

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

COLUMBIA, SOUTH CAROLINA

FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 2010 AND 2009

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

October 8, 2010

The Honorable Mark Sanford, Governor
and
Members of the Authority
South Carolina State Education Assistance Authority
Columbia, South Carolina

This report on the audit of the basic financial statements of the South Carolina State Education Assistance Authority and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2010, was issued by Derrick, Stubbs & Stith, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
CONTENTS
YEARS ENDED JUNE 30, 2010 AND 2009

OFFICE OF THE STATE AUDITOR APPROVAL LETTER	1
INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 7
FINANCIAL STATEMENTS	
STATEMENTS OF NET ASSETS - ENTERPRISE FUND	8
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS - ENTERPRISE FUND	9
STATEMENTS OF CASH FLOWS - ENTERPRISE FUND	10 - 11
NOTES TO FINANCIAL STATEMENTS	12 - 27
SUPPLEMENTARY INFORMATION	
SCHEDULE OF NET ASSETS BY ACCOUNTS - ENTERPRISE FUND	28 - 29
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS BY ACCOUNTS - ENTERPRISE FUND	30 - 31
SCHEDULE OF CASH FLOWS BY ACCOUNTS - ENTERPRISE FUND	32 - 33
SCHEDULE OF EXPENSES COMPARED TO BUDGET	34
SCHEDULE OF ORGANIZATIONAL DATA	35
FEDERAL REPORTING AND SINGLE AUDIT SECTION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	36
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT</i> <i>AUDITING STANDARDS</i>	37
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	38 - 39
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	40
SCHEDULE OF SUMMARY OF PRIOR AUDIT FINDINGS	41
SCHEDULE OF CORRECTIVE ACTION PLAN	42



DERRICK, STUBBS & STITH, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

508 Hampton Street, 1st Floor • Post Office Box 36
Columbia, South Carolina 29202-0036
Telephone: (803) 799-5810 • Facsimile: (803) 799-5554
www.dsscpa.com

A. David Masters, CPA
Charles R. Statler, Jr., CPA
Alan F. Grimsley, CPA
Hugh R. Penny, CPA, CISA, CBA
H. Warren Counts, Jr., CPA
K. Todd Dailey, CPA, CVA
Timothy M. Monahan, CPA

INDEPENDENT AUDITORS' 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 Enterprise Fund of the South Carolina State Education Assistance Authority as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 opinions.

As discussed in Note 1, the financial statements present only the Enterprise Fund 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 Enterprise Fund of the South Carolina State Education Assistance Authority as of June 30, 2010 and 2009, and the respective changes in its financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2010, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. 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 express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements of the South Carolina State Education Assistance Authority taken as a whole. The schedules, listed in the table of contents as supplementary information, are presented for the purposes of additional analysis and are not a required part of the 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 basic financial statements taken as a whole.

Derrick, Stubbs & Stith, L.L.P.

September 15, 2010

South Carolina State Education Assistance Authority Management's Discussion and Analysis

The South Carolina State Education Assistance Authority (Authority) functions to guarantee and provide financing for education loans for students and parents. As a guarantor, the Authority processes loans submitted for guarantee, issues loan guarantees, provides collection assistance for delinquent loans, pays claims for loans in default, collects loans on which default claims have been paid, and makes appropriate responses to the United States Secretary of Education (the Secretary). As a provider of financing, the Authority issues bonds to finance education loans.

The Authority was originally created to provide a means of making loans to students in order to enable them to attend eligible institutions, as such terms are defined in the Higher Education Act. Such loan financing has been conducted by the Authority through its Student Loan Finance Program which has been administered by the South Carolina Student Loan Corporation (Corporation) since its inception.

The Corporation and the Authority have entered into Loan Agreements pursuant to the terms of which the Authority has agreed to lend bond proceeds to the Corporation to enable the Corporation to make or acquire education loans. The obligation of the Corporation to repay the finance loans is evidenced by a promissory note of the Corporation and is secured by a pledge under the Loan Agreement.

This section of the Authority's annual financial report presents a discussion and analysis of the Authority's financial performance for the fiscal year ended June 30, 2010. Please read it in conjunction with the Authority's statement of net assets, statements of revenue, expenses and changes in net assets, statement of cash flows, and the notes to financial statements, which follow this section.

FINANCIAL HIGHLIGHTS:

●	The Authority's total assets at June 30, 2010 were approximately \$1,074,277,000, which is a decrease of approximately \$103,706,000, a 9% reduction from June 30, 2009.
●	The Authority's total loans outstanding at June 30, 2010, were approximately \$907,929,000, which is a decrease of approximately \$161,063,000 or 15% less than June 30, 2009. The total student loan portfolio consisted of approximately \$72,179,000 of unencumbered loans, and approximately \$835,750,000 of finance student loans (note 4) as of June 30, 2010. The Authority retained the \$72,179,000 in unencumbered loans as a result of the redemption of the 93 Bond Resolution during the year, as these loans were pledged to the 93 Bond Resolution to provide excess parity.
●	The Authority's operating revenue for the fiscal year ended June 30, 2010 was approximately \$33,371,000, which is a decrease of approximately \$21,764,000 or 39% from the fiscal year ended June 30, 2009.
●	The Authority's interest expense for the fiscal year ended June 30, 2010 was approximately \$7,934,000, a decrease of approximately \$17,892,000 or 69% less than reported during the fiscal year ended June 30, 2009.
●	The Authority's total other operating expenses for the fiscal year ended June 30, 2010 was approximately \$28,761,000, which is an increase of approximately \$1,889,000 or 7% over the fiscal year ended June 30, 2009.
●	The Authority's change in net assets for the fiscal year ended June 30, 2010 was approximately \$(1,752,000), which is a reduction of approximately 1% in net assets over the previous fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS:

The Authority's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied on an accrual basis. Under the accrual basis of GAAP, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The three basic financial statements presented within the financial statements are:

Statements of Net Assets – This statement presents information regarding the Authority's assets, liabilities and net assets. Net assets represent the total assets less the total liabilities. The statement of net assets classifies assets, liabilities and net assets as current, long-term and restricted.

Statements of Revenues, Expenses and Changes in Net Assets – This statement presents the Authority's interest income, cost of funds, operating expenses and changes in net assets for the fiscal year.

Statements of Cash Flows – The Authority's statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, non-capital financing, capital and investing activities.

FINANCIAL ANALYSIS OF THE AUTHORITY:

The Authority's total net assets at June 30, 2010 were approximately \$144,305,000 which is a decrease of approximately \$1,752,000 or 1% from June 30, 2009. Components of the Authority's balance sheet as of June 30, 2010 and June 30, 2009 were as follows:

	2010	2009	Percentage Increase/(Decrease)
Current Assets	\$ 220,193,654	\$ 155,729,653	41%
Capital assets	91,038	160,075	-43%
Other Long-Term Assets	853,992,759	1,022,092,905	-16%
Restricted Assets	0	0	0%
Total Assets	\$ 1,074,277,451	\$ 1,177,982,633	-9%
Current Liabilities	\$ 33,100,263	\$ 17,412,335	90%
Long-Term Liabilities Payable	896,872,149	1,014,513,773	-12%
Total Liabilities	\$ 929,972,412	\$ 1,031,926,108	-10%
Net Assets:			
Invested in Capital Assets	\$ 91,038	\$ 160,075	-43%
Restricted	63,778,010	144,669,418	-56%
Unrestricted	80,435,991	1,227,032	6455%
Total Net Assets	\$ 144,305,039	\$ 146,056,525	-1%
Total Liabilities and Net Assets	\$ 1,074,277,451	\$ 1,177,982,633	-9%

The decrease of \$103,706, 000 noted above in the Authority's total assets is primarily due to the payment of the note/finance loans (\$161,003,000) due from SCSLC for student loans initially funded from bond proceeds of the 93 Resolution. SCSLC obtained other funding for these loans in July 2009 and as a result paid off its outstanding note to the Authority for the loans funded by advances by the Authority to SCSLC from bond proceeds received under the 93 Resolution. The Authority in turn, redeemed all outstanding bonds (\$155,000,000) and transferred the remaining loans outstanding from the 93 Resolution to an Eligible Lender Trust fund. Total assets decreased from approximately \$1,177,983,000 at June 30, 2009 to approximately \$1,074,277,000 at June 30, 2010, and loans outstanding decreased 15% from approximately \$1,068,992,000 at June 30, 2009 to approximately \$907,929,000 at June 30, 2010, again mostly as a result of the refinancing of the student loans by SCSLC, which were originally funded by the 93 Resolution.

Components of the statement of revenues, expenses and changes in net assets for these two fiscal years are as follows:

	2010	2009	Percentage Increase/(Decrease)
Loan Interest Income	\$ 16,456,463	\$ 36,188,442	-55%
Guaranty Agency Income	16,845,432	17,979,433	-6%
Investment Interest Income	69,419	967,101	-93%
Total Operating Revenue	\$ 33,371,314	\$ 55,134,976	-39%
Interest Expense	\$ 7,933,530	\$ 25,826,245	-69%
Other Operating Expenses:			
General Administration	5,219,986	5,157,751	1%
External Loan Servicing	6,765,203	5,326,708	27%
Borrower Incentives	84,439	2,380,298	-96%
Consolidation and Lender Rebate Fees	0	2,591,141	-100%
Other Fees	16,691,498	11,416,378	46%
Total Other Operating Expenses	\$ 28,761,126	\$ 26,872,276	7%
Total Operating Expenses	\$ 36,694,656	\$ 52,698,521	-30.37%
Total Non-Operating (Income)Expenses	(1,571,856)	1,208,709	-230%
Change in Net Assets	-1,751,486	1,227,746	-243%
Beginning Net Assets	146,056,525	144,828,779	1%
Ending Net Assets	\$ 144,305,039	\$ 146,056,525	-1%

Student and Finance Loans	907,928,893	1,068,991,820	-15.0668%
Bonds Outstanding	894,700,000	1,011,050,000	-11.5078%

The decrease noted above in the Authority's net assets of \$1,752,000 from the prior year was primarily due to an increase in reinsurance expense, as the Authority recorded approximately \$4,850,000 in expense related to the potential liability to the Authority as a result of findings by the U.S. Department of Education during a 2009 audit of the Lender of Last Resort (LLR) Program (see note 15 for further details). Additionally, the Authority is restricted to a statutory amount of interest that it can earn on each FFELP loan. As an incentive to offer FFELP loans, the Authority was allowed to retain the difference between the loan rate and the allowed statutory rate prior to 2006. As of 2006, however, the difference between the statutory rate and the rate earned on each loan was required to be paid to the U.S. Department of Education. The statutory rate allowed to be earned on each FFELP loan is based on an index of the three-month Financial Commercial Paper rate and as a result of the economic downturn during the reporting period the normal spread relationship between the borrower's rate on the loan and the statutory rate allowed to be earned on the loans decreased. Arbitrage expense for the 2009-2010 year decreased by approximately \$2,781,000 which helped to offset the additional expense related to the LLR issue.

The \$21,764,000, or 39% decrease in operating revenue again was primarily the result of the refinancing of the 93 Resolution by SCSLC. As a result of this payment, the fees paid to the Authority by SCSLC for reimbursement of bond expenses declined by approximately \$14,500,000 and income on student loans declined by approximately \$5,100,000.

Investment interest income decreased by approximately \$900,000 as a result of an unstable financial market environment during the fiscal year. The large decrease in interest expense during the year ended June 30, 2010, is mostly due to the redemption of bonds issued under the 93 Resolution in July 2009 as previously discussed, plus the reduction in interest rates paid on the Auction Rate Bonds (ARS) issued under the 2002 Resolution. These Auction Rate Bonds first failed in February 2008 and have been in a failed mode since that time.

As noted above, the Authority's other operating expenses for the fiscal year ended June 30, 2010, increased by 7% over the previous fiscal year.

The Authority prepares an annual operating budget that is used as a management control device for tracking the various expenses. Accounting principles generally accepted in the United States of America do not require a comparison of budget to actual expenses for proprietary funds.

Non-operating expenses decreased by approximately \$2,781,000 or 230.0 % due to a reduction in arbitrage payable as discussed in Note 13 of the financial statements.

DEBT ADMINISTRATION:

The Authority has funded student loan notes by issuing tax-exempt bonds. The bonds must be approved by the Authority's and the Corporation's boards prior to being issued. Tax-exempt bonds also must receive an allocation of the State of South Carolina private activity volume ceiling or "cap". In addition, the financings must comply with federal statutes and with the rules and regulations of the United States Treasury Department.

At June 30, 2010 and June 30, 2009, the Authority had \$894,700,000 and \$1,011,050,000 principal amount of bonds outstanding, respectively. Detailed information on the Authority's debt is presented in Note 8 to the financial statements.

All \$894,700,000 of Authority debt is publicly held and has long-term credit ratings assigned by either Moody's Investors Service (Moody's), or Standard and Poor's (S&P) based on the type of security as shown in the table below. The credit ratings have been maintained, and periodically the ratings have been confirmed in connection with new parity debt issues or extensions of recycling periods.

<u>Credit Rating(s)</u>	<u>Principal Amount</u>	<u>Type of Security</u>
AAA S&P or Aaa Moody's	\$782,700,000	Senior Lien
A2 Moody's	\$27,000,000	Subordinate Lien
AA S&P	\$85,000,000	Senior Lien

CONDITIONS AFFECTING FINANCIAL POSTION

The U.S. Department of Education issued a report on September 8, 2009 claiming an overpayment to the Authority of approximately \$4,200,000 of principal, and over \$650,000 in interest as a result of findings in a prior examination of the Lender of Last Resort Program (LLR). The Authority believes that this claim is without merit and continues to contest the claim. The Authority, however, did record a miscellaneous liability of approximately \$4,850,000 during the 2009-2010 year to recognize the potential exposure to these findings. Please see Note 15 to the financial statements for more detailed information.

In the second quarter of 2008, the Internal Revenue Service (IRS) performed an audit on the South Carolina State Education Assistance Authority Guaranteed Student Loan Revenue Bonds, 1998 Series (the "1998 Bonds"), issued by the Authority. As a result of the audit, the IRS issued the Authority a Form 5701-TEB notice of Proposed Issue in March of 2009 which raised issues regarding the methodology for tracking student loans originated with the proceeds of the 1998 Bonds and the treatment of the consolidation loan rebate fee paid by the Corporation to the Department of Education. The IRS asserts that the bond issue fails to qualify as a tax-exempt bond due to their findings and that interest on the 1998 Bonds to the bondholders would not be excludable from gross income under Section 103(a) of the Code. The IRS estimates that the tax exposure is approximately \$1,000,000. The Authority has responded to the IRS by disputing the conclusions contained in the Form 5701 and continues to wait on a response from the IRS. Please see Note 15 to the financial statements for more detailed information.

The Health Care and Education Reconciliation Act of 2010 (HCRA) was signed into law on March 30, 2010, and among other things, requires that all new federal student loans be originated through the Direct Loan program effective July 1, 2010. As a result, SCSLC, the Authority's designated lender can no longer originate FFEL loans which were typically originated from funds provided by the Authority from proceeds of bonds issued by the Authority. In turn, the Authority earned revenue from SCSLC from payment of the note/financed receivables held by the Authority when bond proceeds were loaned to SCSLC to finance student loans. SCSLC can still originate private student loans and the Authority will still issue bonds to help the financing of these student loans, but private loan funding has only been a minor portion of the bond history of the Authority. Since the legislation is in its infancy, the potential impact to the future revenue of the Authority cannot be reasonably predicted.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF NET ASSETS
ENTERPRISE FUND
JUNE 30, 2010 AND 2009

	2010	2009		2010	2009
ASSETS			LIABILITIES		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 129,664,617	\$ 75,285,947	Accounts payable	\$ 4,996,936	\$ 53,192
Cash and cash equivalents - restricted	26,580,700	19,927,477	Compensated absences	326,387	296,098
Receivables			Due to South Carolina Student Loan Corporation	19,847,803	12,543,342
Current portion of student loans	2,344,577	-	Due to United States Department of Education	4,233,924	-
Current portion of finance loans	56,455,084	50,820,000	Consolidation rebate fee payable	975,549	1,040,492
Interest receivable	1,004,301		Payable from restricted assets		
Due from South Carolina Student Loan Corporation	-	6,845,590	Accrued bond interest payable	2,419,164	3,306,945
Accrued interest receivable	3,029	1,728	Arbitrage payable to Federal government	300,500	172,266
Federal reinsurance receivable	3,332,351	2,026,472	Total current liabilities	33,100,263	17,412,335
Loan processing issuance fee receivable	192,934	287,939			
Account maintenance fee receivable	616,061	534,500			
Total current assets	220,193,654	155,729,653	Long-Term Liabilities		
			Bonds payable, less current maturities, deferred amount		
			of debt refunding of \$ 0 in 2010 and \$ 17,350 in		
			2009 and bond premium and discounts of \$ 0 in		
			2010 and \$ 513,713 in 2009	894,700,000	1,010,518,937
			Provision for losses on student loans	1,123,426	969,765
			Arbitrage payable to Federal government payable from		
			restricted funds		
			Total long-term liabilities	1,048,723	3,035,071
				896,872,149	1,014,513,773
			Total liabilities	929,972,412	1,031,926,108
Long-Term and Other Assets					
Receivables					
Student loans, less current portion and net of					
allowance for loan loss of \$ 28,014 in 2010	69,834,571	-			
Finance loans, less current portion and net of					
allowance for finance loan loss of \$ 803,597 in 2010	779,294,661	1,018,171,820			
Deferred cost of issuance of bonds	4,863,527	3,921,085			
Total long-term and other assets	853,992,759	1,022,092,905			
			Net Assets		
			Invested in capital assets	91,038	160,075
			Restricted for		
			Debt service		
			Bond indentures - 1993 resolution	-	88,410,122
			Bond indentures - 2002 resolution	8,000,187	5,903,276
			Bond indentures - 2009 resolution	7,225,602	-
			Other		
			Federal government	19,051,373	13,982,603
			Guaranty agency operating account	29,500,848	36,373,417
			Unrestricted	80,435,991	1,227,032
			Total net assets	\$ 144,305,039	\$ 146,056,525
Property, Plant & Equipment					
Furniture and equipment					
Automobile	648,179	620,431			
Less: accumulated depreciation	22,338	22,338			
	(579,479)	(482,694)			
Total property, plant & equipment	91,038	160,075			
Total assets	\$ 1,074,277,451	\$ 1,177,982,633			

See notes to financial statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
ENTERPRISE FUND
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Operating Revenue		
United States Department of Education		
Loan processing and issuance fee	\$ 2,483,885	\$ 2,704,107
Account maintenance fee	2,905,719	2,166,053
Default aversion fee income	401,593	1,313,300
Retention on default collections (net of payments to federal government of \$ 6,934,930 in 2010 and \$ 6,437,809 in 2009)	4,049,839	4,157,185
Income from South Carolina Student Loan Corporation		
Subsidized interest	756,856	3,400,557
Special allowance	(3,437,989)	(6,825,597)
Non-subsidized interest	4,542,485	10,525,847
Late charges	24,981	36,400
Miscellaneous payments of student loans	18,002	(164)
Reimbursement of bond expense	14,552,127	29,051,399
Reinsurance recoveries	277,595	275,536
Miscellaneous income	14,816	1,254,545
Guaranty fees	6,563,123	6,108,707
Gain (loss) on sale of loans	148,865	-
Interest/investment income	70,077	976,383
Net (decrease) in the fair value of investments	(660)	(9,282)
Total operating revenue	<u>33,371,314</u>	<u>55,134,976</u>
Operating Expenses		
Personnel	3,435,635	3,734,409
Contractual	686,460	636,915
General operating	759,516	786,427
South Carolina Student Loan Corporation for operating costs	6,765,203	5,326,708
Bond interest expense	7,933,530	25,826,245
Amortization - deferred cost of bond issuance	906,987	390,680
Default aversion fee expense	401,593	1,313,300
Loan fees	1,037,249	2,591,141
Federal default fee	6,563,123	6,108,707
Borrower incentives	84,439	2,380,298
Broker/dealer fees	955,418	2,062,946
Reinsurance expense	6,207,523	1,077,294
Loan loss reserve	21,015	-
Other fees	936,965	463,451
Total operating expenses	<u>36,694,656</u>	<u>52,698,521</u>
Operating income (loss)	(3,323,342)	2,436,455
Non-Operating Revenues (Expenses)		
Arbitrage income (expense)	<u>1,571,856</u>	<u>(1,208,709)</u>
Change in net assets	(1,751,486)	1,227,746
Net Assets		
Beginning	<u>146,056,525</u>	<u>144,828,779</u>
Ending	<u>\$ 144,305,039</u>	<u>\$ 146,056,525</u>

See notes to financial statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Receipts from borrowers and U.S. Department of Education	\$ 15,854,726	\$ 19,248,992
Receipts from SCSLC services provided	40,436,106	71,392,397
Payments to suppliers, lenders and borrowers	(97,025,440)	(69,360,886)
Payments to employees	(3,405,347)	(3,690,353)
Net cash provided by (used in) operating activities	<u>(44,139,955)</u>	<u>17,590,150</u>
Cash Flows from Non-Capital Financing Activities		
Finance loan advances to South Carolina Student Loan Corporation for student loans	(40,928,310)	(170,284,884)
Finance loan payments received from South Carolina Student Loan Corporation	273,366,788	112,190,891
Payment on bonds payable	(201,350,000)	-
Proceeds received for new bonds	85,000,000	-
Cost of bond issuance paid	(1,849,429)	-
Arbitrage payoff	(286,258)	-
Interest paid on revenue bonds	(8,821,311)	(39,006,600)
Net cash provided by (used in) non-capital financing activities	<u>105,131,480</u>	<u>(97,100,593)</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	<u>(27,748)</u>	<u>(58,406)</u>
Cash Flows from Investing Activities		
Interest received on investment securities	68,776	1,033,022
Net (decrease) in fair value of investments reported as cash equivalents	(660)	(9,282)
Net cash provided by investing activities	<u>68,116</u>	<u>1,023,740</u>
Net increase (decrease) in cash and cash equivalents	61,031,893	(78,545,109)
Cash and Cash Equivalents		
Beginning	<u>95,213,424</u>	<u>173,758,533</u>
Ending	<u><u>\$ 156,245,317</u></u>	<u><u>\$ 95,213,424</u></u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
STATEMENTS OF CASH FLOWS
ENTERPRISE FUND
YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in)		
Operating Activities		
Operating income (loss)	\$ (3,323,342)	\$ 2,436,455
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Purchase of student loans due under guarantees	(60,140,771)	(39,159,984)
Payments received from U.S. Department of Education under federal reinsurance program	58,834,892	40,222,380
Amortization of deferred cost of bond issuance	906,987	390,680
Amortization of deferred amount on refunding - interest expense	17,350	6,388
Amortization of premiums and discounts on bonds payable - interest expense	513,713	269,311
Interest/investment income (investing activities category)	(70,077)	(976,383)
Depreciation expense	96,785	121,110
Provision for loan losses	163,661	171,195
Allowance for loan loss	21,015	-
Allowance for finance loan loss	803,597	-
Net decrease in fair value of investments (investing activities category)	660	9,282
Bond interest expense (non-capital financing activities category)	7,933,530	25,826,245
Changes in assets and liabilities		
(Increase) in student loan receivables	(72,200,162)	-
(Increase) in interest receivables	(1,004,301)	-
(Increase) decrease in due from South Carolina Student Loan Corporation	6,845,590	(5,266,390)
(Increase) decrease in loan processing and issuance fee receivable	95,005	(110,686)
(Increase) in account maintenance fee receivable	(81,561)	(68,740)
Increase (decrease) in accounts payable	4,943,744	(29,416)
Increase in compensated absences liability	30,289	44,056
Increase in due to United States Department of Education	4,233,924	-
(Decrease) in consolidation rebate fee payable	(64,943)	(55,912)
Increase (decrease) in due to South Carolina Student Loan Corporation	7,304,461	(6,239,441)
Net cash provided by (used in) operating activities	<u>(44,139,954)</u>	<u>17,590,150</u>
Supplemental Disclosures of Cash Flow Information		
Interest collected on finance loans - operating activities	<u>5,299,341</u>	<u>13,924,676</u>
Arbitrage income incurred and liability accrued - non-capital financing activity	<u>\$ 1,571,856</u>	<u>\$ (1,208,709)</u>

See notes to financial statements.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

YEARS ENDED JUNE 30, 2010 AND 2009

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies

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 Ways and Means Committee.

The Authority is considered to be part of the State of South Carolina 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 financial statements of the Authority 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 discharges its statutory obligations through two distinct programs. The program through which the Authority conducts its guarantee activities is herein referred to as the "Student Loan Insurance Program." The program through which the Authority finances the making of education loans by South Carolina Student Loan Corporation (SCSLC) is herein referred to as the "Student Loan Finance Program."

The Authority was originally created in order to provide a means of making loans to students in order to enable them to attend eligible institutions, as such terms are defined in the Higher Education Act. Such loan financing has been conducted by the Authority through its Student Loan Finance Program which has, since its inception, been administered by SCSLC.

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 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. Special Allowance Payments (SAP) are made to SCSLC from the U.S. Department of Education (USDE). In general, the amount of SAP is the difference between the amount of interest SCSLC receives from the borrower or the government and the variable amount that is provided under requirements of the Higher Education Act of 1965, as amended, which is a predefined rate for each type of loan. Any revenue or expense related to SAP is paid, or charged to the Authority along with the principal and interest collected on loans as it is received for bonds under the 1993 General Resolution. All bonds issued under the 1993 Resolution were redeemed during 2010. Under the 2002 General Resolution and the 2009 PAL Resolution, the amount necessary to pay debt service on the Authority's bonds is required to be reimbursed as defined by the 2002 General Resolution. (See Note 8 for further details on the 2009 PAL Resolution.)

The operations of the Authority are administered by employees of SCSLC. The Authority reimburses SCSLC upon request for the actual operating expenses incurred in the administration of the program in accordance with a previously approved budget. All leases and property 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 legal separate organization and not financially accountable to/for the other.

In May 1978, the Authority initiated its Student Loan Insurance Program and commenced guaranteeing Guaranteed Loans as the guaranty agency for the State under §428(c) of the Higher Education Act. In order to administer its Student Loan Insurance Program effectively, the Authority processes loans submitted for guarantee, issues loan guarantees, provides collection assistance for delinquent loans, pays claims for loans in default, collects loans on which default claims have been paid, and makes appropriate responses to the Secretary. The Authority is also responsible for initiating policy and performing compliance reviews as required by the Higher Education Act with respect to certain schools participating in the Student Loan Insurance Program.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009**

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Business – type activity: 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 account uses a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenue and expenses.

The Authority's Enterprise Fund, called "Education Assistance Fund", reports the activities to fulfill the entity's authorized purposes of issuing revenue bonds to finance student loans which are handled by South Carolina Student Loan Corporation and guaranteeing federal loans. The Authority's Enterprise Fund is composed of the Collection Account Prior Unpledged, Eligible Lenders Trust, 2002 Resolution, 2009 PAL Resolution, Agency Operating Account, and the Federal Student Loan Reserve Account. These accounts, except for the Federal Student Loan Reserve Account, Eligible Lenders Trust, Agency Operating Account and Collection Account Prior Unpledged, constitute pledged income for the liquidation of outstanding bonds after transfers for operations.

The Authority reports net assets reserved for current debt service as the accrued interest plus ten months of the outstanding bond principal due as of year-end as required by the bond indentures (see Note 8). Under the 1993 General Resolution, restricted 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. The 1993 Resolution was redeemed during 2010. Under the 2002 and 2009 General Resolution, restricted for bond indentures represents net assets for future debt service and includes one percent (1%) of the outstanding bond principal as specified under each bond series plus principal and interest allocated on student loans not yet required to meet current debt service. Under the bond resolutions, the restricted for bond indentures also includes one to four months projected operating expenses and any unamortized costs of issuances. The unrestricted is the residual equity not legally reserved for bond indentures.

The 2002 and 2009 Resolution accounts each include a sinking account that is used to deposit the proceeds from the sale of bonds and collections on loans. The 2002 Resolution also includes the deposit of federal interest and income from SCSLC which, as lender, bills the Department of Education directly. All investment income on investments in the debt reserve fund of the sinking account is recorded in the sinking account as required by the bond indentures. The sinking account is used to make transfers to the debt reserve and loan accounts.

The 2002 and 2009 Resolution accounts each include a debt reserve account that 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.

The 2002 and 2009 Resolution accounts each include a loan account that 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 Collection Account Prior Unpledged collects all payments on loans on behalf of the Authority and SCSLC. The account is required to disburse to each Authority account and to SCSLC by the tenth of each month for the prior month.

The Eligible Lender Trust maintains student loans for the Authority that were created when the bonds under the 1993 resolution were redeemed. The Authority will collect revenue from borrowers and the U.S. Department of Education and pay the related expenses for the loans.

The Federal Student Loan Reserve Account (FSLRF) is used to account for activity as required by the 1998 reauthorization of the Higher Education Act. This account is used to account for investment income and insurance premiums which are paid on behalf of the borrower utilizing funds from the Agency Operating Account. The Authority has not charged insurance premiums for loans guaranteed since March 1, 1999; however, the Higher Education Act requires that the Authority charge a Federal Default Fee for certain guaranteed loans made on or

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009**

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Business – type activity (continued):

after July 1, 2006, and deposited to this account. The Health Care and Education Reconciliation Act (HCERA) of 2010 was signed into law on March 30, 2010, and among other things, requires that all new federal student loans be originated through the federal Direct Loan (DL) program effective July 1, 2010. Since all federal student loans subsequent to July 1, 2010, will be originated through the DL program, Federal Default Fees will no longer be deposited to this account.

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 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 was equal to 0.65% of the total principal amount of loans originated prior to October 1, 2003. As of October 1, 2003, the loan processing fee changed to 0.40%. The account maintenance fee was equal to 0.10% of the ending original principal balance of loans outstanding for the fiscal year prior to October 1, 2007. As of October 1, 2007, the account maintenance fee changed to 0.06% of the ending 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 FSLRF. Retention on Default Collections is 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 (16% as of October 1, 2007, 23% from October 1, 2003 to September 30, 2007, and 24% prior to October 1, 2003) 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, 2010 and 2009, of all defaulted student loans purchased by the Authority is \$ 369,467,174 and \$ 309,326,403, 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 Agency 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 FSLRF. Except for funds transferred from the Federal Student Loan Reserve Account for operating shortfalls, the Agency Operating Account is considered to be the property of the guaranty agency. To date, no funds have been transferred from the FSLRF to the Agency Operating Account for operating shortfalls.

Basis of accounting: The accrual basis of accounting is used for the Education Assistance 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 rates with no amortization of premiums or discounts. Net increase (decrease) in the fair value of investments includes unrealized and realized gains and losses. Bond payable premiums and discounts are accreted/amortized over the life of the bonds and netted against interest expense. In accordance with GASB Statement 20, 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.

Budget and budgetary accounting: 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. Accounting principles generally accepted in the United States of America do not require a comparison of budget to actual expenses.

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.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009**

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Budget and budgetary accounting (continued): Expenditures in excess of the budgeted amounts are not in violation of State laws. However, these are approved by the Board.

Compensated absences: Depending on length of employment, employees earn annual vacation at the rate of twelve (12) to twenty-five (25) days per year. Employees are 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 management'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 management'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. The net change in the liability is recorded in the current year in the personnel expenses.

Non-exchange transactions: The Authority adheres to GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* which standardizes the accounting and financial reporting for non-exchange transactions involving financial or capital resources. For the Authority, there generally are two types of non-exchange transactions: *Government-mandated non-exchange transactions* which occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose and *voluntary non-exchange transactions* which result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement. The Authority recognizes non-exchange transactions when they are both measurable and probable of collection. For *Government-mandated non-exchange transactions* and *voluntary non-exchange transactions*, the Authority recognizes assets when all applicable eligibility requirements are met or resources are received, whichever is first, and revenue when all applicable eligibility requirements are met.

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

Cash and cash equivalents: 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 and cash invested in various instruments by the Bank of New York Mellon.

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 domestic corporations, certificates of deposit and collateralized repurchase agreements. 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 Authority's special deposit accounts is posted to the Authority's account at the end of each month and is retained by the Authority. Interest earnings are allocated based on the percentage of the Authority's

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009**

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Cash and cash equivalents (continued):

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 monthly 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.

For the Authority's funds not held by the State Treasurer, cash equivalents include investments in short-term, highly liquid securities having a maturity at the time of purchase of three months or less.

Provision for losses on finance loans: The provision for losses on loans represents the Authority's estimate of the costs related to the 2% to 3% risk sharing of FFEL loans and losses related to servicing of guaranteed loans by the Corporation. The provision also includes an estimate for non-guaranteed loans. In making the estimate, the Authority considers the trend in default rates in the loan guarantee portfolio, past and anticipated loss experience, current operating information, and changes in economic conditions. The evaluation is inherently subjective and the provisions may significantly change in the future. Additionally, the Authority maintains a 100% allowance for all PAL loans past due 180 days or greater. The allowance for loan losses was \$ 824,611 at June 30, 2010, (see Note 3 on Federal Reinsurance of FFEL Loans).

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

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 refunding after July 1, 1994.

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. 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, property insurance including fixed assets, group life, fidelity bonds, and employee health insurance are paid to private insurance carriers and the Authority's coverage is subject to the limits of these policies. The expense for these items is charged to the enterprise fund. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Property and equipment: Furniture, equipment and automobiles costing over \$10,000 are capitalized at cost when purchased. Depreciation has been provided using the straight-line method over useful lives of three to ten years for furniture and equipment and three years for automobiles and computers.

Operating and non-operating revenues/expenses: Balances classified as operating revenues and expenses are those which comprise the Authority's principle ongoing operations. Since the Authority's operations are similar to those of any other finance company, all revenues and expenses are considered operating except the recall of Federal Reserve Funds and arbitrage expense.

Applying restricted or unrestricted resources: The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009

Notes to Financial Statements

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Provision for losses on student loans: The provision for losses on student loans represents the Authority's estimate of the costs related to the 2% to 5% risk sharing on FFELP loans and losses related to servicing of loans by the Authority. In making the estimate, the Authority considers the trend in default rates in the loan guarantee portfolio, past and anticipated loss experience, current operating information, and changes in economic conditions. The provision is based on total guaranteed loans times the default rate times 3%. However, the evaluation is inherently subjective and the provisions may significantly change in the future. The allowance for loan losses was \$ 1,123,426 and \$ 959,765 at June 30, 2010 and 2009, respectively.

Note 2. Deposits and Investments

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 the Bank of New York Mellon or Wachovia Bank, N.A. (a division of Wells Fargo Bank, N.A.) as authorized by the State Treasurer. Deposits and investments of \$ 134,588,590 and \$ 81,910,929 at June 30, 2010 and 2009, respectively, are held by the Bank of New York Mellon as trustee or custodian for the Authority.

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

	<u>2010</u>	<u>2009</u>		<u>2010</u>	<u>2009</u>
Statement of Net Assets			Footnotes		
Cash and Cash Equivalents	\$ 129,664,617	\$ 75,285,947	Cash at banks	\$ 2,252,176	\$ 181,771
			Deposits - STO ICM pool	19,404,551	13,120,725
			Investments		
Restricted Assets			Bank repurchase agreements	94,960,562	59,465,887
Cash and cash equivalents	<u>26,580,700</u>	<u>19,927,477</u>	U.S. treasury notes	39,628,028	22,445,041
			U.S. agency bonds	-	-
Total	\$ 156,245,317	\$ 95,213,424	Total	\$ 156,245,317	\$ 95,213,424

Deposits: State law requires full collateralization of all State Treasurer balances. The State Treasurer must correct any deficiencies in collateral within seven (7) days. At June 30, 2010 and 2009, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or are investments for which the securities are held by the State or its agents 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.

At June 30, 2010 and 2009, Wachovia Bank, N.A. carried a bank balance at \$ 4,807 and \$ 8,645 respectively, of unspent federal grants for the Authority. These accounts are covered by FDIC insurance.

At June 30, 2010 and 2009, the Bank of New York Mellon carried a bank balance at \$ 2,247,369 and \$ 173,126. These accounts are covered by FDIC insurance and pledged securities.

All other deposits are in the State Treasurer Internal Cash Management Account. The value of the Authority's investment in the State's Internal Cash Management Account is determined based on the fair value of the Pool's underlying portfolio.

The reported amount and fair value of deposits held for the various accounts of the Authority were as follows at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Collection/unpledged prior	<u>\$ 19,404,551</u>	<u>\$ 13,120,725</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Investments: Investments are valued and reported at fair value based on quoted market prices when available or otherwise at the amount at which the instrument could be exchanged in a current transaction. Investment income on investments is recorded when earned. Purchases and sales are accounted for on the trade date. Unrealized gains and losses on investments have been recorded. Realized gains and losses on securities transactions are recorded on the accrual basis.

The reported amount and fair value of investments held for the various accounts of the Authority were as follows at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Collection/unpledged prior account - Bank of New York Mellon		
Bank repurchase agreements	<u>\$ 1,228,733</u>	<u>\$ 1,227,030</u>
1993 Resolution account - Bank of New York Mellon		
U.S. Treasury notes	-	8,489,413
Bank repurchase agreements	-	9,338,807
Total	<u>-</u>	<u>17,828,220</u>
2002 Resolution account - Bank of New York Mellon		
U.S. Treasury notes	-	13,955,629
Bank repurchase agreements	<u>24,387,050</u>	<u>266,009</u>
Total	<u>24,387,050</u>	<u>14,221,638</u>
Agency operating account - Bank of New York Mellon		
Bank repurchase agreements	<u>34,691,864</u>	<u>35,474,607</u>
Federal student loan reserve account - Bank of New York Mellon		
Bank repurchase agreements	<u>15,161,243</u>	<u>13,159,434</u>
Eligible Lender Trust account - Bank of New York Mellon		
Bank repurchase agreements	<u>6,082,676</u>	<u>-</u>
2009 Resolution account - Bank of New York Mellon		
U.S. Treasury notes	<u>39,628,028</u>	-
Bank repurchase agreements	<u>13,408,996</u>	-
Total	<u>53,037,024</u>	<u>-</u>
Totals	<u><u>\$ 134,588,590</u></u>	<u><u>\$ 81,910,929</u></u>

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

Interest rate risk: In accordance with its investment policy, the Authority manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than twelve months.

Credit risk: The Authority adheres to the State of South Carolina's investment policy, and invests in primarily U.S. government-backed obligations. The Authority does not make any investments in commercial paper, corporate bonds, or equities.

Concentration of credit risk: The Authority's investment policy does not allow for an investment in any one issuer that is in excess of five percent (5%) of the total investments. Most investments are U.S. government obligations.

Foreign currency risk: The Authority has no foreign currency investments.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009**

Notes to Financial Statements

Note 2. Deposits and Investments (Continued)

Custodial credit risk: This 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. The investments at Bank of New York Mellon are categorized to give an indication of the level of the custodial credit risk assumed by the Authority at June 30, 2010 and 2009. All Bank of New York Mellon investments are insured or registered by the Authority or its agent in the Authority's name. There are no uninsured investments.

Note 3. Student Loans, Federal Family Education Loans (FFEL), and Federal Reinsurance of FFEL Loans

These loans bear interest at a fixed rate range of 2.875 to 12 percent or an annual variable rate range of 1.88 to 3.73 percent. The annual variable rate is reset each July 1 using the bond equivalent rate of the 91-day or 52-week Treasury Bill, determined at the final auction held prior to the immediately preceding June 1, plus 1.7 to 3.25 percent with a cap on the rate of 8.25 to 12.00 percent. These loans are repayable over a period of five (5) to thirty (30) years with a minimum payment of \$ 360 or \$ 600 per year. Repayment of principal may be scheduled to begin within sixty (60) days of final disbursement or six (6) to ten (10) months after the student graduates or ceases to be enrolled on at least a half-time basis in an eligible institution.

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 12.) The federal default fee required by the Higher Education Act on guaranteed loans made on or after July 1, 2006, is paid by the Authority on the borrower's behalf.

Since the Authority entered into a Supplemental Guaranty 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 \$ 366,129,197 and \$ 307,299,931 as of June 30, 2010 and 2009, 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:

Claims Rate	Federal Payment for Loans made prior to October 1, 1993	Federal Payment for Loans made on or after October 1, 1993 and before October 1, 1998	Federal Payment for Federal Payment for Loans made on or after October 1, 1998
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 both the period ended September 30, 2009 and 2008, was approximately .82%. The Authority expects the default rate to remain approximately 1%.

Note 4. Note Receivable Finance Loans

Each bond resolution of the Authority requires that all funds advanced to SCSLC by the Authority for the purpose of making student loans be evidenced by a loan agreement, assignment of collateral and assignment of revenues between the two parties, with the student loans providing security to the bond trustee. Increases (decreases) to SCSLC from the Authority's 1993 General Resolution were made pursuant to a loan agreement dated August 31, 1993, increases (decreases) to SCSLC from the Authority's 2002 General Resolution are made pursuant to a loan agreement dated June 12, 2002, and increases (decreases) to SCSLC from the Authority's 2009 PAL General Resolution are made pursuant to a loan agreement dated October 29, 2009. Each loan is calculated as set forth in the respective loan agreements.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009**

Notes to Financial Statements

Note 4. Note Receivable Finance Loans (Continued)

The finance loans as of June 30, 2010 and 2009, are as follows:

Bond Resolution	Balance 6/30/2008	Increases	Decreases	Balance 6/30/2009	Increases	Decreases	Balance 6/30/2010
1993	\$ 164,097,466	\$ 170,284,884	\$ 112,190,891	\$ 222,191,459	\$ -	\$ 222,191,459	\$ -
2002	846,800,361	-	-	846,800,361	-	51,175,329	795,625,032
2009	-	-	-	-	42,394,864	2,270,151	40,124,713
Total	\$ 1,010,897,827	\$ 170,284,884	\$ 112,190,891	\$ 1,068,991,820	\$ 42,394,864	\$ 275,636,939	\$ 835,749,745

Note 5. Amounts Due from/to SCSLC

The \$ 0 and \$ 6,845,590 at June 30, 2010 and 2009, 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 and funds collected on behalf of the Authority. The Authority also owes SCSLC for funds collected on their behalf of \$ 19,847,803 and \$ 12,532,542 at June 30, 2010 and 2009, respectively. Funds collected on behalf of SCSLC are required to be paid to SCSLC by the tenth of each month.

Note 6. Capital Assets

The following is a summary of changes in capital assets for fiscal years ended June 30, 2010 and 2009:

	Balance 6/30/2008	Additions	Deletions	Balance 6/30/2009	Additions	Deletions	Balance 6/30/2010
Cost							
Furniture and equipment	\$ 562,025	\$ 58,406	\$ -	\$ 620,431	\$ 27,748	\$ -	\$ 648,179
Automobiles	22,338	-	-	22,338	-	-	22,338
Total	584,363	58,406	-	642,769	27,748	-	670,517
Accumulated Depreciation							
Furniture and equipment	(347,313)	(113,664)	-	(460,977)	(96,164)	-	(557,141)
Automobiles	(14,271)	(7,446)	-	(21,717)	(621)	-	(22,338)
Less, accumulated depreciation	(361,584)	(121,110)	-	(482,694)	(96,785)	-	(579,479)
Net capital assets	\$ 222,779	\$ (62,704)	\$ -	\$ 160,075	\$ (69,037)	\$ -	\$ 91,038

Note 7. Loan Guarantees

As an incentive for the states to set up state guaranty 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, federal default fee on student loans as 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 eliminated this format (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 is deemed appropriate in light of the maturity and solvency of the Authority's federal student loan reserve account. As of June 30, 2010 and 2009, 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 14).

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009

Notes to Financial Statements

Note 7. Loan Guarantees (Continued)

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

Note 8. Bonds and Other Payables and Restricted Assets

The Authority issues Guaranteed Student Loan Revenue Bonds or Education Loan Revenue Bonds as needed to make finance loans to the South Carolina Student Loan Corporation to make student loans (See Note 4). The finance loans to the South Carolina Student Loan Corporation are secured by loans funded by bond proceeds, related revenue from such loans, investments in accounts and earnings thereon. The bond resolutions permit the Authority or the SCSLC 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 June 30, 2008, 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 plus four (4) months principal due the following March 1 as required in the bond documents. As of June 30, 2010 and 2009, the Authority was required to have assets deposited in the current debt service account of \$ 2,532,586 and \$ 3,550,895, respectively. The Authority has deposits in restricted assets equal to the current debt service requirement in 2010 and 2009. Restricted assets of \$ 26,580,700 in 2010 and \$ 19,927,477 in 2009 include the current debt service reserve deposits of \$ 10,254,000 and \$ 12,623,500 in 2010 and 2009, and the arbitrage rebate liability deposits of \$ 1,349,223 in 2010 and \$ 3,207,337 in 2009.

The Student Loan Revenue bonds as of June 30, 2010 and 2009 follow:

Issued	Original Amount	Interest Rate	Maturity Date	Balance Outstanding 6/30/2008	Issued (Retired) During FY 09	Balance Outstanding 6/30/2009	Issued (Retired) During FY 10	Balance Outstanding 6/30/2010
8/31/1994	\$ 86,845,000	4.75-6.30%	9/1/96-2014	\$ 52,050,000	-	\$ 52,050,000	\$ (52,050,000)	\$ -
8/30/1995	62,055,000	5.00-6.00%	9/1/99-2015	29,900,000	-	29,900,000	(29,900,000)	-
6/16/1999	67,300,000	Auction	9/1/07-2019	23,700,000	-	23,700,000	(23,700,000)	-
6/29/2000	59,050,000	Auction	3/1/05-2020	20,000,000	-	20,000,000	(20,000,000)	-
6/20/2001	49,200,000	Auction	3/1/05-2021	30,000,000	-	30,000,000	(30,000,000)	-
6/12/2002	117,500,000	Auction	3/1/05-2022	79,000,000	-	79,000,000	-	79,000,000
8/20/2003	100,150,000	Auction	9/1/05-2023	92,000,000	-	92,000,000	-	92,000,000
8/11/2004	174,700,000	Auction	3/1/06-2024	171,700,000	-	171,700,000	-	171,700,000
11/22/2005	208,300,000	Auction	9/1/06-2025	208,300,000	-	208,300,000	(45,700,000)	162,600,000
10/3/2006	172,700,000	Auction	9/1/07-2026	172,700,000	-	172,700,000	-	172,700,000
10/23/2007	131,700,000	Auction	9/1/08-2027	131,700,000	-	131,700,000	-	131,700,000
11/5/2009	85,000,000	3.4-5.1%	10/1/14-2029	-	-	-	85,000,000	85,000,000
				<u>\$ 1,011,050,000</u>	<u>\$ -</u>	<u>\$ 1,011,050,000</u>	<u>\$ (116,350,000)</u>	<u>\$ 894,700,000</u>

The 2002, 2003, 2004, 2005, 2006 and 2007 bond issues include auction rate bonds totaling \$ 809,700. The interest rate on these bonds varies every thirty-five days depending on auction rate bond markets. The average interest rates for fiscal years 2010 and 2009 have been approximately 0.587% and 2.50%, respectively. The maximum interest rate is 12%. Future interest payment projections are based upon a six-year average of historical rates for these bonds. The rates used for future interest payment projections for 2010 and 2009 are 2.442% and 2.897%, respectively. The 2009 bond issue includes fixed rate bonds totaling \$ 85,000,000, with interest rates ranging from 3.40% to 5.10%.

Optional redemption features are available for certain of the various outstanding bonds. The Authority's auction rate bonds can be optionally redeemed in full on the business day following any auction date without any call premium due.

Due to adverse market conditions, most auctions associated with auction rate bonds across a variety of sectors and asset classes have experienced widespread failure since February 11, 2008. All of the Authority's auctions have failed since this date and remain in such a state. This has had the effect of increasing the Authority's relative cost of funds for the 2010 fiscal year. Although the Authority has no requirement to pay off the bonds early, the Authority is actively exploring all refinancing options. They seek to issue other bonds that will refund and restructure the auction rate bonds into another security type. The Authority continues to pursue such a restructuring when the capital markets provide favorable financing terms for a form of security with stable long term prospects (see Note 16).

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009

Notes to Financial Statements

Note 8. Bonds and Other Payables and Restricted Assets (Continued)

The changes in debt for the years ending June 30, 2010 and 2009, follow:

<u>Long-Term Liabilities</u>	<u>6/30/2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2010</u>	<u>Current Portion</u>
Bonds payable	\$ 1,011,050,000	\$ -	\$ -	\$ 1,011,050,000	\$ 85,000,000	\$(201,350,000)	\$ 894,700,000	\$ -
Compensated absences payable	252,042	344,056	(300,000)	296,098	30,289	-	326,387	326,387
Arbitrage payable to federal government	1,998,628	1,208,709	-	3,207,337	-	(1,858,114)	1,349,223	300,500
Deferred amount of debt refunding	(23,738)	-	6,388	(17,350)	17,350	-	-	-
Unamortized bond revenues retirement	(783,025)	-	269,312	(513,713)	513,713	-	-	-
Total	\$ 1,012,493,907	\$ 1,552,765	\$ (24,300)	\$ 1,014,022,372	\$ 85,561,352	\$(203,208,114)	\$ 896,375,610	\$ 626,887

The annual requirements to retire these bonds as of June 30, 2010, are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ -	\$ 24,247,571	\$ 24,247,571
2012	-	24,247,571	24,247,571
2013	-	24,247,571	24,247,571
2014	-	24,247,571	24,247,571
2015	500,000	24,238,953	24,738,953
2016	600,000	24,218,776	24,818,776
2017	700,000	24,192,846	24,892,846
2018	2,500,000	24,124,611	26,624,611
2019	3,000,000	24,003,832	27,003,832
2020	4,000,000	23,844,651	27,844,651
2021	4,250,000	23,653,280	27,903,280
2022	85,000,000	23,413,495	108,413,495
2023	100,000,000	21,126,511	121,126,511
2024	171,700,000	18,658,380	190,358,380
2025	182,600,000	13,900,891	196,500,891
2026	-	9,368,679	9,368,679
2027	172,700,000	7,231,029	179,931,029
2028	131,700,000	3,463,220	135,163,220
2029	-	1,833,060	1,833,060
2030	35,450,000	916,530	36,366,530
Total	\$ 894,700,000	\$ 365,179,028	\$ 1,259,879,028

On October 16, 2009, the Authority issued \$ 85,000,000 in Student Loan Revenue Bonds with a fixed rate bond interest rate ranging from 3.40% to 5.1% to provide financing for student loans. The gross proceeds were used to pay issuance costs of \$ 1,849,429, make certain deposits to funds of \$ 1,700,000, and make new student loans in the amount of \$ 81,450,571.

The deferred amount of debt refunding at June 30, 2010 and 2009, is \$ 0 and \$ 17,350, respectively. The amount of the unamortized bond discounts at June 30, 2010 and 2009, is \$ 0 and \$ 513,713, respectively.

Note 9. Paul Douglas Teacher Scholarship Program

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 suspended the loan program and the Authority will reimburse all funds collected for the program.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009**

Notes to Financial Statements

Note 9. Paul Douglas Teacher Scholarship Program (Continued)

During the fiscal years ended June 30, 2010 and 2009, collections were \$ 5,277 and \$ 9,141, respectively, from repayments by participants. The Authority repaid these amounts to the Federal Government during the years ended June 30, 2010 and 2009, due to suspension of the program. Any repayments not repaid to the Federal Government are recorded as a liability.

Note 10. 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 and legal services from the Attorney General.

The Authority paid the University of South Carolina \$ 927 and \$ 1,110 for the years ended June 30, 2010 and 2009, respectively, for data processing services and the expense is recorded as contractual expenses.

See Note 1 regarding transactions with SCSLC.

Note 11. Employee Benefit Plans

Money Purchase Pension Plan:

The Authority provides retirement benefits through the South Carolina Student Loan Corporation Money Purchase Pension Plan (MPPP) for all employees who have completed one year of service and attained age 21. SCSLC has adopted the Branch Banking & Trust Co. (BB&T) Money Purchase Pension Plan, a single employer plan. The MPPP was originally established on July 1, 1975. BB&T 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 the Social Security wage base. Contributions are paid monthly. A participant is 20% vested after two years service and 100% vested after six years of service. A participant reaches 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.

Pension expense, total salary and covered salary are as follows:

	<u>2010</u>	<u>2009</u>
Total salary	\$ 2,300,611	\$ 2,359,625
Total covered salary	2,111,888	2,358,479
Pension expense (actual and required)	95,399	116,512
Percent pension expense to covered salary	4.52%	4.94%

The Authority participates in a supplemental retirement plan. The Plan is called the South Carolina Student Loan Corporation Defined Benefit Plan (DBP), a single employer plan. The authority under which benefit provisions are established or amended is provided in the Plan document as administered by the Plan Trustee, BB&T. The Plan is a defined benefit pension plan covering substantially all employees with one year of service and 21 years of age. The DBP provides benefits based on years of service and compensation. The benefit formula uses one percent (1%) of the average of the five highest consecutive 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 at least 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.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009**

Notes to Financial Statements

Note 11. Employee Benefit Plans (Continued)

Defined Benefit Pension Plan:

The total required and paid contributions for the years ended June 30, 2010 and 2009 were \$ 346,480 and \$ 369,196, respectively, representing 16.41% and 15.65% of covered salary, respectively. Contributions are included in the personnel expense category.

403(b) Defined Contribution Plan:

The Authority participates in the South Carolina Student Loan Corporation 403(b) Defined Contribution Plan which was established on November 5, 2002. The Plan provides for a 5% contribution based on the participant's total annual compensation. The total amount expensed under the plan was \$ 198,776 in 2010 and \$ 103,003 in 2009. All employees who have completed one year of service and attainment of age 21 are eligible to receive employer contributions. Contributions are 100% vested when made. Employees are eligible to make voluntary contributions to the plan.

Tax Deferred Annuity:

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

457(b) Deferred Compensation Plan:

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

Other Employee Benefits:

Certain health care, dental, long-term disability and life insurance benefits are provided to active employees through various private insurers. Employees scheduled for 30 hours or more per week may be eligible to receive these benefits. Employer contributions applicable to those benefits were \$ 324,233 and \$ 565,275 in 2010 and 2009, respectively, and are recorded as expenses under the personnel expense category, and are paid monthly as billed by insurers.

Note 12. 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>2010</u>	<u>2009</u>
Approved Amount for Loans	\$ 8,754,470,760	\$ 8,164,390,909
Outstanding Balance	3,813,286,475	3,338,300,223

Note 13. Rebate and Excess Earnings Liability

The Internal Revenue Code (IRC) and arbitrage 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.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009

Notes to Financial Statements

Note 13. Rebate and Excess Earnings Liability (Continued)

The IRC and U.S. Treasury Regulations permit issuers of qualified student loan tax-exempt obligations to earn no more than 1.5% to 2.0% above the bond yield on the qualified student loans financed with such tax-exempt obligations. For excess earnings on qualified student loans, issuers may elect to pay such excess to the U. S. Treasury or return such excess to the borrowers of qualified student loans financed by the tax-exempt obligations. The Authority has elected to implement a program of borrower benefits in order to return such excess to borrowers and the program resulted in decreasing the liability. The South Carolina State Treasurer had computations performed to determine the liability at June 30, 2010 and 2009. Based on those results, the Authority incurred expense (income) of \$ (1,571,856) for 2010 and \$ 1,208,709 for 2009. This (expense)/income is determined using the "Future Value" method of determining rebate and excess earnings 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, 2010 and 2009, the Authority reports \$ 1,048,723 and \$ 3,035,071, respectively, as rebate and excess earnings liability. See Note 15.

Note 14. Required Information on Business Type Activity for State of South Carolina

The Authority is only one major enterprise fund which is not required to present government-wide financial statements. However, the State of South Carolina requires business type activities for the State's government-wide Statement of Activities. The required information follows:

	<u>2010</u>	<u>2009</u>
Charges for Services		
United States Department of Education		
Loan processing and issuance fee	\$ 2,483,885	\$ 2,704,107
Account maintenance fee	2,905,719	2,166,053
Default aversion fee income	401,593	1,313,300
Retention on default collections	4,049,839	4,157,185
Income from South Carolina Student Loan Corporation		
Subsidized interest	756,856	3,400,557
Special allowance	(3,437,989)	(6,825,597)
Non-subsidized interest	4,542,485	10,525,847
Late charges	24,981	36,400
Miscellaneous payments of student loans	18,002	(164)
Reimbursement of bond expense	14,552,127	29,051,399
Guaranty fees	6,563,123	6,108,707
Reinsurance recoveries	277,595	275,536
Total charges for services	<u>33,138,216</u>	<u>52,913,330</u>
Operating grants and contributions		
Interest/investment income	70,077	976,383
Net increase (decrease) in the fair value of investments	(660)	(9,282)
Gain (loss) on sale of loans	148,865	-
Miscellaneous income	14,816	1,254,545
Arbitrage income (expense)	1,571,856	(1,208,709)
Total operating grants and contributions	<u>1,804,954</u>	<u>1,012,937</u>
Total program revenue	<u>34,943,170</u>	<u>53,926,267</u>
Less, expenses	<u>36,694,656</u>	<u>52,698,521</u>
Change in net assets	(1,751,486)	1,227,746
Net Assets		
Beginning	<u>146,056,525</u>	<u>144,828,779</u>
Ending	<u><u>\$ 144,305,039</u></u>	<u><u>\$ 146,056,525</u></u>

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009**

Notes to Financial Statements

Note 15. Contingency

On September 8, 2009, in connection with its review of the process for determining whether borrowers qualify for a FFELP Loan under the Lender-of-Last-Resort Program (the "*LLR Program*") of the Authority established under the Higher Education Act and the Authority's internal controls relating to the FFEL Program, the U.S. Department of Education made findings in a Final Program Review Determination (the "*FPRD*") that (i) since 1993, the Corporation has made FFELP loans under the LLR Program ("*LLR Loans*") without a request from the borrower to do so in violation of the Higher Education Act, (ii) since 1994, the Corporation has denied conventional FFELP loans to borrowers based solely on the fact that the borrowers had filed for bankruptcy and on the basis of such denial made LLR Loans to such borrowers in violation of the Bankruptcy Reform Act of 1994 (the "*Bankruptcy Act*") and guidance relating thereto issued by the U.S. Department of Education, and (iii) the Corporation has performed default aversion activities on behalf of the Authority in violation of the conflict of interest prohibitions contained in the Code of Federal Regulations promulgated under the Higher Education Act.

As a result of these findings the Department of Education determined in the FPRD that the Authority (i) must update its policies and procedures relating to the LLR Program, reclassify all LLR Loans made since 1993, calculate the amount of overpaid reinsurance relating to such LLR Loans, and refund such overpayment to the Department of Education, (ii) must require the Corporation to identify the specific loans designated as LLR loans as a result of the Corporation's denial of a conventional loan because of a bankruptcy filing and reverse that designation, instruct the Corporation to update its lending policies and procedures to comply with the Bankruptcy Act and associated guidance provided by the Department of Education, and (iii) must obtain an independent servicer, other than the Corporation, to perform default aversion activities on its behalf or begin to perform those activities with its own employees.

In the FPRD, the Department of Education has calculated that the amount to be paid as a result of the incorrect classification of loans as LLR Loans and the resulting overpayment of reinsurance on LLR Loans is approximately \$ 4.1 million plus interest of approximately \$ 654,000 by the Authority and approximately \$ 1 million by the Corporation. As of June 30, 2010, the Corporation recorded a liability of approximately \$ 1 million and the Authority recorded a liability of approximately \$ 4.8 million to recognize the potential exposure to these findings.

On October 23, 2009, the Authority appealed the first finding of the FPRD on the grounds that, among other things, the Department of Education's position was not supported by the statute and regulations on which it relied. On May 20, 2010, the Department of Education issued a ruling sustaining this finding of the FPRD. On July 6, 2010, the Authority appealed the decision to the Secretary of Education.

With respect to the second finding, the Authority provided additional information to the U.S. Department of Education via a letter dated January 16, 2010, which stated that the Authority had caused the Corporation to discontinue the challenged practice and calculated the total associated liability of the Authority and Corporation to be approximately \$ 35,000. On February 22, 2010, the Department of Education informed the Authority that the calculation provided in the January 16, 2010, letter was acceptable, and on March 18, 2010, the Corporation and Authority confirmed to the Department that they had made the necessary payments to resolve the issue.

With respect to the third finding, on January 16, 2010, the Authority formally requested a meeting with the Department of Education to discuss alternatives for implementing changes to its default aversion activities that would be satisfactory to the Department and least disruptive to the Authority. On February 22, 2010, the Department informed the Authority that it would respond to this request at some point in the future. To date, no response has been received.

In the second quarter of 2008, the Authority received a letter from the Internal Revenue Service informing the Authority that the Internal Revenue Service would be auditing the \$ 49,850,000 in aggregate principal amount of South Carolina State Education Assistance Authority Guaranteed Student Loan Revenue Bonds, 1998 Series (the "*1998 Bonds*") issued by the Authority in 1998 and redeemed in full in 2008. The 1998 Bonds were audited as part of a project initiative involving student loan bonds of several issuers.

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
YEARS ENDED JUNE 30, 2010 AND 2009**

Notes to Financial Statements

Note 15. Contingency (Continued)

As part of the audit of the 1998 Bonds, the Internal Revenue Service issued the Authority a Form 5701-TEB Notice of Proposed Issue ("*Form 5701*") in March 2009 which raised issues regarding (i) the Authority's methodology for tracking student loans originated with the proceeds of the 1998 Bonds and (ii) the treatment of the consolidation loan rebate fee paid by the Corporation to the U.S. Department of Education. The Form 5701 asserts that because of the foregoing issues, the bond issue fails to qualify as a tax-exempt bond issue and that, therefore, interest on the 1998 Bonds to the bondholders would not be excludable from gross income under Section 103(a) of the Code. In the Form 5701, the Internal Revenue Service estimates the tax exposure to bondholders of the 1998 Bonds in an amount of \$ 1,001,636, based on an application of 29% to collectable past and future interest paid. The Authority believes the Internal Revenue Service position is inconsistent with industry practice. The Authority has responded to the Internal Revenue Service by disputing the conclusions contained in the Form 5701. The IRS has recently advised the Authority that any settlement of the audit on the 1998 Bonds will need to include all of the Authority's bonds.

The Authority is unable to predict the outcome of this matter at this time and is not currently able to predict whether the Internal Revenue Service will open other audits of other bonds of the Authority as a result of this inquiry.

Note 16. Subsequent Events

During August 2010, the Corporation engaged RBC Capital Markets (RBC) to initiate a Bond Offering of up to \$ 925 million to finance all or a portion of the existing student loans under the 2002 Resolution of \$ 800 million, and all or a portion of existing student loans under a Royal Bank of Canada Line of Credit Warehouse facility of \$ 121 million. This offering is expected to be finalized during October 2010 and will be issued as a Taxable Floating Rate Note indexed to the three-month LIBOR rate. The proceeds of this offering will in part be used to pay down the note owed to the Authority by the Corporation for student loans funded under the 2002 Resolution. The Authority will, in turn, redeem all or a portion of outstanding bonds issued under the 2002 Resolution, which are currently in a failed auction rate mode, and effectively reduce its assets by approximately \$ 803 million if the total \$ 925 million bond offering is successful. The \$ 803 million asset reduction will consist of \$ 800 million note receivable from SCSLC for funds advanced to originate or purchase student loans under the 2002 Resolution, and \$ 3 million to eliminate the outstanding balance of the Deferred Cost of Issuance asset related to the 2002 Bond issuance. In addition, the Authority will reduce its liabilities by approximately \$ 800 million as it will redeem the outstanding bonds issued under the 2002 Resolution and will also reduce its fund balance by approximately \$ 3 million to recognize the cost of issuance expenses incurred as a result of early termination of the 2002 Bond issuance. If the bond offering is not at the maximum level of \$ 925 million, then the assets and liabilities will be reduced by a proportional amount based on the aggregate amount of the actual bond offering and in the same sequence as mentioned above.

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF NET ASSETS BY ACCOUNTS
ENTERPRISE FUND
JUNE 30, 2010

ASSETS

	Collection Account Prior Unpledged	93 Resolution	02 Resolution	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Current Assets								
Cash and cash equivalents	\$ 20,638,091	\$ -	\$ 5,912,911	\$ 44,930,462	\$ 6,085,972	\$ 34,782,477	\$ 17,314,704	\$ 129,664,617
Cash and cash equivalents - restricted	-	-	18,474,139	8,106,561	-	-	-	26,580,700
Receivables								
Current portion of student loans	-	-	-	-	2,344,577	-	-	2,344,577
Interest receivable	-	-	-	-	1,004,301	-	-	1,004,301
Current portion of finance loans	-	-	55,651,487	803,597	-	-	-	56,455,084
Due from South Carolina Student Loan Corporation	-	-	-	-	-	-	-	-
Accrued interest receivable	1	-	-	2,972	-	39	17	3,029
Federal reinsurance receivable	-	-	-	-	-	-	3,332,351	3,332,351
Loan processing issuance fee receivable	-	-	-	-	-	192,934	-	192,934
Account maintenance fee receivable	-	-	-	-	-	616,061	-	616,061
Due from other funds	(6,885,551)	-	6,453,552	6,748	523,331	(202,904)	104,824	-
Total current assets	<u>13,752,541</u>	<u>-</u>	<u>86,492,089</u>	<u>53,850,340</u>	<u>9,958,181</u>	<u>35,388,607</u>	<u>20,751,896</u>	<u>220,193,654</u>
Long-term and other assets								
Receivables								
Student loans, less current portion and net of allowance for loan loss of \$ 28,014 in 2010	-	-	-	-	69,834,571	-	-	69,834,571
Finance loans, less current portion and net of allowance for finance loan loss of \$ 803,597 in 2010	-	-	739,973,545	39,321,116	-	-	-	779,294,661
Deferred cost of issuance of bonds	-	-	3,092,799	1,770,728	-	-	-	4,863,527
Total long-term and other assets	<u>-</u>	<u>-</u>	<u>743,066,344</u>	<u>41,091,844</u>	<u>69,834,571</u>	<u>-</u>	<u>-</u>	<u>853,992,759</u>
Property, Plant & Equipment								
Furniture and equipment	-	-	-	-	-	648,179	-	648,179
Automobile	-	-	-	-	-	22,338	-	22,338
Less: accumulated depreciation	-	-	-	-	-	(579,479)	-	(579,479)
Total property, plant & equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,038</u>	<u>-</u>	<u>91,038</u>
Total assets	<u>\$ 13,752,541</u>	<u>\$ -</u>	<u>\$ 829,558,433</u>	<u>\$ 94,942,184</u>	<u>\$ 79,792,752</u>	<u>\$ 35,479,645</u>	<u>\$ 20,751,896</u>	<u>\$ 1,074,277,451</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF NET ASSETS BY ACCOUNTS
ENTERPRISE FUND
JUNE 30, 2010

	Collection Account Prior Unpledged	93 Resolution	02 Resolution	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
LIABILITIES								
Current Liabilities								
Accounts payable	\$ 128,776	\$ -	\$ 35,000	\$ 2,801	\$ 7,043	\$ 4,823,316	\$ -	\$ 4,996,936
Compensated absences	-	-	-	-	-	326,387	-	326,387
Due to South Carolina Student Loan Corporation	11,419,482	-	5,471,256	1,600,035	41,877	738,056	577,097	19,847,803
Due to United States Department of Education	-	-	3,619,940	77,409	536,575	-	-	4,233,924
Consolidation rebate fee payable	975,549	-	-	-	-	-	-	975,549
Payable from restricted assets	-	-	-	-	-	-	-	-
Accrued bond interest payable	-	-	1,382,827	1,036,337	-	-	-	2,419,164
Arbitrage payable to Federal government	-	-	300,500	-	-	-	-	300,500
Total current liabilities	12,523,807	-	10,809,523	2,716,582	585,495	5,887,759	577,097	33,100,263
Long-Term Liabilities								
Bonds payable, less current maturities, deferred amount of debt refunding and bond premium and discounts	-	-	809,700,000	85,000,000	-	-	-	894,700,000
Provision for losses on student loans	-	-	-	-	-	-	1,123,426	1,123,426
Arbitrage payable to federal government payable from restricted funds	-	-	1,048,723	-	-	-	-	1,048,723
Total long-term liabilities	-	-	810,748,723	85,000,000	-	-	1,123,426	896,872,149
Total liabilities	12,523,807	-	821,558,246	87,716,582	585,495	5,887,759	1,700,523	929,972,412
Net Assets								
Invested in capital assets	-	-	-	-	-	91,038	-	91,038
Restricted for								
Debt service	-	-	-	-	-	-	-	-
Bond indentures	-	-	8,000,187	7,225,602	-	-	-	15,225,789
Other	-	-	-	-	-	-	-	-
Federal government	-	-	-	-	-	-	19,051,373	19,051,373
Guaranty agency operating account	-	-	-	-	-	29,500,848	-	29,500,848
Unrestricted	1,228,734	-	-	-	79,207,257	-	-	80,435,991
Total net assets	\$ 1,228,734	\$ -	\$ 8,000,187	\$ 7,225,602	\$ 79,207,257	\$ 29,591,886	\$ 19,051,373	\$ 144,305,039

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS BY ACCOUNTS
ENTERPRISE FUND
YEAR ENDED JUNE 30, 2010

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Operating Revenue								
United States Department of Education								
Loan processing issuance fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,483,885	\$ -	\$ 2,483,885
Account maintenance fee	-	-	-	-	-	2,905,719	-	2,905,719
Default aversion fee income	-	-	-	-	-	401,593	-	401,593
Retention on default collections	-	-	-	-	-	4,049,839	-	4,049,839
Income from South Carolina Student Loan Corporation								
Subsidized interest	-	-	-	-	756,856	-	-	756,856
Special allowance	-	-	-	-	(3,437,989)	-	-	(3,437,989)
Non-subsidized interest	-	679,448	-	-	3,863,037	-	-	4,542,485
Late charges	-	2,594	-	-	22,387	-	-	24,981
Miscellaneous payments of student loans	-	18,040	-	-	(38)	-	-	18,002
Reimbursement of bond expense	-	-	12,382,701	2,169,426	-	-	-	14,552,127
Reinsurance recoveries	-	-	-	-	-	-	277,595	277,595
Miscellaneous income	-	-	-	-	-	-	14,816	14,816
Guaranty fees	-	-	-	-	-	-	6,563,123	6,563,123
Interest/investment income	1,702	2,203	(33,881)	22,865	10,343	48,656	18,189	70,077
Gain (loss) on sale of loans	-	148,865	-	-	-	-	-	148,865
Net increase in the fair value of investments	-	(660)	-	-	-	-	-	(660)
Total operating revenue	1,702	850,490	12,348,820	2,192,291	1,214,596	9,889,692	6,873,723	33,371,314
Operating Expenses								
Personnel	-	-	-	-	-	3,435,635	-	3,435,635
Contractual services	-	-	-	-	-	686,460	-	686,460
General operating	-	-	-	-	-	759,516	-	759,516
South Carolina Student Loan Corporation for operations	-	125,000	6,000,000	159,498	480,705	-	-	6,765,203
Bond interest expense	-	652,757	4,563,266	2,717,507	-	-	-	7,933,530
Amortization - deferred cost of bond issuance	-	426,581	401,705	78,701	-	-	-	906,987
Default aversion fee	-	-	-	-	-	-	401,593	401,593
Loan fees	-	73,078	-	229,042	735,129	-	-	1,037,249
Federal default fee	-	-	-	-	-	6,563,123	-	6,563,123
Borrower incentives	-	8,253	-	-	76,186	-	-	84,439
Broker/dealer fees	-	36,110	840,638	8,800	69,870	-	-	955,418
Reinsurance expense	-	4,649	-	-	11,541	4,808,722	1,382,611	6,207,523
Loan loss reserve	-	-	-	-	21,015	-	-	21,015
Other fees	-	-	-	-	338,374	577,842	20,749	936,965
Total operating expenses	-	1,326,428	11,805,609	3,193,548	1,732,820	16,831,298	1,804,953	36,694,656
Operating income	1,702	(475,938)	543,211	(1,001,257)	(518,224)	(6,941,606)	5,068,770	(3,323,342)

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS BY ACCOUNTS
ENTERPRISE FUND
YEAR ENDED JUNE 30, 2010

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Non-Operating Revenues (Expenses)								
Arbitrage income (expense)	\$ -	\$ 18,156	\$ 1,553,700	\$ -	\$ -	\$ -	\$ -	\$ 1,571,856
Transfers Between Accounts								
Transfers in	-	-	-	8,226,859	79,725,481	-	-	87,952,340
Transfers out	-	(87,952,340)	-	-	-	-	-	(87,952,340)
Total transfers between accounts	-	(87,952,340)	-	8,226,859	79,725,481	-	-	-
Change in net assets	1,702	(88,410,122)	2,096,911	7,225,602	79,207,257	(6,941,606)	5,068,770	(1,751,486)
Net assets								
Beginning	1,227,032	88,410,122	5,903,276	-	-	36,533,492	13,982,603	146,066,525
Ending	\$ 1,228,734	\$ -	\$ 8,000,187	\$ 7,225,602	\$ 79,207,257	\$ 29,591,886	\$ 19,051,373	\$ 144,305,039

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF CASH FLOWS BY ACCOUNTS
ENTERPRISE FUND
YEAR ENDED JUNE 30, 2010

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Cash Flows from Operating Activities								
Receipts from borrowers and U.S. Department of Education	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,497,653	\$ 15,854,726
Receipts from SCSLC services provided	6,279,989	-	13,896,253	13,023,666	7,236,198	-	-	40,436,106
Payments to suppliers, lenders and borrowers	-	(83,038,878)	(3,155,327)	(547,627)	(1,160,569)	(7,683,410)	(1,439,629)	(97,025,440)
Payments to employees	-	-	-	-	-	(3,405,347)	-	(3,405,347)
Net cash provided by (used in) operating activities	<u>6,279,989</u>	<u>(83,038,878)</u>	<u>10,740,926</u>	<u>12,476,039</u>	<u>6,075,629</u>	<u>(731,664)</u>	<u>4,058,024</u>	<u>(44,139,955)</u>
Cash Flows from Non-capital Financing Activities								
Finance loan advances to South Carolina Student Loan Corporation for student loans	-	-	-	(40,928,310)	-	-	-	(40,928,310)
Corporation	-	222,191,459	51,175,329	-	-	-	-	273,366,788
Payment on bonds payable	-	(155,650,000)	(45,700,000)	-	-	-	-	(201,350,000)
Proceeds received for new bonds	-	-	-	85,000,000	-	-	-	85,000,000
Arbitrage payoff	-	(286,258)	-	-	-	-	-	(286,258)
Cost of bond issuance paid	-	-	-	(1,849,429)	-	-	-	(1,849,429)
Interest paid on revenue bonds	-	(1,121,549)	(6,018,592)	(1,681,170)	-	-	-	(8,821,311)
Net cash provided by (used in) non-capital financing activities	<u>-</u>	<u>65,133,652</u>	<u>(543,263)</u>	<u>40,541,091</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,131,480</u>
Cash Flows from Capital and Related Financing Activities								
Purchase of capital assets	-	-	-	-	-	(27,748)	-	(27,748)
Cash Flows from Investing Activities								
Interest received on investment securities	1,702	2,203	(32,250)	19,893	10,343	48,687	18,198	68,776
Net (decrease) in fair value of investments reported as cash equivalents	-	(660)	-	-	-	-	-	(660)
Net cash provided by (used in) investing activities	<u>1,702</u>	<u>1,543</u>	<u>(32,250)</u>	<u>19,893</u>	<u>10,343</u>	<u>48,687</u>	<u>18,198</u>	<u>68,116</u>
Net increase (decrease) in cash and cash equivalents	<u>6,281,691</u>	<u>(17,903,683)</u>	<u>10,165,413</u>	<u>53,037,023</u>	<u>6,085,972</u>	<u>(710,745)</u>	<u>4,076,222</u>	<u>61,031,893</u>
Cash and Cash Equivalents								
Beginning	14,356,400	17,903,683	14,221,637	-	-	35,493,222	13,238,482	95,213,424
Ending	<u>\$ 20,638,091</u>	<u>\$ -</u>	<u>\$ 24,387,050</u>	<u>\$ 53,037,023</u>	<u>\$ 6,085,972</u>	<u>\$ 34,782,477</u>	<u>\$ 17,314,704</u>	<u>\$ 156,245,317</u>

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF CASH FLOWS BY ACCOUNTS
ENTERPRISE FUND
YEAR ENDED JUNE 30, 2010

	Collection Account Prior Unpledged	1993 Resolution	2002 Resolution	2009 PAL Resolution	Eligible Lender Trust	Agency Operating Account	Federal Student Loan Reserve Account	Total
Cash Flows from Operating Activities								
Operating income (loss)	\$ 1,702	\$ (475,938)	\$ 543,211	\$ (1,001,257)	\$ (518,224)	\$ (6,941,606)	\$ 5,068,770	\$ (3,323,342)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities								
Purchase of student loans under loan guarantees	-	-	-	-	-	-	(60,140,771)	(60,140,771)
Payments received from U.S. Department of Education under federal reinsurance program	-	-	-	-	-	-	58,834,892	58,834,892
Amortization of deferred cost of bond issuance	-	426,581	401,705	78,701	-	-	-	906,987
Amortization of deferred amount of refunding - interest expense	-	17,350	-	-	-	-	-	17,350
Amortization of premiums and discounts on bonds payable - interest expense	-	513,713	-	-	-	-	-	513,713
Interest/investment income (investing activities category)	(1,702)	(2,203)	33,881	(22,865)	(10,343)	(48,656)	(18,189)	(70,077)
Depreciation expense	-	-	-	-	-	96,785	-	96,785
Provision for loan losses	-	-	-	-	-	-	163,661	163,661
Allowance for loan loss	-	-	-	-	21,015	-	-	21,015
Allowance for finance loan loss	-	660	-	803,597	-	-	-	803,597
Net decrease in fair value of investments (investing activities category)	-	652,757	4,563,266	2,717,507	-	-	-	7,933,530
Bond interest expense (non-capital financing activities category)	-	-	-	8,226,859	79,725,481	-	-	87,952,340
Transfers In between accounts	-	(87,952,340)	-	-	-	-	-	(87,952,340)
Transfers Out between accounts	-	-	-	-	-	-	-	-
Changes in assets and liabilities	-	-	-	-	(72,200,162)	-	-	(72,200,162)
(Increase) in student loan receivables	-	-	-	-	(1,004,301)	-	-	(1,004,301)
(Increase) in interest receivable	41	3,077,925	2,526,219	-	-	1,241,405	-	6,845,590
Decrease in due from South Carolina Student Loan Corporation	-	-	-	-	-	-	-	-
Decrease in loan processing issuance fee receivable	-	-	-	-	-	95,005	-	95,005
(Increase) in account maintenance fee receivable	-	-	-	-	-	(81,561)	-	(81,561)
(Increase) decrease in due from other funds	6,324,709	702,617	(6,453,552)	(6,748)	(523,331)	(96,517)	52,822	-
Increase in accounts payable	75,585	-	35,000	2,801	7,042	4,823,316	-	4,943,744
Increase in compensated absences liability	-	-	-	-	-	30,289	-	30,289
Increase in due to United States Department of Education	-	-	3,619,940	77,409	536,575	-	-	4,233,924
(Decrease) in consolidation rebate fee payable	(64,943)	-	-	-	-	-	-	-
Increase (decrease) in due to South Carolina Student Loan Corporation	(55,403)	-	5,471,256	1,600,035	41,877	149,857	96,839	(64,943)
Net cash provided by (used in) operating activities	6,279,989	(63,038,878)	10,740,926	12,476,039	6,075,629	(731,663)	4,058,024	(44,139,954)
Supplemental Disclosures of Cash Flow Information								
Interest collected on finance loans - operating activities	-	5,299,341	-	-	-	-	-	5,299,341
Arbitrage income incurred and liability accrued - non-capital financing activity	-	18,156	1,553,700	-	-	-	-	1,571,856

SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF EXPENSES COMPARED TO BUDGET
YEAR ENDED JUNE 30, 2010

	Budget	Actual	Variance (Over) Under
Operating Expenses			
Personnel			
Staff salaries	\$ 2,410,000	\$ 2,300,611	\$ 109,389
Social security	183,500	159,321	24,179
Group insurance	443,850	324,233	119,617
Retirement	483,000	645,813	(162,813)
Unemployment	6,250	5,657	593
Total personnel	<u>3,526,600</u>	<u>3,435,635</u>	<u>90,965</u>
Contractual			
Loan servicing	438,000	360,651	77,349
Legal	4,000	118,128	(114,128)
Accounting	19,500	26,053	(6,553)
Credit bureau fees	134,940	50,440	84,500
Skip tracing	160,000	106,658	53,342
Enrollment verification	28,800	24,530	4,270
Total contractual	<u>785,240</u>	<u>686,460</u>	<u>98,780</u>
General Operating			
Rent	100,800	100,729	71
Telephone	81,500	58,409	23,091
Printing	73,040	54,458	18,582
Postage	278,425	278,368	57
Supplies	52,800	32,689	20,111
Travel	25,000	5,728	19,272
Equipment maintenance	73,000	64,419	8,581
Subscriptions and fees	31,500	27,829	3,671
Meeting and conference expense	1,000	-	1,000
Insurance - general and automotive	28,250	27,602	648
Outreach and awareness	27,250	11,257	15,993
Contingencies	15,000	804	14,196
Other expenses	-	437	(437)
Depreciation expense	96,124	96,787	(663)
Total general operating	<u>883,689</u>	<u>759,516</u>	<u>124,173</u>
Capital Additions			
Equipment, furniture and fixtures	<u>\$ 30,000</u>	<u>27,748</u>	<u>\$ 2,252</u>
Total personnel expenses		3,435,635	
Total contractual		686,460	
Total general operating		759,516	
Total operating expenses		<u>4,881,611</u>	
South Carolina Student Loan Corporation Operating Costs		<u>6,765,203</u>	
Other Expenses			
Interest on bonds		7,933,530	
Amortization - deferred cost of bond issuance		906,986	
Default aversion fee expense		401,593	
Borrower incentives		84,439	
Reinsurance expense and other fees		15,721,294	
Total other expenses		<u>25,047,842</u>	
Total expenses		<u>\$ 36,694,656</u>	

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF ORGANIZATIONAL DATA
YEAR ENDED JUNE 30, 2010**

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>
Mark Sanford	Governor of South Carolina
Converse A. Chellis, III	State Treasurer of South Carolina
Richard Eckstrom	Comptroller General of South Carolina
Hugh K. Leatherman, Sr.	Chairman, South Carolina Senate Finance Committee
Daniel T. Cooper	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, 2010**

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Amount of Grant</u>	<u>Expenses</u>
U.S. Department of Education Programs			
Federal Family Education Loan Program			
Direct			
Loan processing and issuance fee	84.032		\$ 2,483,885
Account maintenance fee	84.032		2,905,719
Default aversion fee income	84.032		401,593
Retention on default collections	84.032		4,049,839
Passed through South Carolina Student Loan Corporation			
Special allowance	84.032		-
Subsidized interest	84.032		<u>756,856</u>
Total Federal Family Education Loan Program			
(Major program)			<u><u>10,597,892</u></u>
Paul Douglas Teachers Scholarship Program (Note 6)	84.176		-
Total Department of Education			\$ <u><u>10,597,892</u></u>

Notes - CFDA #84.032:

1. Summary of Significant Accounting Policies:

This schedule is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The financial activity shown in this schedule reflects amounts recorded by the Authority during its fiscal year July 1, 2009, through June 30, 2010.

- The total approved amount at June 30, 2010, of all student loans under guarantee by the South Carolina State Education Assistance Authority was \$ 8,754,470,760. The total outstanding balance of these loans was \$ 3,813,286,475. Special allowances and subsidized interest are earned based on outstanding balance. The account maintenance fee is based on average principal outstanding for the fiscal year for loans serviced, subject to a cap. 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 \$ 58,834,892 during the year ended June 30, 2010, 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, 2010, since inception, of all defaulted student loans which the South Carolina State Education Assistance Authority has purchased under Federal reinsurance agreements was \$ 369,467,174. 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.
- The U.S. Department of Education (USDE) now requires lenders to pay the USDE when the lenders have negative special allowance. The Authority paid \$ 3,437,989 for the year ending June 30, 2010.

Notes - CFDA #84.176:

- Program participants repaid \$ 5,502 to the Authority. The Authority owes the Federal Government \$ 5,502 at June 30, 2010.



DERRICK, STUBBS & STITH, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

508 Hampton Street, 1st Floor • Post Office Box 36
Columbia, South Carolina 29202-0036
Telephone: (803) 799-5810 • Facsimile: (803) 799-5554
www.dsscpa.com

A. David Masters, CPA
Charles R. Statler, Jr., CPA
Alan F. Grimsley, CPA
Hugh R. Penny, CPA, CISA, CBA
H. Warren Counts, Jr., CPA
K. Todd Dailey, CPA, CVA
Timothy M. Monahan, CPA

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

To the 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, 2010, and have issued our report thereon dated September 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Carolina State Education Assistance Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Carolina State Education Assistance Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Board of Directors 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.

Derrick, Stubbs & Stith, LLP

September 15, 2010



DERRICK, STUBBS & STITH, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

508 Hampton Street, 1st Floor • Post Office Box 36
Columbia, South Carolina 29202-0036
Telephone: (803) 799-5810 • Facsimile: (803) 799-5554
www.dsscpa.com

A. David Masters, CPA
Charles R. Statler, Jr., CPA
Alan F. Grimsley, CPA
Hugh R. Penny, CPA, CISA, CBA
H. Warren Counts, Jr., CPA
K. Todd Dailey, CPA, CVA
Timothy M. Monahan, CPA

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, 2010. The South Carolina State Education Assistance Authority's major federal program is identified in the summary of auditor's 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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, 2010.

Internal Control Over Compliance

The management of the South Carolina State Education Assistance Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the South Carolina State Education Assistance Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the South Carolina State Education Assistance Authority's internal control over compliance.

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the management, the Board of Directors and the U.S. Department of Education and is not intended to be and should not be used by anyone other than those specified parties.

Derick, Stulke + Smith, LLP

September 15, 2010

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010**

1. Summary of Auditor's Results:

- | | | |
|--------|--|-----------------|
| (i) | Type of report issued on financial statements | Unqualified |
| (ii) | Material weaknesses in internal control over financial reporting | None Identified |
| (iii) | Significant deficiencies not considered to be material weaknesses in internal control over financial reporting | None Identified |
| (iv) | Noncompliance material to the financial statements | None Noted |
| (v) | Material weaknesses in internal control over major programs | None Identified |
| (vi) | Significant deficiencies 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

Loan processing and issuance fee

<u>CFDA#</u>	<u>Expenditure</u>
84.032	\$ 2,483,885

Account maintenance fee

84.032	2,905,719
--------	-----------

Default aversion fee income

84.032	401,593
--------	---------

Retention on default collections

84.032	4,049,839
--------	-----------

Passed Through South Carolina Student Loan Corporation

Subsidized interest

84.032	<u>756,856</u>
--------	----------------

Total Federal Family Education Loan

Program (Major program)

\$ 10,597,892

- | | | |
|------|--|------------|
| (x) | Dollar threshold used to distinguish between Type A and Type B programs | \$ 300,000 |
| (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 AUDIT FINDINGS
YEAR ENDED JUNE 30, 2010**

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

**SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
SCHEDULE OF CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2010**

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