

SOUTH CAROLINA STUDENT LOAN CORPORATION

FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 2009

SOUTH CAROLINA STUDENT LOAN CORPORATION
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YEAR ENDED JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of South Carolina Student Loan Corporation as of June 30, 2009, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the 2008 financial statements and, in our report dated September 24, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Carolina Student Loan Corporation as of June 30, 2009 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2009 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 audit.

Our audit was made for the purpose of forming an opinion on the financial statements of South Carolina Student Loan Corporation, taken as a whole. The accompanying supplementary information on pages 22 - 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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.

Columbia, South Carolina
September 22, 2009

SOUTH CAROLINA STUDENT LOAN CORPORATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009
(WITH COMPARATIVE AMOUNTS FOR 2008)

	2009		2008 Totals	Memorandum Only
	Unrestricted	Temporarily Restricted		
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 63,519,346	\$ 143,491,234	\$ 207,010,580	\$ 439,939,730
Investments	3,676,060	-	3,676,060	183,345
Current portion of student loan receivables	867,000	228,745,348	229,612,348	343,629,736
Interest due from borrowers	656,200	86,063,920	86,720,120	75,424,870
Due from United States Department of Education	-	-	-	6,459,974
Due from SC State Education Assistance Authority	709,186	11,834,156	12,543,342	18,782,782
Accrued investment income	6,753	112,836	119,589	473,327
Miscellaneous operating receivables	-	-	-	11,771
Prepaid expenses	64,345	-	64,345	34,112
Due from (to) other funds	282,806	(282,806)	-	-
Total current assets	69,781,696	469,964,688	539,746,384	884,939,647
Investments and Long-Term Receivables				
Other student loan receivables less current portion and net of allowance for loan loss of \$ 5,055,974	22,282,032	3,415,487,417	3,437,769,449	2,798,789,914
Teacher loans receivable - less allowance for teacher loan cancellations of \$ 20,205,612 and current portion	-	16,939,788	16,939,788	13,197,576
Deferred cost of issuance of bonds	-	5,987,949	5,987,949	5,767,204
Total investments and long-term receivables	22,282,032	3,438,415,154	3,460,697,186	2,817,754,694
Property and Equipment				
Land	565,000	-	565,000	565,000
Building	2,431,329	-	2,431,329	2,431,329
Furniture and equipment	2,033,037	-	2,033,037	1,919,658
Automobiles	73,563	-	73,563	73,563
Less, accumulated depreciation	(2,069,300)	-	(2,069,300)	(1,749,498)
Net property and equipment	3,033,629	-	3,033,629	3,240,052
Total assets	\$ 95,097,357	\$ 3,908,379,842	\$ 4,003,477,199	\$ 3,705,934,393

See notes to financial statements.

SOUTH CAROLINA STUDENT LOAN CORPORATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009
(WITH COMPARATIVE AMOUNTS FOR 2008)

	2009		2008
	Unrestricted	Temporarily Restricted	
		Total	Memorandum Only
LIABILITIES AND NET ASSETS			
Current Liabilities			
Current portion of notes payable - finance loans	\$ -	\$ 50,820,000	\$ 75,000,000
Current maturities of bonds payable	-	29,273,526	-
Lines of credit	-	150,722,739	169,522,888
Interest payable	-	2,072,222	3,615,666
Accounts payable	231,768	202,087	614,050
Compensated absences	416,905	47,501	364,018
Due to SC State Education Assistance Authority	1,241,446	5,604,144	1,579,200
Due to United States Department of Education	15,358	10,106,322	-
Total current liabilities	1,905,477	248,848,541	250,695,822
Noncurrent Liabilities			
Accrued pension payable	617,582	-	236,762
Retiree medical insurance payable	-	-	3,291,834
Bonds payable less current maturities and bond premiums and discounts of \$ 5,682,500	-	2,063,348,313	2,155,624,410
Notes payable - finance loans less current maturities	-	1,018,171,820	935,897,828
Lines of credit	-	289,571,636	-
Total noncurrent liabilities	617,582	3,371,091,769	3,095,050,834
Total liabilities	2,523,059	3,619,940,310	3,345,746,656
Net Assets			
Temporarily restricted			
For bond indentures - current debt service	-	10,569,307	11,181,853
For bond indentures	-	224,882,374	224,427,895
For teacher loans	-	32,054,054	29,079,248
For lines of credit	-	20,933,797	1,750,966
Total temporarily restricted	-	288,439,532	266,439,962
Unrestricted			
Board designated	2,100,000	-	2,100,000
Undesignated	90,474,298	-	91,647,775
Total unrestricted	92,574,298	-	93,747,775
Total net assets	92,574,298	288,439,532	360,187,737
Total liabilities and net assets	\$ 95,097,357	\$ 3,908,379,842	\$ 3,705,934,393

See notes to financial statements.

SOUTH CAROLINA STUDENT LOAN CORPORATION
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE AMOUNTS FOR 2008)

	2009		2008
	Unrestricted	Temporarily Restricted	Totals
			Memorandum Only
Revenue			
Income from United States Department of Education	\$ 136,125	\$ 40,580,397	\$ 38,111,365
Student loan interest - subsidized	(150,863)	(42,129,880)	19,280,852
Special allowances	1,167,597	146,674,468	143,966,497
Student loan interest - non-subsidized	913,127	4,360,794	8,541,845
Investment income	(671,797)	221,433	(371,221)
Unrealized gain (loss) on investments	8,807	1,671,935	1,609,323
Late charges	(3)	(4,341)	21,577
Miscellaneous payments of student loans	2,414,915	112,855	450
Miscellaneous Income	-	5,787,043	6,908,381
State appropriations - Department of Education	216,989	-	215,450
Building rental income	5,326,708	-	7,999,494
Remittance from SC State Education Assistance Authority for operating cost	135,275,134	(135,275,134)	-
Net assets released from restrictions	144,636,739	21,999,570	226,284,013
Total revenue		166,636,309	
Expenses			
Personnel	7,213,533	-	7,023,892
Contractual services	1,111,802	-	1,047,332
General operating	1,840,637	-	1,878,517
Interest on debt	62,717,282	-	93,070,592
TLP cancellations	5,878,296	-	9,283,090
State recall of funds	-	-	500,000
Amortization of deferred cost of bond issuance	1,281,478	-	789,351
Payments to SC State Education Assistance Authority for student loan income	31,231,285	-	52,282,815
Loan fees	20,741,162	-	19,193,668
Reinsurance expense	413,899	-	355,388
Borrower incentives	11,734,554	-	14,136,268
Broker dealer fees	129,710	-	1,135,315
Building rental expenses	345,365	-	493,375
Contribution	-	-	3,077,000
Loan loss expense	(1,063,633)	-	6,101,331
Other	1,794,847	-	2,280,664
Total expenses	145,370,217	-	212,648,598
Employee Benefits - Related Changes Other Than Net Periodic Pension Cost	(439,999)	-	1,386,150
Change in net assets	(1,173,477)	21,999,570	15,021,565
Net Assets			
Beginning	93,747,775	266,439,962	345,166,172
Ending	\$ 92,574,298	\$ 288,439,532	\$ 360,187,737

See notes to financial statements.

SOUTH CAROLINA STUDENT LOAN CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE AMOUNTS FOR 2008)

	2009		2008
	Unrestricted	Temporarily Restricted	Totals
		Total	Memorandum Only
Cash Flows from Operating Activities			
Change in net assets	\$ (1,173,477)	\$ 21,999,570	\$ 15,021,565
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities			
Depreciation	319,802	-	299,178
Unrealized gain (loss) on investments	671,797	(221,433)	27,135
Amortization of premiums and discounts on bonds payable	-	(651,423)	516,019
Amortization of cost of bond issuance	-	1,123,768	273,332
Allowance for loan loss	535,783	(1,599,416)	6,101,330
Changes in operating assets and liabilities			
Decrease in due from Department of Education	15,439	16,566,216	13,036,321
(Increase) decrease in due from SCSEAA	(601,918)	6,841,359	18,465,921
(Increase) decrease in interest due from borrowers	178,206	(11,473,458)	(19,243,567)
(Increase) decrease in accrued investment income	17,849	335,889	135,597
(Increase) decrease in miscellaneous receivables	11,771	-	(11,108)
(Increase) decrease in prepaid expenses	(30,233)	-	(25,426)
Increase (decrease) in interest payable	-	(1,543,444)	(3,284,526)
Increase (decrease) in accounts payable	(36,649)	(143,548)	202,441
Increase (decrease) in accrued pension expense	380,820	-	(205,571)
Increase (decrease) in compensated absences	88,542	11,846	(27,721)
Increase (decrease) in retiree medical insurance payable	(3,291,834)	-	(2,408,762)
Increase (decrease) in due to SCSEAA	1,241,447	4,024,944	(9,477,792)
Increase (decrease) in due to (from) other funds	(5,692,767)	5,692,767	-
Net cash provided (used in) by operating activities	(7,365,422)	40,963,637	19,394,366
Cash Flows from Investing Activities			
Purchase of property and equipment	(113,379)	-	(268,931)
Purchase and issuance of student loans	(2,825,194)	(1,035,721,642)	(1,593,092,657)
Principal payments on student loans	751,912	504,275,902	1,151,256,615
Teacher loan cancellations	-	5,878,296	9,283,090
Purchase of investments	(4,164,512)	-	-
Sale of investments	-	221,433	-
Net cash provided by (used in) investing activities	(6,351,173)	(525,346,011)	(432,821,883)

See notes to financial statements

SOUTH CAROLINA STUDENT LOAN CORPORATION
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE AMOUNTS FOR 2008)

	2009		2008
	Unrestricted	Temporarily Restricted	Totals
		Total	Memorandum Only
Cash Flows from Financing Activities			
Proceeds from financing loans	\$ -	\$ (112,190,891)	\$ 519,408,896
Payments on financing loans	-	170,284,884	(322,194,496)
Proceeds from lines of credit	-	500,438,740	169,522,888
Payments on lines of credit	-	(229,667,253)	-
Proceeds from bond issuance	-	-	600,000,000
Payments of bonds	-	(63,695,661)	(314,754,000)
Payment of costs of bond issuance	-	-	(1,800,000)
Net cash provided by financing activities	-	265,169,819	650,183,288
Net increase (decrease) in cash and cash equivalents	(13,716,595)	(219,212,555)	236,755,771
Cash and Cash equivalents			
Beginning	77,235,941	362,703,789	203,183,959
Ending	63,519,346	143,491,234	439,939,730
Supplemental Disclosures of Cash Flow Information			
Cash payments for interest	-	64,260,766	96,355,116
Supplemental Disclosures of Non-Cash Transactions			
Retirement of fixed assets - investing activities	-	-	477,666
Write-off of accumulated depreciation related to retired assets - investing activities	-	-	-
	\$ -	\$ -	\$ 477,666

See notes to financial statements.

**SOUTH CAROLINA STUDENT LOAN CORPORATION
YEAR ENDED JUNE 30, 2009**

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting entity: The South Carolina Student Loan Corporation (Corporation) was incorporated November 15, 1973 under the Laws of the State of South Carolina. The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Its corporate goal is to receive, disburse and administer funds exclusively for educational purposes without pecuniary gain or profit to its members and to aid in the fulfillment of the desire and direction of the People of South Carolina in making loans available to students and parents to attend eligible post secondary institutions. Funds from various sources are administered by the Corporation to achieve this goal.

The Corporation administers the operations of the South Carolina State Education Assistance Authority (Authority). The Authority is a body politic and corporate and a public instrumentality of the State of South Carolina. The Authority is part of the State of South Carolina created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the Code of Laws of South Carolina, 1976 as amended. 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 basic, but not the only, criteria for including a component unit in the reporting entity is the governing body's oversight responsibility for such component unit. Financial accountability is the most important element of oversight responsibility. Neither the Authority nor the Corporation is considered a component unit of the other because each is a legally separate organization and not financially accountable to/for the other.

The accompanying financial statements present the financial position, results of operations and cash flows solely of the South Carolina Student Loan Corporation.

Overall operating arrangement: The Authority, as a guaranty agency, has approved the South Carolina Student Loan Corporation (Corporation) as an eligible lender to administer the Federal Family Education Loan Program. It is the duty of the Corporation to process applications, make student loans and collect principal, interest, fees and penalties on such loans. Loans may or may not be subsidized. Interest is paid on subsidized loans during the enrolled, grace and deferred periods by the U.S. Department of Education. Upon entering the repayment period, the interest is paid by the borrower. Also, the U.S. Department of Education pays the Corporation a special allowance on the unpaid principal of the loans which is based on a variable percentage rate.

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

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

Because of the scarcity of tax-exempt private activity bond allocation from the State and because of the yield limitation for loans financed with tax-exempt bonds, the Corporation issued taxable Education Loan Revenue Bonds for the first time in the year ended June 30, 1997.

During the 1984-85 year, the Corporation began administering the Teacher Loan Program (TLP). The TLP is a part of the Education Improvement Act of 1984 passed by the South Carolina General Assembly. The Corporation was named in the Act as the administrator of this program and the funds for operations and for making loans are provided by state appropriations. The intent of the program is to attract, through financial assistance, talented individuals and to encourage them to enter teaching in areas of critical need within the state. Loans are canceled at 20% to 33% per year for each year of teaching in a critical subject and/or location. These loans are repaid by the borrower if the borrower does not teach. TLP loans made for academic years before 1994-95 are guaranteed by the Authority. Loans made for academic years 1994-95 or after are non-guaranteed.

SOUTH CAROLINA STUDENT LOAN CORPORATION
YEAR ENDED JUNE 30, 2009

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Overall operating arrangement (continued): During the 1995-96 year, the Corporation began making and servicing alternative loans through the Palmetto Assistance Loan (PAL) Program. PAL offers supplemental loans for students and parents of students enrolled at least half-time in an eligible school and for fourth year medical students seeking their residency and relocating. These loans were funded from Corporation accumulated unrestricted net assets and bond funds. The Corporation discontinued offering PAL loans in December 2008 due to lack of funds.

The Corporation has entered into other financing agreements to provide additional funding for student loans. See Note 8.

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

Display of net assets by class: The Corporation adheres to the disclosures and display requirements of the Financial Accounting Standards Board (FASB) as set forth in Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations." SFAS No. 117 establishes standards for external financial reporting by non-profit organizations and requires that resources be classified for accounting and reporting purposes as follows:

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

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

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

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

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

Concentration risk: The Corporation maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. At June 30, 2009, all of the Corporation's cash was held in demand deposit accounts covered by federal depository insurance or by collateral held by the Corporation's agent in the Corporation's name.

Investments: Investments are valued at market value. Realized and unrealized gains and losses on sale of investments are determined based on the cost of investments.

Allowance for teacher loan cancellations: The allowance for cancellations on teacher loans represents the Corporation's estimate of teachers who will teach in critical need areas in South Carolina who can annually cancel up to 20% to 33% of their loan balances. In making the estimate, the Corporation considers the trend in the loan portfolio and current operating information. The allowance is based on total teacher loans times the expected cancellation rate. The evaluation is inherently subjective and the allowance could significantly change in the future. The allowance was \$ 20,205,612 at June 30, 2009.

SOUTH CAROLINA STUDENT LOAN CORPORATION
YEAR ENDED JUNE 30, 2009

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Provision for losses on student loans: The provision for losses on student loans represents the Corporation's estimate of the costs related to the 2% to 3% risk sharing on FFEL loans and losses related to servicing of guaranteed loans by the Corporation. The provision also includes an estimate for non-guaranteed loans. In making the estimate, the Corporation considers the trend in default rates in the loan guarantee portfolio, past and anticipated loss experience, current operating information, and changes in economic conditions. The evaluation is inherently subjective and the provisions may significantly change in the future. The allowance for loan losses was \$ 5,055,974 at June 30, 2009. See Note 5 on Federal Reinsurance of FFEL loans.

Property and equipment: Property and equipment costing over \$ 5,000 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, three years for automobiles and computers and thirty-nine years for the building.

Amortization of deferred cost of issuance of bonds and bond premiums and discounts: Cost of issuance of bonds and bond premiums and discounts are being amortized over the lives of the bond issues on a straight-line basis and are included in operating expenses.

Compensated absences: Annual leave is earned at the rate of 12 to 25 days per year depending on length of employment. Employees are expected to use at least one week (5 consecutive days) each year. Earned, but unused, annual leave will be paid when an employee terminates his/her employment except when this termination is involuntary or inadequate notice is given. Sick leave is earned at the rate of 10 days per year. Employees are not paid for earned, but unused, sick days upon termination of employment.

Comparative amounts: The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2008, from which the summarized information was derived.

Note 2. Cash and Cash Equivalents

Cash and Cash Equivalents include demand deposits and short-term investments of less than three months as follows:

	<u>Cost</u>	<u>Market Value</u>
Unrestricted		
Demand deposits	\$ 3,842	\$ 3,842
Money market funds	9,004,169	9,004,169
Collateralized demand deposits	<u>54,511,335</u>	<u>54,511,335</u>
Total unrestricted	<u>63,519,346</u>	<u>63,519,346</u>
Temporarily Restricted		
Cash	60,658	60,658
Money market	6,407,077	6,407,077
Collateralized demand deposit	56,434,322	56,434,322
South Carolina State Treasurer pool	10,154,612	10,384,448
Guaranteed investment contracts	<u>70,204,729</u>	<u>70,204,729</u>
Total temporarily restricted	<u>\$ 143,261,398</u>	<u>\$ 143,491,234</u>

Cash and Cash Equivalents included in the Teacher Loan Program include the South Carolina State Treasurer Pool totaling \$ 10,384,448.

SOUTH CAROLINA STUDENT LOAN CORPORATION
YEAR ENDED JUNE 30, 2009

Notes to Financial Statements

Note 3. Investments

Investments consist of common stock. Investments' market value is determined by quoted market values and consist of the following:

	<u>Cost</u>	<u>Market Value</u>
Unrestricted		
Common stock	\$ -	\$ 164,407
Bond and equity funds	<u>4,567,658</u>	<u>3,511,653</u>
Totals	\$ <u>4,567,658</u>	\$ <u>3,676,060</u>

Note 4. Amounts Due from/to the Corporation

The \$ 6,845,598 amount due to the Authority represents funds due for income earned but not yet received by the Corporation from the Department of Education, fees in transit and borrowers' payments at June 30. These funds will be remitted to the Authority when received or by the tenth of each month. The Authority also owes the Corporation funds collected on their behalf of \$ 12,543,542. Funds collected on behalf of the Corporation are required to be paid to the Corporation by the tenth of each month.

Note 5. Federal Family Education Loans (FFEL) and Federal Reinsurance of FFEL Loans

In 2009 and 2008, these loans bear interest at a fixed rate of 2.875% to 12% or an annual variable rate of 1.88% to 3.73% which is reset each July 1 and which is equal to 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 are insured against death, disability and default by the Authority at 97% to 100% and are reinsured by the U.S. Department of Education up to 100% for loans made prior to October 1, 1993, up to 98% for loans made on or after October 1, 1993 but on or before June 30, 2006, and 97% for loans made on or after July 1, 2006. Total loans insured by the Authority at June 30, 2009 are \$ 3,381,300,223. 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.

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.

Origination fees reduce the amount of interest subsidy the Federal government pays to lenders. The origination fee for Stafford loans was 3.00% for loans first disbursed on or before June 30, 2006. It decreases to 2.00% on July 1, 2006; to 1.50% on July 1, 2007; 1.00% on July 1, 2008; and 0.50% on July 1, 2009. The origination fee for Stafford Loans will be eliminated as of July 1, 2010. The origination fee for PLUS loans remains at 3.00%.

Note 6. Bonds Payable

The Corporation issued bonds for the first time in the year ended June 30, 1997. All of the Corporation's bonds and notes are secured only by loans funded by bond proceeds or otherwise pledged, related revenue from such loans, investments and earnings on investments in related accounts and by a debt service reserve funded from bond proceeds. The Corporation's bonds and notes are each secured by assets held by a trustee in one of three trust estates governed by the applicable general resolution and other bond documents. The bond documents require the Corporation to accumulate collections from borrowers to pay principal and interest on bonds. The bonds and notes do not constitute a debt, liability or obligation of the State of South Carolina or any agency thereof but are limited obligations of the Corporation.

SOUTH CAROLINA STUDENT LOAN CORPORATION
YEAR ENDED JUNE 30, 2009

Notes to Financial Statements

Note 6. Bonds Payable (Continued)

The debt service funds in the applicable general resolution contain assets equal to the interest and principal accumulated to make the next payments of principal and interest due. As of June 30, 2009, the Corporation held funds on deposit in the debt service funds of \$ 2,518,992.

The bonds and notes outstanding as of June 30, 2009 are as follows:

<u>Issued</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Balance Outstanding 06/30/08</u>	<u>Issued (Retired) During FY 09</u>	<u>Balance Outstanding 06/30/09</u>
10-Nov-04	180,000,000	6/1/2034	\$ 180,000,000	\$ 12,950,000	\$ 167,050,000
19-Jul-05	700,000,000	12/3/18-12/1/23	700,000,000	-	700,000,000
11-Jul-06	500,000,000	12/2/19 - 12/1/22	500,000,000	-	500,000,000
25-Oct-06	182,000,000	9/4/2046	182,000,000	13,050,000	168,950,000
18-Jun-08	600,000,000	9/2/14-9/3/24	600,000,000	37,695,661	562,304,339
			<u>\$ 2,162,000,000</u>	<u>\$ 63,695,661</u>	<u>\$ 2,098,304,339</u>

LIBOR Indexed Bonds Secured by 1996 General Resolution

The Corporation's LIBOR Indexed Bonds in the 1996 General Resolution totaled \$ 1,200,000,000 as of June 30, 2009 and have variable interest rates equal to three-month LIBOR plus 0.09% to 0.14% as adjusted quarterly. Throughout the year ended June 30, 2009, none of the rates exceeded 5.50%. Future interest payment projections are based upon the four-year weighted average rate at June 30, 2009, which was 3.19%

The LIBOR Indexed Bonds are subject to pro rata principal reduction payments prior to maturity based on targeted amortization schedules. Failure by the Corporation to make any such payment contemplated by an applicable Targeted Amortization Schedule for the LIBOR Indexed Bonds under the 1996 General Resolution does not constitute a payment default. The Corporation intends to follow these payment schedules with respect to these bonds.

Auction Rate Securities Secured by 2004 General Resolution

The Corporation's auction rate securities ("ARS") totaled \$ 336,000,000 as of June 30, 2009, and have variable interest rates determined by auctions every 28 days. Payment of the principal of and interest on the ARS when due is insured by Ambac Assurance Corporation. The interest rates are subject to a maximum of the lesser of (i) a nominal cap of 17% or 20%, depending on the series, or (ii) one-month LIBOR plus 1.50% to 2.50%, depending on the then-current rating of the ARS. The ARS are subject to redemption in whole or in part at par plus accrued interest on the first day of any auction period.

Due to adverse market conditions, most auctions associated with ARS across a variety of sectors and asset classes have experienced widespread failure since February 11, 2008. All of the Corporation's auctions have failed since this date, and the interest rates have been set at the applicable maximum rates. This has had the effect of increasing the Corporation's relative cost of funds. Although the Corporation has no requirement to refinance its ARS, the Corporation was able to successfully refinance \$275,000,000 of ARS as part of the 2008-1 Series transaction. The Corporation is considering any refinancing options for the remainder of its outstanding ARS.

SOUTH CAROLINA STUDENT LOAN CORPORATION
YEAR ENDED JUNE 30, 2009

Notes to Financial Statements

Note 6. Bonds Payable (Continued)

LIBOR Notes Secured by 2008-1 General Resolution

On June 25, 2008, the Corporation issued \$ 600,000,000 of Student Loan Backed Notes, 2008-1 Series, with variable interest rates ranging from three-month LIBOR plus 0.50% to 1.00%. Proceeds of the issue were used to (i) finance student loans, (ii) refinance certain prior bonds, (iii) fund the Debt Service Reserve Fund, (iv) fund the Operating Fund, (v) fund the Department Reserve Fund and (vi) pay cost of issuance.

Principal and interest on the LIBOR Notes are to be paid on each Distribution Date (the first business day of each March, June, September, and December beginning September 2008). Principal will be paid first on the A-1 Notes until paid in full, second on the A-2 Notes until paid in full, third on the A-3 Notes until paid in full and fourth on the A-4 Notes until paid in full. The LIBOR Notes issued under the 2008-1 General Resolution are subject to optional redemption on the Distribution Date immediately following the date when the Pool Balance is 10% or less of the Initial Pool Balance. The LIBOR Notes Secured by 2008-1 General Resolution balance as of June 30, 2009 was \$ 562,304,339.

Projected Debt Service

As of June 30, 2009, the scheduled debt service to retire the bonds and notes of the Corporation is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2010	\$ -	\$ 72,479,883	\$ 72,479,883
2011	-	72,479,883	72,479,883
2012	168,435,000	70,691,261	239,126,261
2013	254,516,000	63,361,230	317,877,230
2014	204,385,000	55,186,622	259,571,622
2015	268,889,000	46,212,665	315,101,665
2016	148,153,000	39,702,085	187,855,085
2017	120,491,000	35,047,722	155,538,722
2018	371,477,000	28,822,828	400,299,828
2019	29,654,000	19,085,547	48,739,547
2020	116,000,000	17,744,680	133,744,680
2021	-	14,759,124	14,759,124
2022	-	14,759,124	14,759,124
2023	-	14,759,124	14,759,124
2024	-	14,759,124	14,759,124
2025	80,304,339	12,692,286	92,996,625
2026	-	12,003,341	12,003,341
2027	-	12,003,341	12,003,341
2028	-	12,003,341	12,003,341
2029	-	12,003,341	12,003,341
2030	-	12,003,341	12,003,341
2031	-	12,003,341	12,003,341
2032	-	12,003,341	12,003,341
2033	-	12,003,341	12,003,341
2034	167,050,000	12,003,341	179,053,341
2035	-	6,035,608	6,035,608
2036	-	6,035,608	6,035,608
2037	-	6,035,608	6,035,608
2038	-	6,035,608	6,035,608
2039	-	6,035,608	6,035,608
2040	-	6,035,608	6,035,608

SOUTH CAROLINA STUDENT LOAN CORPORATION
YEAR ENDED JUNE 30, 2009

Notes to Financial Statements

Note 6. Bonds Payable (Continued)

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2041	\$ -	\$ 6,035,608	\$ 6,035,608
2042	-	6,035,608	6,035,608
2043	-	6,035,608	6,035,608
2044	-	6,035,608	6,035,608
2045	-	6,035,608	6,035,608
2046	-	6,035,608	6,035,608
2047	168,950,000	1,508,902	170,458,902
Totals	<u>\$ 2,098,304,339</u>	<u>\$ 774,509,455</u>	<u>\$ 2,872,813,794</u>

The rate used for future interest payment projections was 3.38%. This estimate is inherently subjective and the rate may significantly change in the future.

Note 7. Notes Payable - Finance Loans

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

The finance loans as of June 30, 2009 and 2008 are as follows:

Authority Bond Resolution	<u>Balance 6/30/2009</u>	<u>Balance 6/30/2008</u>
1993	\$ 222,191,459	\$ 164,132,253
2002	846,800,361	846,800,361
Totals	<u>\$ 1,068,991,820</u>	<u>\$ 1,010,932,614</u>

Note 8. Line of Credit Financing

Initially on March 22, 2005, the Corporation entered into a one year line-of-credit agreement providing for advances to the Corporation funded by asset-backed commercial paper and secured by student loan receivables. The borrowing period was renegotiated annually under similar terms to end March 22, 2010. An extension is not guaranteed, but may be extended by written agreement among the borrower, the servicer, the lender, the alternative lender and the facility agent, with notice to the trustee. If the financing agreement is not extended, the Corporation must immediately find a new financing source and repay the line-of-credit. Interest is paid monthly at the commercial paper rate plus a spread and the interest rate ranged from 0.84% to 3.91% during 2009. The agreement calls for certain covenants which include maintaining at least a \$ 100 million net asset balance and a debt reserve account of 0.5% of the outstanding loan balance. The Corporation was in compliance with all covenants at June 30, 2009. The outstanding balance of the facility was \$ 150,722,339 at June 30, 2009 and can go up to \$ 155,290,092.

On December 18, 2008, the Corporation entered into a line of credit agreement for the purpose of facilitating the transfer of certain student loans from a nonrecourse trust and the funding of future and existing student loans. This agreement is secured by existing student loans that are reinsured under the Federal Family Education Loan Program. Monthly interest payments are due on the last business day of each month beginning in December 2008 at a per annum rate equal to the adjusted LIBOR rate. Interest rates varied from 1.57% to 1.75%. The line of credit matures on August 28, 2010 and all outstanding principal and interest are due at such time. As of June 30, 2009, the Corporation had an outstanding balance of \$ 51,086,031. The maximum amount allowed on the credit line is \$ 175,000,000.

**SOUTH CAROLINA STUDENT LOAN CORPORATION
YEAR ENDED JUNE 30, 2009**

Notes to Financial Statements

Note 8. Line of Credit Financing (Continued)

On February 5, 2009, the Corporation entered into a revolving line of credit agreement for the purposes of facilitating the transfer of certain student loans from a nonrecourse trust and funding existing and future student loans. The line of credit is secured by the student loan receivables. Monthly interest payments are due on the last business day of each month beginning in February 2009 at a per annum rate equal to the adjusted LIBOR rate. Interest rates varied from 2.60% to 3.22%. The line of credit matures on August 31, 2010 and all outstanding principal and interest are due at such time. As of June 30, 2009, the Corporation had an outstanding balance of \$ 0. The maximum amount allowed under the line is \$ 25,000,000.

On December 12, 2008, the Corporation entered into the 2008-2009 Federal Family Education Loan Purchase Participation Program (LPP) under a Master Participation Agreement (MPA) with the United States Department of Education (the Department) as a financing facility to fund eligible student loans. The 2008-2009 LPP will terminate on September 30, 2009. The Corporation is required to notify the Department in July 2009 of its intent to either redeem the outstanding student loans financed under this agreement or exercise the Put Option, as defined in the MPA, to the Department for those student loans by October 15, 2009 (See Note 17). As of June 30, 2009, the Corporation had an outstanding Participation Interest balance of \$ 238,485,605 under this agreement.

The Corporation intends to redeem all of these outstanding loans before the termination date through the Straight-A Funding facility which is currently available to the Corporation and provides a longer term financing arrangement, five (5) years, for these student loans. If the Corporation is unable to obtain suitable financing under the Straight-A Funding facility, then the Corporation will exercise the Put Option for the student loans with the Department. The Corporation participated in the LPP for the period December 23, 2008 through June 30, 2009. The interest rate paid on the student loans outstanding for the calendar quarter ending in December 2008 was 3.37%, 3.08% for the calendar quarter ending March 31, 2009, and 1.24% for the calendar quarter ending June 30, 2009.

The Corporation will use a similar arrangement with the Department for the year ending June 30, 2010.

Note 9. Special Allowance Income or Expense

As an inducement to the lender to make guaranteed student loans, the U. S. Department of Education (USDE) pays the Corporation a special allowance on the unpaid principal of the loans which is based on a variable percentage rate. It was instituted to assure that the interest rate and other limitations of the Higher Education Act, in the context of the current money market conditions, would not adversely affect access to student loans or cause the rate of return on student loans to be less than equitable.

For loans disbursed prior to April 1, 2006, lenders are entitled to retain interest income in excess of the special allowance support level in instances when the loan rate exceeds the special allowance support level. However, lenders are not allowed to retain interest income in excess of the special allowance support level on loans disbursed on or after April 1, 2006, and are required to rebate any such excess interest to the federal government on a quarterly basis. This modification effectively limits lenders' returns to the special allowance support level. For the year ended June 30, 2009, the Corporation paid USDE \$ 42,280,743.

Note 10. Termination of Post-Retirement Health Care Plan

Effective June 30, 2009, the Corporation shall not subsidize, fund or otherwise pay any amount representing the cost of coverage, determined from time to time in the sole discretion of the Corporation, for each eligible retiree's (or their respective eligible spouse's or dependents') coverage under the Retiree Medical Plan. Accordingly, each eligible retiree shall now be required to pay the entire amount of his or her (and their respective spouse's and dependents') post-retirement health care coverage.

SOUTH CAROLINA STUDENT LOAN CORPORATION
YEAR ENDED JUNE 30, 2009

Notes to Financial Statements

Note 11. Employee Benefit Plans

The Corporation provides retirement benefits through the South Carolina Student Loan Money Purchase Pension Plan for all employees who have completed one year of service and attained age 21. BB&T is the Trustee of the Plan. This is a defined contribution plan in which the employer contributes 5.6% of the participant's total annual compensation plus 5.6% of compensation exceeding the social security wage base. Contributions are paid monthly. A participant is 20% vested after two years service and 100% vested after six years. A participant receives normal retirement at age sixty-five. At termination of employment or reaching normal retirement age, the participant has the right to elect to receive all or any portion of his vested benefit derived from employer contributions. Voluntary contributions are not permitted. Forfeitures under the plan reduce the employer's contribution in the year following the plan year in which the forfeiture occurs. The total retirement expense for 2009 is \$ 224,638 and is fully funded.

The South Carolina Student Loan Corporation established the 403 (b) Defined Contribution Plan on November 5, 2002. The plan provides for a 5% contribution by the Corporation based on the participant's total annual compensation. The total amount contributed under the plan in 2008 was \$ 299,428, which the Authority reimbursed \$ 103,003 for employees. All employees are eligible who have completed one year of service and attainment of age 21. Contributions are 100% vested when made. Employees are eligible to make voluntary contributions to the Plan.

The Corporation also sponsors a defined benefit pension plan, a funded plan, and an unfunded plan. The defined benefit pension plan covers substantially all employees with one year of service and over 21 years of age. The Defined Benefit Pension Plan provides benefits based on the average of a participant's highest five consecutive years of pay. The benefit formula uses one percent of this average pay times years of service not to exceed 30 years. The Corporation pension funding policy is to make at least the minimum annual contribution that is actuarially computed by the projected unit credit method required by the Plan. The following sets forth the benefit obligation, the fair value of plan assets, and the funded status of the Corporations plan, and the amounts recognized in the Corporations financial statements at June 30, 2009:

	Defined Benefit
	Plan
Change in benefit obligation:	
Benefit obligation at end of prior plan year	\$ (8,251,169)
Service cost	(307,180)
Interest cost	(465,672)
Amendments	525,846
Actuarial gain/(loss)	90,579
Actual distributions	262,957
Benefit obligation at end of year	<u>(8,144,639)</u>
Change in plan assets:	
Plan assets at fair value at beginning of year	8,014,407
Actual return on plan assets	(871,925)
Actual employer contributions	647,532
Actual distributions/benefits paid	(262,957)
Plan assets at fair value at end of year	<u>7,527,057</u>
Funded status at end of year	<u>(617,582)</u>
Amounts recognized in the balance sheets consists of:	
Noncurrent liabilities	<u>(617,582)</u>
Amounts recognized in unrestricted net assets consists of the following:	
Unrecognized net actuarial (gain)/loss	3,550,541
Unrecognized prior service cost	(175,584)
Net amount recognized	<u>\$ 3,374,957</u>

SOUTH CAROLINA STUDENT LOAN CORPORATION
YEAR ENDED JUNE 30, 2009

Notes to Financial Statements

Note 11. Employee Benefit Plans (Continued)

The following are weighted average assumptions used to determine benefits, obligations and net periodic benefit cost as of June 30, 2009. The measurement date of the projected benefits obligation and Plan assets was June 30, 2009.

	<u>Defined Benefit Plan</u>
Assumptions Used (Continued)	
Weighted-average assumptions used in computing ending obligations	
Discount rate	6.23%
Rate of compensation increase	4.00%
Weighted-average assumptions used in computing net cost	
Discount rate	6.23%
Rate of compensation increase	4.00%
Expected return on plan assets	7.50%

The Corporation's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plans' asset allocation and liability structure over a long-term period. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (1) historical real returns, net of inflation, for the asset classes covered by the investment policy and (2) projections in inflation over the long-term period during which benefits are payable to plan participants.

Components of net periodic benefit cost and employee benefit-related changes other than net periodic pension cost are as follows:

	<u>Defined Benefit Plan</u>
Net Periodic Benefit Cost	
Service cost	\$ 307,180
Interest cost	465,672
Expected return on plan assets	(612,714)
Amortization of prior service cost	(26,483)
Amortization of net (gain)/loss	231,048
Net periodic benefit cost	<u>364,703</u>
Administrative expenses	<u>44,891</u>
Net periodic benefit cost	<u>409,594</u>
Corporation's share	271,561
Authority's share	138,033
	<u>\$ 409,594</u>

**SOUTH CAROLINA STUDENT LOAN CORPORATION
YEAR ENDED JUNE 30, 2009**

Notes to Financial Statements

Note 11. Employee Benefit Plans (Continued)

Employee Benefit - Related Changes Other Than Net Periodic Pension Cost	Defined Benefit Plan
Net (gain)/loss	\$ 1,394,060
Prior service cost	(525,846)
Amortization of prior service cost	26,483
Amortization of net (Gain)/loss	(231,048)
Employee benefit-related changes other than net periodic benefit cost	663,649
Corporation's share	439,999
Authority's share	223,650
Total	663,649
 Total net periodic benefit cost and employee benefit-related changes other than net periodic benefit cost	 \$ 1,073,243

The net pension expense for this Defined Benefit Pension Plan totaled \$ 1,028,352, plus \$ 44,891 of administrative expenses, totaling \$ 1,073,243 for the year ended June 30, 2009. The Authority contributed \$ 361,683 and the Corporation contributed \$ 711,560 to the expense for this Plan for its employees for the year ended June 30, 2009. No participant contributions are permitted by the pension plan.

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$ 359,000 and \$ (26,483), respectively.

The accumulated benefit obligation for the defined benefit pension plan was \$ 7,282,487 at June 30, 2009.

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

The Corporation's target asset allocation as of June 30, 2009, by asset category, is as follows:

<u>Asset Category</u>	
Equity securities	55%
Debt securities	40%
Real estate	5%
Other	100%

The Corporation's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges (shown above) by major asset categories.

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

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

