

**South Carolina State
Education Assistance Authority**

Report on Financial Statements

For the years ended June 30, 2023 and 2022

South Carolina State Education Assistance Authority

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October 3, 2023

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

This report on the audit of the financial statements of the South Carolina State Education Assistance Authority for the fiscal year ended June 30, 2023 and 2022, was issued by Elliott Davis, LLC, 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,

George L. Kennedy, III, CPA
State Auditor

GLKIII/trb

Independent Auditor's Report

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the South Carolina State Education Assistance Authority (the "Authority"), a component unit of the State of South Carolina, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Restatement of Previously Issued Financial Statements

As discussed in Note 8 to the financial statements, the 2022 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The individual fund schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the schedule of organizational data but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.



Columbia, South Carolina
October 3, 2023

South Carolina State Education Assistance Authority

Management's Discussion and Analysis

The South Carolina State Education Assistance Authority (the "Authority") was originally created to fill functions to provide and guarantee financing for education loans for students and parents. As a provider of financing, the Authority issued bonds to finance education loans issued by the eligible lender, South Carolina Student Loan Corporation ("SCSLC"). The Authority is an authorized conduit issuer for tax-exempt bonds for the purpose of providing funding for higher education loans issued by an eligible lender. SCSLC is a not-for-profit entity eligible to issue higher education loans. As an authorized tax-exempt debt issuer, the Authority has partnered with SCSLC to assist in financing education loans since the Authority's inception. For every bond financing, SCSLC and the Authority enter into a loan agreement pursuant to the terms in which the Authority has agreed to lend bond proceeds to SCSLC to enable SCSLC to make or acquire education loans. The obligation of SCSLC to repay the finance loans is evidenced by a promissory note of SCSLC and is secured by a pledge under the loan agreement. As of the fiscal year ended June 30, 2023 the Authority has no outstanding tax-exempt bond debt issuances.

As a guarantor, the Authority processed loans submitted for guarantee, provided collection assistance for delinquent loans, paid claims for loans in default, collected loans on which default claims had been paid, and made appropriate responses to the United States Secretary of Education. As stipulated in the Health Care and Education Reconciliation Act ("HCERA") of 2010, effective July 1, 2010, all federal loan originations are required to be made through the federal Direct Loan Program. Therefore, the Authority did not provide a guarantee for federal loans originated since July 1, 2010.

As a result of the HCERA of 2010 and subsequent actions taken by the federal government which nationalized the federally-guaranteed student loan program, continuing guarantor operations under the guaranty agreement between the Authority and the United States Department of Education ("USDE") would result in an economic loss to the Authority. Therefore, on June 22, 2016, the State Fiscal Accountability Authority ("SFAA") initiated action to terminate the guaranty agreement between the Authority and USDE. Effective December 1, 2016, a USDE designated guaranty agency accepted the transfer of all the Authority's outstanding guarantees and the Authority's post-claim portfolio. The Authority no longer serves as a guaranty agency for the USDE.

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, 2023. Please read it in conjunction with the Authority's Statements of Net Position, Statements of Revenue, Expenses and Changes in Net Position, Statements of Cash Flows, and the Notes to Financial Statements, which follow this section.

Financial Highlights:

The Authority's total assets at June 30, 2023 were approximately \$163,039,000, which is an increase of approximately \$3,320,000 or 2% from June 30, 2022. The increase in assets was primarily due to the accrual of investment income related to cash held in the State's treasury pool. The Authority's total liabilities at June 30, 2023 were approximately \$4,840,000, which was a decrease of approximately \$77,000 or 2% from June 30, 2022.

The Authority's operating revenues for the fiscal year ended June 30, 2023 were approximately \$588,000, reflecting a decrease of approximately \$1,474,000 or 72% from the fiscal year ended June 30, 2022. This decrease was primarily attributed to the decline in the student loans receivable portfolio.

Operating expenses were approximately \$241,000 for the fiscal year ended June 30, 2023, reflecting a decrease of approximately \$168,000 or 41% from the fiscal year ended June 30, 2022. This decrease was primarily attributed to the decrease in loan servicing costs and loan fees.

South Carolina State Education Assistance Authority

Management's Discussion and Analysis

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 the accrual basis. Under the accrual basis of GAAP, revenues are recognized during the period in which they are earned, and expenses are recognized during the period in which they are incurred. The three basic financial statements presented within the financial statements are as follows:

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

Statements of Revenues, Expenses and Changes in Net Position – This statement presents the Authority's operating revenues, operating expenses, non-operating income and expenses, and changes in net position for the fiscal year.

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

Financial Analysis:

The Authority's total net position at June 30, 2023 was approximately \$158,199,000, which is an increase of approximately \$3,397,000 or 2% from June 30, 2022. Components of the Authority's Statements of Net Position as of June 30 were as follows:

	2023	As Restated 2022	Percentage +/-
Current assets	\$116,622,196	\$111,279,882	4.8%
Long-term assets	46,416,900	48,439,230	-4.2%
Total assets	<u>\$163,039,096</u>	<u>\$159,719,112</u>	2.1%
Current liabilities	\$31,605	\$108,746	-70.9%
Long-term liabilities	4,808,722	4,808,722	0.0%
Total liabilities	<u>\$4,840,327</u>	<u>\$4,917,468</u>	-1.6%
Net position:			
Restricted	65,675,232	63,801,413	2.9%
Unrestricted	92,523,537	91,000,231	1.7%
Total net position	<u>158,198,769</u>	<u>154,801,644</u>	2.2%
Total liabilities and net position	<u>\$163,039,096</u>	<u>\$159,719,112</u>	2.1%

South Carolina State Education Assistance Authority

Management's Discussion and Analysis

Financial Analysis, Continued:

Components of the Statements of Revenues, Expenses and Changes in Net Position for these two fiscal years were as follows:

	<u>2023</u>	<u>As Restated 2022</u>	<u>Percentage +/-</u>
Operating revenues:			
Student Loan income	\$ 588,430	\$ 2,062,625	-71.5%
Total operating revenues	<u>588,430</u>	<u>2,062,625</u>	-71.5%
Operating expenses:			
General administration	34,803	35,139	-1.0%
External loan servicing	62,087	159,828	-61.2%
Borrower incentives	34,814	52,526	-33.7%
Other fees	109,344	161,207	-32.2%
Total operating expenses	<u>241,048</u>	<u>408,700</u>	-41.0%
Operating income	<u>347,382</u>	<u>1,653,925</u>	-79.0%
Non-operating income (expense):			
Investment income	3,049,743	(5,152,030)	-159.2%
Interest expense	-	(456,250)	-100.0%
Total non-operating income	<u>3,049,743</u>	<u>(5,608,280)</u>	-154.4%
Change in net position	<u>3,397,125</u>	<u>(3,954,355)</u>	-185.9%
Beginning net position	<u>154,801,644</u>	<u>158,755,999</u>	-2.5%
Ending	<u>\$ 158,198,769</u>	<u>\$ 154,801,644</u>	2.2%

Debt Administration:

The Authority is an authorized conduit issuer for tax-exempt bonds for the purpose of providing funding for higher education loans issued by an eligible lender. SCSLC is designated as the eligible lender of such loans. The bonds must be approved by the Authority and SCSLC's Board of Directors 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 Department of the Treasury. At June 30, 2023, the Authority had \$0 in principal amount of bonds outstanding.

Economic Outlook:

The Authority continues to monitor the public need for its services, however, its activities as a conduit issuer and default aversion programs are not currently active.

South Carolina State Education Assistance Authority

Statements of Net Position

As of June 30, 2023 and 2022

	2023	As Restated 2022	2023	As Restated 2022
Assets				
Current assets				
Cash and cash equivalents	\$ 43,792,562	\$ 39,632,395		
Cash and cash equivalents-Restricted	69,737,174	68,195,421		
Receivables			\$ 4,674	\$ 6,251
Current portion of student loans	1,467,929	2,156,265		89,370
Interest due from student loans	429,675	594,421	-	13,125
Due from servicers	4,606	75,971	26,931	108,746
Due from United States Department of Education	29,869	-		
Accrued investment income	1,160,381	625,409	4,808,722	4,808,722
Total current assets	<u>\$ 116,622,196</u>	<u>\$ 111,279,882</u>	<u>\$ 4,840,327</u>	<u>\$ 4,917,468</u>
Long-term assets				
Receivables:				
Student loans, less current portion and net of allowance for loan loss of \$9,432 in 2023 and \$11,394 in 2022	6,581,892	8,604,222		
Due from South Carolina Student Loan Corporation	39,835,008	39,835,008	65,675,232	63,801,413
Total long-term assets	<u>46,416,900</u>	<u>48,439,230</u>	<u>92,523,537</u>	<u>91,000,231</u>
Total assets	<u>\$ 163,039,096</u>	<u>\$ 159,719,112</u>	<u>\$ 158,198,769</u>	<u>\$ 154,801,644</u>
Liabilities				
Current liabilities				
Accounts Payable				
Due to South Carolina Student Loan Corporation			\$ 4,674	\$ 6,251
Due to United States Department of Education			-	89,370
Other			26,931	13,125
Total current liabilities			<u>\$ 31,605</u>	<u>\$ 108,746</u>
Long-term Liabilities				
Due to United States Department of Education			4,808,722	4,808,722
Total long-term liabilities			<u>4,808,722</u>	<u>4,808,722</u>
Total liabilities			<u>\$ 4,840,327</u>	<u>\$ 4,917,468</u>
Net Position				
Restricted for:				
Guaranty agency operating account			65,675,232	63,801,413
Unrestricted			92,523,537	91,000,231
Total net position			<u>\$ 158,198,769</u>	<u>\$ 154,801,644</u>

See Notes to Financial Statements

South Carolina State Education Assistance Authority

Statements of Revenues, Expenses and Changes in Net Position

As of June 30, 2023 and 2022

	2023	As Restated 2022
Operating revenues		
Income from South Carolina Student Loan Corporation:		
Subsidized interest	\$ 23,318	\$ 31,189
Special allowance	(2,689)	(425,554)
Non-subsidized interest	554,730	698,038
Late charges	12,996	4,839
Miscellaneous payments of student loans	75	-
Reimbursement of bond expense	-	1,750,628
Other Income	-	3,485
Total operating revenues	<u>588,430</u>	<u>2,062,625</u>
Operating expenses		
Contractual services	34,803	34,299
General operating	-	840
South Carolina Student Loan Corporation for operating costs	62,087	159,828
Loan fees	98,715	160,215
Borrower incentives	34,814	52,526
Administrative fees	2,500	4,669
Reinsurance expense	10,091	6,081
Loan loss adjustments	(1,962)	(9,758)
Total operating expenses	<u>241,048</u>	<u>408,700</u>
Operating income	347,382	1,653,925
Non-operating income (expense)		
Investment income (loss)	3,049,743	(5,152,030)
Bond interest expense	-	(456,250)
Total non-operating income (expense)	<u>3,049,743</u>	<u>(5,608,280)</u>
Change in net position	3,397,125	(3,954,355)
Net position		
Beginning, as originally reported	154,801,644	156,206,343
Prior period adjustment	-	2,549,656
Beginning, as restated	<u>154,801,644</u>	<u>158,755,999</u>
End of year	<u>\$ 158,198,769</u>	<u>154,801,644</u>

See Notes to Financial Statements

South Carolina State Education Assistance Authority

Statements Cash Flows

For the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>As Restated 2022</u>
<i>Cash flows from operating activities</i>		
Receipts from South Carolina Student Loan services provided	\$ 3,505,337	\$ 3,273,750
Payments to suppliers, lenders and borrowers	<u>(318,187)</u>	<u>(957,530)</u>
Net cash provided by operating activities	<u>3,187,150</u>	<u>2,316,220</u>
<i>Cash flows from non-capital financing activities</i>		
Corporation for student loans	-	13,168,985
Payments on bonds payable	-	(9,777,176)
Interest paid on revenue bonds	<u>-</u>	<u>(581,153)</u>
Net cash provided by non-capital financing activities	<u>-</u>	<u>2,810,656</u>
<i>Cash flows from investing activities</i>		
Interest received on investment securities	2,200,137	1,536,967
Gain (loss) on deposits and investments	<u>314,633</u>	<u>(6,644,756)</u>
Net cash provided (used) by investing activities	<u>2,514,770</u>	<u>(5,107,789)</u>
<i>Net increase in cash and cash equivalents</i>	5,701,920	19,087
<i>Cash and cash equivalents</i>		
Beginning of year	<u>107,827,816</u>	<u>107,808,729</u>
End of year	<u>\$ 113,529,736</u>	<u>\$ 107,827,816</u>

See Notes to Financial Statements

(continued)

South Carolina State Education Assistance Authority

Statements Cash Flows

For the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>As Restated 2022</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 347,382	\$ 1,653,925
Adjustments to reconcile operating income to net cash provided by operating activities:		
Loan loss adjustments	(1,962)	(9,758)
Changes in operating assets and liabilities:		
Prepays	-	2,000
Student loans receivable	2,712,629	1,117,843
Interest due from borrower	164,746	(17,416)
Due from South Carolina Student Loan Corporation	-	125,535
Due from servicers	71,365	(5,079)
Due from United States Department of Education	(29,869)	
Accounts payable	13,806	(10,510)
Due to United States Department of Education	(89,370)	(59,456)
Unearned revenues	-	(5,399)
Due to South Carolina Student Loan Corporation	(1,577)	(475,465)
Net cash provided by operating activities	<u>\$ 3,187,150</u>	<u>\$ 2,316,220</u>
Cash and cash equivalents consists of:		
Unrestricted	\$ 43,792,562	\$ 39,632,395
Restricted	69,737,174	68,195,421
Total cash and cash equivalents	<u>\$ 113,529,736</u>	<u>\$ 107,827,816</u>

See Notes to Financial Statements

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Business and Significant Accounting Policies

Reporting entity:

The South Carolina State Education Assistance Authority (the "Authority") is a body politic and a corporate public instrumentality of the State of South Carolina. The Authority is a part of the State of South Carolina (the "State") created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the Code of Laws of South Carolina, 1976, as amended. The Authority is governed by the State Fiscal Accountability Authority ("SFAA") whose members by virtue of their position in State government include the Governor, State Treasurer, Comptroller General, Chairman of Senate Finance Committee and Chairman of the South Carolina House of Representatives Ways and Means Committee.

The Authority is a discretely presented component unit 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 Annual Comprehensive 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 a program developed for the financing of education loans issued by the eligible lender, South Carolina Student Loan Corporation ("SCSLC") herein referred to as the "Student Loan Finance Program."

The Authority was originally created to provide a means of providing lower cost of funds for an eligible lender making loans to students 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 providing funding to an eligible lender making student loans. The Authority has approved SCSLC as the eligible lender under its Student Loan Finance 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 United States Department of Education ("USDE"). Upon entering the repayment period, the interest is paid by the borrower. Special Allowance Payments ("SAP") are calculated as the difference between the amount of interest SCSLC receives from the borrower or the government and the variable amount that is provided under the requirements of the Higher Education Act of 1965, as amended, which is a predefined rate for each loan type. The SAP is calculated quarterly and the net amount of the government interest less the SAP due to USDE is paid by the Authority.

The operations of the Authority are administered by employees of SCSLC. Previously, the Authority would reimburse SCSLC upon request for the actual operating expenses incurred in the administration of the Authority's programs in accordance with a previously approved budget. All leases and property are in the name of SCSLC and the Authority paid its pro rata share based on space occupied, equipment usage, and loan servicing costs. Effective July 1, 2017, the Authority and SCSLC established a contractual relationship where the Authority pays an agreed-upon cost to SCSLC which encompasses the operating expenses for the Authority.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Business and Significant Accounting Policies, Continued

Reporting entity, continued:

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

During May 1978, the Authority initiated its Student Loan Insurance Program and commenced guaranteeing Guaranteed Loans as the guaranty agency for the State of South Carolina under §428(c) of the Higher Education Act. To administer its Student Loan Insurance Program effectively, the Authority processed loans submitted for guarantee, issued loan guarantees, provided collection assistance for delinquent loans, paid claims for loans in default, collected payments on loans on which default claims have been paid, and made appropriate responses to the United States Secretary of Education. The Authority was 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.

As a result of the Health Care and Education Reconciliation Act of 2010 and subsequent actions taken by the federal government which nationalized the federally guaranteed student loan program, continuing guarantor operations under the guaranty agreement between the Authority and the USDE would result in an economic loss to the Authority. Therefore, on June 22, 2016, the SFAA delegated to SCSLC the authority to communicate with USDE at the appropriate time to terminate the guaranty agreement, cease operating as a guaranty agency under the Higher Education Act of 1965. Effective December 1, 2016, the Authority transferred all of its outstanding guarantees and its post-claim portfolio to the USDE designee, Educational Credit Management Corporation ("ECMC").

Business-type activity:

The Authority is organized as an enterprise fund and further subdivided on the basis of sub-funds, each of which is considered separately for internal reporting purposes. The operation of each sub-fund uses a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses.

The Authority's sub-funds include the Prior Unpledged Fund, Eligible Lender Trust Fund, and the Agency Operating Fund. The Authority's activities include issuing revenue bonds to finance higher education student loans, which are created and administered by SCSLC.

The Prior Unpledged Fund represents funds of the Authority that are not restricted for any other purpose.

The 2009 PAL General Resolution Fund constitutes pledged income for the liquidation of outstanding bonds after transfers for operations. Restricted assets of the 2009 PAL General Resolution include principal and interest funds for future debt service, a debt reserve fund equaling the greater of two percent (2%) of the outstanding bond principal or an \$850,000 minimum, a Loan Fund, a General Revenue Fund which holds collections of principal and interest from borrowers, a Department Reserve Fund, and a Capitalized Interest Fund. The Trustee withdraws funds from the General Revenue Fund on approximately the 10th day of each month to make deposits into the other funds to meet required interest and operating expense obligations. Any remaining funds are deposited to the principal account. During the fiscal year ended June 30, 2022, all outstanding bonds for the 2009 PAL General Resolution were paid in full and all remaining assets were transferred out of the Fund.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Business and Significant Accounting Policies, Continued

Business-type activity, continued:

The Eligible Lender Trust Fund maintains student loans for the Authority that were created when the bonds under the 1993 Resolution were redeemed. The Authority collects revenue from borrowers and USDE and pays the related expenses for the loans.

The Agency Operating Fund was historically used to account for operations of the Authority in its capacity as a guarantee agency. It was used to account for account maintenance fees, default aversion fees, and the retention on default collections. The monies in this fund are restricted for the use of default prevention, default collection activities and compliance monitoring. Since the termination of the guarantee function of the Authority on December 1, 2016, the Agency Operating Fund has been utilized for default prevention programs and compliance monitoring. As of fiscal year-end 2023, the Authority was not actively participating in any default prevention activities.

Basis of accounting:

The Authority's financial statements are prepared using the accrual basis of accounting. 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 increases (decreases) in the fair value of investments includes unrealized and realized gains and losses. Bond premiums and discounts are amortized/accreted over the life of the bonds and netted against interest expense.

Budget and budgetary accounting:

Certain expenses for the Authority are budgeted as a management control device. However, the cost of issuing bonds, SCSLC expenses, interest expense, 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 South Carolina State Treasurer and are not adopted by the State Legislature or printed in the Appropriations Act. The Authority is subject to State laws and regulations. Expenses in excess of the budgeted amounts are not in violation of State laws.

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 are generally 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.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Business and Significant Accounting Policies, Continued

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 cash management pool and cash invested in various instruments by the Bank of New York Mellon.

The Authority deposits funds into the State's cash management pool which operates as a demand deposit account, and amounts invested in the cash management pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The cash management 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.

The Authority reports its deposits in the accounts held within the State's cash management pool 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 accumulated daily interest receivable to the total undistributed interest received by the cash management pool. Reported interest income includes interest earnings, realized gains/losses, and unrealized gains/losses arising from changes in the fair value of investments in the cash management pool. Realized gains and losses are allocated monthly and are included in the accumulated income receivable. Unrealized gains and losses are allocated at fiscal year-end based on the Authority's percentage ownership in the cash management pool.

Although the State's cash management pool includes some long-term investments, it operates as a demand deposit account. For credit risk information pertaining to the State's cash management pool, see the *Deposits and Investments* disclosures in Note 2.

Student loans - provision for loan losses:

The provision for losses on student loans represents the Authority's estimate of the costs related to the 2% to 3% risk sharing on FFELP 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 provision is based on total guaranteed loans times the 2% or 3% exposure risk rate times the default rate. However, the evaluation is inherently subjective and the provisions may significantly change in the future. The allowance for loan losses was \$9,432 and \$11,394 at June 30, 2023 and 2022, respectively.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2023 and 2022

Note 1. Nature of Business and Significant Accounting Policies, Continued

Risk management:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. When the guaranty agency was active, the Authority was allocated a proportionate share of the insurance expense paid by SCSLC. In addition, the Authority pays premiums to the State Insurance Reserve Fund, which accumulates assets to cover general tort claims.

When the guaranty agency was active, premiums for worker's compensation, property insurance including capital assets, group life, fidelity bonds, and employee health insurance were paid to private insurance carriers and the Authority's coverage was subject to the limits of these policies. The expenses for these items were charged to the Authority by SCSLC and were paid out of the Agency Operating Fund. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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 investment income and bond interest 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 positions are available.

New accounting pronouncements:

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement (1) defines a subscription-based information technology arrangement ("SBITA"); (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The Authority adopted the provisions of this statement during the year ended June 30, 2023, but such provisions did not have an impact on these financial statements.

Reclassifications:

Certain prior year amounts have been reclassified to conform to the current year presentation. There was no effect on net position as a result of these reclassifications.

Subsequent events:

These financial statements have not been updated for subsequent events after October 3, 2023, the date these financial statements were available to be issued.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2023 and 2022

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 Authority deposits and investments are deposited with the Bank of New York Mellon or Wells Fargo Bank, N.A. as authorized by the State Treasurer.

The following schedule reconciles deposits and investments within the footnotes to the amounts presented on the Statements of Net Position as of June 30:

	2023	As Restated 2022
Statement of Net Position		
Cash and Cash equivalents	\$ 43,792,562	\$ 39,632,395
Restricted assets		
Cash and Cash equivalents	69,737,174	68,195,421
Total	<u>\$ 113,529,736</u>	<u>\$ 107,827,816</u>
Footnotes		
Cash at banks	\$ 5,760,891	\$ 2,392,737
Investments		
Statement cash management pool	107,768,845	105,435,079
Total	<u>\$ 113,529,736</u>	<u>\$ 107,827,816</u>

Deposits:

State law requires full collateralization of all State Treasury balances. The State Treasury must correct any deficiencies in collateral within seven days. At June 30, 2023 and 2022, all State Treasury bank balances were fully insured or collateralized with securities held by the State of South Carolina or by its agents in the State of South Carolina's name.

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

At June 30, 2023 and 2022, the Bank of New York Mellon carried a bank balance of \$5,760,891 and \$2,392,737, respectively. These accounts are covered by FDIC insurance and pledged securities.

All other deposits are in the State's cash management pool. The value of the Authority's investment in the State's cash management pool is determined based on the fair value of the State's cash management pool's underlying portfolio.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2023 and 2022

Note 2. Deposits and Investments, Continued

Investments:

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

As of June 30, 2023 and 2022, the Authority's recurring fair value measurements were held in the State's cash management pool totaling \$107,768,845 and \$105,435,079 respectively, and were valued using quoted market prices for similar items in an active market (Level 2 inputs). Investment income on investments is recorded when earned. Purchases and sales are accounted for on the trade date. If applicable, unrealized gains and losses on investments are recorded on the Statements of Revenues, Expenses and Changes in Net Position. Realized gains and losses on securities transactions are recorded on the accrual basis of accounting.

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 equities. The State's cash management pool has federal agency and corporate obligations.

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 of the total investments. All investments are made pursuant to S.C. Code Section 11-9-660 which requires all investments to be investment grade by at least two credit rating agencies.

Foreign currency risk:

The Authority has no foreign currency investments.

Custodial credit risk:

Custodial credit risk is the risk that the Authority will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counter party to the investment transaction fails. 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, 2023 and 2022. 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.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2023 and 2022

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

During the fiscal year ended June 30, 2023, these loans were bearing interest at fixed rates ranging from 2.875% to 9.0% or an annual variable rate of 3.44% to 6.08%. 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 preceding June 1, plus 1.83% to 3.42% with a cap on the rate of 8.25% to 12.0%. These loans are repayable over a period of five to thirty years with a minimum payment of \$360 or \$600 per year, except for in the case of income-based repayment plans. Repayment of principal may be scheduled to begin within sixty days of final disbursement or six to ten months after the student graduates or ceases to be enrolled on at least a halftime basis in an eligible institution.

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

The USDE insures loans against death or disability at 100% and default up to 100% for loans made prior to October 1, 1993; up to 98% for loans made on or after October 1, 1993, but on or before June 30, 2006; and 97% for loans made on or after July 1, 2006.

Note 4. Amounts Due from/to SCSLC

The Authority owes SCSLC for funds collected on its behalf as well as services rendered on its behalf of \$4,674 and \$6,251 as of June 30, 2023 and 2022, respectively. During the fiscal year ended June 30, 2011, the Authority transferred unencumbered FFELP loans of the Authority in the amount of \$39,835,008 to SCSLC and SCSLC also contributed unencumbered loans of \$20,942,464 to provide additional equity to SCSLC's 2010 bond offering by increasing the parity of the bonds. The funds from both SCSLC and the Authority were provided through a Residual Trust Agreement which allows for all remaining loans of the Trust to be shared between SCSLC and the Authority on a pro-rata basis based on the percentage contribution made by each entity once all bonds have been redeemed.

Note 5. 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 as requested from the Attorney General.

See Notes 1 and 4 regarding transactions with SCSLC.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2023 and 2022

Note 6. Contingencies

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 USDE made findings in a Final Program Review Determination (the "FPRD") that (i) since 1993, the SCSLC 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 SCSLC 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 USDE, and (iii) the SCSLC 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 USDE 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 USDE, (ii) must require the SCSLC to identify the specific loans designated as LLR Loans as a result of the SCSLC's denial of a conventional loan because of a bankruptcy filing and reverse that designation, instruct the SCSLC to update its lending policies and procedures to comply with the Bankruptcy Act and associated guidance provided by the USDE, and (iii) must obtain an independent servicer, other than the SCSLC, to perform default aversion activities on its behalf or begin to perform those activities with its own employees.

In the FPRD, the USDE 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 was approximately \$4.1 million plus interest of approximately \$654,000 by the Authority and approximately \$1 million by the SCSLC. As of June 30, 2010, the SCSLC 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 USDE's position was not supported by the statute and regulations on which it relied. On May 20, 2010, the USDE issued a ruling sustaining this finding of the FPRD. On July 6, 2010, the Authority appealed the decision to the Secretary of Education. As of June 30, 2023, this appeal was still outstanding and remains pending with the USDE.

With respect to the second finding, the Authority provided additional information to the USDE via a letter dated January 16, 2010, which stated that the Authority caused the SCSLC to discontinue the challenged practice and calculated the total associated liability of the Authority and SCSLC to be approximately \$35,000. On February 22, 2010, the USDE informed the Authority that the calculation provided in the January 16, 2010, letter was acceptable, and on March 18, 2010, the SCSLC and Authority confirmed to the USDE 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 USDE to discuss alternatives for implementing changes to its default aversion activities that would be satisfactory to the USDE and least disruptive to the Authority. On February 22, 2010, the USDE informed the Authority that it would respond to this request at some point in the future. To date, no response has been received.

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2023 and 2022

Note 7. Required Information on Business-Type Activity for the State of South Carolina

The Authority is a discretely presented component unit of the State of South Carolina and is not required to present government-wide financial statements. However, the State of South Carolina requires business-type activities for its government-wide Statement of Activities. The required information was as follows for the fiscal years ended June 30:

	<u>2023</u>	<u>As Restated 2022</u>
Charges for services:		
Income from South Carolina Student Loan Corporation:		
Subsidized interest	\$ 23,318	\$ 31,189
Special allowance	(2,689)	(425,554)
Non-subsidized interest	554,730	698,038
Late charges	12,996	4,839
Miscellaneous payments of student loans	75	-
Reimbursement of bond expense	-	1,750,628
Other Income	-	3,485
Total charges for services	<u>588,430</u>	<u>2,062,625</u>
General revenue:		
Investment Income	3,049,743	(5,152,030)
Total general revenue	<u>3,049,743</u>	<u>(5,152,030)</u>
Total program revenues	<u>3,638,173</u>	<u>(3,089,405)</u>
Less expenses	<u>241,048</u>	<u>864,950</u>
Change in net position	3,397,125	(3,954,355)
Net position		
Beginning	154,801,644	158,755,999
Ending	<u>\$ 158,198,769</u>	<u>\$ 154,801,644</u>

South Carolina State Education Assistance Authority

Notes to Financial Statements

June 30, 2023 and 2022

Note 8. Restatement of Previously Issued Financial Statements

The Authority's financial statements have been restated in order to reflect the fair value of cash and cash equivalents held in the State's cash management pool (See Note 2) that were previously recorded at cost. The effect of these changes on the Authority's previously issued financial statements as of and for the year ended June 30, 2022 is summarized as follows:

	As Previously Reported	2022 Adjustment	As Restated
Statement of Net Position by Fund:			
Cash and cash equivalents	\$ 41,257,900	\$ (1,625,505)	\$ 39,632,395
Cash and cash equivalents-restricted	71,334,666	(3,139,245)	68,195,421
Accrued investment income	-	625,409	625,409
Total current assets	115,419,223	(4,139,341)	111,279,882
Total assets	163,858,453	(4,139,341)	159,719,112
Total net position	158,940,985	(4,139,341)	154,801,644
Statement of Revenues, Expenses and Changes in Net Position			
Investment Income	1,536,967	(6,688,997)	(5,152,030)
Net position			
Beginning of year	156,206,343	2,549,656	158,755,999
End of year	158,940,985	(4,139,341)	154,801,644
Statement of Cash Flows			
Cash Flows from investing activities			
Interest received on investment securities	1,536,967	-	1,536,967
Loss on deposits and investments	-	(6,644,756)	(6,644,756)
Net cash used by investing activities	1,536,967	(6,644,756)	(5,107,789)
Net increase in cash and cash equivalents	6,663,843	(6,644,756)	19,087
Cash and cash equivalents			
Beginning of year	105,928,723	1,880,006	107,808,729
End of year	112,592,566	(4,764,750)	107,827,816

South Carolina State Education Assistance Authority

Statement of Net Position by Fund

As of June 30, 2023

	Prior Unpledged Fund	Eligible Lender Trust Fund	Agency Operating Fund	Total
Assets				
<i>Current assets</i>				
Cash and cash equivalents	\$ 1,280,281	\$ 42,512,281	\$ -	\$ 43,792,562
Cash and cash equivalents - restricted	-	-	69,737,174	69,737,174
Receivables:				
Current portion of student loans	-	1,467,929	-	1,467,929
Interest due from borrower	-	429,675	-	429,675
Due from servicers	-	4,606	-	4,606
Accrued investment income	-	394,101	766,280	1,160,381
Due from United States Department of Education	-	29,869	-	29,869
Total current assets	1,280,281	44,838,461	70,503,454	116,622,196
<i>Long-term assets</i>				
Receivables:				
Student loans, less current portion and net of allowance for loan loss of \$9,432	-	6,581,892	-	6,581,892
Due from South Carolina Student Loan Corporation	-	39,835,008	-	39,835,008
Total long-term assets	-	46,416,900	-	46,416,900
<i>Property and equipment</i>				
Furniture and equipment	-	-	407,655	407,655
Less: accumulated depreciation	-	-	(407,655)	(407,655)
Total property and equipment, net	-	-	-	-
Total assets	\$ 1,280,281	\$ 91,255,361	\$ 70,503,454	\$ 163,039,096
Liabilities				
<i>Current Liabilities</i>				
Accounts payable	\$ -	\$ 7,431	\$ 19,500	26,931
Due to South Carolina Student Loan Corporation	-	4,674	-	4,674
Total current liabilities	-	12,105	19,500	31,605
<i>Long-term liabilities</i>				
Due to United States Department of Education	-	-	4,808,722	4,808,722
Total long-term liabilities	-	-	4,808,722	4,808,722
Total liabilities	\$ -	\$ 12,105	\$ 4,828,222	\$ 4,840,327
Net Position				
Restricted for:				
Guaranty agency operating account	\$ -	\$ -	\$ 65,675,232	65,675,232
Unrestricted	1,280,281	91,243,256	-	92,523,537
Total net position	\$ 1,280,281	\$ 91,243,256	\$ 65,675,232	\$ 158,198,769

South Carolina State Education Assistance Authority

Schedule of Revenues, Expenses and Changes in Net Position by Fund

For the year ended June 30, 2023

	Prior Unpledged Fund	Eligible Lender Trust Fund	Agency Operating Fund	Total
Operating revenues				
Income from South Carolina Student Loan Corporation:				
Subsidized interest	\$ -	23,318	\$ -	\$ 23,318
Special allowance	-	(2,689)	-	(2,689)
Non-subsidized interest	-	554,730	-	554,730
Late charges	-	12,996	-	12,996
Miscellaneous payments of student loans	-	75	-	75
Total operating revenues	-	588,430	-	588,430
Operating expenses				
Contractual services	-	-	34,803	34,803
South Carolina Student Loan Corporation for operating costs	-	62,087	-	62,087
Loan fees	-	98,715	-	98,715
Borrower incentives	-	34,814	-	34,814
Administrative fees	-	2,500	-	2,500
Reinsurance expense	-	10,091	-	10,091
Loan loss adjustments	-	(1,962)	-	(1,962)
Total operating expenses	-	206,245	34,803	241,048
Operating income (loss)	-	382,185	(34,803)	347,382
Non-operating income (expense)				
Investment income	-	1,141,121	1,908,622	3,049,743
Total non-operating income (expense)	-	1,141,121	1,908,622	3,049,743
Change in net position	-	1,523,306	1,873,819	3,397,125
Net position				
Beginning of year	1,280,281	89,719,950	63,801,413	154,801,644
End of year	\$ 1,280,281	\$ 91,243,256	\$ 65,675,232	\$ 158,198,769

South Carolina State Education Assistance Authority

Schedule of Cash Flows by Fund

For the year ended June 30, 2023

	Prior Unpledged Fund	Eligible Lender Trust Fund	Agency Operating Fund	Total
Cash flows from operating activities				
Receipts from South Carolina Student Loan services provided	\$ -	\$ 3,505,337	\$ -	\$ 3,505,337
Payments to suppliers, lenders and borrowers	-	(289,759)	(28,428)	(318,187)
Net cash provided by (used for) operating activities	-	3,215,578	(28,428)	3,187,150
Cash flows from investing activities				
Interest received on investment securities	-	836,993	1,363,144	2,200,137
Loss on deposits and investments	-	107,596	207,037	314,633
Net cash (used) provided by investing activities	-	944,589	1,570,181	2,514,770
Net increase (decrease) in cash and cash equivalents	-	4,160,167	1,541,753	5,701,920
Cash and cash equivalents				
Beginning of year	1,280,281	38,352,114	68,195,421	107,827,816
End of year	\$ 1,280,281	\$ 42,512,281	\$ 69,737,174	\$ 113,529,736
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ -	\$ 382,185	\$ (34,803)	\$ 347,382
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Loan loss adjustments	-	(1,962)	-	(1,962)
Changes in operating assets and liabilities:				
Student loans receivable	-	2,712,629	-	2,712,629
Interest due from borrower	-	164,746	-	164,746
Due from servicers	-	71,365	-	71,365
Due from/to United States Department of Education	-	(29,869)	-	(29,869)
Accounts payable	-	7,431	6,375	13,806
Due to United States Department of Education	-	(89,370)	-	(89,370)
Due to South Carolina Student Loan Corporation	-	(1,577)	-	(1,577)
Net cash provided by (used for) operating activities	\$ -	\$ 3,215,578	\$ (28,428)	\$ 3,187,150

South Carolina State Education Assistance Authority

Schedule of Organizational Data

For the year ended June 30, 2023

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>
Henry D. McMaster	Governor of South Carolina
Curtis M. Loftis, Jr.	State Treasurer of South Carolina
Brian J. Gaines	Comptroller General of South Carolina
Harvey S. Peeler Jr.	Chairman, South Carolina Senate Finance Committee
Bruce W. Bannister	Chairman, South Carolina House of Representatives Ways and Means Committee

**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***

Mr. George L. Kennedy, III, CPA
State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business type activities of the South Carolina State Education Assistance Authority (the “Authority”), a component unit of the State of South Carolina, as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 3, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Authority’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
October 3, 2023

South Carolina State Education Assistance Authority

Schedule of Findings and Responses

For the year ended June 30, 2023

Section I. Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:

Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes X No

Section II. Financial Statement Findings

Finding 2023-001 Fair Value of Pooled Cash Held at the State Treasury

Criteria or Specific Requirement:

Generally accepted accounting principles (GAAP) states that any asset that meets the definition of an investment should be measured at fair value.

Condition:

Pooled cash held at the State Treasury, reported as cash and cash equivalents on the Authority’s statement of net position, was historically reported at cost. Under GAAP, the pooled cash accounts qualify as investments which should be measured and reported at fair value.

Cause:

In prior years, cash balance statements received by the Authority to reconcile its accounts did not reflect the fair value of pooled cash held at the State Treasury, but only reported the cost.

Effect:

Cash and cash equivalents and net assets were overstated on the Authority’s general ledger by approximately \$3.8 million. This resulted in an adjustment to true-up cash and cash equivalents and beginning net position on the Authority’s general ledger to reflect pooled cash held at the State Treasury at fair value.

Context:

The condition was identified by management during current year reconciliation procedures.

Recommendation:

We recommend that the Authority implement procedures to ensure assets are valued in accordance with GAAP.

Management Response and Corrective

Action Plan:

Management agrees with the audit finding. As of September 2023, we have incorporated and communicated changes to our procedures to reflect the fair value of the cash held at the State Treasury pool reported as cash and cash equivalents on the Authority’s statement of net position. These procedures include but are not limited to ensuring that the State Treasurer’s office has proper contacts for all reports and timely follow-up with the State Treasurer’s office for quarterly fair value reporting.