET BY ACCOUNTS  
JUNE 30, 1999

<u>LIABILITIES AND FUND EQUITY</u>	<u>Required by Bond Indentures</u>			<u>Guarantee Agency Operating Account</u>	<u>Federal Student Loan Reserve Account</u>	<u>Inter Account Eliminations</u>	<u>Total</u>
	<u>Sinking Account</u>	<u>Debt Reserve Account</u>	<u>Loan Account</u>				
<u>Current Liabilities:</u>							
Accounts Payable	14,127	\$	\$ 122,096	\$	\$	\$	\$ 136,223
Arbitrage Rebate Payable to Federal Government		946,500					946,500
Compensated Absences			74,955				74,955
Due to South Carolina Student Loan Corporation	8,621,305			83,879	307		8,705,491
Due to Other Funds				387,306		(387,306)	
Default Aversion Fees Payable					,479,043		1,479,043
Payable from Restricted Assets:							
Current Maturities of Bonds Payable		9,770,000					9,770,000
Accrued Bond Interest Payable		5,130,246					5,130,246
Total Current Liabilities	\$ 8,635,432	\$ 15,846,746	\$ 197,051	\$ 471,185	\$ 1,479,350	\$ (387,306)	\$ 26,242,458
<u>Bonds Payable, Less Current Maturities, Deferred Amount of Debt Refunding and Bond Premiums and Discounts</u>	\$ 375,677,680	\$	\$	\$	\$	\$	\$ 375,677,680
<b>Total Liabilities</b>	\$ 384,313,112	\$ 15,846,746	\$ 197,051	\$ 471,185	\$ 1,479,350	\$ (387,306)	\$ 401,920,138
<u>Fund Equity:</u>							
Retained Earnings:							
Reserved for Bond Indentures - Current Debt Service - 1979 Resolution	\$	\$ 1,230,297	\$	\$	\$	\$	\$ ,230,297
Reserved for Bond Indentures - Current Debt Service - 1993 Resolution		11,942,806					11,942,806
Reserved for Bond Indentures - 1979 Resolution	(50,619,395)	10,723,001	47,904,420				8,008,026
Reserved for Bond Indentures - 1993 Resolution	(305,781,770)	1,942	382,831,395				77,051,567
Unreserved			806,942	2,834,554	21,267,074		24,908,570
Total Fund Equity (Deficit)	\$ (356,401,165)	\$ 23,898,046	\$ 431,542,757	\$ 2,834,554	\$ 21,267,074	\$	\$ 123,141,266
<b>Total Liabilities and Fund Equity</b>	\$ 27,911,947	\$ 39,744,792	431,739,808	\$ 3,305,739	\$ 22,746,424	\$ (387,306)	\$ 525,061,404

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY**  
**ENTERPRISE FUND**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS BY ACCOUNTS**  
**YEAR ENDED JUNE 30, 1999**

	<u>Required by Bond Indentures</u>			<u>Guarantee</u>	<u>Federal Student</u>	<u>Total</u>
	<u>Sinking</u> <u>Account</u>	<u>Debt Reserve</u> <u>Account</u>	<u>Loan</u> <u>Account</u>	<u>Agency Operating</u> <u>Account</u>	<u>Loan Reserve</u> <u>Account</u>	
<b><u>Operating Revenue:</u></b>						
<b>United States Department of Education:</b>						
Administrative Cost Allowance	\$	\$	\$	\$ 258,812	\$ 603,523	\$ 862,335
Loan Processing and Issuance Fee				377,279		377,279
Account Maintenance Fee				1,177,090		1,177,090
Supplemental Preclaims Assistance Income					301,266	301,266
Default Aversion Fee Income				1,479,043		1,479,043
Retention on Default Collections				908,568	260,625	1,169,193
Insurance Premiums					974,225	974,225
<b>Income from South Carolina Student Loan Corporation:</b>						
Subsidized Interest		3,517,765				3,517,765
Special Allowance		4,097,885				4,097,885
Non-Subsidized Interest		23,725,825				23,725,825
Late Charges		356,242				356,242
Miscellaneous Payments of Student Loans		190				190
Investment Income		6,622,228		41,648	1,077,054	7,787,068
Net Increase (Decrease) in the Fair Value of Investments		(93,596)		(156,667)	(289,616)	(665,822)
<b>Total Operating Revenue</b>	<b>\$</b>	<b>38,226,539</b>	<b>\$</b>	<b>(146,744)</b>	<b>\$</b>	<b>(115,019)</b>
				<b>\$ 4,267,731</b>	<b>\$ 2,927,077</b>	<b>\$ 45,159,584</b>

**Operating Expenses:**

Personnel	\$	\$	\$	\$ 1,177,248	\$ 332,113	\$ 1,509,361
Contractual Services				163,216	66,436	229,652
General Operating				302,932	174,127	477,059
South Carolina Student Loan Corporation for Operations				5,368,495	(185,903)	5,182,592

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY**  
**ENTERPRISE FUND**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS BY ACCOUNTS**  
**YEAR ENDED JUNE 30, 1999**

	<u>Required by Bond Indentures</u>			<u>Guarantee</u>	<u>Federal Student</u>	<u>Total</u>
	<u>Sinking</u> <u>Account</u>	<u>Debt Reserve</u> <u>Account</u>	<u>Loan</u> <u>Account</u>	<u>Agency Operating</u> <u>Account</u>	<u>Loan Reserve</u> <u>Account</u>	
<b><u>Operating Expenses:</u></b>						
Bond Interest Expense	\$ 532,743	\$ 17,816,705	\$	\$	\$	\$ 18,349,448
Amortization - Deferred Cost of Bond Issuance			118,732			118,732
Default Aversion Fee Expense					1,479,044	1,479,044
Other Fees	940,146		440,405	10,151	231,029	1,621,731
Total Operating Expenses	<u>\$ 1,472,889</u>	<u>\$ 17,816,705</u>	<u>\$ 5,927,632</u>	<u>\$ 1,653,547</u>	<u>\$ 2,096,846</u>	<u>\$ 28,967,619</u>
<sup>3</sup> <b><u>Operating Income (Loss)</u></b>	<u>\$ 36,753,650</u>	<u>\$ (17,963,449)</u>	<u>\$ (6,042,651)</u>	<u>\$ 2,614,184</u>	<u>\$ 830,231</u>	<u>\$ 16,191,965</u>
<b><u>Non-Operating Expenses:</u></b>						
Arbitrage Expense	\$	\$ (493,123)	\$	\$	\$	\$ (493,123)
<b><u>Income (Loss) Before Transfers Between Accounts</u></b>	<u>\$ 36,753,650</u>	<u>\$ (18,456,572)</u>	<u>\$ (6,042,651)</u>	<u>\$ 2,614,184</u>	<u>\$ 830,231</u>	<u>\$ 15,698,842</u>
<b><u>Transfers Between Accounts:</u></b>						
Transfer In	\$ 104,341,709	\$ 55,185,828	\$ 88,210,657	\$ 220,370	\$ 13,005,859	\$ 260,964,423
Transfer (Out)	<u>(154,249,966)</u>	<u>(39,347,195)</u>	<u>(67,367,262)</u>			<u>(260,964,423)</u>
Total Transfers Between Accounts	<u>\$ (49,908,257)</u>	<u>\$ 15,838,633</u>	<u>\$ 20,843,395</u>	<u>\$ 220,370</u>	<u>\$ 13,005,859</u>	<u>\$ -</u>
<b><u>Net Income (Loss)</u></b>	<u>\$ (13,154,607)</u>	<u>\$ (2,617,939)</u>	<u>\$ 14,800,744</u>	<u>\$ 2,834,554</u>	<u>\$ 13,836,090</u>	<u>\$ 15,698,842</u>
<b><u>Retained Earnings (Deficit), Beginning</u></b>	<u>(343,246,558)</u>	<u>26,515,985</u>	<u>416,742,013</u>		<u>7,430,984</u>	<u>107,442,424</u>
<b><u>Retained Earnings (Deficit), Ending</u></b>	<u>\$ (356,401,165)</u>	<u>\$ 23,898,046</u>	<u>\$ 431,542,757</u>	<u>\$ 2,834,554</u>	<u>\$ 21,267,074</u>	<u>\$ 123,141,266</u>

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY**  
**ENTERPRISE FUND**  
**STATEMENT OF CASH FLOWS BY ACCOUNTS**  
**YEAR ENDED JUNE 30, 1999**

	<u>Required by Bond Indentures</u>			<u>Guarantee</u>	<u>Federal Student</u>	<u>Total</u>
	<u>Sinking</u>	<u>Debt Reserve</u>	<u>Loan</u>	<u>Agency Operating</u>	<u>Loan Reserve</u>	
	<u>Account</u>	<u>Account</u>	<u>Account</u>	<u>Account</u>	<u>Account</u>	
<b><u>Cash Flows from Operating Activities:</u></b>						
Operating Income (Loss)	\$ 36,753,650	\$ (17,963,449)	\$ (6,042,651)	\$ 2,614,184	\$ 830,231	\$ 16,191,965
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			(110,856,367)			(110,856,367)
Finance Loan Payments Received from South Carolina Student Loan Corporation			76,657,285			76,657,285
Payments Received on FISL Loans	3,084					3,084
Purchase of Student Loans Under Loan Guarantees					(14,345,137)	(14,345,137)
Payments Received from US Department of Education Under Federal Reinsurance Program					12,581,787	12,581,787
Amortization of Cost of Bond Issuance			118,732			118,732
Amortization of Deferred Amount of Refunding - Interest Expense	154,572					154,572
Amortization of Premiums and Discounts on Bonds Payable - Interest Expense	378,172					378,172
Investment Income (Investing Activities Category)	(6,622,228)		(41,649)	(46,138)	(1,077,054)	(7,787,069)
Depreciation Expense					45,327	45,327
Net (Increase) Decrease in Fair Value of Investments Reported as Cash Equivalents (Investing Activities Category)	93,596	146,744	156,667	(20,801)	289,616	665,822
Bond Interest Expense (Noncapital Financing Activities Category)		17,816,705				17,816,705
Changes in Assets and Liabilities:						
Increase in Prepaid Expense			(50,180)			(50,180)
Decrease in Due from South Carolina Student Loan Corporation	(340,971)					(340,971)
Decrease in Administrative Cost Allowance Receivable			832,856			832,856
Increase in Loan Processing and Issuance Fee Receivable				(150,040)		(150,040)
Increase in Default Aversion Fee Receivable				(1,479,043)		(1,479,043)
Increase in Due from Other Funds	(39,954)		(347,352)			(387,306)
Increase in Miscellaneous Receivables	(6,265)		(83,878)			(90,143)
Increase (Decrease) in Accounts Payable	7,203		(52,449)		(890)	(46,136)
Increase in Compensated Absences Liability			14,804			14,804
Increase in Due to Other Funds				387,306		387,306
Increase in Default Aversion Fee Payable					1,479,043	1,479,043
Increase in Due to South Carolina Student Loan Corporation	2,636,209			83,879	307	2,720,395
Net Cash Provided by (Used in) Operating Activities	\$ 33,017,068	\$	\$ (39,694,182)	\$ 1,389,347	\$ (196,770)	\$ (5,484,537)

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY**  
**ENTERPRISE FUND**  
**STATEMENT OF CASH FLOWS BY ACCOUNTS**  
**YEAR ENDED JUNE 30, 1999**

	Required by Bond Indentures			Guarantee Agency Operating Account	Federal Student Loan Reserve Account	Total
	Sinking Account	Debt Reserve Account	Loan Account			
<b><u>Cash Flows from Noncapital Financing Activities (Continued):</u></b>						
Proceeds from Issuing Revenue Bonds For Student Loans	\$ 67,300,000	\$	\$	\$	\$	\$ 67,300,000
Transfer of Bonds Payable to Debt Service Accounts	(53,340,000)					(53,340,000)
Transfer of Cost of Issuance to Deferred Amount of Refunding	(170,488)		170,488			
Payment of Bond Premium	(339,865)					(339,865)
Payment of Bond Call Premium	(275,400)					(275,400)
Repayment of Revenue Bonds		(44,840,000)				(44,840,000)
Transfer to Current Bonds Payable from Sinking Account		53,340,000				53,340,000
Cost of Bond Issuance			(82,954)			(82,954)
<b>Operating Transfers:</b>						
In from Other Accounts	104,341,709	55,185,828	88,210,657	220,370	13,005,859	260,964,423
Out to Other Accounts	(154,249,966)	(39,347,195)	(67,367,262)			(260,964,423)
Interest Paid on Revenue Bonds		(18,268,675)				(18,268,675)
Net Cash Provided by (Used in) Noncapital Financing Activities	\$ (36,734,010)	\$ 6,069,958	\$ 20,930,929	\$ 220,370	\$ 13,005,859	\$ 3,493,106
<b><u>Cash Flows from Capital and Related Financing Activities:</u></b>						
Purchase of Fixed Assets	\$	\$	\$	\$ (24,105)	\$ (251,940)	\$ (276,045)
Net Cash (Used in) Capital and Related Financing Activities	\$ -	\$ -	\$ -	\$ (24,105)	\$ (251,940)	\$ (276,045)
<b><u>Cash Flows from Investing Activities:</u></b>						
Interest Received on Investment Securities	\$ 6,701,321	\$	\$ 165,923	\$ 34,876	\$ 929,458	\$ 7,831,578
Proceeds from Sale and Maturities of Investments		3,380,602	5,315,821		1,263,327	9,959,750
Purchase of Investments		(5,862,411)			(2,553,383)	(8,415,794)
Net Increase (Decrease) in Fair Value of Investments Reported as Cash Equivalents	(93,596)	(146,744)	(156,667)	20,801	(289,617)	(665,823)
Net Cash Provided by (Used in) Investing Activities	\$ 6,607,725	\$ (2,628,553)	\$ 5,325,077	\$ 55,677	\$ (650,215)	\$ 8,709,711
<b><u>Net Increase (Decrease) in Cash and Cash Equivalents</u></b>	\$ 2,890,783	\$ 3,441,405	\$ (13,438,176)	\$ 1,641,289	\$ 11,906,934	\$ 6,442,235
<b><u>Cash and Cash Equivalents:</u></b>						
Beginning	17,775,648	19,650,438	81,885,207		4,328,098	123,639,391
Ending	\$ 20,666,431	\$ 23,091,843	\$ 68,447,031	\$ 1,641,289	\$ 16,235,032	\$ 130,081,626

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY**  
**ENTERPRISE FUND**  
**STATEMENT OF CASH FLOWS BY ACCOUNTS**  
**YEAR ENDED JUNE 30, 1999**

	<u>Required by Bond Indentures</u>			<u>Guarantee</u>	<u>Federal Student</u>	<u>Total</u>
	<u>Sinking</u>	<u>Debt Reserve</u>	<u>Loan</u>	<u>Agency Operating</u>	<u>Loan Reserve</u>	
	<u>Account</u>	<u>Account</u>	<u>Account</u>	<u>Account</u>	<u>Account</u>	
<b><u>Supplemental Disclosures of Cash Flow Information:</u></b>						
Interest Collected on Finance and FISL Loans - Operating Activities	\$ 26,902,619	\$	\$	\$	\$	\$ 26,902,619
<b><u>Supplemental Disclosures of Non-Cash Transactions:</u></b>						
Rebate Liability Related to Non-Operating Arbitrage Rebate Expense - Non-Capital Financing Activity	\$	\$ 493,123	\$ -	\$ -	\$ -	\$ 493,123
Amortization of Deferred Cost of Issuance of Bonds - Operating Activity	\$	\$	\$ 170,488	\$	\$	\$ 170,488
Amortization of Deferred Amount of Debt Refunding - Operating Activity	\$ 445,888	\$	\$	\$	\$	\$ 445,888

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY**  
**ENTERPRISE FUND**  
**SCHEDULE OF EXPENSES AND CAPITAL ADDITIONS COMPARED TO BUDGET**  
**YEAR ENDED JUNE 30, 1999**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
<b><u>Operating Expenses:</u></b>			
<b>Personnel:</b>			
Staff Salaries	\$ 1,039,600	\$ 949,712	\$ 89,888
Social Security	77,850	67,529	10,321
Group Insurance	206,500	194,778	11,722
Retirement - Defined Contribution	93,500	70,306	23,194
Unemployment	2,025	1,645	380
Total Personnel Before Retirement - Defined Benefit	<u>\$ 1,419,475</u>	<u>\$ 1,283,970</u>	<u>\$ 135,505</u>
<b>Contractual:</b>			
Loan Servicing	\$ 194,500	\$ 185,880	\$ 8,620
Legal	10,200	1,449	8,751
Accounting	2,100	3,080	(980)
Credit Bureau Fees	13,200	10,375	2,825
Enrollment Verification	33,500	28,868	4,632
Total Contractual	<u>\$ 253,500</u>	<u>\$ 229,652</u>	<u>\$ 23,848</u>
<b>General Operating:</b>			
Rent	\$ 65,500	\$	
Telephone	71,200		
Printing	47,200		
Postage	135,650		
Supplies	26,000		
Travel	35,000		
Equipment Maintenance	12,750		
Subscriptions & Fees	6,500		
Meeting and Conference Expenses	1,500		
Insurance - General and Automotive	17,100		
Contingencies	15,000		
Depreciation	-		
Total General Operating	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Capital Additions:</b>			
Equipment, Furniture and Fixtures	<u>\$ 92,000</u>	<u>\$ 276,045</u>	<u>\$ (184,045)</u>
Total Personnel Expenses Before Retirement - Defined Benefit	<u>\$</u>	<u>1,283,970</u>	<u>\$</u>
Retirement - Defined Benefit	<u>\$</u>	<u>225,391</u>	<u>\$</u>
Total Personnel Expenses	<u>\$</u>	<u>1,509,361</u>	<u>\$</u>
Total Contractual	<u>\$</u>	<u>229,652</u>	<u>\$</u>
Total General Operating	<u>\$</u>	<u>477,059</u>	<u>\$</u>
Total Operating Expenses	<u>\$</u>	<u>2,216,072</u>	<u>\$</u>
South Carolina Student Loan Corporation Operating Costs	<u>\$</u>	<u>5,182,592</u>	<u>\$</u>
<b>Other Expenses:</b>			
Interest on Bonds	<u>\$</u>	<u>18,349,448</u>	<u>\$</u>
Amortization - Deferred Cost of Bond Issuance	<u>\$</u>	<u>118,732</u>	<u>\$</u>
Default Aversion Fee Expense	<u>\$</u>	<u>1,479,043</u>	<u>\$</u>
Other Fees	<u>\$</u>	<u>1,621,732</u>	<u>\$</u>
Total Expenses	<u>\$</u>	<u>28,967,619</u>	<u>\$</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF ORGANIZATIONAL DATA

YEAR ENDED JUNE 30, 1999

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>
James H. Hodges	Governor of South Carolina
Grady L. Patterson, Jr.	State Treasurer of South Carolina
James A. Lander	Comptroller General of South Carolina
John Drummond	Chairman, South Carolina Senate Finance Committee
Robert W. Harrell, Jr.	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, 1999

<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	\$	\$ 862,335
Loan Processing and Issuance Fee	84.032		377,279
Account Maintenance Fee	84.032		1,177,090
Supplemental Preclaims Assistance Income	84.032		301,266
Default Aversion Fee Income	84.032		1,479,043
Retention on Default Collections	84.032		1,169,193
<u>Passed Through South Carolina Student Loan Corporation:</u>			
Special Allowances	84.032		4,097,885
Subsidized Interest	84.032		<u>3,517,765</u>
Total Federal Family Education Loan Program (Major Program)			\$12,981,856
Paul Douglas Teacher's Scholarship Program (Note 4)	84.176		<u>                    </u>
Total Department of Education			<u>\$12,981,856</u>

Notes - CFDA #84.032:

- The total approved amount at June 30, 1999, of all student loans under guarantee by the South Carolina State Education Assistance Authority was \$ 1,912,521,625. The total outstanding balance of these loans was \$ 1,187,149,817. 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). The Account maintenance fee is based on average principal outstanding for the fiscal year for loans serviced. The loan processing and issuance fee is based on loans originated during the fiscal year. The default aversion fee is based on the balance of principal and interest on a loan that was prevented from defaulting.
- The South Carolina State Education Assistance Authority received \$ 12,581,787 during the year ended June 30, 1999, under Federal Reinsurance Agreements pursuant to Sections 428A and 428(c) of the Higher Education Act of 1965, as amended.
- The total value at June 30, 1999, since inception, of all defaulted student loans which the South Carolina State Education Assistance Authority has purchased under Federal reinsurance agreements was \$ 60,615,317. 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:

- Program participants repaid \$ 25,798 to the Authority. The Program also earned interest income of \$ 339. The Authority owes the Federal Government \$ 74,996 at June 30, 1999.

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, 1999, and have issued our report thereon dated September 3, 1999. 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 solely for the information and use of the management and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

September 3, 1999

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, 1999. 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, 1999.

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,

To the Members of the Authority  
South Carolina State Education Assistance Authority  
Page 2

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 solely for the information and use of the management and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

September 3, 1999

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 1999

1. Summary of Auditor's Results:
  - (i) Type of report issued on financial statements Unqualified
  - (ii) Reportable material weaknesses in internal control over financial reporting None Identified
  - (iii) Reportable conditions not considered to be material weaknesses in internal control None Identified
  - (iv) Noncompliance material to the financial statements None Noted
  - (v) Material weaknesses in internal control over major programs None Identified
  - (vi) Reportable conditions not considered to be material weaknesses in internal control over major programs None Identified
  - (vii) Type of report issued on compliance for major programs Unqualified
  - (viii) Audit findings required to be reported under paragraph .510(a) OMB 133 None Disclosed
  - (ix) Identification of major programs:
    - U.S. Department of Education:
    - Federal Family Education Loan Program:

	<u>CFDA#</u>	<u>Expenditure</u>
Administrative Cost Allowance	84.032	\$ 862,335
Loan Processing and Issuance Fee	84.032	377,279
Account Maintenance Fee	84.032	1,177,090
Supplemental Preclaims Assistance Income	84.032	301,266
Default Aversion Fee Income	84.032	1,479,043
Retention on Default Collections	84.032	1,169,193
<u>Passed Through South Carolina Student Loan Corporation:</u>		
Special Allowances	84.032	4,097,885
Subsidized Interest	84.032	<u>3,517,765</u>
Total Federal Family Education Loan Program (Major Program)		<u>\$ 12,987,856</u>
  - (x) Dollar threshold used to distinguish between Type A and Type B programs \$ 389,456
  - (xi) 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 Reported
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 Reported
  - (ii) Audit findings which relate to both the financial statements and Federal awards None Reported

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

SCHEDULE OF SUMMARY OF PRIOR YEAR AUDIT FINDINGS

JUNE 30, 1999

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, 1999

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